

**HEARING HEALTH FOUNDATION**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

# HEARING HEALTH FOUNDATION

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## INDEPENDENT AUDITORS' REPORT

To The Board of Directors of  
**Hearing Health Foundation**

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Hearing Health Foundation (the Foundation), which comprise the statements of financial position as of September 30, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hearing Health Foundation as of September 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Marcum LLP*

Hartford, CT  
February 1, 2021

# HEARING HEALTH FOUNDATION

## STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2020 AND 2019

	2020	2019
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 995,791	\$ 282,369
Advertising and other receivables	17,550	--
Pledges receivable	222,500	--
Prepaid expense and deposits	<u>52,810</u>	<u>69,443</u>
<b>Total Current Assets</b>	<u>1,288,651</u>	<u>351,812</u>
Investments	7,688,419	8,045,170
Property and equipment, net	<u>73,579</u>	<u>15,257</u>
<b>Total Assets</b>	<u><u>\$ 9,050,649</u></u>	<u><u>\$ 8,412,239</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 54,499	\$ 38,700
Securities payable	79,853	--
Grants payable	--	659,088
Deferred revenue	<u>--</u>	<u>3,600</u>
<b>Total Current Liabilities</b>	<u>134,352</u>	<u>701,388</u>
Paycheck Protection Program loan	<u>116,827</u>	<u>--</u>
<b>Net Assets</b>		
Without donor restrictions	3,059,557	2,633,320
With donor restrictions	<u>5,739,913</u>	<u>5,077,531</u>
<b>Total Net Assets</b>	<u>8,799,470</u>	<u>7,710,851</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 9,050,649</u></u>	<u><u>\$ 8,412,239</u></u>

*The accompanying notes are an integral part of these financial statements.*

# HEARING HEALTH FOUNDATION

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

**FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Support</b>						
Contributions	\$ 876,197	\$ 1,586,576	\$ 2,462,773	\$ 829,833	\$ 972,828	\$ 1,802,661
Publishing	90,140	--	90,140	149,340	--	149,340
Interest and dividends, net of fees of \$38,855 and \$46,499 in 2020 and 2019	200,434	--	200,434	206,486	10,878	217,364
Realized and unrealized (loss) gains on investments	(84,261)	(2,660)	(86,921)	179,644	8,192	187,836
Other income	24,360	--	24,360	42,237	--	42,237
Net assets released from restrictions	<u>921,534</u>	<u>(921,534)</u>	<u>--</u>	<u>1,361,283</u>	<u>(1,361,283)</u>	<u>--</u>
<b>Total Revenue and Support</b>	<u>2,028,404</u>	<u>662,382</u>	<u>2,690,786</u>	<u>2,768,823</u>	<u>(369,385)</u>	<u>2,399,438</u>
<b>Expenses</b>						
Program services	1,386,259	--	1,386,259	2,338,503	--	2,338,503
Management and general	103,069	--	103,069	79,787	--	79,787
Fundraising	<u>112,839</u>	<u>--</u>	<u>112,839</u>	<u>99,352</u>	<u>--</u>	<u>99,352</u>
<b>Total Expenses</b>	<u>1,602,167</u>	<u>--</u>	<u>1,602,167</u>	<u>2,517,642</u>	<u>--</u>	<u>2,517,642</u>
<b>Change in Net Assets</b>	426,237	662,382	1,088,619	251,181	(369,385)	(118,204)
<b>Net Assets - Beginning</b>	<u>2,633,320</u>	<u>5,077,531</u>	<u>7,710,851</u>	<u>2,382,139</u>	<u>5,446,916</u>	<u>7,829,055</u>
<b>Net Assets - End</b>	<u>\$ 3,059,557</u>	<u>\$ 5,739,913</u>	<u>\$ 8,799,470</u>	<u>\$ 2,633,320</u>	<u>\$ 5,077,531</u>	<u>\$ 7,710,851</u>

*The accompanying notes are an integral part of these financial statements.*

**HEARING HEALTH FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Program Services					Management and General	Fundraising	Total
	Research Grants	Magazine Management	Communication and Education	Hearing Restoration Project	Total			
Salaries	\$ 122,206	\$ 152,758	\$ 152,758	\$ 91,655	\$ 519,377	\$ 61,103	\$ 30,552	\$ 611,032
Payroll taxes and benefits	30,191	37,738	37,738	22,643	128,310	15,095	7,548	150,953
Grants and allocations awarded	--	--	--	155,663	155,663	--	--	155,663
Consultants	1,278	3,408	852	852	6,390	426	1,704	8,520
Honoraria	--	--	--	40,000	40,000	--	--	40,000
Professional fees	29,198	20,500	12,424	31,061	93,183	16,152	36,884	146,219
Bank, credit card and other fees	3,802	1,489	993	3,475	9,759	--	1,489	11,248
Database	2,589	10,355	2,589	2,589	18,122	1,294	6,472	25,888
Insurance	1,690	2,112	2,112	1,690	7,604	422	422	8,448
Marketing and promotional materials	19	124	383	96	622	--	335	957
Registrations and state filings	--	--	--	--	--	461	6,130	6,591
Website	--	239	273	--	512	--	171	683
Editorial, artwork and design	--	104,303	--	--	104,303	--	--	104,303
Dues and subscriptions	449	1,798	449	449	3,145	225	1,579	4,949
Computer expenses	1,749	2,186	2,186	1,749	7,870	437	437	8,744
Storage	366	457	457	366	1,646	91	91	1,828
Supplies	2,476	3,095	3,146	2,476	11,193	619	619	12,431
Telephone/internet	955	1,194	1,194	1,340	4,683	239	239	5,161
Printing and reproduction	--	71,364	7,921	--	79,285	689	10,328	90,302
Occupancy	19,020	23,775	23,775	19,020	85,590	4,755	4,755	95,100
Postage and shipping	117	54,801	1,274	--	56,192	111	1,274	57,577
Travel	1,480	617	2,096	22,119	26,312	370	986	27,668
Conferences/conventions/meetings	586	244	830	17,036	18,696	146	390	19,232
Depreciation	1,383	1,728	1,728	1,383	6,222	346	346	6,914
Other expenses	351	439	439	351	1,580	88	88	1,756
	<u>\$ 219,905</u>	<u>\$ 494,724</u>	<u>\$ 255,617</u>	<u>\$ 416,013</u>	<u>\$ 1,386,259</u>	<u>\$ 103,069</u>	<u>\$ 112,839</u>	<u>\$ 1,602,167</u>

*The accompanying notes are an integral part of these financial statements.*

**HEARING HEALTH FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Program Services					Management and General	Fundraising	Total
	Research Grants	Magazine Management	Communication and Education	Hearing Restoration Project	Total			
Salaries	\$ 82,299	\$ 102,874	\$ 102,874	\$ 61,725	\$ 349,772	\$ 41,150	\$ 20,575	\$ 411,497
Payroll taxes and benefits	20,794	25,992	25,992	15,595	88,373	10,397	5,198	103,968
Grants and allocations	457,129	--	--	785,111	1,242,240	--	--	1,242,240
Consultants	14,508	38,689	9,672	9,672	72,541	4,836	19,344	96,721
Honoraria	--	--	--	35,000	35,000	--	--	35,000
Professional fees	16,764	11,771	7,403	17,834	53,772	9,274	8,560	71,606
Bank, credit card and other fees	2,094	1,256	837	2,931	7,118	--	1,256	8,374
Database	2,938	11,751	2,938	2,938	20,565	1,469	7,869	29,903
Insurance	2,248	2,810	2,810	2,248	10,116	562	562	11,240
Marketing and promotional materials	17	108	333	83	541	--	6,724	7,265
Registrations and state filings	--	--	--	--	--	694	9,218	9,912
Website	--	190	218	--	408	--	136	544
Editorial, artwork and design	--	75,000	--	--	75,000	--	--	75,000
Dues and subscriptions	499	1,997	499	499	3,494	250	1,248	4,992
Computer expenses	1,412	1,765	1,765	1,412	6,354	353	353	7,060
Storage	48	60	60	48	216	12	12	240
Supplies	2,618	3,273	3,340	2,618	11,849	655	655	13,159
Telephone/internet	1,201	1,501	1,501	1,201	5,404	300	300	6,004
Printing and reproduction	--	62,138	3,679	--	65,817	320	3,679	69,816
Occupancy	33,727	42,159	42,159	33,728	151,773	8,432	8,432	168,637
Postage and shipping	--	90,838	3,685	--	94,523	320	3,685	98,528
Travel	6,392	542	1,844	24,981	33,759	326	868	34,953
Conferences/conventions/meetings	830	242	891	2,657	4,620	145	386	5,151
Depreciation	612	765	765	612	2,754	153	153	3,060
Other expenses	551	694	694	555	2,494	139	139	2,772
	<u>\$ 646,681</u>	<u>\$ 476,415</u>	<u>\$ 213,959</u>	<u>\$ 1,001,448</u>	<u>\$ 2,338,503</u>	<u>\$ 79,787</u>	<u>\$ 99,352</u>	<u>\$ 2,517,642</u>

*The accompanying notes are an integral part of these financial statements.*



# HEARING HEALTH FOUNDATION

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 1,088,619	\$ (118,204)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized losses (gains) on investments	86,921	(187,836)
Depreciation	6,914	3,060
Changes in operating assets and liabilities:		
Advertising and other receivables	(17,550)	46,825
Pledges receivable	(222,500)	55,000
Prepaid expenses and deposits	16,633	10,271
Accounts payable and accrued expenses	15,799	(3,040)
Grants payable	(659,088)	(144,162)
Deferred revenue	(3,600)	(17,800)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>312,148</u>	<u>(355,886)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(65,236)	(8,179)
Purchases of investments	(2,489,568)	(873,388)
Proceeds from sales of investments	<u>2,839,251</u>	<u>469,377</u>
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u>284,447</u>	<u>(412,190)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Paycheck Protection Program loan	<u>116,827</u>	<u>--</u>
<b>Net Cash Provided by Financing Activities</b>	<u>116,827</u>	<u>--</u>
<b>Net Change in Cash and Cash Equivalents</b>	713,422	(768,076)
<b>Cash and Cash Equivalents - Beginning</b>	<u>282,369</u>	<u>1,050,445</u>
<b>Cash and Cash Equivalents - End</b>	<u>\$ 995,791</u>	<u>\$ 282,369</u>

*The accompanying notes are an integral part of these financial statements.*

# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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### NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Hearing Health Foundation (the Foundation) is a New York not-for-profit corporation that furthers research in the causes, treatments and prevention of deafness and other hearing disorders. In 2011, the Foundation changed its name from Deafness Research Foundation to Hearing Health Foundation.

#### *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

##### *BASIS OF ACCOUNTING AND PRESENTATION*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

##### *USE OF ESTIMATES*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those assumptions and estimates.

##### *NET ASSETS*

The Foundation follows the provisions of FASB ASC 958, *Not-for-Profit Entities*. FASB ASC 958 establishes standards for external financial reporting by not-for-profit organizations. Resources are reported for accounting purposes, in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics are combined into the following categories:

*Net Assets Without Donor Restrictions* – Net assets without donor restrictions consist of the net assets over which the governing board has control to use in carrying out the operations of the Foundation in accordance with its by-laws and are not restricted by donor-imposed restrictions.

# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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### NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *NET ASSETS (CONTINUED)*

*Net Assets With Donor Restrictions* – Net assets with donor restrictions consist of net assets whose use is limited by donor-imposed restrictions which either expire with the passage of time (time restriction) or can be fulfilled and removed by actions of the Foundation pursuant to the restrictions (purpose restrictions). When donor-imposed restrictions expire, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities and changes in net assets as net assets released from restrictions. In addition, net assets that represent contributions that are limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the actions of the Foundation are also included within net assets with donor restrictions.

#### *CASH AND CASH EQUIVALENTS*

The Foundation considers all highly liquid investments, including money market funds with a maturity date of three months or less from the date of purchase, to be cash equivalents. The Foundation's deposits in financial institutions may, at times, exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Board of Directors and Finance Committee believes that these deposits are not subject to significant credit risk.

#### *INVESTMENT VALUATION AND INCOME RECOGNITION*

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized (losses) gains on investments includes the Foundation's gains and losses on investments bought and sold as well as held during the year. Realized and unrealized gains and losses on these investments are reported in the statements of activities and changes in net assets as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the financial statements.

# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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### NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *INVESTMENT VALUATION AND INCOME RECOGNITION (CONTINUED)*

As further discussed in Note 6, a permanent endowment was established by donor-restricted contributions to the Foundation with the restriction not to distribute any portion of the principal contributed. At times the Foundation may hold investments in excess of amounts restricted and all investments held, with and without donor-restriction, are categorized as investments on the statements of financial position.

The Board of Directors has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment income while seeking to preserve the endowment corpus. Endowment assets include those assets of donor-restricted funds that the Foundation holds in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a prudent manner that is intended to stress safety and strive for growth.

The endowment is held in one or more accounts in the name of the Foundation, but segregated from those accounts used to support its operations.

#### *CONTRIBUTIONS*

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value only when the conditions on which they depend are substantially met and the promises become unconditional.

The gifts are reported as donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified as net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions unless the restriction relates to long-lived assets. When long-lived assets are placed in service, thus satisfying purpose restrictions, the amount is included as a change in net assets, with donor restrictions and without donor restrictions in the statements of activities and changes in net assets.

#### *PROPERTY AND EQUIPMENT*

Property and equipment are carried at cost, net of accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to six years.

# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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### NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *PROPERTY AND EQUIPMENT (CONTINUED)*

The Foundation's capitalization threshold is \$1,000 with a projected useful life exceeding one year. Additions and improvements which extend the life of the assets are capitalized, and normal repairs and maintenance are charged to current operations. The costs and related accumulated depreciation of assets retired or disposed of are removed from the related accounts and the resulting gain or loss is reflected in income.

#### *IN-KIND CONTRIBUTIONS*

Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

The Foundation has many dedicated volunteers who have donated numerous hours of service in fundraising and community related activities. Because most of those donated services do not meet the recognition criteria, such services have not been recognized as contributions and expense in the Foundation's financial statements.

#### *FUNCTIONAL EXPENSE ALLOCATIONS*

The costs of providing the various programs and other activities of the Foundation have been summarized on a functional basis in the accompanying statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management based on estimated level of effort for salaries and related expenses and the estimated value of the benefit received for all other expenses.

#### *GRANTS TO OTHERS*

Starting in fiscal year 2021, the Foundation's grant years (project years) will be in full alignment with the fiscal year, with a start on October 1. Until this point, the Foundation's two grant programs—the Emerging Research Grants (ERG) program and the Hearing Restoration Project (HRP)—ran on two different 12-month cycles, both distinct from the Foundation's fiscal year:

- ERG: July 1 through to June 30 of the following year;
- HRP: June 1 through to May 31 of the following year.

# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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#### NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### *GRANTS TO OTHERS (CONTINUED)*

Aligning the grant years with the fiscal year will significantly improve transparency and efficiency in managing the Foundation's funding streams and simplify reporting, with all grant expenditures per project made in one single fiscal year, as opposed to across two.

The move was made in several steps, including communication of the decision to all stakeholders and actors involved in the grant review and selection processes. Because HRP is a closed consortium with many projects being renewed each year, the Foundation decided to provide "bridge" funding to HRP 2019 projects to extend their work through to the start of the new fiscal year so there would be no "gap" in funding between the end of the HRP 2019 project year (end: 5/31/2020) and the start of the new HRP 2020-2021 project year (start: 10/01/2020). The planned bridge funding (equivalent to one third of the HRP 2019 award, to cover the four extra months) was reduced following the COVID-19 shutdowns, which severely limited the work that could be done on-site in laboratories. Since ERG awards are given to new recipients each grant year and are limited to one year of funding, the ERG 2019 grant year ended as planned on 06/30/2019, and the new recipients of funding for the ERG 2020-2021 grant year will receive their first payment on October 1, 2020.

As a result, there is no grants payable as of September 30, 2020.

##### *ADVERTISING RECEIVABLE*

The Foundation is the owner of "Hearing Health Magazine" and during 2020 and 2019, engaged an outside consultant in the solicitation and sale of advertising space as well as the advancement and promotion of this magazine. Publishing income is recognized from advertisements when published after deduction of commissions. Amounts received prior to the advertisements being published are deferred until the publication date.

##### *PROMISES TO GIVE*

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises recorded as of September 30, 2020 and 2019.

# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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### NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *ALLOWANCE FOR DOUBTFUL ACCOUNTS*

In evaluating the collectability of accounts receivable, the Foundation analyzes and identifies trends for each of its sources of revenue to estimate the appropriate allowance for uncollectible accounts. It is the Foundation's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

#### *INCOME TAXES*

The Foundation is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Management has analyzed the tax positions taken and has concluded that as of September 30, 2020 and 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

#### *ADOPTION OF ACCOUNTING GUIDANCE*

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers: Topic 606 (Topic 606)*. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of Topic 606 did not have an impact on the Foundation's financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides clarification and guidance for contributions received and contributions made to assist entities in (1) evaluating whether a transaction should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional. The Foundation adopted this ASU during fiscal year 2020, and it did not have an impact on the statements of activities and changes in net assets.

# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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### NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *SUBSEQUENT EVENTS*

Management has evaluated subsequent events through February 1, 2021, which is the date these financial statements were available to be issued. Other than Note 8, there have been no subsequent events that would require adjustment to, or disclosure in, the financial statements.

### NOTE 2 - FAIR VALUE MEASUREMENTS

U.S. GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

**Level 2** - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level of the asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.



# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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### NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a description of the valuation methodologies used for financial instruments measured at fair value.

**Money Market Funds, Mutual and Exchange Traded Funds and Common Stocks** – Money market, mutual and exchange traded funds, and common stocks are valued at the daily closing price. The mutual and exchange traded funds held by the Foundation are deemed to be actively traded. Mutual and exchange traded funds held by the Foundation are open-ended funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price.

**Corporate Bonds** - Valued using recently executed transactions, market price quotations (where observable), bond spreads or other available data. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond swap spreads, and other available inputs.

There have been no changes in the methodologies used at September 30, 2020 and 2019.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of September 30, 2020:

Description	2020		Total
	Level 1	Level 2	
Common stocks	\$ 79,853	\$ --	\$ 79,853
Mutual and exchange traded funds	6,399,361	--	6,399,361
Corporate bonds	--	1,209,205	1,209,205
	<u>\$ 6,479,214</u>	<u>\$ 1,209,205</u>	<u>\$ 7,688,419</u>

# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

#### NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of September 30, 2019:

Description	2019		Total
	Level 1	Level 2	
Money market funds	\$ 706,492	\$ --	\$ 706,492
Mutual and exchange traded funds	5,488,239	--	5,488,239
Corporate bonds	--	1,850,439	1,850,439
	<u>\$ 6,194,731</u>	<u>\$ 1,850,439</u>	<u>\$ 8,045,170</u>

There were no transfers between levels of investments during the years ended September 30, 2020 and 2019.

#### *FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE*

The carrying amounts of cash and cash equivalents, accounts receivable, pledges receivable, prepaid expenses and other assets and accounts payable approximate their fair value because of the short-term nature of these instruments.

#### NOTE 3 - PLEDGES RECEIVABLE

As of September 30, 2020 pledges receivable of \$222,500 were due within the next year. As of September 30, 2019, there were no pledges receivable.

#### NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30:

	2020	2019
Furniture and equipment	\$ 92,471	\$ 72,460
Leasehold improvements	45,225	--
	137,696	72,460
Accumulated depreciation	(64,117)	(57,203)
	<u>\$ 73,579</u>	<u>\$ 15,257</u>

# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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### NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with restrictions represent contributions, gifts, and income from investments that can be used for the purpose specified by the donor, and endowment investments. These donor-restricted endowment funds and contributions to the endowment fund are restricted in perpetuity. Any income earned on the endowment fund investments is considered with donor restrictions until distributed to the Foundation to support general operations. The endowment corpus from the funds provides investment income to fund the various programs and research noted below.

	2020	2019
Purpose restrictions:		
Emerging Research Grants	\$ 210,744	\$ 110,745
Hearing Restoration Project	41,349	--
Research - Meniere's	100,000	--
Research - Tinnitus	20,000	--
Research - Hyperacusis	30,000	--
Research - California	5,000	--
Research - Texas	5,000	--
Research - Ushers	1,209	--
Research - General	359,825	--
	<u>773,127</u>	<u>110,745</u>
Total net assets with purpose restrictions		
Held in perpetuity:		
Hearst Endowed Otological Fellowship	200,000	200,000
C.H.E.A.R Endowment Grant	118,768	118,768
The Livermore Fund	4,648,018	4,648,018
	<u>4,966,786</u>	<u>4,966,786</u>
Total net assets held in perpetuity		
Total net assets with donor restrictions	<u>\$ 5,739,913</u>	<u>\$ 5,077,531</u>

# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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### NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	2020	2019
Hearing Restoration Project	\$ 466,855	\$ 574,314
Hearing Restoration Project (California)	--	5,000
General research (Texas)	--	2,500
Emerging Research Grants - Usher Syndrome	--	8,435
Research - general	152,923	148,847
Education programs	5,000	1,315
Emerging Research Grants	276,756	426,127
Emerging Research Grants - Meniere's Disease	--	54,760
Emerging Research Grants - Hyperacusis	--	1,000
Emerging Research Grants - Tinnitus Research	--	3,985
Emerging Research Grants - Central Auditory Processing Disorder	--	120,000
Child research	20,000	15,000
	<u>\$ 921,534</u>	<u>\$ 1,361,283</u>

### NOTE 6 - ENDOWMENTS

#### *INTERPRETATION OF RELEVANT LAW*

The Board of Directors of the Foundation has interpreted relevant law to require the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as donor restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by relevant law.

# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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### NOTE 6 - ENDOWMENTS (CONTINUED)

#### *RETURN OBJECTIVES AND RISK PARAMETERS*

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide capital preservation and total return. The overall rate of return objective of the portfolio shall be a reasonable “real” rate that is consistent with the risk levels.

#### *STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES*

To satisfy its long-term rate objectives within the established risk parameters the Foundation’s assets are divided into three major asset classes consisting of cash, corporate bonds, and mutual funds and exchange traded funds.

#### *SPENDING POLICY*

Spending policy will be at the discretion of the Board of Directors of the Foundation as determined by the governing documents for the various restricted funds that make up the portfolio and applicable federal and state laws.

#### *CHANGES IN ENDOWMENT*

The changes in endowment funds for the year ended September 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, October 1, 2019	\$ 605,839	\$ 5,008,813	\$ 5,614,652
Interest and dividends, net	--	--	--
Investment appreciation (depreciation)	<u>(166,931)</u>	<u>(2,660)</u>	<u>(169,591)</u>
Balance, September 30, 2020	<u>\$ 438,908</u>	<u>\$ 5,006,153</u>	<u>\$ 5,445,061</u>

# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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#### NOTE 6 - ENDOWMENTS (CONTINUED)

##### *CHANGES IN ENDOWMENT (CONTINUED)*

The changes in endowment funds for the year ended **September 30, 2019** are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, October 1, 2018	\$ 491,119	\$ 4,989,743	\$ 5,480,862
Interest and dividends, net	--	10,878	10,878
Investment appreciation (depreciation)	<u>114,720</u>	<u>8,192</u>	<u>122,912</u>
Balance, September 30, 2019	<u>\$ 605,839</u>	<u>\$ 5,008,813</u>	<u>\$ 5,614,652</u>

Endowment funds at September 30 consist of the following:

	2020	2019
Cash and cash equivalents	\$ 160,987	\$ 315,008
Common stocks	79,853	--
Corporate bonds	538,635	727,269
Mutual and exchange traded funds	<u>4,665,586</u>	<u>4,572,375</u>
	<u>\$ 5,445,061</u>	<u>\$ 5,614,652</u>

##### *FUNDS WITH DEFICIENCIES*

Due to unfavorable market fluctuations from time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor required the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported as net assets without donor restrictions. There was no deficit for the years ended September 30, 2020 and 2019.

# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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### NOTE 7 - RETIREMENT PLAN

Effective September 12, 2016, all employees of the Foundation are eligible to participate in the Foundation's sponsored 403(b) plan. During 2016, the Board of Directors approved an employer match for any contributing employee that has been employed by the Foundation for a minimum of six months of up to \$3,000 of employee contributions per year. During 2020 and 2019, there were five contributing employees to the plan and the employer match was \$19,200 and \$10,839, respectively, which has been included as part of payroll taxes and benefits on the accompanying statements of functional expenses.

### NOTE 8 - LEASE COMMITMENTS

In 2011, the Foundation entered into a lease agreement for office space which, in November 2017, was extended for one year with terms unchanged through March 31, 2019. The lease provides for one month of free rent and scheduled increases in base rent. Rent expense is charged to operations ratably over the term of the lease which results in deferred rent. The deferred rent is the cumulative rent expense charged to operations from inception of the lease in excess of required lease payments. In October 2018, the lease was extended for one more year through March 31, 2020 with an annual rent of \$148,200 and an increase in the security deposit held to \$24,700, all other terms remain unchanged. Total rent expense incurred under this lease for the year ended September 30, 2019 was \$155,635.

During 2016, the Foundation decided to allow the Children's Hearing Institute (CHI), an independent not for profit, to share office space. In return, CHI paid for a grant to fund research focused on improving children's hearing. The money given to research was \$20,000 and \$15,000 during the years ended September 30, 2020 and 2019, respectively, and is included in contributions on the statements of activities and changes in net assets. In addition, \$18,000 and \$36,000 was received from CHI during each of the years ended September 30, 2020 and 2019, for monthly shared office space that will also be used to fund research and is included in other income on the statements of activities and changes in net assets.

During February 2020, the Foundation entered into a lease agreement for new office space and took occupancy of the building in July 2020. The terms of the lease are for a period of seven years and 4 months and rent expense is charged to operations over the term of the lease based on cash outflows as outlined in the lease agreement as impact of straight lining the lease escalation is not overall material to the financial statements. Total rent expense incurred during 2020 was \$88,818.

# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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#### NOTE 8 - LEASE COMMITMENTS (CONTINUED)

Future minimum lease payments under the lease agreement as of September 30, 2020 are as follows:

2021	\$	118,153
2022		132,357
2023		135,997
2024		139,737
2025		143,579
Thereafter		<u>312,004</u>
	\$	<u>981,827</u>

The lease agreement required a security deposit of \$57,872. In lieu of a security deposit payment, in February 2020, the Foundation obtained an irrevocable letter of credit for the benefit of the landlord through JP Morgan in the amount of \$57,872, which expires on January 31, 2021 and has automatic annual extensions not to go beyond July 31, 2027. The collateral on this letter of credit represents all deposits held with JP Morgan.

The Foundation transitioned to a new investment bank during fiscal year 2020. As the above irrevocable letter required collateral in the form of deposits held, in September 2020, the Foundation entered into an irrevocable letter of credit with U.S. Bank for \$57,872 for the benefit of the Landlord, expiring on January 31, 2022, with automatic annual renewals not to exceed January 31, 2028 with the intent to close the letter of credit held with JP Morgan.

As of September 30, 2020, there were no drawings on either letter of credit. Subsequently, in December 2020, the Foundation closed the letter of credit held with JP Morgan.



# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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### NOTE 9 - PAYCHECK PROTECTION PROGRAM LOAN

During May 2020, the Foundation received a loan (the “PPP Loan”) from JP Morgan Chase Bank in the amount of \$116,827 under the Paycheck Protection Program and a \$6,000 advance under the Economic Injury Disaster Loans program (“EIDL Advance”), both established by the Coronavirus Aid, Relief and Economic Security Act. Subject to potential forgiveness, as described below, the PPP Loan matures in two years on April 7, 2022, bears interest at a rate of approximately 1% per year and is evidenced by a promissory note dated April 7, 2020 (the “Note”). Monthly payments of principal and interest are deferred until after any application for forgiveness submitted by the Foundation has been acted upon, as described below. The PPP Loan is unsecured and federally guaranteed. The Note contains customary events of default relating to, among other things, failure to make payments of principal and interest and breaches of representations and warranties. The Foundation may prepay the PPP Loan at any time prior to maturity with no penalty. The EIDL Advance does not have to be repaid and recipients did not have to be approved for an EIDL Loan to receive this advance.

All or a portion of the PPP Loan may be eligible to be forgiven by the U.S. Small Business Administration (“SBA”) and the lender upon application by the Foundation, provided that the Foundation shall have used the loan proceeds for eligible purposes, including the payment of payroll, benefits, rent, mortgage interest and utilities, during the 24 week period beginning on the date of funding of the loan (the “covered period”). Not more than 40% of the amount forgiven may be for non-payroll costs. The Foundation will be eligible to submit an application for forgiveness of the PPP Loan for a period of up to ten months after the end of the covered period.

The Foundation used the loan proceeds solely for payment of payroll and otherwise in a manner which it believes satisfy the requirements for loan forgiveness. However, no assurance can be given that any application for loan forgiveness that the Foundation may submit will be approved, in whole or in part. The EIDL advance of \$6,000 was utilized for approved expenditures and is included with other income on the statements of activities and changes in net assets for the period ended September 30, 2020.

# HEARING HEALTH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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#### NOTE 10 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's primary sources of support are contributions received from donors. Financial assets in excess of operational requirements are invested in money market funds and other short-term investments.

The following table reflects the Foundation's available financial assets as of September 30, 2020 and 2019. None of the financial assets included within the table are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

	2020	2019
Cash and cash equivalents	\$ 834,804	\$ 214,886
Accounts receivable	240,050	--
Investments not subject to restrictions	<u>2,695,455</u>	<u>3,225,270</u>
	<u>\$ 3,770,309</u>	<u>\$ 3,440,156</u>

The Foundation monitors its liquidity in order to meet operating needs, contractual commitments and other obligations as they come due.

#### NOTE 11 - RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States and the world. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Foundation's operations and liquidity is uncertain as of the date of this report. While there could ultimately be a material impact on operations and liquidity of the Foundation, including availability of future contributions, at the time of issuance, the impact could not be determined.

The extent to which the COVID-19 pandemic further impacts the Foundation's operations and financial condition will depend on numerous evolving factors, which are uncertain and cannot be predicted, including duration and scope of the pandemic and associated disruptions; effects of current and future governmental and public responses to changing conditions; and the financial condition of the Foundation's contributors to continue their support of the Foundation's mission.