

STARKEY HEARING FOUNDATION

EDEN PRAIRIE, MINNESOTA

**FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**



STARKEY HEARING FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Starkey Hearing Foundation
Eden Prairie, Minnesota

We have audited the statement of financial position of Starkey Hearing Foundation (a nonprofit organization), as of December 31, 2010, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2009 financial statements and, in our report dated March 5, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Starkey Hearing Foundation as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, an income tax settlement was reached with the IRS in 2011 resulting in an understatement of income tax and interest expense in previously issued financial statements. Accordingly, the 2009 financial statements have been restated to reflect these expenses.

Smith, Schafner & Associates, Ltd.

Edina, Minnesota
June 28, 2011

STARKEY HEARING FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2010 and 2009

ASSETS	2010	2009
		(Restated)
Current Assets		
Cash and cash equivalents	\$ 1,939,994	\$ 637,328
Investments (Note 2)	17,733	568,484
Due from Starkey Laboratories, Inc. (Note 8)	5,764,348	-
Portion of pledges receivable due within one year, net (Note 3)	2,392,387	582,624
Prepaid expenses	7,383	552,836
Prepaid rent	-	7,200
		<hr/>
Total Current Assets	10,121,845	2,348,472
Property and Equipment, net (Note 4)	25,604	35,741
Other Assets		
Pledges receivable, net of current portion (Note 3)	<u>302,876</u>	<u>403,697</u>
TOTAL ASSETS	<u>\$ 10,450,325</u>	<u>\$ 2,787,910</u>

See Notes to Financial Statements

LIABILITIES AND NET ASSETS (DEFICIT)	2010	2009
		(Restated)
Current Liabilities		
Accounts payable	\$ 118,401	\$ 70,747
Accrued income taxes (Note 11)	1,674,822	1,464,575
Accrued interest expense (Note 11)	289,798	253,419
Due to Starkey Laboratories, Inc. (Note 8)	1,878,668	1,498,972
Commitments to give due within one year (Note 5)	11,969	11,548
Deferred revenue (Note 10)	-	46,753
	<hr/>	<hr/>
Total Current Liabilities	3,973,658	3,346,014
Long-Term Liabilities		
Commitments to give, net of current portion (Note 5)	140,377	146,296
	<hr/>	<hr/>
Total Liabilities	4,114,035	3,492,310
Net Assets (Deficit)		
Unrestricted (Deficiency in Net Assets)	2,741,027	(1,773,568)
Temporarily restricted (Note 6)	3,595,263	1,088,686
	<hr/>	<hr/>
Total Net Assets (Deficit)	6,336,290	(704,400)
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TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 10,450,325	\$ 2,787,910

STARKEY HEARING FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)

For the Year Ended December 31, 2010

With Comparative Totals for the Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Totals	
			2010	2009 (Restated)
Support				
Contributions	\$ 5,799,930	\$ 900,000	\$ 6,699,930	\$ 4,334,783
Donated services and materials (Note 7)	7,648,421	-	7,648,421	2,031,209
Total Support	13,448,351	900,000	14,348,351	6,365,992
Revenues				
Special events, fundraising	3,952,886	2,525,000	6,477,886	4,297,329
Hear Now Program processing fees	722,217	-	722,217	628,360
Investment income	2,679	-	2,679	5,129
Total Revenues	4,677,782	2,525,000	7,202,782	4,930,818
Net Assets Released From Restrictions	918,423	(918,423)	-	-
Total Support and Revenues	19,044,556	2,506,577	21,551,133	11,296,810
Expenses				
Program and Services				
International	4,367,994	-	4,367,994	2,617,829
Domestic	3,453,267	-	3,453,267	3,282,252
Sponsorships and donations	1,789,542	-	1,789,542	1,577,655
Total Program and Services	9,610,803	-	9,610,803	7,477,736
Supporting Services				
Fundraising	2,643,330	-	2,643,330	2,320,793
General and Administrative	2,012,598	-	2,012,598	1,014,616
Total Supporting Services	4,655,928	-	4,655,928	3,335,409
Total Expenses	14,266,731	-	14,266,731	10,813,145
Increase in Net Assets Before Other Income (Expense)	4,777,825	2,506,577	7,284,402	483,665
Other Income (Expense)				
Realized gain (loss) on sale of investments	26,996	-	26,996	(14,357)
Unrealized gain (loss) on investment securities (Note 2)	(24,082)	-	(24,082)	44,559
Interest expense (Note 1)	(36,379)	-	(36,379)	(46,791)
Income taxes (Note 1)	(210,247)	-	(210,247)	(270,417)
Total Other Income (Expense)	(243,712)	-	(243,712)	(287,006)
Increase in Net Assets	4,534,113	2,506,577	7,040,690	196,659
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(1,793,086)	1,088,686	(704,400)	499,727
Prior period adjustments (Note 11)	-	-	-	(1,400,786)
NET ASSETS (DEFICIT), END OF YEAR	\$ 2,741,027	\$ 3,595,263	\$ 6,336,290	\$ (704,400)

See Notes to Financial Statements

STARKEY HEARING FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2010

With Comparative Totals for the Year Ended December 31, 2009

	Programs and Services				Supporting Services			Totals	
	International	Domestic	Sponsorship and Donations	Total Programs and Services	Fund Raising	General and Administrative	Total Supporting Services	2010	2009 (Restated)
Hearing aid and battery purchases (Note 8)	\$ 3,770,760	\$ 1,993,588	\$ -	\$ 5,764,348	\$ -	\$ -	\$ -	\$ 5,764,348	\$ 4,459,913
Donations	-	-	1,782,539	1,782,539	-	-	-	1,782,539	1,557,987
Special events and fundraising	-	15,022	-	15,022	1,347,749	3,143	1,350,892	1,365,914	1,089,349
Payroll and payroll taxes	58,702	299,889	-	358,591	191,045	426,677	617,722	976,313	982,805
Bad debts	9,266	33,006	-	42,272	31,139	712,290	743,429	785,701	142,329
Travel	169,410	230,884	-	400,294	273,112	34,449	307,561	707,855	282,282
Mission expense	232,067	173,321	-	405,388	-	-	-	405,388	79,077
Public relations	17,795	163,946	-	181,741	55,362	115,088	170,450	352,191	467,246
Food and beverage	4,679	16,759	-	21,438	249,529	7,547	257,076	278,514	303,533
Newsletter and marketing	6,995	85,672	-	92,667	63,622	97,442	161,064	253,731	157,456
Professional fees	13,781	47,666	-	61,447	44,838	141,608	186,446	247,893	39,591
Consulting	11,013	53,290	-	64,303	55,100	90,492	145,592	209,895	37,910
Contract labor	8,508	36,849	-	45,357	69,651	69,885	139,536	184,893	157,680
Internet web site	7,623	23,344	-	30,967	43,530	62,681	106,211	137,178	155,352
Printing	9,309	44,486	-	53,795	52,575	16,334	68,909	122,704	66,919
Rent	4,481	15,964	-	20,445	14,692	58,591	73,283	93,728	88,611
Postage	5,698	22,647	-	28,345	29,875	28,556	58,431	86,776	81,005
Bank and credit card fees	3,941	13,217	-	17,158	22,683	35,661	58,344	75,502	62,866
Dues	5,815	21,776	-	27,591	18,921	22,757	41,678	69,269	4,536
Commission	-	65,252	-	65,252	-	-	-	65,252	293,770
Photography	17,654	7,166	-	24,820	39,730	84	39,814	64,634	38,911
Supplies	1,503	26,308	-	27,811	11,789	13,980	25,769	53,580	64,354
Telephone and fax	4,223	6,195	-	10,418	8,899	17,434	26,333	36,751	37,760
Miscellaneous	-	20,675	-	20,675	2,466	5,964	8,430	29,105	19,985
Office expenses	1,510	5,267	-	6,777	4,914	15,370	20,284	27,061	35,203
Entertainment	416	18,258	-	18,674	-	-	-	18,674	3,789
Depreciation and amortization	506	1,803	-	2,309	1,647	12,720	14,367	16,676	12,911
Utilities	746	2,659	-	3,405	2,428	8,885	11,313	14,718	21,765
Insurance	345	4,341	-	4,686	3,835	4,258	8,093	12,779	5,889
Interest expense	-	-	7,003	7,003	-	-	-	7,003	6,663
Repairs	492	1,472	-	1,964	1,737	3,075	4,812	6,776	11,616
State registration fees	185	382	-	567	603	4,443	5,046	5,613	3,886
Employee benefits	411	1,593	-	2,004	1,339	2,229	3,568	5,572	11,073
Employee training	160	570	-	730	520	955	1,475	2,205	5,596
Grants	-	-	-	-	-	-	-	-	10,000
Refunds	-	-	-	-	-	-	-	-	7,542
Auto	-	-	-	-	-	-	-	-	3,080
Scholarships	-	-	-	-	-	-	-	-	3,005
TOTAL FUNCTIONAL EXPENSES	\$ 4,367,994	\$ 3,453,267	\$ 1,789,542	\$ 9,610,803	\$ 2,643,330	\$ 2,012,598	\$ 4,655,928	\$ 14,266,731	\$ 10,813,145

See Notes to Financial Statements

STARKEY HEARING FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2010 and 2009

	2010	2009 (Restated)
Cash Flows From Operating Activities		
Increase in Net Assets	\$ 7,040,690	\$ 196,659
Adjustments to reconcile change in net assets to net cash from operations:		
Depreciation and amortization	16,676	12,911
Unrealized (gain) loss on investments	24,082	(44,559)
Realized (gain) loss on sale of investments	(26,996)	14,357
Stock contributions made to investment account	(285,761)	(380,490)
Increase (decrease) in allowance for doubtful accounts	400,000	(50,000)
Donations of property and equipment	7,192	-
Loss on disposal of property and equipment	666	-
(Increase) Decrease in:		
Due from Starkey Laboratories, Inc.	(5,764,348)	-
Pledges receivable	(2,108,942)	(367,385)
Prepaid expenses	545,453	(383,416)
Prepaid rent	7,200	(7,200)
Other current assets	-	53,167
License agreement	-	29,500
Security deposits	-	6,698
Increase (Decrease) in:		
Accounts payable	47,654	(59,041)
Accrued income taxes	210,247	270,417
Accrued interest expense	36,379	46,791
Due to Starkey Laboratories, Inc.	379,696	605,895
Commitments to give	(5,498)	(11,210)
Grants payable	-	(9,372)
Deferred revenue	(46,753)	46,753
Net Cash Provided by (Used in) Operating Activities	<u>477,637</u>	<u>(29,525)</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	839,426	59,927
Proceeds from sale of property and equipment	1,250	-
Expenditures for property and equipment	(15,647)	(11,266)
Net Cash Provided by Investing Activities	<u>825,029</u>	<u>48,661</u>
Net Increase in Cash and Cash Equivalents	<u>1,302,666</u>	<u>19,136</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>637,328</u>	<u>618,192</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,939,994</u>	<u>\$ 637,328</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During The Year For:		
Interest	<u>\$ 7,003</u>	<u>\$ 6,663</u>
Noncash Investing Transactions:		
Cost of property and equipment disposed of	\$ 17,519	\$ 2,220
Accumulated depreciation on property and equipment disposed of	(8,411)	(2,220)
Cash proceeds from sale of property and equipment	(1,250)	-
Donation of and loss on disposal of property and equipment	<u>\$ 7,858</u>	<u>\$ -</u>

See Notes to Financial Statements

STARKEY HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. Description of Foundation and Summary of Significant Accounting Policies

Description of Foundation

Starkey Hearing Foundation, (the Foundation) was formed in Minnesota to promote hearing health awareness and education, to provide hearing aids, hearing aid batteries, and other hearing care products to disadvantaged people, and to support hearing related research.

Basis of Presentation

Financial statement presentation follows the recommendations of the FASB ASC 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation held no permanently restricted net assets as of December 31, 2010 and 2009.

Basis of Accounting and Revenue Recognition

The Foundation keeps its books on the accrual basis of accounting. Income and expenses are recorded as they are earned or incurred.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

Investments in marketable securities are carried in the financial statements at fair value. Fair value is measured using level one inputs, defined in FASB ASC 820, *Fair Value Measurements and Disclosures* as quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Pledges Receivable

Pledges receivable are stated at the amount management expects to collect from balances outstanding at year end. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of donors having outstanding balances and current relationships with them. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable.

STARKEY HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Description of Foundation and Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment is carried at the lower of cost or fair value at the time of donation (for in-kind contributions of property and equipment) and is being depreciated using the straight-line method over the estimated useful lives of three to seven years. The Foundation's policy is to capitalize and depreciate property and equipment which has a cost in excess of \$500 and an estimated useful life of at least one year.

Contributions

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

All other contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction.

Donated Services and Materials

Donated services are recognized as contributions if the services: create or enhance nonfinancial assets or required specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. A number of volunteers have donated significant time to the Foundation's program services and its fund raising campaigns which have not been reflected in the accompanying financial statements since the recognition criteria were not met.

Donated materials are recorded as contributions at the estimated fair value on the date received. The value of the contribution of materials is recognized as both revenue and as expense to the Foundation.

The Foundation recognized \$7,648,421 and \$2,031,209 of donated services and materials for the years ended December 31, 2010 and 2009, respectively.

STARKEY HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Description of Foundation and Summary of Significant Accounting Policies (Continued)

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue code. The Foundation's federal income tax returns for 2006, 2007, 2008, and 2009 underwent IRS examination resulting in a tax settlement reached in 2011, see also Note 11. The Foundation was required to report unrelated business taxable income from related party transactions. Income tax expense for the years ended December 31, 2010 and 2009 was \$210,247 and \$270,417, respectively. The Foundation incurred interest expense related to income taxes for the years ended December 31, 2010 and 2009 in the amounts of \$36,379 and \$46,791, respectively.

The Foundation adopted the provisions of FASB ASC 740-10-50 on January 1, 2009. Management has determined that the Foundation has not taken any other uncertain tax positions that would require accrual of additional income taxes.

The Foundation's federal income tax return for 2010 is subject to examination by the IRS, generally for three years after it is filed.

Advertising

The Foundation expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2010 and 2009 was \$253,731 and \$157,456, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

STARKEY HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Description of Foundation and Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

The Foundation's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, and pledges receivable. The Foundation keeps its cash with high quality financial institutions. At times, balances maintained at these financial institutions may exceed the federally insured limit. As of December 31, 2010 and 2009, cash balances in excess of the federally insured limit totaled \$1,236,823 and \$318,486, respectively.

The Foundation's investments are maintained in corporate common stocks and mutual funds and are therefore subject to the inherent risk of investing in equity-based securities and general market risk.

Management routinely assesses the financial strength of its donors and as a consequence, believes that pledges receivable credit risk exposure is limited.

Prior Year Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Fair Value of Financial Instruments

The carrying amount for cash and cash equivalents, pledges receivable, other receivables, prepaid expenses, and accounts payable approximates fair value due to the immediate or short-term maturity of these financial instruments. As discussed previously in this footnote, the fair value of investments is determined using level one inputs.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 28, 2011, the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform with presentation in the 2010 financial statements.

STARKEY HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Investments

Investments, carried at fair value as determined on an open market, as of December 31, 2010 and 2009, consisted of the following:

	2010		2009	
	Cost	Market	Cost	Market
Common stocks	\$ -	\$ -	\$ 514,169	\$ 539,093
Mutual funds	17,481	17,733	29,981	29,391
Totals	<u>\$ 17,481</u>	<u>\$ 17,733</u>	<u>\$ 544,150</u>	<u>\$ 568,484</u>

For the year ended December 31, 2010 the Foundation recognized unrealized losses of \$24,082. For the year ended December 31, 2009 the Foundation recognized unrealized gains of \$44,559.

3. Pledges Receivable

Pledges receivable as of December 31, 2010 and 2009 consisted of the following:

	2010	2009
Receivable in:		
Less than one year	\$ 2,892,387	\$ 682,624
More than one year to seven years	302,876	403,697
Total Pledges Receivable	<u>3,195,263</u>	1,086,321
Less: Allowance for doubtful accounts	500,000	100,000
Total Pledges Receivable, net	<u>2,695,263</u>	986,321
Less: Current portion due within one year	<u>2,392,387</u>	582,624
Pledges Receivable, net of current portion	<u>\$ 302,876</u>	<u>\$ 403,697</u>

STARKEY HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Property and Equipment

Property and equipment as of December 31, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Furniture	\$ -	\$ 16,590
Software and equipment	49,834	35,116
Total	49,834	51,706
Less: Accumulated depreciation	24,230	15,965
Total Property and Equipment, net	<u>\$ 25,604</u>	<u>\$ 35,741</u>

Depreciation expense for the years ended December 31, 2010 and 2009 was \$16,676 and \$12,911, respectively.

5. Commitments to Give

In 2007, the Foundation made a conditional promise to give college scholarships to a family of ten in Minnesota. The disbursement of funds is contingent upon the recipients attending college, and is limited to a total of \$200,000 in reimbursements for approved expenditures for the entire family. A liability of \$134,220 and \$128,170 was outstanding as of December 31, 2010 and 2009, respectively, representing the present value of the estimated future payments, discounted at 4.7%, from this commitment.

In 2004, the Foundation made a conditional promise to give a college scholarship to a recipient. The disbursement of funds is contingent upon the recipient attending college, and is limited to a total of \$50,000 in reimbursements for approved expenditures. The grant is payable in eight semi-annual installments of \$6,250, starting in 2009. Three installments remained as unpaid as of December 31, 2010. A liability of \$18,126 and \$29,674 was outstanding as of December 31, 2010 and 2009, respectively, representing the present value of the estimated future payments, discounted at 3.6%, from this commitment.

STARKEY HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Commitments to Give (Continued)

Commitments to give as of December 31, 2010 consisted of the following:

	<u>2010</u>	<u>2009</u>
Payable in:		
Less than one year	\$ 12,500	\$ 12,500
One to five years	43,750	56,250
More than five years	162,500	162,500
Total	<u>218,750</u>	231,250
Less: Discount to present value	<u>66,404</u>	73,406
Total Commitments to Give, net	<u>152,346</u>	157,844
Less: Current portion due within one year	<u>11,969</u>	11,548
 Commitments to Give, net of current portion	 <u>\$ 140,377</u>	 <u>\$ 146,296</u>

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of pledges receivable and contributions relating to mission trips that are scheduled to be completed in the following year. Temporarily restricted net assets as of December 31, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Pledges receivable, net	\$ 2,695,263	\$ 986,321
Contributions restricted for future mission trips	<u>900,000</u>	102,365
 Total Temporarily Restricted Net Assets	 <u>\$ 3,595,263</u>	 <u>\$ 1,088,686</u>

STARKEY HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Donated Services and Materials

Donated services and materials to the Foundation for the years ended December 31, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Hearing aids	\$ 5,764,348	\$ -
Salaries, employee benefits and other	1,235,075	906,122
Marketing expenses, Gala fundraising event and others	337,272	932,621
Hearing aid batteries and mission expenses	311,726	192,466
	<u>\$ 7,648,421</u>	<u>\$ 2,031,209</u>

Approximately 92% and 72% of the Foundation's donated materials and services were provided by Starkey Laboratories, Inc., for the years ended December 31, 2010 and 2009, respectively (see also Note 8). The Foundation's founder is the majority owner of Starkey Laboratories, Inc.

8. Related Party Transactions

The Foundation's founder is the majority owner of Starkey Laboratories, Inc.

The Foundation acquires hearing aids through purchases and donations. Bids for purchased hearing aids are solicited annually from hearing aid manufacturers. For the years ended December 31, 2010 and 2009, hearing aids in the amounts of \$5,764,348 and \$4,459,813, respectively, were purchased from Starkey Laboratories, Inc.

As of December 31, 2010, Starkey Laboratories, Inc. had committed to reimburse, the Foundation for \$5,764,348 of hearing aids purchased in 2010. This amount was paid in full in 2011.

As of December 31, 2010 and 2009, the Foundation owed to Starkey Laboratories, Inc. \$1,878,668 and \$1,498,972, respectively, for hearing aids purchased.

STARKEY HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Lease Commitments

The Foundation has a non-cancelable operating lease for office space for a former location, requiring base monthly rents as follows:

<u>Monthly Rent</u>	<u>Term</u>
\$ 7,344	October 2010 through September 2011
\$ 7,493	October 2011 through October 2012

The minimum rental commitments under the non-cancelable operating lease are as follows:

<u>Years Ending December 31</u>	<u>Amounts</u>
2011	\$ 88,575
2012	74,930
Total	<u>\$ 163,505</u>

Rent expense for the years ended December 31, 2010 and 2009 was \$93,728 and \$88,611, respectively.

10. Deferred Revenue

The Foundation may receive sponsorships in advance for the Gala event which is held each summer. Sponsorships received in advance are deferred and recognized in the periods to which they relate. The Foundation had no deferred revenues related to the Gala event as of December 31, 2010. The Foundation had deferred revenue of \$46,753 as of December 31, 2009.

STARKEY HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Prior Period Adjustments

The Foundation's federal income tax returns for 2006, 2007, 2008, and 2009 underwent IRS examination resulting in a tax settlement reached in 2011. The Foundation's income tax settlement resulted in an understatement of income tax and interest expense in previously issued financial statements, see also Note 1. Accordingly, a prior period adjustment was made resulting in a reduction to previously reported net assets of \$1,400,786 related to years ended December 31, 2006, 2007 and 2008; and a reduction to previously reported net assets of \$317,208 related to the year ended December 31, 2009.

The effect of the restatement on the results of activities and changes in total net assets as of and for the year ended December 31, 2009 are as follows:

	As previously reported	Restated
Total support and revenues	\$ 11,296,810	\$ 11,296,810
Total expenses	10,813,145	10,813,145
Other income (expense)	30,202	(287,006)
Increase in net assets	513,867	196,659
Accrued income taxes	\$ -	\$ 1,464,575
Accrued interest expense	-	253,419
Total net assets (deficit)	1,013,594	(704,400)