

# **Starkey Hearing Foundation and Subsidiaries**

Consolidated Financial Statements  
With Independent Auditor's Report Thereon  
December 31, 2019 and 2018

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RSM US LLP

## **Independent Auditor's Report**

Board of Directors and Finance Committee  
Starkey Hearing Foundation and Subsidiaries

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Starkey Hearing Foundation and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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.

### **Auditor's 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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 consolidated financial position of Starkey Hearing Foundation and Subsidiaries as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming that Starkey Hearing Foundation and Subsidiaries will continue as a going concern. As discussed in Note 1 to the financial statements, Starkey Hearing Foundation and Subsidiaries have suffered a large loss from operations and a large reduction in cash, cash equivalents and investments. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

*RSM US LLP*

Minneapolis, Minnesota  
July 20, 2020

**Starkey Hearing Foundation and Subsidiaries**

**Consolidated Statements of Financial Position  
December 31, 2019 and 2018**

	2019	2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 907,888	\$ 1,216,147
Pledges receivable, net of allowance	726,893	1,358,378
Investments	1,971,708	5,202,407
Inventory	3,824,106	4,863,766
Prepaid expenses and other	323,536	542,606
<b>Total current assets</b>	<b>7,754,131</b>	<b>13,183,304</b>
Long-term pledges receivable, net	-	704,991
Investment in privately held limited liability company	-	436,320
Property and equipment, net	1,108,087	884,467
<b>Total assets</b>	<b>\$ 8,862,218</b>	<b>\$ 15,209,082</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable, accrued expenses and other	\$ 590,720	\$ 715,606
Grants payable, current	23,116	28,438
<b>Total current liabilities</b>	<b>613,836</b>	<b>744,044</b>
Long-term liabilities:		
Grants payable, net	72,959	70,398
<b>Total liabilities</b>	<b>686,795</b>	<b>814,442</b>
Commitments		
Net assets:		
Without donor restrictions	7,403,983	12,112,582
With donor restrictions	771,440	2,282,058
<b>Total net assets</b>	<b>8,175,423</b>	<b>14,394,640</b>
<b>Total liabilities and net assets</b>	<b>\$ 8,862,218</b>	<b>\$ 15,209,082</b>

See notes to consolidated financial statements.

**Starkey Hearing Foundation and Subsidiaries**

**Consolidated Statements of Activities  
Years Ended December 31, 2019 and 2018**

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Support:			
Contributions	\$ 1,419,589	\$ 342,694	\$ 1,762,283
Donated services and materials	25,860,853	-	25,860,853
Special events	2,824,447	511,565	3,336,012
<b>Total support</b>	<b>30,104,889</b>	<b>854,259</b>	<b>30,959,148</b>
Revenues:			
Hear Now Program processing fees, net	1,267,935	-	1,267,935
Special events direct benefits	96,750	-	96,750
Tuition	32,700	-	32,700
Investment gain (loss)	460,902	-	460,902
Other revenue	2,688	-	2,688
<b>Total revenues</b>	<b>1,860,975</b>	<b>-</b>	<b>1,860,975</b>
Net assets released from restrictions	2,452,259	(2,452,259)	-
<b>Total support and revenues</b>	<b>34,418,123</b>	<b>(1,598,000)</b>	<b>32,820,123</b>
Expenses and other:			
Programs and services expenses:			
International	14,628,298	-	14,628,298
Domestic	21,200,747	-	21,200,747
Grants and other	327,716	-	327,716
<b>Total programs and services expenses</b>	<b>36,156,761</b>	<b>-</b>	<b>36,156,761</b>
Supporting services expenses:			
Cost of direct benefits to donors	117,028	-	117,028
Fundraising	1,433,670	-	1,433,670
General and administrative	1,419,263	-	1,419,263
<b>Total supporting services expenses</b>	<b>2,969,961</b>	<b>-</b>	<b>2,969,961</b>
<b>Total expenses</b>	<b>39,126,722</b>	<b>-</b>	<b>39,126,722</b>
(Gain) loss from changes in pledges receivable	-	(87,382)	(87,382)
Impairment of investment	-	-	-
<b>Total expenses and other</b>	<b>39,126,722</b>	<b>(87,382)</b>	<b>39,039,340</b>
<b>Changes in net assets</b>	<b>(4,708,599)</b>	<b>(1,510,618)</b>	<b>(6,219,217)</b>
Net assets, beginning of year	12,112,582	2,282,058	14,394,640
Net assets, end of year	<b>\$ 7,403,983</b>	<b>\$ 771,440</b>	<b>\$ 8,175,423</b>

See notes to consolidated financial statements.

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 1,603,501	\$ 318,865	\$ 1,922,366
32,846,516	-	32,846,516
1,243,000	2,044,240	3,287,240
35,693,017	2,363,105	38,056,122
1,444,815	-	1,444,815
-	-	-
14,450	-	14,450
(123,685)	-	(123,685)
4,974,486	-	4,974,486
6,310,066	-	6,310,066
3,694,581	(3,694,581)	-
45,697,664	(1,331,476)	44,366,188
15,341,233	-	15,341,233
24,297,590	-	24,297,590
841,077	-	841,077
40,479,900	-	40,479,900
220,120	-	220,120
1,562,686	-	1,562,686
1,801,395	-	1,801,395
3,584,201	-	3,584,201
44,064,101	-	44,064,101
-	266,338	266,338
140,269	-	140,269
44,204,370	266,338	44,470,708
1,493,294	(1,597,814)	(104,520)
10,619,288	3,879,872	14,499,160
\$ 12,112,582	\$ 2,282,058	\$ 14,394,640

## Starkey Hearing Foundation and Subsidiaries

### Consolidated Statement of Functional Expenses Year Ended December 31, 2019

	Programs and Services			Total Programs and Services	Cost of Direct Benefits to Donors	Supporting Services			Total
	International	Domestic	Grants and Other			Fundraising	General and Administrative	Total Supporting Services	
Payroll, taxes and benefits	\$ 2,346,717	\$ 252,253	\$ -	\$ 2,598,970	\$ -	\$ 87,778	\$ 629,274	\$ 717,052	\$ 3,316,022
Travel	3,685,361	-	-	3,685,361	-	108,945	60,865	169,810	3,855,171
Occupancy	45,541	-	-	45,541	-	-	149,489	149,489	195,030
Supplies	241,848	16,699	-	258,547	-	1,540	60,355	61,895	320,442
Telephone and internet	129,749	-	-	129,749	-	876	2,318	3,194	132,943
Printing, postage and copying	252,497	62,868	-	315,365	-	7,958	1,235	9,193	324,558
Bank fees	17,374	-	-	17,374	-	18,336	70,268	88,604	105,978
Consulting	841,423	27,447	-	868,870	-	225,213	5,740	230,953	1,099,823
Professional fees	31,472	-	-	31,472	-	-	296,506	296,506	327,978
Insurance	3,370	-	-	3,370	-	-	44,067	44,067	47,437
Food and beverage	136,097	-	-	136,097	117,028	-	-	117,028	253,125
Advertising and promotion	85,173	-	-	85,173	-	30,980	63	31,043	116,216
Hearing aid and accessory donations	5,134,827	20,840,400	-	25,975,227	-	-	-	-	25,975,227
Mission expenses	1,206,279	-	-	1,206,279	-	2,098	736	2,834	1,209,113
Grants and scholarships	-	-	327,716	327,716	-	-	-	-	327,716
Facility rental	45,871	-	-	45,871	-	478,566	-	478,566	524,437
Security	129,063	-	-	129,063	-	-	600	600	129,663
Other	230,068	1,080	-	231,148	-	471,380	73,543	544,923	776,071
Depreciation	65,568	-	-	65,568	-	-	24,204	24,204	89,772
<b>Total functional expenses</b>	<b>\$ 14,628,298</b>	<b>\$ 21,200,747</b>	<b>\$ 327,716</b>	<b>\$ 36,156,761</b>	<b>\$ 117,028</b>	<b>\$ 1,433,670</b>	<b>\$ 1,419,263</b>	<b>\$ 2,969,961</b>	<b>\$ 39,126,722</b>

See notes to consolidated financial statements.

## Starkey Hearing Foundation and Subsidiaries

### Consolidated Statement of Functional Expenses Year Ended December 31, 2018

	Programs and Services				Cost of Direct Benefits to Donors	Supporting Services			Total
	International	Domestic	Grants and Other	Total Programs and Services		Fundraising	General and Administrative	Total Supporting Services	
Payroll, taxes and benefits	\$ 2,412,696	\$ 391,625	\$ -	\$ 2,804,321	\$ -	\$ 318,162	\$ 599,174	\$ 917,336	\$ 3,721,657
Travel	4,086,355	-	-	4,086,355	-	213,271	305,937	519,208	4,605,563
Occupancy	53,640	-	-	53,640	-	-	86,335	86,335	139,975
Supplies	222,347	22,776	-	245,123	-	8,752	83,766	92,518	337,641
Telephone and internet	109,675	-	-	109,675	-	331	8,563	8,894	118,569
Printing, postage and copying	209,587	1,289	-	210,876	-	39,396	636	40,032	250,908
Bank fees	17,160	-	-	17,160	-	29,365	73,342	102,707	119,867
Consulting	593,162	1,300	-	594,462	-	375,776	166,611	542,387	1,136,849
Professional fees	39,632	-	-	39,632	-	-	328,922	328,922	368,554
Insurance	2,981	-	-	2,981	-	-	47,065	47,065	50,046
Food and beverage	57,490	-	-	57,490	220,120	-	-	220,120	277,610
Advertising and promotion	232,648	-	-	232,648	-	52,592	-	52,592	285,240
Hearing aid and accessory donations	5,715,056	23,880,600	-	29,595,656	-	-	-	-	29,595,656
Mission expenses	1,227,796	-	-	1,227,796	-	4,631	213	4,844	1,232,640
Grants and scholarships	-	-	841,077	841,077	-	-	-	-	841,077
Facility rental	52,583	-	-	52,583	-	73,825	-	73,825	126,408
Security	20,555	-	-	20,555	-	11,550	-	11,550	32,105
Other	192,826	-	-	192,826	-	435,035	90,423	525,458	718,284
Depreciation	95,044	-	-	95,044	-	-	10,408	10,408	105,452
<b>Total functional expenses</b>	<b>\$ 15,341,233</b>	<b>\$ 24,297,590</b>	<b>\$ 841,077</b>	<b>\$ 40,479,900</b>	<b>\$ 220,120</b>	<b>\$ 1,562,686</b>	<b>\$ 1,801,395</b>	<b>\$ 3,584,201</b>	<b>\$ 44,064,101</b>

See notes to consolidated financial statements.

**Starkey Hearing Foundation and Subsidiaries**

**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Changes in net assets	\$ (6,219,217)	\$ (104,520)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	89,772	105,452
Donation of property and equipment	-	(119,712)
Unrealized (gain) loss on investments	(349,349)	209,300
Loss on disposal of asset	97	6,700
Impairment of investment	-	140,269
Contributed investments	(79,960)	(374,489)
Decrease (increase) in assets:		
Pledges receivable	1,336,476	1,606,954
Inventory	1,039,660	30,317
Prepaid expenses and other	219,070	(129,318)
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and other	(124,886)	(669,660)
Grants payable	(2,761)	(393)
<b>Net cash provided by (used in) operating activities</b>	<b>(4,091,098)</b>	<b>700,900</b>
Cash flows from investing activities:		
Purchases of investments	(1,675,248)	(4,765,793)
Purchase of property and equipment	(313,489)	(18,970)
Proceeds from sales and maturities of investments	5,771,576	2,002,033
<b>Net cash provided by (used in) investing activities</b>	<b>3,782,839</b>	<b>(2,782,730)</b>
<b>Change in cash and cash equivalents</b>	<b>(308,259)</b>	<b>(2,081,830)</b>
Cash and cash equivalents, beginning of year	1,216,147	3,297,977
Cash and cash equivalents, end of year	<b>\$ 907,888</b>	<b>\$ 1,216,147</b>
Contribution of donated inventory less than donated inventory used	<b>\$ (1,039,489)</b>	<b>\$ (30,488)</b>

See notes to consolidated financial statements.

## Starkey Hearing Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Description of the Foundation and Summary of Significant Accounting Policies

**Nature of organization:** Starkey Hearing Foundation gives the gift of hearing to those in need, empowering them to achieve their potential. Its vision of “So the World May Hear” brings understanding between people through sharing and caring. Starkey Hearing Foundation is a nonprofit corporation.

Starkey Hearing Foundation LLC, a nonprofit limited liability company, was formed in March 2016. This entity was established to have a controlling interest in legal entities formed in international mission countries. Starkey Hearing Foundation is the sole member of the nonprofit limited liability company.

Starkey Hearing Institute Limited (SHIL), a company limited by guarantee, was incorporated in the Republic of Zambia during May 2016 to provide the legal structure for the Starkey Hearing Institute, a global initiative started by the Foundation, in the Republic of Zambia. The members of SHIL are Starkey Hearing Foundation LLC, the nonprofit limited liability company, and one other member with an insignificant noncontrolling interest.

Starkey Hearing Foundation (SHF), a company limited by guarantee, was incorporated in Kenya during August 2016 to provide the legal structure for the Starkey Hearing Institute in Kenya. The members of the SHF are Starkey Hearing Foundation LLC, the nonprofit limited liability company, and one other member with an insignificant noncontrolling interest.

The consolidated financial statements (collectively, the financial statements) include the accounts of all the entities referred to above (collectively, the Foundation). All significant intercompany balances and transactions have been eliminated in consolidation.

**Basis of financial statement presentation:** The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The financial statements have been prepared assuming that the Foundation will continue as a going concern. During the year ended December 31, 2019, the Foundation suffered a large loss from operations and a large reduction of cash, cash equivalents and investments. In addition, subsequent to year-end, the Foundation has made substantial changes to its operations due to COVID-19.

Management’s plans concerning these financial difficulties and uncertainties include suspending international missions and the Hear Now program, staff furloughs, and significantly reducing additional expenses. Management believes that the Foundation’s current cash resources and projected cash inflows are adequate to satisfy its liabilities and debt service requirements for the 12-month period subsequent to the issuance of these financial statements.

Net assets and revenues, gains and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows.

**Net assets without donor restrictions:** Resources over which the Board has discretionary control are net assets without donor restrictions.

**Net assets with donor restrictions:** Resources subject to donor-imposed stipulations that require they be maintained permanently or that may or will be met by actions of the Foundation and/or the passage of time are net assets with donor restrictions.

**Cash and cash equivalents:** For purposes of the consolidated 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.

## Starkey Hearing Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

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

**Investments and investment income:** Investments in mutual funds and exchange-traded funds are recorded at their fair value in the consolidated statements of financial position. Fair value is measured using Level 1 inputs, defined in Financial Accounting Standards Board's (FASB) *FASB Accounting Standards Codification* (ASC) Topic 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. Net gains and losses and interest and dividend income are included in investment gain (loss) on the consolidated statements of activities and changes in net assets.

At December 31, 2018, the Foundation held an investment in a privately held limited liability company. During the year ended December 31, 2018, the Foundation recognized impairment on the shares of \$140,269 and the investment was reduced to \$436,320. On April 26, 2019, the Foundation sold all outstanding shares in this investment with no additional gain or loss.

**Inventory:** Purchased inventories are valued at the lower of cost or market. Inventories consist of donated materials for future fundraising events, donated hearing aids, donated hearing aid batteries, donated ear molds, donated impression materials and other items. The donated inventory items recorded have been valued using the methodologies discussed below regarding donated materials.

**Property and equipment:** Donated property and equipment is carried at fair value determined at the time of donation (for in-kind contributions of property and equipment) less accumulated depreciation. Purchased property and equipment is carried at cost less accumulated depreciation. Both donated and purchased property and equipment are depreciated using the straight-line method over the estimated useful lives of three to 10 years. The Foundation's policy is to capitalize and depreciate property and equipment that has a cost in excess of \$1,500 and an estimated useful life of at least one year. Construction in process is not depreciated until placed in service.

**Support:** The Foundation receives support from the following sources: contributions, donated services and materials, and special events. The resource provider of this support may receive value indirectly by providing societal benefit, although that benefit is not considered to be of commensurate value. To the extent the support includes a donor-imposed restriction, the support is reported as with donor restrictions. When the donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), support with donor restrictions is reclassified as support without donor restrictions and is reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

**Contributions:** Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value determined as of the gift date by appraisal or other appropriate method. An allowance for uncollectible pledges receivable is provided based upon management's judgment, considering such factors as prior collection history, type of contribution and nature of fundraising activity. Pledges to be received after one year are discounted. Amortization of discounts is included in contribution revenue.

## Starkey Hearing Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

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

**Donated services and materials:** Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. In addition, a number of volunteers have donated significant time to the Foundation's program services and its fundraising campaigns, which have not been reflected in the accompanying financial statements because the recognition criteria were not met. Donated services are recorded as contributions at the estimated fair value that the Foundation would have otherwise paid for the same service. The value of contributed services is recognized as both revenue and expense to the Foundation.

Donated materials are recorded as contributions and inventory at their estimated fair value on the date received. Donated materials are recognized as expense when used in the Foundation's mission.

The Foundation recognized \$25,860,853 and \$32,846,516 of revenue for donated services and materials for the years ended December 31, 2019 and 2018, respectively. The Foundation recognized \$26,927,777 and \$32,454,325 of expenses for donated services and materials for the years ended December 31, 2019 and 2018, respectively.

**Special events:** The Foundation records special event support when it has been determined that there is a legal right to the support, and the amount is subject to reasonable estimation. Special event support mainly consists of auction and event proceeds, event sponsorships, and contributions solicited in conjunction with the special event.

**Revenues:** The Foundation receives revenues related to Hear Now Program processing fees, special events direct benefits, tuition, investment gain (loss) and other revenue. Hear Now Program processing fees, special events direct benefits and tuition are considered to be exchange transactions. Hear Now Program processing fees are recognized when the service has been performed. Special events direct benefits are recognized at the fair value of the direct benefits received. Tuition revenue is recognized over the term of the related course offering.

**Liquidity:** The following reflects the Foundation's financial assets available to meet cash needs for general expenditures within one year of December 31:

	2019	2018
Cash and cash equivalents	\$ 907,888	\$ 1,216,147
Pledges receivable	726,893	2,063,369
Investments	1,971,708	5,202,407
Less financial assets unavailable for general expenditures within one year due to:		
Restrictions by donors with long-term time or purpose restrictions	(44,547)	(923,680)
	<u>\$ 3,561,942</u>	<u>\$ 7,558,243</u>

## Starkey Hearing Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

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

The Foundation is supported in part by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. Amounts that are included in pledges receivable at December 31, 2019 and 2018, that are expected to be received within one year and are not restricted for purpose will be available for general expenditures once received. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. As part of this policy, the Foundation carefully monitors and forecasts available cash and other liquid resources on a monthly basis to ensure that sufficient resources are available for all expenditures. Management of liquid resources also includes reducing expenditures if needed. Expenditures reported on the consolidated statements of activities for the years ended December 31, 2019 and 2018, include \$26,927,777 and \$32,454,325, respectively, of in-kind expenditures that do not require the payment of financial assets.

**Functional allocation of expenses:** Expenses are specifically allocated to the various programs and supporting services whenever practical and, when this is impractical, allocations are made on the basis of best estimates of management.

**Litigation:** The Foundation is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Foundation's future financial position or results from operations. The Foundation recognizes legal expenses as they are incurred.

**Income taxes:** Starkey Hearing Foundation is a nonprofit corporation as described in section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. Starkey Hearing Foundation does not have any significant unrelated business income that would be subject to tax.

Starkey Hearing Foundation LLC has been organized as a limited liability company (LLC) under Minnesota Statutes. An LLC is not taxed as a separate entity. Rather, the income or loss of the LLC is included in the income tax returns of the LLC's sole member, Starkey Hearing Foundation.

SHIL and SHF have been organized as companies limited by guarantee and are not taxed as separate entities. Rather, the income or loss of these entities is included on the income tax returns of their members.

Starkey Hearing Foundation has reviewed its tax positions for all open years and has concluded that no material liabilities exist as of December 31, 2019 and 2018. Generally, Starkey Hearing Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years prior to the fiscal year ended December 31, 2016.

**Use of estimates:** The preparation of financial statements in conformity with U.S. 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 results could differ from those estimates.

## Starkey Hearing Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

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

**Concentrations:** The Foundation's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, including 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. The Foundation's investments are maintained in mutual funds and are therefore subject to general market risk. Management routinely assesses the financial strength of its donors and, consequently, believes that credit risk associated with pledges receivable exposure is limited. In addition, the Foundation receives a significant amount of support from Starkey Hearing Technologies (see Note 8).

**New accounting standards:** In June 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU has different effective dates for resource recipients and resource providers. Where the Foundation is the resource recipient, the ASU is applicable to contributions received for the Foundation's fiscal year beginning January 1, 2019. Where the Foundation is a resource provider, the ASU is effective for the Foundation's fiscal year beginning January 1, 2020. The standard was adopted by the Foundation on January 1, 2019, for transactions where they are the resource recipient. The adoption resulted in reclassification of special event direct benefit revenue of \$96,750 to properly separate the exchange portion of special events for the year ended December 31, 2019. For transactions where the Foundation is the resource provider, the ASU will be adopted effective January 1, 2020. The adoption is not expected to have a material impact on the Foundation's financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which converged and replaced existing revenue recognition guidance, including industry-specific guidance. This ASU requires revenue to be recognized in an amount that reflects the consideration to which the entity expects to be entitled in an exchange of goods or services. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. This new ASU provides a one-year deferral of Topic 606. Topic 606 will be effective for the Foundation for the fiscal year beginning January 1, 2020. The Foundation is currently assessing the impact of this standard on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In June 2020, the FASB issued ASU No. 2020-05, which deferred the effective date of Topic 842. Topic 842 will be effective for the Foundation for the fiscal year beginning January 1, 2021. The Foundation is currently evaluating the impact of this standard on its financial statements.

**Reclassification:** Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications have no impact on net assets or changes in net assets as previously reported.

**Subsequent events:** The Foundation has evaluated events and transactions through July 20, 2020, the date the financial statements were available to be issued. The Foundation determined the following disclosure is required.

## Starkey Hearing Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

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

The spread of COVID-19, a novel strain of the coronavirus, is altering the behavior of businesses and people in a manner that may adversely impact local, regional and global economies. The extent to which COVID-19 impacts the Foundation's results will depend on future developments, which are highly uncertain and cannot be predicted. The impact is highly dependent on the breath and duration of the outbreak and could be affected by other factors management is not currently able to predict. Accordingly, management cannot presently estimate the overall operational and financial impact to the Foundation, but such impact could have a material adverse effect on the financial condition of the Foundation. Due to COVID-19, the Foundation has suspended all international missions and the Hear Now program. In addition, the Foundation has obtained a loan of \$484,500, accruing interest at 1%, with payments from November 2020 through March 2022.

#### Note 2. Pledges Receivable

Pledges receivable as of December 31 consists of the following:

	2019	2018
Receivables due in less than one year	\$ 782,502	\$ 1,492,760
Receivables due in one to five years	-	746,948
Total pledges receivable	782,502	2,239,708
Less discount to present value	(8,659)	(41,957)
Less allowance for doubtful accounts	(46,950)	(134,382)
Total pledges receivable, net	<u>\$ 726,893</u>	<u>\$ 2,063,369</u>
Current receivables	\$ 726,893	\$ 1,358,378
Noncurrent receivables	-	704,991
	<u>\$ 726,893</u>	<u>\$ 2,063,369</u>

Pledges receivable due in more than one year are reflected at the present value of estimated future cash flows using an appropriate discount rate in the year pledged.

#### Note 3. Investments and Investment Income

Assets and liabilities recorded at fair value in the consolidated statements of financial position are categorized based upon the level of judgment associated with inputs used to measure their fair value. Input levels for fair value measurements, as defined by the ASC, are as follows:

**Level 1:** Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

**Level 2:** Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

**Level 3:** Inputs are unobservable and reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

## Starkey Hearing Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 3. Investments and Investment Income (Continued)

In instances where the determination of fair value is based on inputs for different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following tables set forth the Foundation's assets that are measured and recognized at fair value on a recurring basis as of December 31, under the appropriate level of the fair value hierarchy:

	December 31, 2019			
	Fair Value	Level 1	Level 2	Level 3
Mutual funds:				
Fixed income	\$ 781,611	\$ 781,611	\$ -	\$ -
Domestic equities	163,973	163,973	-	-
International equities	187,659	187,659	-	-
Commodities and other	195,761	195,761	-	-
Exchange-traded funds:				
Domestic equities	581,725	581,725	-	-
International equities	60,979	60,979	-	-
Total investments at fair value	<u>\$ 1,971,708</u>	<u>\$ 1,971,708</u>	<u>\$ -</u>	<u>\$ -</u>

	December 31, 2018			
	Fair Value	Level 1	Level 2	Level 3
Mutual funds:				
Fixed income	\$ 2,955,978	\$ 2,955,978	\$ -	\$ -
Domestic equities	531,938	531,938	-	-
International equities	303,028	303,028	-	-
Commodities and other	432,735	432,735	-	-
Exchange-traded funds:				
Domestic equities	807,218	807,218	-	-
International equities	88,034	88,034	-	-
Commodities and other	83,476	83,476	-	-
Total investments at fair value	<u>5,202,407</u>	<u>\$ 5,202,407</u>	<u>\$ -</u>	<u>\$ -</u>

Investment in privately held limited liability company, at cost	<u>436,320</u>
Total investments	<u>\$ 5,638,727</u>

Investment gain (loss) consists of earnings on investments and net gains and losses on investments. For the years ended December 31, 2019 and 2018, investment gain (loss) consists of the following:

	2019	2018
Interest and dividends	\$ 111,650	\$ 92,315
Realized and unrealized gains (losses), net	349,252	(216,000)
Investment gain (loss)	<u>\$ 460,902</u>	<u>\$ (123,685)</u>

## Starkey Hearing Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 4. Property and Equipment

Property and equipment as of December 31 consists of the following:

	2019	2018
Land	\$ 113,939	\$ 113,939
Software and equipment	873,441	992,052
Buildings and improvements	665,079	660,204
Construction in progress	302,462	-
Less accumulated depreciation	(846,834)	(881,728)
Total property and equipment, net	<u>\$ 1,108,087</u>	<u>\$ 884,467</u>

In November 2015, the Foundation purchased land and buildings located in the Republic of Zambia for \$350,000. The purchased land is subject to the exceptions, reservations, and restrictive covenants and conditions mentioned, contained or referred to in an agreement with a 99-year term dated February 1, 1995, between the president of the Republic of Zambia and Kara Counselling and Training Trust Limited.

At the end of 2019, the Foundation had two projects in progress, the Zambia multi-use center for \$294,893 and the development of application software for the Hear Now Program for \$7,569. Both projects were completed and placed in service in the first quarter of 2020.

#### Note 5. Grants Payable

In 2007, the Foundation made a promise to give college scholarships to a family of 10 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 \$96,075 and \$98,836 was outstanding as of December 31, 2019 and 2018, respectively, representing the present value of the estimated future payments, discounted at 4.7% from this commitment.

Grants payable as of December 31, 2019, are as follows:

Years ending December 31:	
2020	\$ 23,116
2021	16,667
2022	-
2023	-
2024	16,667
Thereafter	58,333
Total	<u>114,783</u>
Less discount to present value	<u>(18,708)</u>
Grants payable, net	96,075
Less current portion due within one year	<u>(23,116)</u>
Grants payable, net of current portion	<u>\$ 72,959</u>

## Starkey Hearing Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 6. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of pledges receivable and contributions with donor-imposed restrictions. Net assets with donor restrictions as of December 31, 2019 and 2018, consisted of the following:

	2019	2018
Contributions restricted for time	\$ 726,893	\$ 2,063,369
Contributions restricted for purpose	44,547	218,689
Total net assets with donor restrictions	<u>\$ 771,440</u>	<u>\$ 2,282,058</u>

#### Note 7. Donated Services and Materials

Services and materials donated to the Foundation for the years ended December 31, 2019 and 2018, consisted of the following:

	2019	2018
Payroll, taxes and benefits	\$ 331,304	\$ 1,076,506
Travel	346,278	539,737
Occupancy	15,439	67,562
Supplies	163,008	161,698
Telephone and internet	3,123	6,783
Printing, postage and copying	12,355	64,294
Food and beverage	-	5,806
Hearing aid and accessory donations	24,930,816	29,565,339
Fundraising events	26,300	1,185,369
Other	32,230	173,422
Total donated services and materials	<u>\$ 25,860,853</u>	<u>\$ 32,846,516</u>

#### Note 8. Concentrations

The Foundation's founder is the majority owner of Starkey Hearing Technologies. The Foundation receives support from Starkey Hearing Technologies in the form of donated hearing aids and payment of, or reimbursement for, Foundation expenses of payroll, employee benefits, travel, supplies, advertising and promotion, and mission expenses. This support is recorded as in-kind or cash contributions, as is appropriate, and as inventory or expense, as appropriate.

For the years ended December 31, 2019 and 2018, Starkey Hearing Technologies and its affiliates donated cash, pledge contributions, and donated services and materials of \$13,357,284 and \$21,303,112, respectively. Approximately 41% and 48% of the Foundation's total support and revenues were provided by Starkey Hearing Technologies for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, there were pledges receivable from Starkey Hearing Technologies due to the Foundation for \$0 and \$8,000, respectively.

## Starkey Hearing Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 9. Lease Commitment

The Foundation leases office spaces under operating leases that are noncancelable and expire in October 2023. Rent expense was approximately \$109,341 and \$36,000, respectively, for the years ended December 31, 2019 and 2018, included in general and administrative expenses on the consolidated statements of activities.

At December 31, 2019, future minimum annual lease payments are as follows:

	<u>Minimum Lease Payments</u>
Years ending December 31:	
2020	\$ 111,603
2021	114,709
2022	117,867
2023	<u>79,617</u>
Total	<u>\$ 423,796</u>

