

Starkey Hearing Foundation

Consolidated Financial Report
December 31, 2016

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RSM US LLP

Independent Auditor's Report

To the Board of Directors and Finance Committee
Starkey Hearing Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Starkey Hearing Foundation and its subsidiaries (collectively, the Foundation), which comprise the consolidated statement of financial position as of December 31, 2016; the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 audit. 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 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 qualified audit opinion.

Basis for Qualified Opinion

The Foundation was not able to properly record all inventory on hand at December 31, 2015, due to uncertainty about the quantity and value of inventory that existed. Because the Foundation has not determined the quantity or value of inventory, if any, that may have existed as of December 31, 2015, the impact of the change in net assets reported for the year ended December 31, 2016, is unknown.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2016, and its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Minneapolis, Minnesota
November 15, 2017

Starkey Hearing Foundation

Consolidated Statement of Financial Position December 31, 2016

Assets

Current assets:

Cash and cash equivalents	\$ 1,820,451
Pledges receivable, net of allowance (Note 2)	2,959,350
Related-party receivable (Note 8)	3,527
Investments (Note 3)	1,832,462
Inventory	3,421,294
Prepaid expenses and other	212,541
Total current assets	<u>10,249,625</u>

Long-term pledges receivable, net (Note 2)	2,615,897
Investment in privately held limited liability company (Note 3)	576,589
Property and equipment, net (Note 4)	<u>895,710</u>

Total assets \$ 14,337,821

Liabilities and Net Assets

Current liabilities:

Accounts payable, accrued expenses, and other	\$ 489,613
Grants payable, current (Note 5)	<u>333,848</u>
Total current liabilities	823,461

Long-term liabilities:

Grants payable, net (Note 5)	<u>92,299</u>
Total liabilities	<u>915,760</u>

Net assets:

Unrestricted	7,837,266
Temporarily restricted	<u>5,584,795</u>
Total net assets	<u>13,422,061</u>

Total liabilities and net assets \$ 14,337,821

See notes to consolidated financial statements.

Starkey Hearing Foundation

**Consolidated Statement of Activities and Changes in Net Assets
Year Ended December 31, 2016**

	Unrestricted	Temporarily Restricted	Total
Support:			
Contributions	\$ 1,419,933	\$ 8,395	\$ 1,428,328
Grant income	25,000	66,662	91,662
Donated services and materials (Note 7)	28,171,057	-	28,171,057
Special events	1,880,697	3,457,946	5,338,643
Total support	31,496,687	3,533,003	35,029,690
Revenues:			
Hear Now Program processing fees, net	1,364,554	-	1,364,554
Investment gain (Note 3)	151,950	-	151,950
Total revenues	1,516,504	-	1,516,504
Net assets released from restrictions	5,808,056	(5,808,056)	-
Total support and revenues	38,821,247	(2,275,053)	36,546,194
Expenses and other:			
Programs and services expenses:			
International	9,909,142	-	9,909,142
Domestic	19,853,837	-	19,853,837
Grants and other	1,259,245	-	1,259,245
Total programs and services expenses	31,022,224	-	31,022,224
Supporting services expenses:			
Cost of direct benefits to donors	252,874	-	252,874
Fundraising	1,904,172	-	1,904,172
General and administrative	2,741,297	-	2,741,297
Total supporting services expenses	4,898,343	-	4,898,343
Total expenses	35,920,567	-	35,920,567
Gain from changes in pledges receivable	-	(24,625)	(24,625)
Total expenses and other	35,920,567	(24,625)	35,895,942
Changes in net assets	2,900,680	(2,250,428)	650,252
Net assets, beginning of year	4,936,586	7,835,223	12,771,809
Net assets, end of year	\$ 7,837,266	\$ 5,584,795	\$ 13,422,061

See notes to consolidated financial statements.

Starkey Hearing Foundation

Consolidated Statement of Functional Expenses Year Ended December 31, 2016

	Programs and Services				Supporting Services				Total
	International	Domestic	Grants and Other	Total Programs and Services	Cost of Direct Benefits to Donors	Fundraising	General and Administrative	Total Supporting Services	
Payroll, taxes and benefits	\$ 1,556,257	\$ 373,985	\$ -	\$ 1,930,242	\$ -	\$ 561,837	\$ 870,683	\$ 1,432,520	\$ 3,362,762
Travel	2,706,377	10,703	-	2,717,080	-	315,653	355,507	671,160	3,388,240
Occupancy	30,078	-	-	30,078	-	-	80,530	80,530	110,608
Supplies	152,651	3,820	-	156,471	-	5,630	61,478	67,108	223,579
Telephone and internet	76,187	-	-	76,187	-	5,775	38,234	44,009	120,196
Printing, postage and copying	56,525	7,815	-	64,340	-	17,636	295,557	313,193	377,533
Bank fees	5,946	-	-	5,946	-	18,464	80,085	98,549	104,495
Consulting	330,903	15,691	-	346,594	-	132,411	146,428	278,839	625,433
Professional fees	33,333	-	-	33,333	-	-	452,877	452,877	486,210
Insurance	-	-	-	-	-	2,005	37,146	39,151	39,151
Food and beverage	34,265	-	-	34,265	252,874	-	-	252,874	287,139
Advertising and promotion	21,077	21,257	-	42,334	-	124,301	474	124,775	167,109
Hearing aid and accessory donations	3,609,939	19,393,200	-	23,003,139	-	-	-	-	23,003,139
Mission expenses	1,240,665	24,738	-	1,265,403	-	396,135	68,245	464,380	1,729,783
Grants and scholarships	-	-	1,259,245	1,259,245	-	-	-	-	1,259,245
Facility rental	15,585	-	-	15,585	-	-	-	-	15,585
Security	8,935	763	-	9,698	-	10,392	2,822	13,214	22,912
Other	11,531	1,865	-	13,396	-	313,933	117,793	431,726	445,122
Depreciation	18,888	-	-	18,888	-	-	133,438	133,438	152,326
Total functional expenses	\$ 9,909,142	\$ 19,853,837	\$ 1,259,245	\$ 31,022,224	\$ 252,874	\$ 1,904,172	\$ 2,741,297	\$ 4,898,343	\$ 35,920,567

See notes to consolidated financial statements.

Starkey Hearing Foundation

Consolidated Statement of Cash Flows Year Ended December 31, 2016

Cash flows from operating activities:	
Changes in net assets	\$ 650,252
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	152,326
Change in net gains and losses on investments	(114,648)
Loss on disposal of asset	694
Contributed investments	(97,997)
Proceeds from sales of contributed investments	97,997
Decrease (increase) in assets:	
Pledges receivable	2,250,426
Related-party receivable	40,095
Inventory	(2,076,987)
Prepaid expenses and other	(147,998)
Increase in liabilities:	
Accounts payable, accrued expenses, and other	101,652
Grants payable	255,003
Net cash provided by operating activities	1,110,815
Cash flows from investing activities:	
Purchases of investments	(1,416,373)
Purchase of property and equipment	(297,230)
Proceeds from sales and maturities of investments	1,260,341
Net cash used in investing activities	(453,262)
Net increase in cash and cash equivalents	657,553
Cash and cash equivalents, beginning of year	1,162,898
Cash and cash equivalents, end of year	\$ 1,820,451
Contribution of donated stock	\$ 97,997
Contribution of donated inventory in excess of donated inventory used	\$ 2,076,958

See notes to consolidated financial statements.

Starkey Hearing Foundation

Notes to Consolidated Financial Statements

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. Their 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 for-profit limited liability company, was formed in August 2015 for the purpose of managing risk and exposure related to international activities. Starkey Hearing Foundation was the sole member of this limited liability company. This entity was dissolved in June 2017.

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 Foundation Limited, 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 the company are Starkey Hearing Foundation LLC, the nonprofit limited liability company, and one other member with an insignificant non-controlling interest. In August 2016, the name of the Zambian entity was changed to Starkey Hearing Institute Limited.

Starkey Hearing Foundation, 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 company are Starkey Hearing Foundation LLC, the nonprofit limited liability company, and one other member with an insignificant non-controlling interest.

The consolidated 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 consolidated financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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.

Unrestricted: Resources over which the Board has discretionary control are unrestricted.

Temporarily restricted: Temporarily restricted resources are subject to donor-imposed restrictions, which will be satisfied by actions of the Foundation or the passage of time.

Permanently restricted: Permanently restricted net assets are subject to donor-imposed restrictions and must be maintained permanently by the Foundation.

The Foundation held no permanently restricted net assets as of December 31, 2016.

Cash and cash equivalents: For purposes of the consolidated statement of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Foundation has cash balances at financial institutions that may exceed federal depository insurance limits. To date, the Foundation has not experienced any losses on such accounts.

Starkey Hearing Foundation

Notes to Consolidated Financial Statements

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 statement of financial position. Fair value is measured using Level 1 inputs, defined in *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 on the consolidated statement of activities and changes in net assets.

The Foundation holds an investment in a privately held limited liability company. This investment is considered an investment in equity securities that does not have a readily determinable fair value as defined in ASC Subtopic 958-325. The investment is reported at the lower of cost or fair value within the consolidated financial statements. As of December 31, 2016, the investment was recorded at a cost of \$576,589. In addition, no impairment existed for this investment at December 31, 2016.

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

Property and equipment: Donated property and equipment are 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 are 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 seven years. The Foundation's policy is to capitalize and depreciate property and equipment that has a cost in excess of \$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, grant income, donated services and materials, and special events. To the extent the support includes a donor-imposed restriction, the support is reported as temporarily or permanently restricted. When the donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted support is reclassified as unrestricted support and reported in the consolidated statement of activities and changes in net assets as net assets released from restriction.

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. The allowance for uncollectible pledges as of December 31, 2016, was \$363,550.

Pledges to be received after one year are discounted. Amortization of discounts is included in contribution revenue. There were net long-term receivables as of December 31, 2016, of \$2,615,897.

Starkey Hearing Foundation

Notes to Consolidated Financial Statements

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

Grant income: The Foundation receives unconditional promises and gifts from other foundations, organizations and individuals (donors). Grant income is reported at fair value on the date it is received. For the year ended December 31, 2016, grant income of \$91,662 was recognized, \$66,662 of which was temporarily restricted.

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 consolidated 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 \$28,171,057 of revenue for donated services and materials for the year ended December 31, 2016. The Foundation recognized \$26,094,100 of expenses for donated services and materials for the year ended December 31, 2016.

Advertising: The Foundation expenses advertising costs as they are incurred. Advertising expense for the year ended December 31, 2016, was \$1,211.

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 (for-profit and nonprofit entities) have been organized as limited liability companies under Minnesota Statutes. A limited liability company (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.

Starkey Hearing Foundation Limited (Zambia) and Starkey Hearing Foundation (Kenya) 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, 2016. 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, 2013.

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.

Starkey Hearing Foundation

Notes to Consolidated Financial Statements

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

Use of estimates: The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

The Foundation receives a significant amount of support from Starkey Hearing Technologies (see Note 8). Approximately 39 percent of the Foundation's total support and revenues were provided by Starkey Hearing Technologies for the year ended December 31, 2016.

New accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. The update is effective for the Foundation's fiscal year ending December 31, 2019, with early adoption permitted, but not prior to the Foundation's fiscal year ending December 31, 2018. The Foundation is currently assessing the impact of ASU No. 2014-09 on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance amends the requirements for financial statements and notes presented by a not-for-profit entity to a) present on the face of the consolidated statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes; b) present on the face of the consolidated statement of activities and changes in net assets the amount of the change in either of the two classes of net assets rather than that of the currently required three classes; c) provide enhanced disclosures in the notes to the financial statements; d) report investment return net of external and direct internal investment expenses; and e) utilize, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The update is effective for the fiscal year ending December 31, 2018. Early adoption is permitted. The Foundation is currently assessing the impact of ASU 2016-14 on its consolidated financial statements.

Subsequent events: The Foundation has evaluated events and transactions through November 15, 2017, the date the consolidated financial statements were available to be issued, and determined no additional disclosures or adjustments are required.

Starkey Hearing Foundation

Notes to Consolidated Financial Statements

Note 2. Pledges Receivable

Pledges receivable as of December 31, 2016, consisted of the following:

Receivables due in less than one year	\$ 3,322,900
Receivables due in one to five years	<u>2,736,273</u>
Total pledges receivable	6,059,173
Less discount to present value	(120,376)
Less allowance for doubtful accounts	<u>(363,550)</u>
Total pledges receivable, net	<u><u>\$ 5,575,247</u></u>
Current receivables	\$ 2,959,350
Noncurrent receivables	<u>2,615,897</u>
	<u><u>\$ 5,575,247</u></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 statement 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 *FASB Accounting Standards Codification*, 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.

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.

Starkey Hearing Foundation

Notes to Consolidated Financial Statements

Note 3. Investments and Investment Income (Continued)

The following table sets forth the Foundation's assets that are measured and recognized at fair value on a recurring basis as of December 31, 2016, under the appropriate level of the fair value hierarchy:

	December 31, 2016			
	Fair Value	Level 1	Level 2	Level 3
Mutual funds:				
Fixed income	\$ 368,833	\$ 368,833	\$ -	\$ -
Domestic equities	239,149	239,149	-	-
International equities	226,424	226,424	-	-
Commodities and other	168,883	168,883	-	-
Exchange-traded funds:				
Fixed income	197,536	197,536	-	-
Domestic equities	509,360	509,360	-	-
International equities	86,819	86,819	-	-
Commodities and other	35,458	35,458	-	-
Total investments at fair value	1,832,462	<u>\$ 1,832,462</u>	<u>\$ -</u>	<u>\$ -</u>
Investment in privately held limited liability company, at cost	576,589			
Total investments	<u>\$ 2,409,051</u>			

Investment gain consists of earnings on investments and net gains and losses on investments. For the year ended December 31, 2016, investment gain consists of the following:

Interest and dividends	\$ 37,996
Realized and unrealized gains and losses, net	113,954
Investment gain	<u>\$ 151,950</u>

Note 4. Property and Equipment

Property and equipment as of December 31, 2016, consisted of the following:

Land	\$ 113,939
Software and equipment	912,835
Buildings and improvements	521,651
Less accumulated depreciation	(652,715)
Total property and equipment, net	<u>\$ 895,710</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.

Starkey Hearing Foundation

Notes to Consolidated Financial Statements

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 \$126,147 was outstanding as of December 31, 2016, representing the present value of the estimated future payments, discounted at 4.7 percent, from this commitment.

In addition, the Foundation approved grants during 2016 that were unpaid as of year-end and thus are reported as liabilities.

Scholarship payable and grants payable as of December 31, 2016, are as follows:

Years ending December 31:	
2017	\$ 333,848
2018	8,333
2019	25,000
2020	16,667
Thereafter	75,000
Total	<u>458,848</u>
Less discount to present value	<u>(32,701)</u>
Grants payable, net	426,147
Less current portion due within one year	<u>(333,848)</u>
Grants payable, net of current portion	<u>\$ 92,299</u>

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of pledges receivable and contributions with donor-imposed restrictions. Temporarily restricted net assets as of December 31, 2016, consisted of the following:

Contributions restricted for time	\$ 5,575,247
Contributions restricted for purpose	9,548
Total temporarily restricted net assets	<u>\$ 5,584,795</u>

Starkey Hearing Foundation

Notes to Consolidated Financial Statements

Note 7. Donated Services and Materials

Services and materials donated to the Foundation for the year ended December 31, 2016, consisted of the following:

Payroll, taxes and benefits	\$ 1,708,978
Travel	485,280
Occupancy	79,010
Supplies	56,289
Telephone and internet	32,487
Printing, postage and copying	291,537
Food and beverage	44,600
Hearing aid and accessory donations	24,982,905
Fundraising events	357,893
Other	132,078
Total donated services and materials	<u><u>\$ 28,171,057</u></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 year ended December 31, 2016, Starkey Hearing Technologies and its affiliates donated cash and pledge contributions of \$170,293 and donated services and materials of \$14,327,002. Approximately 51 percent of the Foundation's donated services and materials were provided by Starkey Hearing Technologies for the year ended December 31, 2016.

As of December 31, 2016, there was one pledge receivable from Starkey Hearing Technologies due to the Foundation in the amount of \$37,600.

Note 9. Commitments

The Foundation has signed contracts for the use of space for future gala events prior to December 31, 2016. In aggregate, the Foundation has committed \$1,000 related to these contracts. In addition, the contracts have various clauses to cover the unrealized revenues of the venue if cancellation occurs before the events take place.

Note 10. Contingency

The Office of the Attorney General of the State of Minnesota issued a Civil Investigative Demand to Starkey Hearing Foundation on September 16, 2016. The Attorney General is investigating the Foundation to determine if it has violated any of the charitable laws of the State of Minnesota. The Foundation is cooperating fully with the investigation and believes that the investigation will be resolved without material adverse financial consequences to the Foundation.

