Starkey Hearing Foundation and Subsidiaries

Consolidated Financial Statements
With Independent Auditor's Report Thereon
December 31, 2018 and 2017

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Independent Auditor's Report

RSM US LLP

To the 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, 2018 and 2017, 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, 2018 and 2017, 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.

RSM US LLP

Minneapolis, Minnesota
August 23, 2019

Starkey Hearing Foundation and Subsidiaries

Consolidated Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,216,147**	$ 3,297,977
Pledges receivable, net of allowance (Note 2)	**1,558,378**	2,167,967
Related-party receivable	**5,556**	5,490
Investments (Note 3)	**5,202,407**	2,186,848
Inventory	**4,863,766**	4,894,083
Prepaid expenses and other	**337,050**	207,798
Total current assets	**13,183,304**	12,760,163
Long-term pledges receivable, net (Note 2)	**704,991**	1,702,356
Investment in privately held limited liability company (Note 3)	**436,320**	576,589
Property and equipment, net (Note 4)	**884,467**	944,547
Total assets	**$ 15,209,082**	$ 15,983,655
Liabilities and Net Assets		
Current liabilities:		
Accounts payable, accrued expenses and other	**$ 715,606**	$ 1,385,266
Grants payable, current (Note 5)	**28,438**	8,333
Total current liabilities	**744,044**	1,393,599
Long-term liabilities:		
Grants payable, net (Note 5)	**70,398**	90,896
Total liabilities	**814,442**	1,484,495
Commitments (Note 9)		
Net assets:		
Without donor restrictions	**12,112,582**	10,619,288
With donor restrictions (Note 6)	**2,282,058**	3,879,872
Total net assets	**14,394,640**	14,499,160
Total liabilities and net assets	**$ 15,209,082**	$ 15,983,655

See notes to consolidated financial statements.

Starkey Hearing Foundation and Subsidiaries

Consolidated Statements of Activities
Years Ended December 31, 2018 and 2017

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Support:			
Contributions	$ 1,603,501	$ 318,865	$ 1,922,366
Donated services and materials (Note 7)	32,846,516	-	32,846,516
Special events	1,243,000	2,044,240	3,287,240
Total support	35,693,017	2,363,105	38,056,122
Revenues:			
Hear Now Program processing fees, net	1,444,815	-	1,444,815
Tuition	14,450	-	14,450
Investment (loss) gain (Note 3)	(123,685)	-	(123,685)
Other revenue	4,974,486	-	4,974,486
Total revenues	6,310,066	-	6,310,066
Net assets released from restrictions	3,694,581	(3,694,581)	-
Total support and revenues	45,697,664	(1,331,476)	44,366,188
Expenses and other:			
Programs and services expenses:			
International	15,581,342	-	15,581,342
Domestic	24,297,590	-	24,297,590
Grants and other	600,968	-	600,968
Total programs and services expenses	40,479,900	-	40,479,900
Supporting services expenses:			
Cost of direct benefits to donors	220,120	-	220,120
Fundraising	1,562,686	-	1,562,686
General and administrative	1,801,395	-	1,801,395
Total supporting services expenses	3,584,201	-	3,584,201
Total expenses	44,064,101	-	44,064,101
Loss from changes in pledges receivable	-	266,338	266,338
Impairment of investment	140,269	-	140,269
Total expenses and other	44,204,370	266,338	44,470,708
Changes in net assets	1,493,294	(1,597,814)	(104,520)
Net assets, beginning of year	10,619,288	3,879,872	14,499,160
Net assets, end of year	$ 12,112,582	$ 2,282,058	$ 14,394,640

See notes to consolidated financial statements.

2017		
Without Donor Restrictions	With Donor Restrictions	Total
$ 2,829,322	$ 62,418	$ 2,891,740
35,126,786	-	35,126,786
1,795,931	4,348,150	6,144,081
39,752,039	4,410,568	44,162,607
1,490,258	-	1,490,258
-	-	-
283,916	-	283,916
-	-	-
1,774,174	-	1,774,174
4,228,608	(4,228,608)	-
45,754,821	181,960	45,936,781
12,568,114	-	12,568,114
25,011,799	-	25,011,799
429,115	-	429,115
38,009,028	-	38,009,028
292,913	-	292,913
2,528,145	-	2,528,145
2,142,713	-	2,142,713
4,963,771	-	4,963,771
42,972,799	-	42,972,799
-	1,886,883	1,886,883
-	-	-
42,972,799	1,886,883	44,859,682
2,782,022	(1,704,923)	1,077,099
7,837,266	5,584,795	13,422,061
$ 10,619,288	$ 3,879,872	$ 14,499,160

Starkey Hearing Foundation and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended December 31, 2018

	Programs and Services				Supporting Services				
	International	Domestic	Grants and Other	Total Programs and Services	Cost of Direct Benefits to Donors	Fundraising	General and Administrative	Total Supporting Services	Total
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	1,467,905	-	-	1,467,905	-	4,631	213	4,844	1,472,749
Grants and scholarships	-	-	600,968	600,968	-	-	-	-	600,968
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
Total functional expenses	$ 15,581,342	$ 24,297,590	$ 600,968	$ 40,479,900	$ 220,120	$ 1,562,686	$ 1,801,395	$ 3,584,201	$ 44,064,101

See notes to consolidated financial statements.

Starkey Hearing Foundation and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

	Programs and Services				Supporting Services				
	International	Domestic	Grants and Other	Total Programs and Services	Cost of Direct Benefits to Donors	Fundraising	General and Administrative	Total Supporting Services	Total
Payroll, taxes and benefits	$ 2,411,239	$ 381,700	$ -	$ 2,792,939	$ -	$ 607,166	$ 656,775	$ 1,263,941	$ 4,056,880
Travel	2,919,468	2,674	-	2,922,142	-	257,902	388,656	646,558	3,568,700
Occupancy	38,474	15,798	-	54,272	-	-	63,049	63,049	117,321
Supplies	149,867	43,811	-	193,678	-	1,161	167,741	168,902	362,580
Telephone and internet	83,460	-	-	83,460	-	639	19,505	20,144	103,604
Printing, postage and copying	93,974	976	-	94,950	-	48,867	216,056	264,923	359,873
Bank fees	13,781	-	-	13,781	-	45,099	71,045	116,144	129,925
Consulting	385,176	-	-	385,176	-	105,010	131,152	236,162	621,338
Professional fees	17,436	-	-	17,436	-	-	266,226	266,226	283,662
Insurance	4,515	-	-	4,515	-	3,967	54,974	58,941	63,456
Food and beverage	62,201	-	-	62,201	292,913	-	-	292,913	355,114
Advertising and promotion	140,890	-	-	140,890	-	191,924	-	191,924	332,814
Hearing aid and accessory donations	4,772,963	24,566,400	-	29,339,363	-	-	-	-	29,339,363
Mission expenses	1,078,212	-	-	1,078,212	-	-	-	-	1,078,212
Grants and scholarships	-	-	429,115	429,115	-	-	-	-	429,115
Facility rental	35,195	-	-	35,195	-	123,662	-	123,662	158,857
Security	26,365	-	-	26,365	-	11,947	-	11,947	38,312
Other	174,740	440	-	175,180	-	1,130,801	107,102	1,237,903	1,413,083
Depreciation	160,158	-	-	160,158	-	-	432	432	160,590
Total functional expenses	$ 12,568,114	$ 25,011,799	$ 429,115	$ 38,009,028	$ 292,913	$ 2,528,145	$ 2,142,713	$ 4,963,771	$ 42,972,799

See notes to consolidated financial statements.

Starkey Hearing Foundation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Changes in net assets	**$ (104,520)**	$ 1,077,099
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	**105,452**	160,590
Donation of property and equipment	**(119,712)**	-
Unrealized loss (gain) on investments	**209,300**	(219,011)
Loss on disposal of asset	**6,700**	770
Impairment of investment	**140,269**	-
Contributed investments	**(374,489)**	(73,298)
Decrease (increase) in assets:		
Pledges receivable	**1,606,954**	1,704,924
Related-party receivable	**(66)**	(1,963)
Inventory	**30,317**	(1,472,789)
Prepaid expenses and other	**(129,252)**	4,743
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses, and other	**(669,660)**	895,653
Grants payable	**(393)**	(326,918)
Net cash provided by operating activities	**700,900**	1,749,800
Cash flows from investing activities:		
Purchases of investments	**(4,765,793)**	(440,859)
Purchase of property and equipment	**(18,970)**	(205,940)
Proceeds from sales and maturities of investments	**2,002,033**	374,525
Net cash used in investing activities	**(2,782,730)**	(272,274)
Increase (decrease) in cash and cash equivalents	**(2,081,830)**	1,477,526
Cash and cash equivalents, beginning of year	**3,297,977**	1,820,451
Cash and cash equivalents, end of year	**$ 1,216,147**	$ 3,297,977
Contribution of donated inventory in excess of (less than) donated inventory	**$ (30,488)**	$ 1,898,151

See 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. 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 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 Institute 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 noncontrolling interest.

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 noncontrolling 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.

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.

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 (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.

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, 2017, the investment was recorded at a cost of $576,589. 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.

Inventory: 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 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 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. 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.

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 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 $32,846,516 and $35,126,786 of revenue for donated services and materials for the years ended December 31, 2018 and 2017, respectively. The Foundation recognized $32,454,325 and $33,285,649 of expenses for donated services and materials for the years ended December 31, 2018 and 2017, respectively.

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

	2018	2017
Cash and cash equivalents	$ 1,216,147	$ 3,297,977
Pledges receivable	2,263,369	3,870,323
Due from related party	5,556	5,490
Investments	5,202,407	2,186,848
Less financial assets unavailable for general expenditures within one year due to:		
Restrictions by donors with time or purpose restrictions	(2,282,058)	(3,879,872)
	$ 6,405,421	$ 5,480,766

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. 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 statements of activities for the years ended December 31, 2018 and 2017, include approximately $32,454,000 and $33,286,000, 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.

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

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 Institute 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, 2018 and 2017. 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, 2015.

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. In addition, the Foundation receives a significant amount of support from Starkey Hearing Technologies (see Note 8).

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

Newly adopted accounting standards: In August 2016, the FASB issued Accounting Standards Update (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 statements of financial position amounts for two classes of net assets at the end of the period, rather than for the previously required three classes; (b) present on the face of the consolidated statements 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 previously 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 ended December 31, 2018, and has been reflected in the Foundation's consolidated financial statements.

New accounting pronouncements: 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. The update is effective for the Foundation's fiscal year ending December 31, 2019. The Foundation is currently assessing the impact of this standard on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Foundation's fiscal year ending December 31, 2019. The Foundation is currently evaluating the impact of the adoption of this standard on its consolidated 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. The new standard will be effective for the Foundation's fiscal year ending December 31, 2020. The Foundation is currently evaluating the impact of this standard on its consolidated financial statements.

In June 2018, the FASB issued 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 annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Where the Foundation is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early adoption is permitted. The new standard will be effective for the Foundation's fiscal year ending December 31, 2019, as a resource recipient and for the Foundation's fiscal year ending December 31, 2020, as a resource provider. The adoption of ASU 2018-08 is not expected to have a material impact on the Foundation's consolidated financial statements.

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

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 the changes in net revenues as previously reported.

Subsequent events: The Foundation has evaluated events and transactions through August 23, 2019, the date the consolidated financial statements were available to be issued.

Note 2. Pledges Receivable

Pledges receivable as of December 31, consists of the following:

	2018	2017
Receivables due in less than one year	$ 1,492,760	$ 2,420,751
Receivables due in one to five years	746,948	1,792,315
Total pledges receivable	2,239,708	4,213,066
Less discount to present value	(41,957)	(89,959)
Less allowance for doubtful accounts	(134,382)	(252,784)
Total pledges receivable, net	$ 2,063,369	$ 3,870,323
Current receivables	$ 1,358,378	$ 2,167,967
Noncurrent receivables	704,991	1,702,356
	$ 2,063,369	$ 3,870,323

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 *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.

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, 2018 and 2017, under the appropriate level of the fair value hierarchy:

	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	5,202,407	$ 5,202,407	$ -	$ -
Investment in privately held limited liability company, at cost	436,320			
Total investments	$ 5,638,727			

	December 31, 2017			
	Fair Value	Level 1	Level 2	Level 3
Mutual funds:				
Fixed income	$ 594,277	$ 594,277	$ -	$ -
Domestic equities	277,720	277,720	-	-
International equities	293,018	293,018	-	-
Commodities and other	197,274	197,274	-	-
Exchange-traded funds:				
Domestic equities	657,314	657,314	-	-
International equities	121,748	121,748	-	-
Commodities and other	45,497	45,497	-	-
Total investments at fair value	2,186,848	$ 2,186,848	$ -	$ -
Investment in privately held limited liability company, at cost	576,589			
Total investments	$ 2,763,437			

Note 3. Investments and Investment Income (Continued)

Investment gain (loss) consists of earnings on investments and net gains and losses on investments. For the years ended December 31, 2018 and 2017, investment gain (loss) consists of the following:

	2018	2017
Interest and dividends	$ 92,315	$ 65,675
Realized and unrealized gains (losses), net	(216,000)	218,241
Investment gain (loss)	$ (123,685)	$ 283,916

Note 4. Property and Equipment

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

	2018	2017
Land	$ 113,939	$ 113,939
Software and equipment	992,052	921,150
Buildings and improvements	660,204	533,633
Construction in progress	-	168,213
Less accumulated depreciation	(881,728)	(792,388)
Total property and equipment, net	$ 884,467	$ 944,547

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.

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 $98,836 and $99,229 was outstanding as of December 31, 2018 and 2017, respectively, representing the present value of the estimated future payments, discounted at 4.7% from this commitment.

Note 5. Grants Payable (Continued)

Grants payable as of December 31, 2018, are as follows:

Years ending December 31:	
2019	$ 28,438
2020	16,667
2021	-
2022	-
2023	-
Thereafter	75,000
Total	120,105
Less discount to present value	(21,269)
Grants payable, net	98,836
Less current portion due within one year	(28,438)
Grants payable, net of current portion	$ 70,398

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, 2018 and 2017, consisted of the following:

	2018	2017
Contributions restricted for time	$ 2,063,369	$ 3,870,323
Contributions restricted for purpose	218,689	9,549
Total net assets with donor restrictions	$ 2,282,058	$ 3,879,872

Note 7. Donated Services and Materials

Services and materials donated to the Foundation for the years ended December 31, 2018 and 2017, consisted of the following:

	2018	2017
Payroll, taxes and benefits	$ 1,076,506	$ 1,957,176
Travel	539,737	555,196
Occupancy	67,562	78,847
Supplies	161,698	211,062
Telephone and internet	6,783	17,170
Printing, postage and copying	64,294	215,459
Food and beverage	5,806	7,764
Hearing aid and accessory donations	29,565,339	31,074,139
Fundraising events	1,185,369	960,001
Other	173,422	49,972
Total donated services and materials	$ 32,846,516	$ 35,126,786

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, 2018 and 2017, Starkey Hearing Technologies and its affiliates donated cash, pledge contributions, and donated services and materials of $21,303,112 and $18,045,993, respectively. Approximately 48% and 39% of the Foundation's total support and revenues were provided by Starkey Hearing Technologies for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, there were pledges receivable from Starkey Hearing Technologies due to the Foundation for $8,000 and $215,001, respectively.

Note 9. Lease Commitment

The Foundation leases office spaces under operating leases that are noncancelable and expires in October 2023. Rent expense was approximately $36,000 and $27,000, respectively, for the years ended December 31, 2018 and 2017, included in general and administrative expenses on the consolidated statements of activities.

At December 31, 2018, future minimum annual lease payments are as follows:

Years ending December 31:	
2019	$ 108,545
2020	111,603
2021	114,709
2022	117,867
2023	79,617
Total	$ 532,341