

HEARING LOSS ASSOCIATION OF AMERICA, INC.

FINANCIAL STATEMENTS

AUGUST 31, 2012



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FINANCIAL STATEMENTS

AUGUST 31, 2012

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Hearing Loss Association of America, Inc.

We have audited the accompanying statement of financial position of the Hearing Loss Association of America, Inc. (HLAA) as of August 31, 2012, and the related statements of activities and changes in net assets, of functional expenses and of cash flows for the period from January 1 through August 31, 2012. These financial statements are the responsibility of HLAA's management. 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 an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the HLAA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hearing Loss Association of America, Inc. as of August 31, 2012, and the changes in its net assets and its cash flows for the period from January 1 through August 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

Calibre CPA Group, PLLC

Bethesda, MD
March 18, 2013

HEARING LOSS ASSOCIATION OF AMERICA, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012

ASSETS

CURRENT ASSETS

| | |
|-------------------------------|------------------|
| Cash and cash equivalents | \$ 1,180,454 |
| Accounts receivable | 46,266 |
| Walk for Hearing receivable | 41,645 |
| Prepaid expenses and deposits | <u>38,526</u> |
| Total current assets | <u>1,306,891</u> |

PROPERTY AND EQUIPMENT

| | |
|--|------------------|
| Leasehold improvements | 6,050 |
| Furniture and fixtures | 18,266 |
| Equipment | <u>351,483</u> |
| | 375,799 |
| Less accumulated depreciation and amortization | <u>(347,928)</u> |
| Net property and equipment | <u>27,871</u> |

INVESTMENTS

| | |
|--------------|---------------------|
| | <u>208,728</u> |
| Total assets | <u>\$ 1,543,490</u> |

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|---|--------------|
| Accounts payable | \$ 36,807 |
| Walk for Hearing payable | 68,228 |
| Accrued salaries and vacation payable | 13,566 |
| Deferred revenue | 91,100 |
| Current portion of estimated liability on annuity contracts | <u>3,475</u> |
| Total current liabilities | 213,176 |

DEFERRED RENT LIABILITY

LONG-TERM ESTIMATED LIABILITY ON ANNUITY CONTRACTS

| | |
|-------------------|----------------|
| | 44,807 |
| | <u>3,475</u> |
| Total liabilities | <u>261,458</u> |

NET ASSETS

| | |
|------------------------|------------------|
| Unrestricted | 853,283 |
| Temporarily restricted | 232,075 |
| Permanently restricted | <u>196,674</u> |
| Total net assets | <u>1,282,032</u> |

| | |
|----------------------------------|---------------------|
| Total liabilities and net assets | <u>\$ 1,543,490</u> |
|----------------------------------|---------------------|

See accompanying notes to financial statements.

HEARING LOSS ASSOCIATION OF AMERICA, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

PERIOD FROM JANUARY 1, 2012
THROUGH AUGUST 31, 2012

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|---------------------------|---------------------------|--------------|
| PUBLIC SUPPORT AND REVENUE | | | | |
| Contributions | \$ 239,233 | \$ 50,000 | \$ 7,660 | \$ 296,893 |
| Walk for Hearing | 646,851 | - | - | 646,851 |
| Grants and contracts | 1,050 | 5,151 | - | 6,201 |
| Membership dues | 132,815 | - | - | 132,815 |
| Advertising | 127,666 | - | - | 127,666 |
| Convention | 465,653 | - | - | 465,653 |
| Publication sales | 2,869 | - | - | 2,869 |
| Investment income | 5,409 | 3,715 | (5,570) | 3,554 |
| Other revenue | 28,598 | - | - | 28,598 |
| Net assets released from restriction | | | | |
| Satisfaction of purpose restrictions | 20,798 | (20,798) | - | - |
| Total public support and revenues | 1,670,942 | 38,068 | 2,090 | 1,711,100 |
| EXPENSES | | | | |
| Program services | | | | |
| Chapters | 347,087 | - | - | 347,087 |
| Convention | 356,393 | - | - | 356,393 |
| Journal | 153,528 | - | - | 153,528 |
| Membership | 99,478 | - | - | 99,478 |
| Publications | 2,132 | - | - | 2,132 |
| Advocacy | 76,843 | - | - | 76,843 |
| RERC-HAT Training Expenses | 5,151 | - | - | 5,151 |
| States | 16,482 | - | - | 16,482 |
| American Academy of Hearing Loss support specialists | 15,564 | - | - | 15,564 |
| Captioning | 4,149 | - | - | 4,149 |
| Loop Project | 5,637 | - | - | 5,637 |
| Total program services | 1,082,444 | - | - | 1,082,444 |
| Supporting services | | | | |
| Administrative | 253,742 | - | - | 253,742 |
| Fund raising | 113,270 | - | - | 113,270 |
| Fund raising - Walk for Hearing | 247,290 | - | - | 247,290 |
| Total supporting services | 614,302 | - | - | 614,302 |
| Total expenses | 1,696,746 | - | - | 1,696,746 |
| CHANGE IN NET ASSETS | (25,804) | 38,068 | 2,090 | 14,354 |
| NET ASSETS | | | | |
| Beginning of period | 879,087 | 194,007 | 194,584 | 1,267,678 |
| End of period | \$ 853,283 | \$ 232,075 | \$ 196,674 | \$ 1,282,032 |

See accompanying notes to financial statements.

HEARING LOSS ASSOCIATION OF AMERICA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

PERIOD FROM JANUARY 1 THROUGH AUGUST 31, 2012

| | Program Services | | | | | | | | | | | Supporting Services | | | | | Total |
|-------------------------------------|-------------------|-------------------|-------------------|------------------|-----------------|------------------|---------------------------------|------------------|--|-----------------|-----------------|------------------------------|-------------------|-------------------|--------------------------------------|---------------------------------|---------------------|
| | Chapters | Convention | Journal | Membership | Publications | Advocacy | RERC-HAT Training Expense | States | American Academy of Hearing Loss Support Specialists | Captioning | Loop Project | Total Program Services | Administrative | Fund Raising | Fundraising - Walk for Hearing | Total Supporting Services | |
| Salaries | \$ 31,418 | \$ 56,762 | \$ 40,668 | \$ 40,486 | \$ - | \$ 34,221 | \$ 4,785 | \$ 12,165 | \$ 5,117 | \$ 3,854 | \$ - | \$ 229,476 | \$ 125,579 | \$ 15,548 | \$ 80,878 | \$ 222,005 | \$ 451,481 |
| Payroll taxes | 2,648 | 5,020 | 3,474 | 4,598 | - | 832 | 366 | 824 | 434 | 295 | - | 18,491 | 11,896 | 1,246 | 7,177 | 20,319 | 38,810 |
| Employee benefits | 6,146 | 2,153 | 3,185 | 898 | - | 15,779 | - | (532) | 707 | - | - | 28,336 | 12,468 | 1,051 | 5,693 | 19,212 | 47,548 |
| Total salaries and related expenses | 40,212 | 63,935 | 47,327 | 45,982 | - | 50,832 | 5,151 | 12,457 | 6,258 | 4,149 | - | 276,303 | 149,943 | 17,845 | 93,748 | 261,536 | 537,839 |
| Printing | 39 | 11,035 | 44,072 | 10,542 | - | - | - | - | - | - | 75 | 65,763 | - | 4,646 | 30,058 | 34,704 | 100,467 |
| Travel and meals | 1,593 | 8,070 | 144 | 476 | - | 1,959 | - | 224 | - | - | 4,180 | 16,646 | 1,525 | 2,010 | 25,650 | 29,185 | 45,831 |
| Rent | 10,268 | 14,000 | 10,695 | 9,416 | - | 10,995 | - | 1,890 | 4,633 | - | - | 61,897 | 29,416 | 13,236 | 20,675 | 63,327 | 125,224 |
| Postage | 786 | 1,247 | 10,841 | 4,307 | 2,132 | 0 | - | - | 14 | - | - | 19,327 | 1,031 | 5,253 | 1,994 | 8,278 | 27,605 |
| Equipment rental | 811 | 43,187 | 845 | 744 | - | 869 | - | 149 | 366 | - | - | 46,971 | 2,324 | 1,046 | 1,634 | 5,004 | 51,975 |
| Depreciation | 1,709 | 2,330 | 1,780 | 1,567 | - | 1,830 | - | 315 | 771 | - | - | 10,302 | 4,896 | 2,203 | 3,441 | 10,540 | 20,842 |
| Accounting and legal | - | - | - | - | - | - | - | - | - | - | - | - | 14,500 | - | - | 14,500 | 14,500 |
| Consulting | - | - | - | - | - | - | - | - | - | 1,000 | - | 1,000 | 120 | 42,500 | 29,167 | 71,787 | 72,787 |
| Commissions | - | 30,339 | 26,594 | - | - | - | - | - | - | - | - | 56,933 | 4,862 | - | 4,862 | 61,795 | 61,795 |
| Events | 281,180 | 132,348 | - | - | - | - | - | - | - | - | - | 413,528 | - | - | - | - | 413,528 |
| Board of Directors | - | - | - | - | - | - | - | - | - | - | - | - | 13,503 | - | - | 13,503 | 13,503 |
| Repairs and maintenance | 3,412 | 4,661 | 3,562 | 3,260 | - | 3,660 | - | 646 | 1,527 | - | 26 | 20,754 | 9,820 | 4,414 | 6,967 | 21,201 | 41,955 |
| Telephone | 483 | 808 | 713 | 443 | - | 517 | - | 89 | 218 | - | - | 3,271 | 1,626 | 622 | 1,891 | 4,139 | 7,410 |
| Supplies | 505 | 14,794 | 406 | 2,288 | - | 417 | - | 72 | 176 | - | - | 18,658 | 2,192 | 679 | 14,768 | 17,639 | 36,297 |
| Bank fees | - | 19 | - | 9,970 | - | - | - | - | - | - | - | 9,989 | - | 9,966 | - | 9,966 | 19,955 |
| Captioning services | - | 15,850 | - | - | - | - | - | - | - | - | - | 15,850 | - | - | - | - | 15,850 |
| Volunteer recognition | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Dues and subscriptions | - | - | 2,920 | - | - | 1,529 | - | - | - | 337 | - | 4,786 | - | 609 | 1,012 | 1,621 | 6,407 |
| Interest | - | - | - | - | - | - | - | - | - | - | - | - | 630 | - | - | 630 | 630 |
| Staff training | 149 | - | - | 1,228 | - | - | - | - | - | - | - | 1,377 | 200 | - | - | 200 | 1,577 |
| Investment fees | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Public relations | 613 | 1,591 | - | - | - | 500 | - | - | - | - | - | 2,704 | 520 | 3,744 | - | 4,264 | 6,968 |
| Insurance | (249) | 683 | 518 | 468 | - | 535 | - | 91 | 221 | - | 9 | 2,276 | 1,434 | 644 | 870 | 2,948 | 5,224 |
| Payroll services | 193 | 263 | 197 | 187 | - | 204 | - | 34 | 81 | - | 10 | 1,169 | 551 | 247 | 401 | 1,199 | 2,368 |
| Licenses/taxes | - | - | - | 2,542 | - | - | - | - | - | - | - | 2,542 | 1,137 | - | - | 1,137 | 3,679 |
| Miscellaneous | 2,584 | - | - | - | - | - | - | - | - | - | - | 2,584 | 4,884 | - | - | 4,884 | 7,468 |
| Awards | - | 7,418 | - | - | - | - | - | - | - | - | - | 7,418 | 230 | - | - | 230 | 7,648 |
| Office equipment | 436 | 594 | 454 | 579 | - | 466 | - | 80 | 197 | - | - | 2,806 | 1,630 | 561 | 877 | 3,068 | 5,874 |
| Storage | 158 | 215 | 164 | 145 | - | 169 | - | 29 | 71 | - | - | 951 | 452 | 203 | 317 | 972 | 1,923 |
| Website | - | - | - | 3,312 | - | - | - | - | 36 | - | - | 3,348 | - | - | - | - | 3,348 |
| Convio | 2,205 | 3,006 | 2,296 | 2,022 | - | 2,361 | - | 406 | 995 | - | - | 13,291 | 6,316 | 2,842 | 13,820 | 22,978 | 36,269 |
| Total | \$ 347,087 | \$ 356,393 | \$ 153,528 | \$ 99,478 | \$ 2,132 | \$ 76,843 | \$ 5,151 | \$ 16,482 | \$ 15,564 | \$ 4,149 | \$ 5,637 | \$ 1,082,444 | \$ 253,742 | \$ 113,270 | \$ 247,290 | \$ 614,302 | \$ 1,696,746 |

See accompanying notes to financial statements.

HEARING LOSS ASSOCIATION OF AMERICA, INC.

STATEMENTS OF CASH FLOWS

PERIOD FROM JANUARY 1 THROUGH AUGUST 31, 2012

| | |
|---|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | \$ 14,354 |
| Adjustments to reconcile change in net assets to net cash used for operating activities: | |
| Net depreciation (appreciation) in fair value of investment | 1,334 |
| Depreciation and amortization | 20,842 |
| Permanently restricted contributions | (7,660) |
| Changes in assets and liabilities | |
| Accounts receivable | (40,632) |
| Prepaid expenses and deposits | 30,130 |
| Accounts payable | 7,327 |
| Accrued salaries and vacation payable | (18,422) |
| Deferred rent liability | 44,807 |
| Deferred revenue | (120,126) |
| Liability on annuity contracts | 1,299 |
| Net cash used for operating activities | <u>(66,747)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchases of investments | (2,979) |
| Proceeds from sales and maturities of investments | - |
| Purchases of property and equipment | <u>(8,451)</u> |
| Net cash used for investing activities | <u>(11,430)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Permanently restricted contributions | <u>7,660</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (70,517) |
| CASH AND CASH EQUIVALENTS | |
| Beginning of period | <u>1,250,971</u> |
| End of period | <u>\$ 1,180,454</u> |
| SUPPLEMENTAL INFORMATION: | |
| Interest paid | <u>\$ 630</u> |
| Income taxes paid | <u>\$ 2,542</u> |

See accompanying notes to financial statements.

HEARING LOSS ASSOCIATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

NOTE 1. ORGANIZATION AND NATURE OF BUSINESS

Hearing Loss Association of America, Inc. (HLAA), formerly Self Help for Hard of Hearing People, Inc. is a Maryland, not-for-profit corporation. HLAA's principal activity is to encourage identification of those persons having a hearing problem, provide education for them, their families, and friends on how best to cope with the problem, and foster public and private programs aimed at alleviating the problem. Effective January 1, 2012, HLAA changed its fiscal year end from December 31 to August 31.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting - The financial statements have been prepared using the accrual basis of accounting.

Management Estimates and Assumptions - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents - For purposes of the statements of cash flows, HLAA considers cash in operating bank accounts, cash on hand, certificates of deposit and highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments - Investments are stated at fair value. Donated investments are reflected as contributions at their market values at date of receipt.

Property and Equipment - Property and equipment is recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from three to twelve years.

Annuities Payable - Carrying amounts represent the present value of the contractual payments over the estimated remaining term, which approximates the fair value of these obligations.

Revenue Recognition - Revenue received before it is earned is recorded as deferred revenue. Membership dues are recorded as income in the year they are received.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions that are restricted by the donor are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

In-kind Contributions - HLAA at times receives services and/or supplies donated from vendors and suppliers that contract services with HLAA. HLAA did not receive in-kind contributions in 2012.

Additionally, a number of volunteers have contributed significant amounts of time to the activities of the organization without compensation. These volunteer services are not recorded in the financial statements because the contributed services did not meet the criteria for recognition under generally accepted accounting principles.

Expense Allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events Review - Subsequent events have been evaluated through March 18, 2013, which is the date the financial statements were available to be issued. This review and evaluation revealed no new material event or transaction which would require an additional adjustment to or disclosure in the accompanying financial statements.

NOTE 3. INVESTMENTS

Investments at August 31, 2012 consist of the following:

| | |
|---|-------------------|
| Short-term investments | \$ 24,081 |
| Stocks | 5,028 |
| Stock, long-term investment - permanently restricted | 80,437 |
| Mutual funds - equity | 13,953 |
| Mutual fund - fixed income | 43,805 |
| Variable annuity contracts | 18,394 |
| Life insurance contracts | <u>23,030</u> |
| Long-term portion | <u>\$ 208,728</u> |

NOTE 3. INVESTMENTS (CONTINUED)

During the period ended August 31, 2012 the permanently restricted stock depreciated by \$5,570. Investment income for the period ended August 31, 2012 is as follows:

| | |
|---|-----------------|
| Interest | \$ 3,407 |
| Dividends | 1,056 |
| Net appreciation (depreciation) in fair value of investments | <u>(909)</u> |
| Total investment income | <u>\$ 3,554</u> |

Long-Term Securities - HLAA received a stock gift which the donors have specified that the stock and any stock dividends remain as stock and not be sold. The gift is recorded as a permanently restricted asset. Under the agreement, HLAA is permitted to use any cash dividends to fund current operations. Accordingly, the stock has been reported as a long-term investment in the accompanying financial statements.

Pooled Income Fund - In 1989, HLAA established a pooled income fund within the meaning of Rev. Proc. 88-53 and Section 642 (c)(5) of the Internal Revenue Code. The Fund is designated to provide long-range support for HLAA, and to provide a source of income for the donor and his or her beneficiaries.

Variable Annuity Contracts - HLAA is the owner of variable annuity contracts with Massachusetts Mutual Life Insurance Company. The annuitants receive a predetermined annual distribution from HLAA. The investments in the contracts have been recorded as an asset at market value in the accompanying financial statements. An estimated liability for payments to the annuitants has also been recorded in the financial statements.

Life Insurance - HLAA is the owner of whole life insurance policies with Massachusetts Mutual Life Insurance Company. All premiums are paid by the insured. Upon death of the insured, HLAA will receive a lump sum distribution. The policies have been recorded at cash surrender value in the accompanying financial statements.

For assets and liabilities measured at fair value on a recurring basis, generally accepted accounting principles require quantitative disclosures about fair value measurements separately for each major category of assets and liabilities. Accounting standards further clarify the definition of fair value for financial reporting, establishes a hierarchal disclosure framework for measuring fair value and require additional disclosures about the use of fair value measurements.

NOTE 3. INVESTMENTS (CONTINUED)

The three levels of fair value are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to the security.

Level 3 – Pricing inputs are unobservable for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Level 3 includes private portfolio investments that are supported by little or no market activity.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following is a summary of the inputs used to value the investments as of August 31, 2012:

| <u>Description</u> | <u>Total Investments at 8/31/12</u> | <u>Quoted Market Prices for Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|---|-------------------------------------|--|--|--|
| Common stocks | \$ 85,465 | \$ 85,465 | \$ - | \$ - |
| Pooled income fund | 81,839 | 81,839 | - | - |
| Variable annuity and life insurance contracts | 41,424 | - | - | 41,424 |
| | <u>\$ 208,728</u> | <u>\$ 167,304</u> | <u>\$ -</u> | <u>\$ 41,424</u> |

Changes in Level 3 Category

| | |
|-------------------------------------|------------------|
| Beginning balance – 01/01/12 | \$ 39,495 |
| Purchases | 442 |
| Net gains (realized and unrealized) | <u>1,487</u> |
| Ending balance – 08/31/12 | <u>\$ 41,424</u> |

Net gains (realized and unrealized) reported above are included in investment income on the accompanying statements of activities. The amount of the net gains related to investments held at August 31, 2012 was \$1,487.

NOTE 4. DEFERRED REVENUE

Deferred revenue at August 31, 2012 consists of the following:

| | |
|---------------------|------------------|
| Journal advertising | \$ 33,600 |
| Walk | <u>57,500</u> |
| Total | <u>\$ 91,100</u> |

NOTE 5. RESTRICTIONS ON NET ASSETS

HLAA's investment funds consist of 15 individual funds established for a variety of purposes. As required under generally accepted accounting principles, net assets associated with the investment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Boards of Trustees have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of a donor-restricted fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, HLAA classifies as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to a permanent endowment, (c) accumulations to a permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) unrealized appreciation or depreciation in the value of the permanently restricted investments; however, the value of the investments shall not fall below the value of the original contribution except in cases where the donor has expressly prohibited HLAA from selling the originally gifted securities. The remaining portion of donor-restricted funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets or unrestricted net assets until those amounts are appropriated for expenditure by HLAA in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, HLAA considers the following factors in making a determination to appropriate or accumulated donor-restricted funds:

- The duration and preservation of the fund
- The purposes of HLAA and the donor-restricted fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of HLAA
- The investment policies of HLAA

Permanent Restrictions

As part of the 'Rocky and Ahme Stone Fund', HLAA has received, and will continue to receive contributions that must be invested in perpetuity, but for which the related earnings thereon are temporarily restricted to fund certain annual expenses. Earnings on the 'Rocky and Ahme Stone Fund' are currently temporarily restricted for the funding of HLAA convention scholarship aid.

NOTE 5. RESTRICTIONS ON NET ASSETS (CONTINUED)

As part of the 'Victor and Teru Matsui Fund', HLAA has received, and will continue to receive contributions that must be invested in perpetuity, but for which the related earning thereon are temporarily restricted to fund certain annual expenses. Earnings on the 'Victor and Teru Matsui Fund' are currently temporarily restricted for the funding of chapter-related matters.

HLAA received a gift of shares of Archer Daniels Midland Company (ADM) which must be held in perpetuity. Earnings on the ADM shares are unrestricted net assets, and can be used by HLAA without permanent or temporary restriction.

Temporary Restrictions

As noted above, HLAA has received, and will continue to receive contributions as part of the 'Rocky and Ahme Stone Fund' whose income is currently temporarily restricted to the funding of HLAA convention scholarship aid. HLAA also receives funds which are primarily temporarily restricted, but include a portion of funds which are available for unrestricted purposes. In many cases, the earnings on the investment of temporarily restricted funds are not similarly restricted. As noted above, HLAA has received, and will continue to receive contributions as part of the 'Victor and Teru Matsui Fund' whose income is currently temporarily restricted to the funding of chapter-related matters.

As of August 31, 2012, restricted and designated balances in HLAA's funds, by net asset class, are as follows:

| <u>Fund</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-------------------------------|-------------------------------|---------------------|
| Board reserve | \$ 611,885 | \$ - | \$ - | \$ 611,885 |
| Pooled Income fund | - | 81,839 | - | 81,839 |
| CI Booklet | - | - | - | - |
| Walk Video | - | 2,000 | - | 2,000 |
| Work kit | - | - | - | - |
| Cochlear ear implant | - | - | - | - |
| Legal settlement contributions | - | 82,226 | - | 82,226 |
| DVD | - | 7,675 | - | 7,675 |
| Loop Project | - | 44,362 | - | 44,362 |
| Ocean County #1 | - | 914 | - | 914 |
| Ocean County #2 | - | 7,038 | - | 7,038 |
| Ocean County #3 | - | 6,041 | - | 6,041 |
| Permanently restricted stock | - | - | 80,437 | 80,437 |
| Victor and Teru Matsui Fund | - | 55 | 12,705 | 12,760 |
| Rocky and Ahme Stone Endowment Fund | - | (75) | 103,532 | 103,457 |
| | <u>\$ 611,885</u> | <u>\$ 232,075</u> | <u>\$ 196,674</u> | <u>\$ 1,040,634</u> |

NOTE 6. UNRESTRICTED NET ASSETS

The Board of Trustees of Hearing Loss Association of America has adopted an accounting and financial reporting policy for Unrestricted Net Assets that defines Unrestricted Net Assets as either Operating Unrestricted Net Assets or Board-Reserved Unrestricted Net Assets.

Board-reserved Unrestricted Net Assets accumulate from bequests and from other unusual and non-recurring income not associated with the day to day operations of the Association.

Operating Unrestricted Net Assets accumulate from all other income net of expenses, and from amounts released from temporarily restricted net assets to unrestricted net assets.

For 2012, except for investment income allocable to a transfer from Permanently Restricted Net Assets in 2008, all investment income is allocated to Operating Unrestricted Net Assets. For future reporting periods, investment income will be allocated in a manner to be determined by the Board of Trustees.

Unrestricted Net Assets for 2012 are allocated as follows:

| | <u>Operations</u> | <u>Board-Reserved</u> | <u>Total</u> |
|--|-------------------|-----------------------|-------------------|
| Unrestricted net assets, December 31, 2011 | \$ 267,202 | \$ 611,885 | \$ 879,087 |
| Activity for period from January 1 through August 31, 2012 | | | |
| Excess of operating income over expense | (52,011) | - | (52,011) |
| Investment income | 5,409 | - | 5,409 |
| Released from temporarily restricted net assets | 20,798 | - | 20,798 |
| Bequests | - | - | - |
| Total activity for period from January 1 through August 31, 2012 | <u>(25,804)</u> | <u>-</u> | <u>(25,804)</u> |
| Unrestricted net assets, August 31, 2012 | <u>\$ 241,398</u> | <u>\$ 611,885</u> | <u>\$ 853,283</u> |

NOTE 7. DEFINED CONTRIBUTION PLAN

HAAA maintains a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code. The plan covers all employees with at least one year of service and requires participants to make a minimum deferral of 1% of their salary. HAAA contributed 3% on behalf of the eligible participants. Employer contributions to the plan were \$12,877 for the period from January 1 through August 31, 2012.

NOTE 8. COMMITMENTS

Operating Leases - HLAA is obligated under a noncancellable operating lease for office space at its headquarters. The lease contained rent abatements, build-out incentives and fixed increase in the annual rental amount. Generally accepted accounting principles require that when lease agreements contain rent abatements and fixed increases in the annual rental amount the total rental payments on the lease be recognized using the straight-line method over the life of the lease. HLAA has reported the difference between the cash paid for rent and the straight-line rental expense as deferred rent liability in the accompanying Statement of Financial Position. Future minimum rent payments at August 31, 2012 are as follows:

| | | |
|------------------------|------------|---------------------|
| Year Ending August 31: | | |
| | 2013 | \$ 128,028 |
| | 2014 | 133,149 |
| | 2015 | 138,475 |
| | 2016 | 144,014 |
| | Thereafter | <u>607,003</u> |
| | Total | <u>\$ 1,150,669</u> |

Rent expense was \$82,341 for the period from January 1 through August 31, 2012.

NOTE 9. TAX STATUS

HLAA is exempt from Federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code, except that any unrelated business income is subject to Federal taxes. During the period from January 1 through August 31, 2012 HLAA paid income taxes of \$2,542 for unrelated business income in connection with their magazine advertising activities.