

HEARTS FOR HEARING
FOUNDATION

FINANCIAL REPORT

June 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hearts for Hearing Foundation

Opinion

We have audited the accompanying financial statements of Hearts for Hearing Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hearts for Hearing Foundation as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hearts for Hearing Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hearts for Hearing Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hearts for Hearing Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment there are conditions or events, considered in the aggregate, that raise substantial doubt about Hearts for Hearing Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of state and local awards and schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit and of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Luton & Co., PLLC

Edmond, Oklahoma
September 18, 2023

HEARTS FOR HEARING FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

ASSETS	2023	2022
Current assets		
Cash and cash equivalents	\$ 2,259,784	\$ 6,249,975
Certificates of deposit and treasuries	2,450,251	-
Receivables:		
Trade - net	500,099	501,758
State grant receivable	228,150	207,669
Other receivables - net	493,028	118,741
Pledge receivables	55,850	10,000
Inventory	68,047	40,951
Prepaid expense	131,933	116,792
Total current assets	<u>6,187,142</u>	<u>7,245,886</u>
Property and equipment		
Building and improvements	10,529,620	10,506,019
Audiology equipment	1,872,847	1,819,627
Office equipment	1,106,700	941,773
Office furniture	729,062	703,611
Land	1,115,177	408,151
Work in progress	206,731	-
Software in progress	150,500	-
	<u>15,710,637</u>	<u>14,379,181</u>
Less accumulated depreciation	4,734,887	4,014,288
	<u>10,975,750</u>	<u>10,364,893</u>
Other assets		
Board designated building maintenance reserve	510,000	440,000
Endowment investments	6,601,044	6,180,340
Right-of-use asset	154,324	132,540
Deposits	11,368	9,258
Beneficial interest held by others	82,976	72,797
Pledge receivables, less current portion	10,000	20,000
	<u>7,369,712</u>	<u>6,854,935</u>
	<u>\$ 24,532,604</u>	<u>\$ 24,465,714</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 431,151	\$ 269,843
Accrued liabilities	496,602	275,985
Current portion of lease liability	90,558	80,537
Deferred revenue	257,500	597,750
Total current liabilities	<u>1,275,811</u>	<u>1,224,115</u>
Long term liabilities		
Lease liability, net of current portion	<u>63,766</u>	<u>52,003</u>
Net assets		
Net assets without donor restrictions	15,629,426	15,973,821
Net assets without donor restrictions - board designated	510,000	440,000
Net assets without donor restrictions - designated for beneficial interest held by others	82,976	72,797
	<u>16,222,402</u>	<u>16,486,618</u>
Net assets with donor restrictions - restricted for endowment	6,601,044	6,180,340
Net assets with donor restrictions	369,581	522,638
	<u>6,970,625</u>	<u>6,702,978</u>
	<u>23,193,027</u>	<u>23,189,596</u>
	<u>\$ 24,532,604</u>	<u>\$ 24,465,714</u>

The Notes to Financial Statements are an integral part of these statements.

HEARTS FOR HEARING FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years ended June 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues						
Contributions	\$ 946,427	\$ 1,057,861	\$ 2,004,288	\$ 1,083,702	\$ 7,713,505	\$ 8,797,207
Government grants	2,738,777	-	2,738,777	3,589,851	-	3,589,851
Private grants	567,167	-	567,167	455,658	-	455,658
Training and support services	46,000	-	46,000	14,500	-	14,500
Tuition for educational services	21,854	-	21,854	14,843	-	14,843
Patient services	7,236,328	-	7,236,328	6,454,821	-	6,454,821
Investment income	761,405	-	761,405	(810,906)	-	(810,906)
Other income	58,584	-	58,584	66,961	-	66,961
In-kind contributions	200,729	-	200,729	204,353	-	204,353
Net assets released from restriction	790,214	(790,214)	-	1,121,072	(1,121,072)	-
	<u>13,367,485</u>	<u>267,647</u>	<u>13,635,132</u>	<u>12,194,855</u>	<u>6,592,433</u>	<u>18,787,288</u>
Expenses						
Program expenses	12,473,891	-	12,473,891	11,149,757	-	11,149,757
Management and administration	507,036	-	507,036	571,409	-	571,409
Fundraising	650,774	-	650,774	433,575	-	433,575
	<u>13,631,701</u>	<u>-</u>	<u>13,631,701</u>	<u>12,154,741</u>	<u>-</u>	<u>12,154,741</u>
Increase in net assets	(264,216)	267,647	3,431	40,114	6,592,433	6,632,547
Net assets, beginning of year	<u>16,486,618</u>	<u>6,702,978</u>	<u>23,189,596</u>	<u>16,446,504</u>	<u>110,545</u>	<u>16,557,049</u>
Net assets, end of year	<u>\$ 16,222,402</u>	<u>\$ 6,970,625</u>	<u>\$ 23,193,027</u>	<u>\$ 16,486,618</u>	<u>\$ 6,702,978</u>	<u>\$ 23,189,596</u>

The Notes to Financial Statements are an integral part of these statements.

HEARTS FOR HEARING FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

Years ended June 30, 2023 and 2022

	2023			
	Program Expenses	Management and Administration	Fundraising	Total
Personnel costs	\$ 8,726,479	\$ 470,950	\$ 483,170	\$ 9,680,599
Professional fees	55,377	14,217	1,728	71,322
Hearing technology	1,549,469	-	-	1,549,469
Other program expenses	32,481	3	26	32,510
Supplies	190,372	2,167	1,514	194,053
Public relations	275,124	536	5,701	281,361
Research expenses	19,954	-	-	19,954
Development/fundraising	-	-	62,623	62,623
Computer system	249,300	4,147	16,006	269,453
Other expenses	294,856	5,422	42,881	343,159
Building expenses	254,121	3,743	13,770	271,634
Lease expense	134,804	26	103	134,933
Depreciation	691,554	5,825	23,252	720,631
	<u>\$ 12,473,891</u>	<u>\$ 507,036</u>	<u>\$ 650,774</u>	<u>\$ 13,631,701</u>

The Notes to Financial Statements are an integral part of these statements

HEARTS FOR HEARING FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES, continued
 Years ended June 30, 2023 and 2022

	2022			
	Program Expenses	Management and Administration	Fundraising	Total
Personnel costs	\$ 7,474,972	\$ 508,169	\$ 304,469	\$ 8,287,610
Professional fees	62,878	11,113	1,162	75,153
Hearing technology	1,490,789	-	-	1,490,789
Other program expenses	18,052	-	-	18,052
Supplies	161,282	3,086	1,019	165,387
Public relations	311,518	1,397	5,688	318,603
Research expenses	20,173	-	-	20,173
Development/fundraising	-	-	57,022	57,022
Computer system	222,083	7,111	14,137	243,331
Other expenses	248,607	8,394	18,314	275,315
Building expenses	270,091	11,361	12,389	293,841
Lease expense	111,530	125	122	111,777
Depreciation	757,782	20,653	19,253	797,688
	<u>\$ 11,149,757</u>	<u>\$ 571,409</u>	<u>\$ 433,575</u>	<u>\$ 12,154,741</u>

The Notes to Financial Statements are an integral part of these statements.

HEARTS FOR HEARING FOUNDATION

STATEMENTS OF CASH FLOWS

Years ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 3,431	\$ 6,632,547
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	720,631	797,688
Forgiveness of PPP loan	-	(1,062,000)
Unrealized (gain) loss on investments		
(Gain) loss on fixed assets	887	-
(Increase) decrease in accounts receivable	1,659	(117,667)
(Increase) decrease in state grants receivable	(20,481)	-
(Increase) decrease in pledge receivables	(35,850)	(30,000)
(Increase) decrease in other receivables	(374,287)	238,140
(Increase) decrease in inventory	(27,096)	5,970
(Increase) decrease in deposits	(2,110)	5,726
(Increase) decrease in prepaid expenses	(15,141)	(33,040)
(Increase) decrease in endowment investments	(420,704)	(6,180,340)
Increase (decrease) in accounts payable	161,308	87,210
Increase (decrease) in accrued liabilities	220,617	24,916
Increase (decrease) in deferred revenue	(340,250)	314,417
Net cash provided (used) by operating activities	<u>(127,386)</u>	<u>683,567</u>
Cash flows from investing activities:		
Purchase of property and equipment	(982,382)	(650,188)
Construction and software in progress	(349,993)	-
Beneficial interest held by others, net	(10,179)	(11,833)
Purchase of certificates of deposit and treasuries	(3,449,560)	-
Proceeds of matured treasuries	999,309	-
Purchase of investments - endowment	-	(7,056,217)
Contributions designated for endowment	-	7,000,000
Interest and dividends received - endowment	-	56,217
Net cash provided (used) by investment activities	<u>(3,792,805)</u>	<u>(662,021)</u>
Net increase (decrease) in cash	(3,920,191)	21,546
Cash, cash equivalents and restricted cash, beginning of year	<u>6,689,975</u>	<u>6,668,429</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 2,769,784</u>	<u>\$ 6,689,975</u>

The Notes to Financial Statements are an integral part of these statements.

HEARTS FOR HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Hearts for Hearing Foundation (the Foundation) is a not-for-profit organization established in May of 2003 to support children in Oklahoma who are deaf or hard of hearing and their families. The Foundation provides hearing aids and the audiological and the auditory-verbal therapy services needed for children who are deaf or hard of hearing to learn to listen and use spoken language.

The Foundation was initially organized as a result of the findings of a state-wide task force formed to address the needs of babies identified with hearing loss through mandated newborn hearing screening. It was determined that numerous children in Oklahoma with significant hearing loss had little or no access to the hearing technology they needed at the most critical time of auditory brain development, the first six months of life. The Foundation provides the initial set of hearing aids to these children.

In January of 2007, the Foundation expanded its mission to create life changing opportunities for children and adults with hearing loss to listen for a lifetime. As a result, the Foundation began providing direct audiological and auditory-verbal therapy services to children and adults who are deaf or hard of hearing. The Foundation now serves patients throughout Oklahoma providing them with state-of-the-art hearing healthcare.

The Foundation has established seven leadership imperatives to establish Oklahoma as a national and international leader in new-era hearing services.

1. Universal screening of every newborn baby to identify significant hearing loss and to provide quick diagnostic services.
2. Immediate provision of appropriately fit hearing aids so every baby diagnosed with significant hearing loss has sound stimulation to the brain in the first months of life.
3. Intensive medical management, therapy and early childhood education with support to parents and caregivers in their new “specialist” role of helping their child learn to listen and talk.
4. Cochlear implants for children and adults who can benefit from the technology.
5. Education, training, and consulting with physicians, other health professionals, policymakers, early interventions, pre-school educators and K-12 schools so everyone plays their part in helping children with hearing loss learn to listen and talk and succeed in school.
6. Comprehensive audiological and listening therapy for adults who lose their hearing.
7. Provide a link, nationally and internationally, for hearing evaluation and research leading to the overall improvement of services and outcomes.

Basis of presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions.

HEARTS FOR HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 1. Organization and Summary of Significant Accounting Policies, continued

Basis of presentation, continued

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions – Net assets subject to donor or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue recognition

Revenues, gains, and other support are reported as increases in net assets without donor restrictions if the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the statement of activities and changes in net assets as net assets released from restrictions. Expenses are reported as decreases in net assets without donor restrictions only. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law.

Cash and cash equivalents

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

Property and equipment

Maintenance and repairs which do not improve or extend the useful lives of the assets are expensed as incurred. Additions and betterments greater than \$1,000 are capitalized. Upon retirement or replacement, the costs and accumulated depreciation are removed from the respective accounts and the differences are included in changes in net assets.

Fixed assets are recorded at cost, or fair value, if donated, and depreciated using the straight-line method over the estimated useful life as follows:

Building and improvements	39 years
Audiology equipment	3 – 5 years
Office equipment	3 – 5 years
Office furniture	5 – 7 years

Depreciation expense for each of the years ending June 30, 2023 and 2022 is \$720,631 and \$797,688, respectively.

HEARTS FOR HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 1. Organization and Summary of Significant Accounting Policies, continued

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and activities benefited.

Income tax status

The Foundation has been granted exemption from taxes under Section 501(c)(3) of the Internal Revenue Code.

Inventory

The Foundation's inventory is stated at cost at June 30, 2023. As inventory is used, the actual cost of the inventory is expensed.

Concentration of credit risk

The Foundation's cash balances in financial institutions at times may exceed federally insured limits.

Donated services

The Foundation receives donated services from time to time for specific services. Any amounts that meet the criteria for recognition under generally accepted accounting principles will be reflected in the financial statements. There were no donated services meeting the recognition criteria for the year ended June 30, 2023 or 2022.

Note 2. Private Pay Services and Accounts Receivable

The Foundation continues offering audiological services and auditory-verbal therapy directly to the public. The revenues for such private pay services under certain third-party insurance contracts, including Medicare and Medicaid, are limited to the amount allowed by each contractual agreement. The revenue for these services is recorded at a standard billing rate, and then adjusted when the claim is processed and paid by the third party. The Foundation records an allowance for contractual adjustments that is based on the historical adjustments of the providers. At June 30, 2023 and 2022, the allowances for contractual adjustments were \$333,000 and \$335,000, respectively.

HEARTS FOR HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 3. State Grants and State Grants Receivable

University Hospitals Authority

The Foundation has a cost reimbursement contract that is renewed annually with the University Hospitals Authority. The Foundation invoiced the Authority \$2,595,867 and \$2,492,032 for costs associated with services provided for the years ending June 30, 2023 and 2022, respectively. The Foundation had an invoice in the amount of \$228,150 outstanding for the year ending June 30, 2023 and \$207,669 for the year ending June 30, 2022. These amounts were reported as a state grant receivable for each year.

Community Action Agency of Oklahoma City and Oklahoma/Canadian Counties

The Foundation has established a cost reimbursement contract with the Community Action Agency of Oklahoma City and Oklahoma/Canadian Counties for hearing screenings and diagnostic audiological evaluations for preschool children for up to \$50,000. The Foundation invoiced the Agency \$46,733 and \$35,819 for the years ending June 30, 2023 and 2022, respectively. There were no unpaid invoices as of June 30, 2023 and 2022.

Oklahoma Center for the Advancement of Science and Technology

The Oklahoma Center for the Advancement of Science and Technology (OCAST) provides funding opportunities for basic research, applied research and internships through the Oklahoma Health Research, Oklahoma Applied Research Support, Plant Science and Faculty and Student Intern Partnerships programs. Hearts for Hearing Foundation applied for and was awarded two internship grants. One award focused on pediatric audiology internships and the other focused on computer science technology internships. The Foundation invoiced the center for \$36,827 for the year ending June 30, 2023 and had an invoice outstanding of \$11,828 at the end of the year.

Note 4. Commitments and Contingencies

Grants, bequests, and endowments often require the fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill the conditions could result in the return of the funds to the grantor. Although the return of funds is a possibility, management deems the contingency remote, since the objectives of the Foundation are consistent with the provisions of gifts that have been or will be accepted.

Note 5. Net Assets With Donor Restrictions

Net assets with donor restrictions comprised the following:

<u>2023</u>	<u>For a Specific Purpose/Time</u>	<u>Held in Perpetuity</u>	<u>Total</u>
Compassionate care	\$ 29,297	\$ -	\$ 29,297
Capital gift	25,000	-	25,000
Mobile unit	312,784	-	312,784
Restricted endowment	(398,956)	7,000,000	6,601,044
Tulsa equipment	<u>2,500</u>	<u>-</u>	<u>2,500</u>
	<u>\$ (29,375)</u>	<u>\$ 7,000,000</u>	<u>\$ 6,970,625</u>

HEARTS FOR HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 5. Net Assets With Donor Restrictions, continued

<u>2022</u>	<u>For a Specific Purpose/Time</u>	<u>Held in Perpetuity</u>	<u>Total</u>
Compassionate care	\$ 24,028	\$ -	\$ 24,028
Pediatric services	11,290	-	11,290
Mobile unit	487,320	-	487,320
Restricted endowment	<u>(819,660)</u>	<u>7,000,000</u>	<u>6,180,340</u>
	<u>\$ (297,022)</u>	<u>\$ 7,000,000</u>	<u>\$ 6,702,978</u>

Note 6. Net Assets Without Donor Restrictions – Board Designated

The directors of the Foundation have designated funds to be used for building maintenance and repairs as needed.

The activity is as follows:

	2023	2022
Beginning of the year	\$ 440,000	\$ 370,000
net change	<u>70,000</u>	<u>70,000</u>
End of the year	<u>\$ 510,000</u>	<u>\$ 440,000</u>

Note 7. Investments

Investments are stated at fair value as determined by the fund and/or investment manager. Professional standards establish a three-level hierarchy for the valuation of financial instruments:

Level I – Quoted prices in active markets for identical assets or liabilities.

Level II – Observable inputs other than Level I prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level III – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

HEARTS FOR HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 7. Investments, continued

Investments at June 30, 2023 and 2022, consisted of the following:

2023	Level I	Level II	Level III	Total
Investments:				
Cash reserves designated for investment	\$ 305,474	\$ -	\$ -	\$ 305,474
Equity exchanged traded products	4,546,937	-	-	4,546,937
Fixed income exchanged traded products	-	1,454,381	-	1,454,381
Private credit and market funds	-	-	168,625	168,625
Real estate income trust	-	-	125,627	125,627
Certificates of deposit and treasuries	<u>-</u>	<u>2,450,251</u>	<u>-</u>	<u>2,450,251</u>
	<u>\$ 4,852,411</u>	<u>\$ 3,904,632</u>	<u>\$ 294,252</u>	<u>\$ 9,051,295</u>
2022				
Investments:				
Cash reserves designated for investment	\$ 30,926	\$ -	\$ -	\$ 30,926
Bond mutual funds	311,786	-	-	311,786
Equity exchanged traded products	4,322,647	-	-	4,322,647
Fixed income exchanged traded products	-	1,368,118	-	1,368,118
Private credit fund	<u>-</u>	<u>-</u>	<u>146,863</u>	<u>146,863</u>
	<u>\$ 4,665,359</u>	<u>\$ 1,368,118</u>	<u>\$ 146,863</u>	<u>\$ 6,180,340</u>

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements using unobservable (Level III) inputs:

Balance at June 30, 2021	\$ -
Purchases	150,000
Unrealized gains (losses)	<u>(3,137)</u>
Balance at June 30, 2022	146,863
Purchases	154,500
Unrealized gains (losses)	<u>(7,111)</u>
Balance at June 30, 2023	<u>\$ 294,252</u>

HEARTS FOR HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 8. Beneficial Interest Held By Others

Hearts for Hearing Foundation is the designated beneficiary of donor advised funds at two Oklahoma area community foundations. These funds were contributed to the foundations by Hearts for Hearing Foundation and other third-party contributors. The foundations have variance power over all contributions. Hearts for Hearing Foundation follows the standard, “Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others” to account for the funds. Assets transferred by Hearts for Hearing Foundation remain on the Statements of Financial Position. Contributions from third parties are disclosed below, but not recognized as assets of Hearts for Hearing Foundation. The Foundation receives a distribution from the funds each year based on a percentage of the average fair market value of the funds over the previous twelve quarters. The remaining investment return is left with the fund to add to the value, which protects the future income stream from inflation.

The market value and activity of these funds are as follows:

	CFO	OCCF	Total
Market Value at June 30, 2021	30,889	30,075	60,964
Contributions	289	22,968	23,257
Investment income (loss)	(3,173)	(6,571)	(9,744)
Management fees	(308)	(303)	(611)
Distribution	<u>-</u>	<u>(1,069)</u>	<u>(1,069)</u>
Market Value at June 30, 2022	\$ 27,697	\$ 45,100	\$ 72,797
Contributions	306	4,198	4,504
Investment income (loss)	2,827	4,948	7,775
Management fees	(288)	(295)	(583)
Distribution	<u>-</u>	<u>(1,517)</u>	<u>(1,517)</u>
Market Value at June 30, 2023	<u>\$ 30,542</u>	<u>\$ 52,434</u>	<u>\$ 82,976</u>

Third party contributions:

	CFO	OCCF	Total
Market value at June 30, 2022	<u>\$ 5,917</u>	<u>\$ 83,379</u>	<u>\$ 89,296</u>
Market value at June 30, 2023	<u>\$ 6,289</u>	<u>\$ 88,982</u>	<u>\$ 95,271</u>

HEARTS FOR HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 9. Endowment Fund

The Foundation received a one-time endowment grant of \$7,000,000 to be used for operational expenses. The funds must be held in perpetuity.

Any remaining portion of the donor restricted endowment fund that is not classified in net assets with donor restrictions not subject to appropriation or expenditures is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Oklahoma Uniform Prudent Management of Institutional Funds Act (“OK UPMIFA”). In accordance with OK UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Foundation and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- The investment policies of the Foundation.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner intended to produce results which generate a dependable, increasing source of income and appreciation while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

The Foundation’s expenditure guidelines are as follows:

- Annual draw of no less than 3% and no more than 6% of the original gift
- 3% = \$210,000 minimum distribution
- 6% = \$420,000 maximum distribution
- To preserve longevity, the minimum distribution will be taken unless there is a specific need for additional funds approved by the Board
- Distributions will be taken in February of each year

The fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor or OK UPMIFA requires the Foundation to retain as a fund of perpetual duration. These deficiencies may result from unfavorable market fluctuations, a prior year significant change for securities in the investment portfolio, and continued distribution that was deemed prudent and necessary for the programs of the Foundation. There was a deficiency of this nature that is reported in net assets with donor restrictions at June 30, 2023 and 2022.

The market value and activity of this fund is as follows:

	2023	2022
Market Value at June 30, 2023 and 2022	\$ 6,180,340	\$ -
Contributions	-	7,000,000
Investment income (loss)	662,979	(809,345)
Management fees	(32,275)	(10,315)
Distribution	<u>(210,000)</u>	<u>-</u>
Market Value at June 30, 2023 and 2022	<u>\$ 6,601,044</u>	<u>\$ 6,180,340</u>

HEARTS FOR HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 10. Employees Retirement Plan

The Foundation revised the 401(k) profit sharing plan for its employees effective July 1, 2020, to include a safe harbor 3% employer contribution for each employee over the age of 21 beginning on the first day of the quarter after the employee completes 90 days of employment. The plan retained the provision that the Foundation may contribute additional amounts to its employees as a profit-sharing contribution to be determined from year to year at the Foundation's discretion. The Foundation's contribution for the plan years ended June 30, 2023 and 2022 was \$204,516 and \$169,598, respectively.

Note 11. Lease Commitments

Effective July 1, 2022, the Foundation adopted FASB ASC 842 for its leases. The Foundation elected to apply the short-term lease practical expedient for those operating leases that were short-term or month-to-month which allows the Foundation to expense the lease payments. Other operating leases that the Foundation has with longer terms than one year are recorded as right-of-use assets and lease liabilities.

The Foundation provides satellite adult services in Shawnee. The Foundation is leasing booth space in Shawnee on a month-to-month basis for \$500 per day of occupancy. The rent expense for each of the years ended June 30, 2023 and 2022 was \$18,000. The number of days varies from month-to-month, but normally does not exceed three or four.

The Foundation also rents space at two other locations in Oklahoma City providing satellite adult and child services. The term of these two leases is five years which began on August 1, 2018 and ends on July 31, 2023. Lease expense for the lease located on Britton for the years ended June 30, 2023 and 2022 was \$7,918 for each of the years. Lease expense on Lafayette was \$5,192 for each of the years ending June 30, 2023 and 2022.

The Foundation entered into a five-year lease agreement on June 1, 2018 for a building in Tulsa. The commencement date of the lease did not take effect until the landlord's work had been substantially completed on the building. The Foundation began renting the renovated space April 2019. The terms of the lease require monthly payments of \$6,031 and states that in addition to rent, the Foundation shall pay in monthly installments as part of additional rent the tenant's proportionate share of the increase in operating costs over the base year and tenant's proportionate share of the increase in real estate taxes over the base year. Lease expense on this building for the years ended June 30, 2023 and 2022 was \$70,365 and \$72,375, respectively.

The Foundation entered into an office lease agreement in Tulsa on April 15, 2022 to commence on May 1, 2022 and expire on April 30, 2023. The base rental was \$2,600 a month. The lease was amended April 4, 2023 to extend the lease three years terminating April 30, 2026. The base rate for the period May 1, 2023 to April 30, 2024 is \$2,675. The base rate for period May 1, 2024 to April 30, 2025 is \$2,750 and the base rate for May 1, 2025 to April 30, 2026 is \$2,825. Lease expense was \$31,350 and \$5,200 for the years ended June 30, 2023 and 2022, respectively.

HEARTS FOR HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 11. Lease Commitments, Continued

The Foundation has an operating lease agreement for office equipment that expires September 30, 2024. Payments in the amount of \$874 are made quarterly. Lease expense for the years ended June 30, 2023 and 2022 was \$3,600 and \$3,494, respectively. The Foundation entered into a new equipment lease agreement beginning March 20, 2023 and terminates June 20, 2028. The agreement requires quarterly payments in the amount of \$165. Lease expense for 2023 was \$682.

The following summarizes the components of the operating leases presented on the statement of financial position as of June 30, 2023:

Operating lease right-of-use assets	<u>\$ 154,324</u>
Current portion for operating liabilities	90,558
Long-term operating lease liabilities	<u>63,766</u>
Total operating lease liabilities	<u>\$ 154,324</u>

The maturities of the operating lease liabilities are as follows:

Year ended June 30:

2024	\$ 90,558
2025	34,033
2026	28,457
2027	627
2028	<u>649</u>
	<u>\$ 154,324</u>

Note 12. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following for the years ending June 30:

	2023	2022
Cash and cash equivalents	\$ 2,259,784	\$ 6,249,975
Account receivable	<u>1,277,127</u>	<u>838,168</u>
	<u>\$ 3,536,911</u>	<u>\$ 7,088,143</u>

HEARTS FOR HEARING FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 12. Liquidity and Availability, continued

Per the Foundation's Cash Management and Investment Policy, operating cash reserves in excess of monthly operating needs shall be maintained in interest bearing savings, certificates of deposit or money market accounts.

Note 13. Payroll Protection Program Loan

In April of 2020, the Foundation obtained a Payroll Protection Program loan for \$1,062,000. The provisions of the program allowed the Foundation to apply for loan forgiveness based on several factors. The loan was forgiven and classified as revenue in 2021. The Foundation obtained a second Payroll Protection Loan in April of 2021 in the amount of \$1,062,000. This loan was also forgiven on February 1, 2022, and was classified as revenue.

Note 14. Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position to the sum of the corresponding amounts within the statements of cash flows.

	2023	2022
Cash and cash equivalents	\$ 2,259,784	\$ 6,249,975
Cash restricted for building maintenance reserve	<u>510,000</u>	<u>440,000</u>
	<u>\$ 2,769,784</u>	<u>\$ 6,689,975</u>

Note 15. Reclassification

Certain 2022 items were reclassified in order to conform with the 2023 financial statement presentation.

Note 16. Subsequent Events

Management has evaluated subsequent events, if any, through the report date of September 18, 2023, the date the report was available to be issued, and has determined that no events occurred which would require disclosure in these financial statements.

SUPPLEMENTARY INFORMATION

HEARTS FOR HEARING FOUNDATION

SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS

Year ended June 30, 2023

State/City Grantor/Program Title:	Contract Period	Contract Amount	Revenue	Expenditures
Oklahoma State Department of Health:				
University Hospitals Authority:				
Cost Reimbursement Contract	07/01/22 - 06/30/23	\$ 2,595,867	\$ 2,595,867	\$ 2,595,867
Community Action Agency of Oklahoma City and Oklahoma/Canadian Counties:				
Hearing Screenings and Diagnostic Audiological Evaluations for Children	04/01/22 - 03/31/23	\$ 50,000	41,197	41,197
Hearing Screenings and Diagnostic Audiological Evaluations for Children	04/01/23 - 03/31/24	\$ 50,000	5,536	5,536
			<u>46,733</u>	<u>46,733</u>
Oklahoma Center for the Advancement of Science and Technology:				
IP23-010-1 Pediatric and Cochlear Implant Clinic Intern Partnership	02/01/23 - 01/31/24	\$ 30,000	27,307	27,307
IP23-016-1 Computer Science and Engineering Intern Partnership	03/01/23 - 02/28/24	\$ 30,000	9,520	9,520
Total OCAST			<u>36,827</u>	<u>36,827</u>
			<u>\$ 2,679,427</u>	<u>\$ 2,679,427</u>

HEARTS FOR HEARING FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2023

Federal Grantor/Program Title:	Contract Period	Contract Amount	Revenue	Expenditures
OSDH - ARPA State & Local Fiscal Recovery Funds:				
Cost Reimbursement Contract	01/01/23 - 12/31/23 3 auto renewals through 12/31/2026	\$ 9,800,000	\$ 20,908	\$ 20,908
Washington University - National Institute on Deafness & Other Communication Disorders:				
Research Contract	08/01/2022 - 07/31/2023 auto renewals through 07/31/2025	\$ 37,728	\$ 38,442	\$ 38,442
			\$ 59,350	\$ 59,350