

THE AMERICAN TINNITUS ASSOCIATION

Audited Financial Statements

For the Year Ended June 30, 2017



McDONALD JACOBS

Shareholders

MARK A. CLIFT, CPA

KARIN S. WANDTKE, CPA

SANG AHN, CPA

GERARD DEBLOIS JR., CPA

MARY STRASDIN, CPA

ANTHONY ALMER, CPA

TYEE CARR, CPA

Principals

JAKE JACOBS, CPA *Retired*

SUSAN J. MARKS, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The American Tinnitus Association

We have audited the accompanying financial statements of The American Tinnitus Association (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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 financial position of The American Tinnitus Association as of June 30, 2017, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The American Tinnitus Association's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedule of funded research grants for the year ended June 30, 2017 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and accordingly, we express no opinion on it.

McDonald Jacobz, P.C.

October 28, 2017
Portland, Oregon

THE AMERICAN TINNITUS ASSOCIATION
STATEMENT OF FINANCIAL POSITION
June 30, 2017
(With comparative totals for 2016)

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|-------------------------|-------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 189,033 | \$ 418,058 |
| Investments | 1,619,834 | 1,440,393 |
| Prepaid expenses | 19,274 | 7,642 |
| Bequest receivable | 199,580 | - |
| Property and equipment, net | <u>58,725</u> | <u>119,829</u> |
| TOTAL ASSETS | <u>\$ 2,086,446</u> | <u>\$ 1,985,922</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 70,583 | \$ 4,014 |
| Grants payable | 99,531 | 149,665 |
| Total liabilities | <u>170,114</u> | <u>153,679</u> |
| Net assets: | | |
| Unrestricted | 1,916,332 | 1,775,252 |
| Temporarily restricted | - | 56,991 |
| Total net assets | <u>1,916,332</u> | <u>1,832,243</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 2,086,446</u> | <u>\$ 1,985,922</u> |

See notes to financial statements.

THE AMERICAN TINNITUS ASSOCIATION
STATEMENT OF ACTIVITIES
For the year ended June 30, 2017
(With comparative totals for 2016)

| | 2017 | | | 2016 Total |
|--|--------------|---------------------------|--------------|---------------|
| | Unrestricted | Temporarily Restricted | Total | |
| Support and revenue: | | | | |
| Contributions | \$ 560,070 | \$ 52,454 | \$ 612,524 | \$ 754,854 |
| Combined Federal Campaign | 27,094 | - | 27,094 | 25,934 |
| Bequests | 229,189 | - | 229,189 | 1,064,846 |
| Investment income | 160,240 | - | 160,240 | 11,440 |
| Advertising revenue | 9,896 | - | 9,896 | 8,221 |
| Other income | 4,464 | - | 4,464 | 6,557 |
| | 990,953 | 52,454 | 1,043,407 | 1,871,852 |
| Net assets released from restrictions: | | | | |
| Satisfaction of purpose restrictions | 109,445 | (109,445) | - | - |
| Total support and revenue | 1,100,398 | (56,991) | 1,043,407 | 1,871,852 |
| Expenses: | | | | |
| Program | 523,196 | - | 523,196 | 641,578 |
| Management and general | 341,139 | - | 341,139 | 250,315 |
| Fundraising | 94,983 | - | 94,983 | 130,589 |
| Total expenses | 959,318 | - | 959,318 | 1,022,482 |
| Change in net assets | 141,080 | (56,991) | 84,089 | 849,370 |
| Net assets: | | | | |
| Beginning of year | 1,775,252 | 56,991 | 1,832,243 | 982,873 |
| End of year | \$ 1,916,332 | \$ - | \$ 1,916,332 | \$ 1,832,243 |

See notes to financial statements.

THE AMERICAN TINNITUS ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2017
(With comparative totals for 2016)

| | Program | | Supporting Services | | 2017 Total | 2016 Total | |
|----------------------------------|------------|-----------------------|---------------------|------------------------|---------------|---------------|--------------|
| | Research | Education and Support | Total Program | Management and General | | | Fund-Raising |
| Salaries and payroll taxes | 39,455 | 179,325 | \$ 218,780 | 65,057 | 45,342 | \$ 329,179 | \$ 331,929 |
| Employee benefits | 1,942 | 10,873 | 12,815 | 3,883 | 2,718 | 19,416 | 17,864 |
| Staff development | 172 | 961 | 1,133 | 343 | 240 | 1,716 | 166 |
| Total personnel expenses | 41,569 | 191,159 | 232,728 | 69,283 | 48,300 | 350,311 | 349,959 |
| Professional fees | - | - | - | 52,732 | 798 | 53,530 | 34,351 |
| Consulting fees | - | 58,249 | 58,249 | 85,735 | 2,448 | 146,432 | 82,485 |
| Grants | 130,258 | - | 130,258 | - | - | 130,258 | 295,059 |
| Travel and conferences | - | 286 | 286 | 39,488 | - | 39,774 | 49,761 |
| Occupancy | 4,058 | 22,727 | 26,785 | 8,117 | 5,682 | 40,584 | 39,107 |
| Equipment rental and maintenance | - | - | - | 9,591 | - | 9,591 | 9,031 |
| Telephone | - | 2,926 | 2,926 | 13,812 | - | 16,738 | 13,926 |
| Printing | - | 19,963 | 19,963 | 5,139 | 20,252 | 45,354 | 34,362 |
| Postage | 25 | 11,342 | 11,367 | 4,120 | 8,923 | 24,410 | 26,493 |
| Office expenses | - | 48 | 48 | 4,214 | 25 | 4,287 | 2,928 |
| Bank and merchant fees | - | - | - | 9,680 | - | 9,680 | 10,937 |
| Depreciation | 6,110 | 34,218 | 40,328 | 12,221 | 8,555 | 61,104 | 59,911 |
| Insurance | - | - | - | 8,271 | - | 8,271 | 6,698 |
| Other | - | 258 | 258 | 18,736 | - | 18,994 | 7,474 |
| Total expenses | \$ 182,020 | \$ 341,176 | \$ 523,196 | \$ 341,139 | \$ 94,983 | \$ 959,318 | \$ 1,022,482 |

See notes to financial statements.

THE AMERICAN TINNITUS ASSOCIATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2017
(With comparative totals for 2016)

| | 2017 | 2016 |
|---|-------------|-------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 84,089 | \$ 849,370 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 61,104 | 59,911 |
| Stock donations | - | (1,005,214) |
| Net realized/unrealized (gain) loss on investments | (132,396) | 18,616 |
| (Increase) decrease in: | | |
| Bequest receivable | (199,580) | 115,889 |
| Prepaid expenses | (11,632) | 4,454 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 66,569 | (12,409) |
| Grants payable | (50,134) | 146,165 |
| Net cash provided by (used in) operating activities | (181,980) | 176,782 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | - | (3,200) |
| Proceeds from the sale of investments | 1,049,593 | 6,740 |
| Purchase of investments | (1,096,638) | (62,244) |
| Net cash used in investing activities | (47,045) | (58,704) |
| Net increase (decrease) in cash and cash equivalents | (229,025) | 118,078 |
| Cash and cash equivalents - beginning of year | 418,058 | 299,980 |
| Cash and cash equivalents - end of year | \$ 189,033 | \$ 418,058 |

See notes to financial statements.

THE AMERICAN TINNITUS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

I. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The American Tinnitus Association (ATA or the Organization) is organized to carry on and support research and education activities relating to the treatment and cure of tinnitus. ATA is the nation's foremost organization working to cure tinnitus. ATA also promotes advocacy and public awareness to further its mission and provides a support network and resources on cause and treatment. Since 1980, ATA has funded approximately \$5.9 million in tinnitus research, representing over 126 research projects.

The majority of the Organization's support and revenues are received from contributions and bequests.

Basis of Presentation

Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as unrestricted or restricted net assets. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets are subject to donor-imposed stipulations that will be met, either by actions of the Organization and/or the passage of time.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents. It excludes cash equivalents held as investments.

Investments

Investments are carried at fair value.

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment purchased are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets which range from 3 to 10 years.

THE AMERICAN TINNITUS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

I. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Contributions

Contributions are recognized as revenues in the period the Organization is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Bequests are recorded as revenue at the time the Organization has an established right to the bequest and the proceeds are measurable.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Assets and Services (Inkind Contributions)

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Included in contribution revenue is inkind professional services of \$39,580 and \$95,000 for the years ended June 30, 2017 and 2016, respectively. The related inkind expenses are reflected as salaries and allocated as follows in the statement of functional expenses:

| | 2017 | 2016 |
|------------------------|------------------|------------------|
| Program services | \$ 25,720 | \$ 61,750 |
| Management and general | 9,900 | 23,750 |
| Fundraising | 3,960 | 9,500 |
| | <u>\$ 39,580</u> | <u>\$ 95,000</u> |

THE AMERICAN TINNITUS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

I. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Income Tax Status

The American Tinnitus Association is a nonprofit corporation exempt from federal and state income tax under section 501(c)(3) of the Internal Revenue Code (IRC) and applicable state law. Any unrelated business income tax to which the Organization may be subject is estimated to be immaterial. Accordingly, no provision for income taxes has been recorded. The Organization is not a private foundation.

The Organization follows the provisions of FASB ASC *Topic Accounting for Uncertainty in Income Taxes*. Management has evaluated the Organization's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

Expense Allocation

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

Use of Estimates

The preparation of financial statements in conformity with U.S. 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 period. Actual results could differ from those estimates.

Summarized Financial Information for 2016

The financial information as of June 30, 2016 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

Subsequent Events

The Organization has evaluated all subsequent events through October 28, 2017, the date the financial statements were available to be issued. Subsequent events, if any, are disclosed in the notes to the financial statements.

THE AMERICAN TINNITUS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

2. INVESTMENTS

Investments are carried at fair value and consist of the following at June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|---------------------|---------------------|--------------------|
| Cash equivalents | \$ 5,104 | \$ 208,589 |
| Equity mutual funds | - | 306,708 |
| Income mutual fund | 1,614,730 | 26,675 |
| Common stock | - | 898,421 |
| Total investments | <u>\$ 1,619,834</u> | <u>\$1,440,393</u> |

Investment income is as follows:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------------|-------------------|------------------|
| Interest and dividends | \$ 27,844 | \$ 30,056 |
| Realized loss on sale of investments | (8,140) | (2,573) |
| Unrealized gain (loss) | 140,536 | (16,043) |
| Total investment income | <u>\$ 160,240</u> | <u>\$ 11,440</u> |

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------|------------------|-------------------|
| Furniture and equipment | \$ 20,038 | \$ 28,381 |
| Leasehold improvements | 1,443 | 1,443 |
| Computer/website | 174,609 | 174,609 |
| | <u>196,090</u> | <u>204,433</u> |
| Less accumulated depreciation | 137,365 | 84,604 |
| Net property and equipment | <u>\$ 58,725</u> | <u>\$ 119,829</u> |

THE AMERICAN TINNITUS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

5. LEASE COMMITMENTS

The Organization leases its office under a 5-year operating lease agreement through January 2018 with monthly rent of \$3,168. The Organization also leases office equipment for \$613 per month under operating lease agreements expiring at various dates through April 2021 and rents storage space on a month-to-month basis. Office and equipment lease expense approximated \$48,200 and \$46,500 for the years ended June 30, 2017 and 2016, respectively.

Approximate future minimum lease commitments under operating leases are as follows:

| | | |
|---------------------------|----|----------------------|
| Year ending June 30, 2018 | \$ | 27,100 |
| 2019 | | 4,200 |
| 2020 | | 4,200 |
| 2021 | | <u>3,500</u> |
| | \$ | <u><u>39,000</u></u> |

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for research grants at June 30, 2016.

7. RETIREMENT PLAN

The Organization has SIMPLE IRA plan in which employees are immediately eligible to participate and may elect to contribute an amount not to exceed certain limits. The Organization determines annually a matching or discretionary contribution amount. All contributions are fully and immediately vested. For 2017 and 2016, the Organization elected to contribute a matching contribution equal to the employees' salary reduction contribution up to a limit of 3% - 5% of employee compensation.

Total plan contributions for 2017 and 2016 approximated \$3,100 and \$4,600 respectively.

THE AMERICAN TINNITUS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

8. CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash balances in a financial institution located in Portland, Oregon. Balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances, at times, may exceed the federally insured limits. Balances were fully insured at June 30, 2017. Cash balances in excess of insured limits were approximately \$168,000 at June 30, 2016.

Revenue is concentrated in 2017 with approximately 20% coming from one donor. In 2016, approximately 54% of the Organization's revenue came from a bequest.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

9. FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

THE AMERICAN TINNITUS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

9. FAIR VALUE MEASUREMENTS, Continued

Fair values of assets measured on a recurring basis at June 30, 2017 and 2016 are:

| | <u>Fair Value</u> | <u>Level 1</u> |
|----------------------|-----------------------|----------------|
| 2017 | | |
| Mutual funds: | | |
| Income fund | \$ 1,614,730 | \$ 1,614,730 |
| 2016 | | |
| Mutual funds: | | |
| Small cap value | \$ 13,282 | \$ 13,282 |
| Mid cap value | 33,852 | 33,852 |
| Large cap value | 136,310 | 136,310 |
| Foreign large growth | 46,140 | 46,140 |
| Small cap growth | 10,229 | 10,229 |
| Mid cap growth | 9,943 | 9,943 |
| Income fund | 26,675 | 26,675 |
| Large cap growth | 56,952 | 56,952 |
| Common stock | 898,421 | 898,421 |

Fair values for mutual funds are determined by reference to quoted market prices and other relevant information generated by market transactions.

SUPPLEMENTAL INFORMATION

THE AMERICAN TINNITUS ASSOCIATION
SUPPLEMENTAL INFORMATION - UNAUDITED
Schedule of Funded Research Grants
For the year ended June 30, 2017

| | Beginning Grants Payable | Grants Committed (Refunded) in 2017 | Grants Paid in 2017 | Ending Grants Payable |
|--|--------------------------------|--|---------------------------|-----------------------------|
| VA Portland Health Care System Portland, Oregon | \$ - | \$ 49,820 | \$ - | \$ 49,820 |
| University of Auckland Auckland, New Zealand | - | 49,531 | (49,531) | - |
| University of Michigan Ann Arbor, Michigan | - | 50,000 | - | 50,000 |
| NE Ohio Medical University Rootstown, Ohio | - | 6,664 | (6,664) | - |
| University of Montreal Montreal, Canada | 49,665 | - | (49,665) | - |
| Brain Institute Federal University Rio Grande Natal, Brazil | 50,000 | - | (50,000) | - |
| University of California Los Angeles, California | <u>50,000</u> | <u>-</u> | <u>(50,000)</u> | <u>-</u> |
| Total funded research grants | <u>\$ 149,665</u> | 156,015 | <u>\$ (205,860)</u> | <u>\$ 99,820</u> |
| University of Illinois Champaign, Illinois | | (910) | | |
| Cleveland Clinic Cleveland, Ohio | | <u>(24,847)</u> | | |
| | | <u>\$ 130,258</u> | | |

See independent auditor's report.