

THE AMERICAN TINNITUS ASSOCIATION

Audited Financial Statements

For the Year Ended June 30, 2016



McDONALD JACOBS

Shareholders

Mark A. Clift, CPA

Jill Oswald

Karin S. Wandtke, CPA

Sang Ahn, CPA

Gerard DeBlois Jr., CPA

Mary Strasdin, CPA

Anthony Almer, CPA

Principals

Jake Jacobs, CPA

Susan J. Marks, CPA

Tyee Carr, CPA

Victor Epstein, 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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 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, 2016 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 29, 2016
Portland, Oregon

THE AMERICAN TINNITUS ASSOCIATION
STATEMENT OF FINANCIAL POSITION
June 30, 2016
(With comparative totals for 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 418,058	\$ 299,980
Investments	1,440,393	398,292
Bequest receivable	-	115,889
Prepaid expenses	7,642	12,096
Property and equipment, net	<u>119,829</u>	<u>176,539</u>
 TOTAL ASSETS	 <u>\$ 1,985,922</u>	 <u>\$ 1,002,796</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,014	\$ 16,423
Grants payable	<u>149,665</u>	<u>3,500</u>
Total liabilities	<u>153,679</u>	<u>19,923</u>
Net assets:		
Unrestricted	1,775,252	644,280
Temporarily restricted	<u>56,991</u>	<u>338,593</u>
Total net assets	<u>1,832,243</u>	<u>982,873</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,985,922</u>	 <u>\$ 1,002,796</u>

See notes to financial statements.

THE AMERICAN TINNITUS ASSOCIATION
STATEMENT OF ACTIVITIES
For the year ended June 30, 2016
(With comparative totals for 2015)

	2016			2015 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Contributions	741,397	\$ 13,457	\$ 754,854	\$ 877,261
Combined Federal Campaign	25,934	-	25,934	15,926
Bequests	1,064,846	-	1,064,846	125,470
Investment income	11,440	-	11,440	10,154
Advertising revenue	8,221	-	8,221	23,585
Other income	6,557	-	6,557	6,031
	1,858,395	13,457	1,871,852	1,058,427
Net assets released from restrictions:				
Satisfaction of purpose restrictions	295,059	(295,059)	-	-
Total support and revenue	2,153,454	(281,602)	1,871,852	1,058,427
Expenses:				
Program	641,578	-	641,578	426,900
Management and general	250,315	-	250,315	126,144
Fundraising	130,589	-	130,589	211,613
Total expenses	1,022,482	-	1,022,482	764,657
Change in net assets	1,130,972	(281,602)	849,370	293,770
Net assets:				
Beginning of year	644,280	338,593	982,873	689,103
End of year	\$ 1,775,252	\$ 56,991	\$ 1,832,243	\$ 982,873

See notes to financial statements.

THE AMERICAN TINNITUS ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2016
(With comparative totals for 2015)

	Program			Supporting Services		
	Research	Education and Support	Total Program	Management and General	Fund-Raising	Total
Salaries and payroll taxes	19,467	180,638	\$ 200,105	75,415	56,409	\$ 331,929
Employee benefits	393	10,029	10,422	3,909	3,533	17,864
Staff development	4	93	97	36	33	166
Total personnel expenses	19,864	190,760	210,624	79,360	59,975	349,959
Professional fees	-	-	-	34,351	-	34,351
Consulting fees	394	44,404	44,798	36,554	1,133	82,485
Grants	295,059	-	295,059	-	-	295,059
Travel and conferences	-	734	734	32,480	16,547	49,761
Occupancy	860	21,955	22,815	8,557	7,735	39,107
Equipment rental and maintenance	-	-	-	9,031	-	9,031
Telephone	-	3,654	3,654	10,272	-	13,926
Printing	-	17,618	17,618	(5,469)	22,213	34,362
Postage	61	11,014	11,075	4,282	11,136	26,493
Office expenses	-	249	249	2,679	-	2,928
Bank and merchant fees	-	-	-	10,937	-	10,937
Depreciation	1,318	33,634	34,952	13,109	11,850	59,911
Insurance	-	-	-	6,698	-	6,698
Other	-	-	-	7,474	-	7,474
Total expenses	\$ 317,556	\$ 324,022	\$ 641,578	\$ 250,315	\$ 130,589	\$ 1,022,482
						\$ 764,657

See notes to financial statements.

THE AMERICAN TINNITUS ASSOCIATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2016
(With comparative totals for 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 849,370	\$ 293,770
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	59,911	11,147
Stock donations	(1,005,214)	(18,709)
Net realized/unrealized loss on investments	18,616	9,861
Write-off of inventory	-	2,565
(Increase) decrease in:		
Bequest receivable	115,889	(115,889)
Prepaid expenses	4,454	685
Increase (decrease) in:		
Accounts payable and accrued expenses	(12,409)	3,554
Grants payable	146,165	3,500
Net cash provided by operating activities	176,782	190,484
Cash flows from investing activities:		
Purchase of property and equipment	(3,200)	(148,670)
Proceeds from the sale of investments	6,740	70,916
Purchase of investments	(62,244)	(96,001)
Net cash used in investing activities	(58,704)	(173,755)
Net increase in cash and cash equivalents	118,078	16,729
Cash and cash equivalents - beginning of year	299,980	283,251
Cash and cash equivalents - end of year	\$ 418,058	\$ 299,980

See notes to financial statements.

THE AMERICAN TINNITUS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 \$5.7 million in tinnitus research, representing over 120 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, 2016

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.

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.

THE AMERICAN TINNITUS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2016

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

Income Tax Status, Continued

The Organization's information returns for years ended June 30, 2012 and prior are generally no longer subject to examination by taxing authorities in its major tax jurisdictions.

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 2015

The financial information as of June 30, 2015 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent Events

The Organization has evaluated all subsequent events through October 29, 2016, 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, 2016

2. INVESTMENTS

Investments are carried at fair value and consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash equivalents	\$ 208,589	\$ 53,694
Equity mutual funds	306,708	313,624
Income mutual fund	26,675	-
Common stock	<u>898,421</u>	<u>30,974</u>
Total investments	<u>\$ 1,440,393</u>	<u>\$ 398,292</u>

Investment income is as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 30,056	\$ 20,015
Realized loss on sale of investments	(2,573)	(6,694)
Unrealized loss	<u>(16,043)</u>	<u>(3,167)</u>
Total investment income	<u>\$ 11,440</u>	<u>\$ 10,154</u>

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 28,381	\$ 28,381
Leasehold improvements	1,443	1,443
Computer/website	<u>174,609</u>	<u>171,409</u>
	204,433	201,233
Less accumulated depreciation	<u>84,604</u>	<u>24,694</u>
Net property and equipment	<u>\$ 119,829</u>	<u>\$ 176,539</u>

THE AMERICAN TINNITUS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2016

2. LEASE COMMITMENTS

The Organization leases its office under a 5-year operating lease agreement through January 2018. Monthly rent is \$2,947 per month with scheduled increases. The Organization also leases office equipment for \$811 per month under operating lease agreements expiring at various dates through February 2018 and rents storage space on a month-to-month basis. Office and equipment lease expense approximated \$46,500 and \$49,000 for the years ended June 30, 2016 and 2015, respectively.

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

Year ending June 30, 2017	\$	44,200
2018		27,100
2019		<u>4,188</u>
	\$	<u><u>75,488</u></u>

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 and 2015 are restricted for use in research programs.

4. RETIREMENT PLAN

The Organization had a retirement savings plan for its employees under IRC Sec. 401(k). Employees who were age 18 and provided 6 months of service were eligible to participate. The Organization matched 100% of an elective contribution up to 2.5% of compensation with a six-year vesting period of 20% each year after the first year. This plan was suspended during 2015.

In 2015, the Organization began a SIMPLE IRA plan. 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 2016 and 2015, the Organization elected to contribute a matching contribution equal to the employees' salary reduction contribution up to a limit of 3% of employee compensation.

Total plan contributions for 2016 and 2015 approximated \$4,600 and \$11,300 respectively.

THE AMERICAN TINNITUS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2016

5. 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. Cash balances in excess of insured limits were approximately \$168,000 at June 30, 2016. Balances were fully insured at June 30, 2015.

Additionally, in 2016, approximately 54% of the Organization's revenue came from a bequest (20% from two donors in 2015).

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.

6. 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, 2016

8. FAIR VALUE MEASUREMENTS, Continued

Fair values of assets measured on a recurring basis at June 30, 2016 and 2015 are as follows:

	Fair Value	Level 1
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	44,686	44,686
Small cap growth	10,229	10,229
Mid cap growth	9,943	9,943
Income fund	28,395	28,395
Large cap growth	56,952	56,952
Common stock	<u>898,155</u>	<u>898,155</u>
	<u>\$ 1,231,804</u>	<u>\$ 1,231,804</u>
2015		
Mutual funds:		
Small cap value	\$ 12,115	\$ 12,115
Mid cap value	29,031	29,031
Large cap value	125,835	125,835
Money fund	5,790	5,790
Foreign large growth	39,961	39,961
Small cap growth	9,754	9,754
Mid cap growth	9,615	9,615
Income fund	22,673	22,673
Large cap growth	58,850	58,850
Common stock	<u>30,974</u>	<u>30,974</u>
	<u>\$ 344,598</u>	<u>\$ 344,598</u>

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, 2016

	Beginning Grants Payable	Grants Committed in 2016	Grants Paid in 2016	Ending Grants Payable
Argosy University Alameda, California	\$ 3,500	\$ -	\$ (3,500)	\$ -
University of Auckland Auckland, New Zealand	-	45,394	(45,394)	-
University of Texas Richardson, TX	-	50,000	(50,000)	-
University Medical Center Groningen Groningen, The Netherlands	-	50,000	(50,000)	-
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	-	50,000	-	50,000
	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Total funded research grants	<u>\$ 3,500</u>	<u>\$ 295,059</u>	<u>\$ (148,894)</u>	<u>\$ 149,665</u>

See independent auditor's report.