
***CENTRAL INSTITUTE
FOR THE DEAF***
FINANCIAL STATEMENTS
AUGUST 31, 2016

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Independent Auditors' Report

Board of Directors
Central Institute for the Deaf
St. Louis, Missouri

Report On The Financial Statements

We have audited the financial statements of Central Institute for the Deaf, a not-for-profit organization, which comprise the statement of financial position as of August 31, 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Institute for the Deaf as of August 31, 2016, and the 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 Comparative Information

Central Institute for the Deaf's 2015 financial statements were previously audited by other auditors, and their report dated December 5, 2015, expressed an unmodified opinion on those audited financial statements.

RubinBrown LLP

December 9, 2016

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF FINANCIAL POSITION

Assets

	August 31,	
	2016	2015
Cash and cash equivalents	\$ 206,459	\$ 253,330
Accounts receivable, net of allowance of \$1,331 and \$5,134 in 2016 and 2015, respectively	89,038	59,247
Pledges receivable, net (Note 3)	5,269,110	6,559,702
Investments (Notes 4 and 5)	62,045,070	52,371,843
Bequests receivable	150,000	5,313,989
Other assets	223,392	233,969
Property and equipment, net (Note 7)	2,615,164	2,539,177
Beneficial interests in perpetual trusts (Notes 5 and 6)	6,079,027	5,998,710
Total Assets	\$ 76,677,260	\$ 73,329,967

Liabilities And Net Assets

Liabilities		
Accounts payable (Note 13)	\$ 194,364	\$ 553,721
Other accrued liabilities	50,626	58,567
Deferred revenue	38,219	27,177
Total Liabilities	283,209	639,465
Net Assets		
Unrestricted:		
Undesignated	1,440,694	1,356,792
Investment in property and equipment	2,615,164	2,539,177
Designated for capital asset acquisition	100,000	305,824
Board-designated endowment	29,218,430	28,132,287
Total Unrestricted	33,374,288	32,334,080
Temporarily restricted (Note 9)	1,874,959	1,077,199
Permanently restricted (Note 10)	41,144,804	39,279,223
Total Net Assets	76,394,051	72,690,502
Total Liabilities And Net Assets	\$ 76,677,260	\$ 73,329,967

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF ACTIVITIES For The Year Ended August 31, 2016

	Unrestricted					
	Operating	Centennial Campaign And Celebration Activities	Total	Temporarily Restricted	Permanently Restricted	Total
Program Revenues						
Tuition and fees, net of \$1,214,434 in scholarships	\$ 703,674	\$ —	\$ 703,674	\$ —	\$ —	\$ 703,674
Audiology services and sales	420,790	—	420,790	—	—	420,790
Publications	74,628	—	74,628	—	—	74,628
Other income	99,040	—	99,040	—	—	99,040
Total Program Revenues	1,298,132	—	1,298,132	—	—	1,298,132
Expenses						
Program services	4,414,140	—	4,414,140	—	—	4,414,140
Management and general	798,924	—	798,924	—	—	798,924
Fundraising	460,654	89,047	549,701	—	—	549,701
Total Expenses	5,673,718	89,047	5,762,765	—	—	5,762,765
Expenses In Excess Of Program Revenues	(4,375,586)	(89,047)	(4,464,633)	—	—	(4,464,633)
Public Support And Other Revenues						
Contributions (Notes 13 and 15)	543,770	—	543,770	629,023	1,197,005	2,369,798
Special events, net of expenses of \$93,520	175,866	—	175,866	86,293	—	262,159
United Way	138,515	—	138,515	94,128	—	232,643
Investment income designated/appropriated for operations (Notes 4, 6 and 11)	1,193,025	—	1,193,025	1,441,448	—	2,634,473
Net assets released from restrictions (Note 9)	2,548,966	—	2,548,966	(2,548,966)	—	—
Total Public Support And Other Revenues	4,600,142	—	4,600,142	(298,074)	1,197,005	5,499,073
Increase (Decrease) In Net Assets From Operations	224,556	(89,047)	135,509	(298,074)	1,197,005	1,034,440
Bequests	44,844	—	44,844	—	150,000	194,844
Change In Value Of Beneficial Interests In Perpetual Trusts (Note 6)	—	—	—	—	80,317	80,317
Investment Income After Amount Designated/ Appropriated For Operations (Note 4)	859,855	—	859,855	1,095,834	438,259	2,393,948
Increase (Decrease) In Net Assets	1,129,255	(89,047)	1,040,208	797,760	1,865,581	3,703,549
Net Assets - Beginning Of Year	32,717,673	(383,593)	32,334,080	1,077,199	39,279,223	72,690,502
Net Assets - End Of Year	\$ 33,846,928	\$ (472,640)	\$ 33,374,288	\$ 1,874,959	\$ 41,144,804	\$ 76,394,051

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF ACTIVITIES For The Year Ended August 31, 2015

	Unrestricted		Total	Temporarily		Total
	Operating	Centennial Campaign And Celebration Activities		Restricted	Permanently Restricted	
Program Revenues						
Tuition and fees, net of \$1,144,841 in scholarships	\$ 589,840	\$ —	\$ 589,840	\$ —	\$ —	\$ 589,840
Audiology services and sales	421,351	—	421,351	—	—	421,351
Publications	81,220	—	81,220	—	—	81,220
Other income	114,686	8,800	123,486	—	—	123,486
Total Program Revenues	1,207,097	8,800	1,215,897	—	—	1,215,897
Expenses						
Program services	3,997,834	—	3,997,834	—	—	3,997,834
Management and general	796,153	—	796,153	—	—	796,153
Fundraising	444,164	153,970	598,134	—	—	598,134
Centennial celebration activities	—	33,928	33,928	—	—	33,928
Total Expenses	5,238,151	187,898	5,426,049	—	—	5,426,049
Expenses In Excess Of Program Revenues	(4,031,054)	(179,098)	(4,210,152)	—	—	(4,210,152)
Public Support And Other Revenues						
Contributions (Notes 13 and 15)	514,384	950	515,334	1,006,352	2,568,997	4,090,683
Special events, net of expenses of \$120,480	282,984	—	282,984	125,192	—	408,176
United Way	146,188	—	146,188	72,760	—	218,948
Investment income designated/appropriated for operations (Notes 4, 6 and 11)	1,430,651	—	1,430,651	1,004,777	—	2,435,428
Net assets released from restrictions (Note 9)	1,864,447	52,479	1,916,926	(1,916,926)	—	—
Total Public Support And Other Revenues	4,238,654	53,429	4,292,083	292,155	2,568,997	7,153,235
Increase (Decrease) In Net Assets						
From Operations	207,600	(125,669)	81,931	292,155	2,568,997	2,943,083
Bequests	573,989	—	573,989	—	394,911	968,900
Change In Value Of Beneficial Interests In Perpetual Trusts (Note 6)	—	—	—	—	(592,091)	(592,091)
Investment Income (Loss) After Amount Designated/ Appropriated For Operations (Note 4)	(1,505,798)	—	(1,505,798)	(565,560)	(856,100)	(2,927,458)
Increase (Decrease) In Net Assets	(724,209)	(125,669)	(849,878)	(273,405)	1,515,717	392,434
Net Assets - Beginning Of Year	33,441,882	(257,924)	33,183,958	1,350,604	37,763,506	72,298,068
Net Assets - End Of Year	\$ 32,717,673	\$ (383,593)	\$ 32,334,080	\$ 1,077,199	\$ 39,279,223	\$ 72,690,502

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended August 31, 2016

Expenses	Supporting Services				Total
	Program	Management	Fundraising		
	Services	And General	Fundraising	Centennial Campaign	
Salaries	\$ 2,208,429	\$ 460,709	\$ 311,971	\$ —	\$ 2,981,109
Employee benefits	309,567	64,580	43,731	—	417,878
Payroll taxes	158,617	33,090	22,407	—	214,114
Total salaries and related expenses	2,676,613	558,379	378,109	—	3,613,101
Contract service payments	168,311	105,291	22,826	58,399	354,827
Costs of hearing aids	194,618	—	—	—	194,618
Miscellaneous	25,158	26,002	10,038	266	61,464
Occupancy	848,486	36,514	24,903	—	909,903
Office equipment, rental and supplies	34,194	5,463	2,577	—	42,234
Postage and shipping	15,162	3,319	2,028	330	20,839
Professional and consulting fees	—	25,966	—	—	25,966
Program expenses	129,468	10,744	5,375	30,052	175,639
Public relations/advertising	38,472	455	4,791	—	43,718
Publications	34,277	—	—	—	34,277
Staff training	52,038	7,220	1,458	—	60,716
Telephone	30,248	6,035	2,609	—	38,892
Total Expenses Before Depreciation And Amortization	4,247,045	785,388	454,714	89,047	5,576,194
Depreciation And Amortization	167,095	13,536	5,940	—	186,571
Total Expenses	\$ 4,414,140	\$ 798,924	\$ 460,654	\$ 89,047	\$ 5,762,765

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended August 31, 2015

Expenses	Supporting Services					Total
	Program Services	Management And General	Fundraising	Fundraising Centennial Campaign	Centennial Celebration Activities	
Salaries	\$ 2,050,305	\$ 443,538	\$ 284,917	\$ —	\$ —	\$ 2,778,760
Employee benefits	291,945	63,156	40,570	—	—	395,671
Payroll taxes	148,706	32,169	20,665	—	—	201,540
Total salaries and related expenses	2,490,956	538,863	346,152	—	—	3,375,971
Contract service payments	211,565	111,599	23,459	121,709	23,434	491,766
Costs of hearing aids	169,666	—	—	—	—	169,666
Miscellaneous	25,458	27,112	11,475	1,834	15	65,894
Occupancy	774,329	33,322	22,727	—	—	830,378
Office equipment, rental and supplies	25,685	13,763	4,536	—	46	44,030
Postage and shipping	10,267	5,615	3,380	5,410	201	24,873
Professional and consulting fees	—	28,995	—	—	—	28,995
Program expenses	89,456	11,012	17,530	19,817	10,232	148,047
Public relations/advertising	13,826	2,091	4,732	5,200	—	25,849
Publications	23,498	—	—	—	—	23,498
Staff training	25,072	5,162	2,887	—	—	33,121
Telephone	38,445	10,085	4,056	—	—	52,586
Total Expenses Before Depreciation And Amortization	3,898,223	787,619	440,934	153,970	33,928	5,314,674
Depreciation And Amortization	99,611	8,534	3,230	—	—	111,375
Total Expenses	\$ 3,997,834	\$ 796,153	\$ 444,164	\$ 153,970	\$ 33,928	\$ 5,426,049

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF CASH FLOWS

	For The Years Ended August 31,	
	2016	2015
Cash Flows From Operating Activities		
Increase in net assets	\$ 3,703,549	\$ 392,434
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	186,571	111,375
Contributions restricted for capital projects	(279,636)	(658,817)
Contributions restricted for endowment	(1,347,005)	(2,963,908)
(Increase) decrease in value of beneficial interests in perpetual trusts	(80,317)	592,091
Net realized gain on investments	(4,441,612)	(1,377,508)
Net unrealized losses on investments	1,020,619	3,258,857
Gain (loss) on sale of donated securities	(144)	21,538
Changes in assets and liabilities:		
Increase in accounts receivable	(29,791)	(13,121)
(Increase) decrease in bequest receivable	5,313,989	(563,989)
Decrease in other assets	10,577	14,537
(Increase) decrease in pledges receivable	(55,021)	104
Increase in accounts payable	8,022	98,111
Decrease in other accrued liabilities	(7,941)	(5,359)
Increase in deferred revenue	11,042	1,793
Net Cash Provided By (Used In) Operating Activities	4,012,902	(1,091,862)
Cash Flows From Investing Activities		
Purchases of property and equipment	(629,937)	(2,111,439)
Purchases of investments	(56,526,374)	(20,511,318)
Proceeds from sale of investments	50,274,284	20,426,338
Net Cash Used In Investing Activities	(6,882,027)	(2,196,419)
Cash Flows From Financing Activities		
Borrowings on line of credit	—	900,000
Repayment of line of credit	—	(900,000)
Proceeds from contributions restricted for capital projects	423,780	303,513
Proceeds from contributions restricted for endowment	2,398,474	3,057,254
Net Cash Provided By Financing Activities	2,822,254	3,360,767
Net Increase (Decrease) In Cash And Cash Equivalents	(46,871)	72,486
Cash And Cash Equivalents - Beginning Of Year	253,330	180,844
Cash And Cash Equivalents - End Of Year	\$ 206,459	\$ 253,330
Supplemental Disclosure Of Cash Flow Information		
Property and equipment acquisitions included in accounts payable	\$ 8,143	\$ 375,522
Interest paid	—	5,129

CENTRAL INSTITUTE FOR THE DEAF

NOTES TO FINANCIAL STATEMENTS

August 31, 2016 And 2015

1. **Operations**

Central Institute for the Deaf (CID) is a private, not-for-profit organization located in the City of St. Louis, Missouri. CID's mission is to teach children who are deaf and hard of hearing to listen, talk, read, and succeed. CID partners with families and collaborates with universities, educators, and other professionals worldwide to help children communicate to achieve their fullest potential.

CID's primary sources of revenue are public support and investment income.

2. **Summary Of Significant Accounting Policies**

Basis Of Accounting

CID prepares its financial statements on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred.

Basis Of Presentation

The financial statement presentation follows the requirements of the Financial Accounting Standards Board for not-for-profit organizations by presenting assets and liabilities within similar groups and classifying them in ways that provide relevant information about their interrelationships, liquidity, and financial flexibility. As a result, CID is required to report its financial position and activities according to the following three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Estimates And Assumptions

The Organization uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Operating And Nonoperating Activity

The activity of CID has been further segregated into operating versus nonoperating. Operating activity reflects those activities that occur on a consistent basis when comparing year to year. Nonoperating activity reflects those activities that are typically related to special fundraising campaigns, investment income after amount designated/appropriated for operations, bequests receipts or unusual and nonrecurring expenditures.

Cash And Cash Equivalents

CID considers all temporary cash investments to be cash equivalents. These temporary cash investments are securities held for cash management and have original maturities of three months or less. Cash and cash equivalents do not include deposits held in funds managed by others on behalf of CID.

CID maintains its cash balances with financial institutions with strong credit ratings. These balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. At times, such amounts may be in excess of FDIC limits.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. An allowance for doubtful accounts is provided based on management's assessment of its credit history with constituents having outstanding balances and current relationships with them. Management provides for probable doubtful accounts through a charge to earnings and a credit to a valuation allowance. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Pledges Receivable

Unconditional pledges receivable are recognized at fair value as support in the period the pledges are received. Conditional pledges receivable, which depend upon specified future and uncertain events, are recognized as support when the conditions upon which they depend are substantially met.

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (*Continued*)

An allowance for uncollectible pledges receivable is provided based upon CID's estimate of amounts which will ultimately not be collected. The estimate is based on historical collection experience and a review of the current status of existing pledges receivable. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual pledges receivable. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable.

Unconditional pledges receivable due in future periods are recorded at the present value of their estimated future cash flows. The discount on long-term pledges receivable is computed using risk-free interest rates applicable to the years in which the pledges are received, which are believed to approximate the market rate of return for similar assets. Amortization of the discounts is included in contribution revenue.

Investments

Investments are reported at fair value. The fair values of all debt and equity securities with readily determinable fair values are based on quotations obtained from national securities exchanges. Investments that are not readily marketable are carried at estimated fair values as provided by the investment managers. CID reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair values of these investments. Those estimated fair values may differ from the values that would have been used had a ready market for these securities existed.

Realized gains or losses on investments are determined based on the difference between the proceeds received and the cost of the investments sold, using the specific cost identification method. Unrealized gains and losses are determined based on year-end fair value fluctuations on investments held at fiscal year end.

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

Bequests Receivable

Bequests receivable are recorded at the estimated amount to be received.

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (*Continued*)

Property And Equipment

Property and equipment are carried at cost, if purchased, or at fair value, if donated, less accumulated depreciation and amortization computed using the straight-line method. Additions exceeding \$5,000 are capitalized. The assets are depreciated and amortized over the following periods:

Leasehold improvements	5 - 20 years
Furniture and fixtures	5 -10 years
Equipment	3 - 10 years

CID reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. No impairment loss has been recognized in 2016 or 2015.

Deferred Revenue

Payment of a tuition deposit is required prior to commencement of the school year. All tuition received for future school years is recorded as deferred revenue.

Restricted And Unrestricted Revenues And Support

CID reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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.

Description Of Program Services And Supporting Activities

The following program services and supporting activities are included in the accompanying financial statements:

Program Services

CID's program services include:

- A school that teaches listening and spoken language to children ages 0 - 12 years who are deaf and hard-of-hearing as they learn age-appropriate academic subjects,
- On-site pediatric audiology services to keep children's hearing devices in optimal condition for listening and speaking,

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (*Continued*)

- Educational research and assessment to quantify successful teaching strategies for children who are deaf and hard-of-hearing,
- Graduate-level training and practicum experiences for students learning to be teachers of the deaf and audiologists, and
- Workshops, consulting services, webinars, and CID-developed teaching materials that are provided to other professionals who serve children who are deaf and hard-of-hearing outside of CID.

Management And General

Includes the functions necessary to provide support to instructional programs; ensure an adequate working environment; provide coordination and articulation of CID's program strategy; market CID through the admissions program and advertising; secure proper administrative functioning of CID's Board of Directors; and manage the fiscal responsibilities of CID.

Fundraising - Operating

Includes those functions necessary to advance the mission of the institution: fundraising, marketing, communication to the parent community and alumnae relations; provides the structure to encourage private financial support from individuals, as well as from auxiliary groups, corporations and foundations, via direct gifts and fundraising events.

Fundraising - Centennial Campaign

In honor of its centennial year, CID was conducting a \$25 million Making Conversations Happen Centennial Campaign. The primary purpose of the campaign was to raise funds for endowment but \$2,900,000 is being raised for capital projects and campaign expenses. The campaign will support scholarships for children, teacher education, and curricula development. A successful campaign will make a CID education possible for more families and will share best practices with others in our community and throughout the world.

Centennial Celebration Activities

In 2014, CID began celebrating its 100th year through a series of nonrecurring activities that provided opportunities for the community to learn more about CID and its contributions to the field of hearing and deafness. Highlights included a history exhibit installed in May 2014 and a free public lecture in July 2014. Centennial celebration activities culminated in September 2014 with an open house, birthday gala, 5K run, and children's birthday party.

Expense Allocation

Expenses are charged to program services and supporting activities on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of CID.

Advertising Costs

Advertising costs are expensed when incurred and amounted to \$43,718 and \$25,849 in 2016 and 2015, respectively.

Income Taxes

The United States Treasury Department has advised that CID constitutes a qualified not-for-profit organization and is, therefore, exempt from federal income taxes on related, exempt income under Section 501(c)(3) of the Internal Revenue Code.

CID's tax returns for tax years 2012 and later remain subject to examination by taxing authorities.

Subsequent Events

Management has evaluated subsequent events through December 9, 2016, the date which the financial statements were available for issue.

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Notes To Financial Statements (Continued)

3. Pledges Receivable

The present value of pledges receivable expected to be collected in the future is as follows:

	2016			
	Capital	Operations And School Programs	Endowment	Total
Less than one year	\$ 91,665	\$ 105,456	\$ 2,081,353	\$ 2,278,474
One to five years	133,600	28,000	2,945,372	3,106,972
Five years or more	—	—	33,000	33,000
	225,265	133,456	5,059,725	5,418,446
Less: Unamortized discount	5,126	919	135,347	141,392
Less: Allowance for doubtful accounts	—	—	7,944	7,944
	\$ 220,139	\$ 132,537	\$ 4,916,434	\$ 5,269,110

	2015			
	Capital	Operations And School Programs	Endowment	Total
Less than one year	\$ 185,750	\$ 73,760	\$ 2,065,128	\$ 2,324,638
One to five years	187,500	7,583	4,214,100	4,409,183
Five years or more	—	—	59,000	59,000
	373,250	81,343	6,338,228	6,792,821
Less: Unamortized discount	8,967	244	217,049	226,260
Less: Allowance for doubtful accounts	—	3,583	3,276	6,859
	\$ 364,283	\$ 77,516	\$ 6,117,903	\$ 6,559,702

During 2016 and 2015, discount rates ranging from 2.00% to 2.23% were used to record pledges receivable at the present value of the future cash flows.

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (Continued)

4. Investments

Investments by net asset class are summarized as follows:

	<u>2016</u>	<u>2015</u>
Unrestricted - undesignated	\$ 1,205,015	\$ 1,449,711
Unrestricted - designated for capital asset acquisition	100,000	305,824
Unrestricted - Board-designated endowment (Note 11)	29,218,430	22,818,298
Temporarily restricted	399,437	608,389
Temporarily restricted - accumulated unspent earnings on endowment funds (Note 11)	1,122,845	27,011
Permanently restricted (Note 11)	29,999,343	27,162,610
	<u>\$ 62,045,070</u>	<u>\$ 52,371,843</u>

Investment income (loss) consists of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 1,431,422	\$ 1,267,764
Investment expenses	(140,821)	(127,503)
Distributions from perpetual trusts	316,827	249,058
Realized gain on investments	4,441,612	1,377,508
Unrealized loss on investments	(1,020,619)	(3,258,857)
	<u>\$ 5,028,421</u>	<u>\$ (492,030)</u>

CID established an investment spending policy whereby 5% of the 12-quarter average market value, computed using May 31 as the ending month, of the permanent endowment and board-designated endowment portfolios is used for operations, in accordance with donor restrictions, on an annual basis.

Investment income (loss) is presented within the statement of activities as follows:

	<u>2016</u>	<u>2015</u>
Investment income designated/appropriated for operations	\$ 2,634,473	\$ 2,435,428
Investment income (loss) after amount designated/appropriated for operations	2,393,948	(2,927,458)
	<u>\$ 5,028,421</u>	<u>\$ (492,030)</u>

5. Fair Value Measurements

CID accounts for certain assets at fair value as required by generally accepted accounting principles. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The valuation techniques are required to maximize the use of observable inputs and minimize the use of unobservable inputs.

There are three general valuation techniques that may be used to measure fair value, as described below:

- *Market approach* - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- *Cost approach* - Based on the amount that currently would be required to replace the service capacity of an asset.
- *Income approach* - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts.

Investments measured and reported at fair value are classified and disclosed in one of the following three categories:

- | | |
|----------------|---|
| <i>Level 1</i> | Quoted prices that are readily available in active markets/exchanges for identical investments. |
| <i>Level 2</i> | Pricing inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly. |
| <i>Level 3</i> | Significant pricing inputs that are unobservable for the investment and includes investments for which there is little, if any, market activity for the investment. |

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (Continued)

The following are the major categories of assets measured at fair value on a recurring basis:

	2016			Total
	Level 1	Level 2	Level 3	
Cash equivalents	\$ 568,418	\$ —	\$ —	\$ 568,418
Common stock	23,747,296	—	—	23,747,296
Exchange traded funds	6,976,801	—	—	6,976,801
Domestic mutual funds	5,477,528	—	—	5,477,528
International equity mutual funds	1,828,482	—	—	1,828,482
Fixed income mutual funds	8,446,808	—	—	8,446,808
Mortgage-backed securities	—	1,647,820	—	1,647,820
Corporate debt obligations	—	7,634,942	—	7,634,942
Treasury securities	1,124,782	—	—	1,124,782
Government agency securities	—	945,761	—	945,761
Asset-backed securities	—	2,042,067	—	2,042,067
Taxable municipal bonds	—	1,091,259	—	1,091,259
Tax-exempt revenue securities	—	111,348	—	111,348
Real estate mutual fund	401,758	—	—	401,758
	<u>\$48,571,873</u>	<u>\$13,473,197</u>	<u>\$ —</u>	<u>\$62,045,070</u>
Beneficial interests in perpetual trusts	\$ —	\$ —	\$ 6,079,027	\$ 6,079,027

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (*Continued*)

	2015			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 5,533,662	\$ —	\$ —	\$ 5,533,662
Common stock	13,340,840	—	—	13,340,840
Exchange traded funds	8,807,414	—	—	8,807,414
Domestic mutual funds	3,384,469	—	—	3,384,469
International equity mutual funds	1,789,515	—	—	1,789,515
Fixed income mutual funds	7,253,657	—	—	7,253,657
Mortgage-backed securities	—	1,462,817	—	1,462,817
Corporate debt obligations	—	5,924,914	—	5,924,914
Treasury securities	408,399	—	—	408,399
Government agency securities	—	952,091	—	952,091
Asset-backed securities	—	1,499,593	—	1,499,593
Taxable municipal bonds	—	988,518	—	988,518
Tax-exempt revenue securities	—	113,566	—	113,566
Zero coupon bonds	—	116,966	—	116,966
Real estate mutual fund	795,422	—	—	795,422
	\$41,313,378	\$11,058,465	\$ —	\$52,371,843
Beneficial interests in perpetual trusts	\$ —	\$ —	\$ 5,998,710	\$ 5,998,710

At August 31, 2016 and 2015, the Level 2 and Level 3 assets utilize the following valuation techniques and inputs:

Corporate Debt Obligations: The fair value of investments in U.S. and international corporate bonds is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker-dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

Mortgage-Backed Securities, Government Agency Securities, Asset-Backed Securities, Taxable Municipal Bonds, Tax-Exempt Revenue Securities and Zero-Coupon Bonds: The fair value of investments in these securities is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

Beneficial Interests In Perpetual Trusts: The fair value of the beneficial interests in perpetual trusts held by others is determined by the fair value of the assets in the trust as a practical expedient unless facts and circumstances indicate that the fair value of the assets in the trust differs from the fair value of the beneficial interests.

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (*Continued*)

The following is a reconciliation of the balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended August 31, 2016 and 2015:

	Beneficial Interests In Perpetual Trusts
Balance - September 1, 2014	\$ 6,590,801
Change in value of beneficial interests in perpetual trusts	(592,091)
Balance - August 31, 2015	5,998,710
Change in value of beneficial interests in perpetual trusts	80,317
Balance - August 31, 2016	\$ 6,079,027

Beneficial interests in perpetual trusts held by others are classified within Level 3 of the fair value hierarchy since CID does not have access to any existing markets in which its beneficial interests can be bought or sold.

During 2016 and 2015, there were no changes in the methods and/or assumptions utilized to derive the fair value of CID's assets.

6. Beneficial Interests In Perpetual Trusts

Beneficial interests in perpetual trusts consist of unconditional promises to give from perpetual trusts created by independent donors that are not in the possession or control of CID but are held and administered by independent bank trustees. CID only derives income from these trusts, which is recorded as temporarily restricted based upon the donors' restrictions for utilization. The principal of each trust is not available to CID. CID has recorded the promises to give at the present value of the future cash flows from the trusts and has recorded these as permanently restricted since the trusts are created to continue in perpetuity. This present value was estimated to be equivalent to the current fair value of the trusts, which amounted to \$6,079,027 and \$5,998,710 at August 31, 2016 and 2015, respectively. The change in value of perpetual trusts was an increase of \$80,317 and a decrease of \$592,091 during 2016 and 2015, respectively.

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (Continued)

The beneficial interests in perpetual trusts by donor restrictions are as follows:

	<u>2016</u>	<u>2015</u>
General operations	\$ 863,040	\$ 835,099
Scholarships	2,618,844	2,575,119
School	916,389	910,692
Multiple purposes	1,680,754	1,677,800
	<u>\$ 6,079,027</u>	<u>\$ 5,998,710</u>

Distributions from perpetual trusts of \$316,827 and \$249,058 in 2016 and 2015, respectively, are designated for the restricted purposes noted above and included in investment income designated/appropriated for operations on the statement of activities.

7. Property And Equipment

Property and equipment consists of the following:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 2,890,063	\$ 2,779,566
Furniture and fixtures	1,125,441	1,050,035
Equipment	285,837	219,508
	<u>4,301,341</u>	<u>4,049,109</u>
Less: Accumulated depreciation and amortization	<u>1,686,177</u>	<u>1,509,932</u>
	<u>\$ 2,615,164</u>	<u>\$ 2,539,177</u>

Depreciation and amortization charged to expense amounted to \$186,571 in 2016 and \$111,375 in 2015.

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (Continued)

8. Line Of Credit

CID has a bank line of credit with maximum borrowings of \$1,500,000 and \$1,000,000 at August 31, 2016 and 2015, respectively. The line of credit is secured by the board-designated investment account held by the same bank. Interest on the line of credit is calculated based on the one-month maturity LIBOR rate plus 2%. The interest rate in effect at August 31, 2016 is 2.52%. Amounts outstanding on the line of credit are due on December 21, 2016. Upon expiration, CID is expected to renew the line of credit under similar terms.

CID incurred interest expense of \$5,569 on borrowings totaling \$900,000 during the year ended August 31, 2015. No borrowings were made and no interest was incurred in 2016. There were no outstanding borrowings under the line of credit at August 31, 2016 or 2015.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
General operations	\$ 560,936	\$ 4,756
Capital additions	220,139	375,683
School programs	698,442	471,088
School scholarships	395,442	225,672
	<u>\$ 1,874,959</u>	<u>\$ 1,077,199</u>

Net assets were released from donor-imposed restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by donors as follows:

	<u>2016</u>	<u>2015</u>
General operations	\$ 299,605	\$ 88,692
Capital additions	423,780	334,523
School programs	978,236	903,577
School scholarships	847,345	537,655
Centennial Campaign and celebration activities	—	52,479
	<u>\$ 2,548,966</u>	<u>\$ 1,916,926</u>

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (*Continued*)

10. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to income generation for the following purposes:

	<u>2016</u>	<u>2015</u>
General operations	\$ 14,259,147	\$ 13,414,745
School programs	2,566,833	2,545,782
School scholarships	7,484,398	7,088,478
Multiple purposes	16,834,426	16,230,218
	<u>\$ 41,144,804</u>	<u>\$ 39,279,223</u>

Permanently restricted net assets are reflected within the statement of financial position as:

	<u>2016</u>	<u>2015</u>
Investments (Note 4)	\$ 29,999,343	\$ 27,162,610
Bequest receivable	150,000	—
Pledges receivable (Note 3)	4,916,434	6,117,903
Beneficial interests in perpetual trusts (Note 6)	6,079,027	5,998,710
	<u>\$ 41,144,804</u>	<u>\$ 39,279,223</u>

11. Endowment Funds

CID's endowment consists of approximately 70 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (Continued)

Interpretation Of Relevant Law

The Board of Directors of CID has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original gift amount of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, CID classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by CID in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, CID considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the funds,
- (2) The purposes of the organization and the donor-restricted endowment fund,
- (3) General economic conditions,
- (4) The possible effect of inflation and deflation,
- (5) The expected total return from income and the appreciation of investments,
- (6) Other resources of the organization, and
- (7) The investment and operating reserves policies of CID.

Endowment Asset Composition By Type Of Fund As Of August 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 1,122,845	\$ 29,999,343	\$ 31,122,188
Board-designated endowment funds	29,218,430	—	—	29,218,430
	\$ 29,218,430	\$ 1,122,845	\$ 29,999,343	\$ 60,340,618

Endowment Asset Composition By Type Of Fund As Of August 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 27,011	\$ 27,162,610	\$ 27,189,621
Board-designated endowment funds	22,818,298	—	—	22,818,298
	\$ 22,818,298	\$ 27,011	\$ 27,162,610	\$ 50,007,919

CENTRAL INSTITUTE FOR THE DEAFNotes To Financial Statements (*Continued*)**Changes In Endowment Assets For The Fiscal Year Ended August 31, 2016:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 22,818,298	\$ 27,011	\$ 27,162,610	\$ 50,007,919
Investment income:				
Investment income	565,383	725,155	—	1,290,538
Net realized and unrealized gains	1,487,739	1,495,300	438,259	3,421,298
Total investment income	2,053,122	2,220,455	438,259	4,711,836
Proceeds from endowment contributions	—	—	2,398,474	2,398,474
Bequests transferred to board-designated endowment	5,358,833	—	—	5,358,833
Transfers to board-designated endowment	181,202	—	—	181,202
Appropriations	(1,193,025)	(1,124,621)	—	(2,317,646)
Endowment assets, end of year	\$ 29,218,430	\$ 1,122,845	\$ 29,999,343	\$ 60,340,618

Changes In Endowment Assets For The Fiscal Year Ended August 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 26,125,154	\$ 592,571	\$ 24,961,456	\$ 51,679,181
Investment income (loss):				
Investment income	518,885	257,282	—	776,167
Net realized and unrealized losses	(617,234)	(67,123)	(856,100)	(1,540,457)
Total investment income (loss)	(98,349)	190,159	(856,100)	(764,290)
Proceeds from endowment contributions	—	—	3,057,254	3,057,254
Bequests transferred to board-designated endowment	10,000	—	—	10,000
Appropriations*	(3,218,507)	(755,719)	—	(3,974,226)
Endowment assets, end of year	\$ 22,818,298	\$ 27,011	\$ 27,162,610	\$ 50,007,919

* Appropriations include calculated appropriations under CID's spending policy plus additional appropriations approved by the Board of Directors for capital expenditures.

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires CID to retain as a fund of perpetual duration. There were no underwater endowments at August 31, 2016 or 2015.

Return Objectives And Risk Parameters

CID 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. Endowment assets include those assets of donor-restricted funds that CID must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that assumes a moderate level of investment return. CID expects its endowment funds, over time, to provide an average rate of return of approximately 5% or more annually. Actual returns in any given year may vary from this goal.

Strategies Employed For Achieving Objectives

To satisfy its long-term rate-of-return objectives, CID relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). CID targets a diversified asset allocation that, depending on the particular fund, places a greater emphasis on either equity-based or fixed-income investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy And How The Investment Objectives Relate To Spending Policy

CID has a policy of appropriating for distribution each year an amount computed at 5% of the average value of endowment fund assets for the twelve quarters preceding May 31st. Certain endowed balances are subject to donor-imposed spending thresholds which may be more or less than 5% of the endowment fair value. In addition, certain endowed balances have donor-imposed conditions requiring the reinvestment into the corpus of the endowment investment income earned in excess of the amount calculated for appropriation. CID expects the earnings of the endowment funds to exceed this distribution rate over the long term, but not necessarily in any individual year.

12. Retirement Plan

CID has a defined contribution retirement plan, which covers all employees who have completed one year of service and who have attained the age of 21. After two years of service, participants begin vesting at a rate of 20% per year. During 2016 and 2015, CID made annual contributions to the plan in an amount equal to 4% of each participant's annual compensation. CID's pension expense amounted to \$100,212 and \$85,655 in 2016 and 2015, respectively.

13. Related Party Transactions

During fiscal year 2014, the Board of Directors approved hiring an architectural firm and construction management company to plan and oversee renovations to CID's facilities that would be funded from Centennial Campaign proceeds. One of CID's Board members is the CEO of the construction management company selected. The Finance Committee of the Board utilized a competitive proposal process to review and recommend the construction management company to the full Board. The Board member/CEO did not participate in any vote related to the project. The renovations began in fiscal year 2015. The amount of fixed assets capitalized related to the related party amounted to \$80,675 and \$1,989,600 in 2016 and 2015, respectively. The amount unpaid as of August 31, 2016 and 2015 was \$42,087 and \$147,685, respectively, and is included in accounts payable.

Additionally, during the years ended August 31, 2016 and 2015, CID received approximately \$1,516,000 and \$1,587,000, respectively, in contributions from various Board members and companies for which Board members are executives or owners.

14. Commitments

CID is a nonvoting associate member in the Washington University Medical Center Redevelopment Corporation (the Corporation), a wholly owned subsidiary of Washington University Medical Center. CID has the option and can elect to participate in ventures on a case-by-case basis entered into by the Corporation.

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (*Continued*)

Effective February 20, 2004, CID leases its facilities from Washington University under an agreement that contained an initial term of five years with eight five-year renewal options. CID renewed the lease for a third five-year term on February 20, 2014. Annual facility rent expense was \$497,655 and \$494,534 for the years ended August 31, 2016 and 2015, respectively.

The lease agreement contains a provision which specifies that if bonds assumed by Washington University are refunded or refinanced and the resulting annual debt service is reduced, CID's base rent will be reduced in the same proportion that the annual debt service is reduced.

CID also leases office equipment under noncancellable operating lease agreements which expire from June 2017 through June 2020.

The expected minimum lease payments at August 31, 2016 are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 507,676
2018	501,756
2019	239,243
2020	3,418
	<u>\$ 1,252,093</u>

15. Concentrations Of Risk

At August 31, 2016, approximately \$4,247,000, or 81%, of pledges receivable is related to pledges from five donors. For the year ended August 31, 2016, approximately \$1,341,000, or 47%, of contribution revenue was related to three donors.

At August 31, 2015, approximately \$5,247,000, or 80%, of pledges receivable is related to pledges from five donors. For the year ended August 31, 2015, approximately \$3,850,000, or 82%, of contribution revenue was related to six donors.