
***CENTRAL INSTITUTE
FOR THE DEAF***
FINANCIAL STATEMENTS
AUGUST 31, 2018

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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, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

RubinBrown LLP

December 11, 2018

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF FINANCIAL POSITION

Assets

	August 31,	
	2018	2017
Cash and cash equivalents	\$ 410,093	\$ 226,777
Accounts receivable, net of allowance of \$10,755 and \$546 in 2018 and 2017, respectively (Note 6)	29,744	78,517
Pledges receivable, net (Notes 3 and 15)	924,735	3,056,248
Investments (Notes 4 and 5)	75,303,815	68,145,274
Bequests receivable	171,388	—
Other assets	270,289	208,835
Property and equipment, net (Note 7)	2,388,905	2,433,623
Beneficial interests in perpetual trusts (Notes 5 and 6)	6,596,335	6,400,213
Total Assets	\$ 86,095,304	\$ 80,549,487

Liabilities And Net Assets

Liabilities		
Accounts payable	\$ 101,130	\$ 89,825
Other accrued liabilities	79,728	68,042
Deferred revenue	29,459	45,601
Total Liabilities	210,317	203,468
Net Assets		
Unrestricted:		
Undesignated	1,475,175	1,490,765
Investment in property and equipment	2,388,905	2,433,623
Designated for capital asset acquisition	145,000	160,000
Board-designated endowment (Note 11)	32,788,123	30,753,046
Total Unrestricted	36,797,203	34,837,434
Temporarily restricted (Note 9)	5,368,663	2,954,163
Permanently restricted (Note 10)	43,719,121	42,554,422
Total Net Assets	85,884,987	80,346,019
Total Liabilities And Net Assets	\$ 86,095,304	\$ 80,549,487

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF ACTIVITIES For The Year Ended August 31, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program Revenues				
Tuition and fees, net of \$1,268,026				
in scholarships	\$ 684,722	\$ —	\$ —	\$ 684,722
Audiology services and sales	225,672	—	—	225,672
Professional development services and sales	148,213	—	—	148,213
Other income	42,033	—	—	42,033
Total Program Revenues	1,100,640	—	—	1,100,640
Expenses				
Program Services				
School	4,075,266	—	—	4,075,266
Professional development	474,962	—	—	474,962
Total Program Activities	4,550,228	—	—	4,550,228
Supporting Services				
Management and general	885,110	—	—	885,110
Fundraising	462,405	—	—	462,405
Total Supporting Services	1,347,515	—	—	1,347,515
Total Expenses	5,897,743	—	—	5,897,743
Expenses In Excess Of Program Revenues	(4,797,103)	—	—	(4,797,103)
Public Support And Other Revenues				
Contributions (Notes 13 and 15)	847,468	303,961	175,501	1,326,930
Special events, net of expenses of \$96,044	198,067	57,025	—	255,092
United Way	145,010	72,504	—	217,514
Investment income designated/ appropriated for operations (Notes 4, 6 and 11)	1,313,388	1,742,364	—	3,055,752
Net assets released from restrictions (Note 9)	2,205,412	(2,205,412)	—	—
Total Public Support And Other Revenues	4,709,345	(29,558)	175,501	4,855,288
Increase (Decrease) In Net Assets From Operations	(87,758)	(29,558)	175,501	58,185
Bequests	73,155	864,212	100,000	1,037,367
Change In Value Of Beneficial Interests In Perpetual Trusts (Notes 5 And 6)	—	—	196,122	196,122
Investment Income In Excess Of Amount Designated/Appropriated For Operations (Note 4)	1,974,372	1,579,846	693,076	4,247,294
Increase In Net Assets	1,959,769	2,414,500	1,164,699	5,538,968
Net Assets - Beginning Of Year	34,837,434	2,954,163	42,554,422	80,346,019
Net Assets - End Of Year	\$ 36,797,203	\$ 5,368,663	\$ 43,719,121	\$ 85,884,987

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF ACTIVITIES For The Year Ended August 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Program Revenues				
Tuition and fees, net of \$1,364,786				
in scholarships	\$ 621,764	\$ —	\$ —	\$ 621,764
Audiology services and sales	334,947	—	—	334,947
Professional development services and sales	167,809	—	—	167,809
Other income	67,148	—	—	67,148
Total Program Revenues	1,191,668	—	—	1,191,668
Expenses				
Program Services				
School	4,140,102	—	—	4,140,102
Professional development	540,260	—	—	540,260
Total Program Activities	4,680,362	—	—	4,680,362
Supporting Services				
Management and general	830,558	—	—	830,558
Fundraising	452,124	—	—	452,124
Total Supporting Services	1,282,682	—	—	1,282,682
Total Expenses	5,963,044	—	—	5,963,044
Expenses In Excess Of Program Revenues	(4,771,376)	—	—	(4,771,376)
Public Support And Other Revenues				
Contributions (Notes 13 and 15)	802,110	398,788	281,887	1,482,785
Special events, net of expenses of \$94,306	175,430	84,600	—	260,030
United Way	145,927	72,504	—	218,431
Investment income designated/ appropriated for operations (Notes 4, 6 and 11)	1,246,311	1,551,541	—	2,797,852
Net assets released from restrictions (Note 9)	2,509,212	(2,509,212)	—	—
Total Public Support And Other Revenues	4,878,990	(401,779)	281,887	4,759,098
Increase (Decrease) In Net Assets From Operations	107,614	(401,779)	281,887	(12,278)
Bequests	2,062	—	—	2,062
Change In Value Of Beneficial Interests In Perpetual Trusts (Notes 5 And 6)	—	—	321,186	321,186
Investment Income In Excess Of Amount Designated/Appropriated For Operations (Note 4)	1,353,470	1,480,983	806,545	3,640,998
Increase In Net Assets	1,463,146	1,079,204	1,409,618	3,951,968
Net Assets - Beginning Of Year	33,374,288	1,874,959	41,144,804	76,394,051
Net Assets - End Of Year	\$ 34,837,434	\$ 2,954,163	\$ 42,554,422	\$ 80,346,019

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended August 31, 2018

Expenses	Program Services			Supporting Services		
	School	Professional Development	Total	Management		Total
			Program Services	And General	Fundraising	
Salaries	\$ 2,283,546	\$ 216,257	\$ 2,499,803	\$ 537,751	\$ 306,035	\$ 3,343,589
Employee benefits	337,811	31,992	369,803	79,551	45,273	494,627
Payroll taxes	160,483	15,198	175,681	37,792	21,508	234,981
Total salaries and related expenses	2,781,840	263,447	3,045,287	655,094	372,816	4,073,197
Contract service payments	118,511	41,397	159,908	88,750	31,469	280,127
Costs of hearing aids	71,854	—	71,854	—	—	71,854
Miscellaneous	14,227	16,111	30,338	22,279	8,553	61,170
Occupancy	772,684	43,275	815,959	34,854	23,332	874,145
Office equipment, rental and supplies	15,829	5,217	21,046	5,839	2,120	29,005
Postage and shipping	1,283	9,555	10,838	5,997	2,428	19,263
Professional and consulting fees	—	—	—	30,146	—	30,146
Program expenses	79,313	2,609	81,922	15,949	8,659	106,530
Public relations/advertising	—	32,594	32,594	178	3,800	36,572
Publications	—	49,033	49,033	—	—	49,033
Staff training	25,778	1,522	27,300	4,043	1,964	33,307
Telephone	6,080	591	6,671	1,764	739	9,174
Total Expenses Before Depreciation And Amortization	3,887,399	465,351	4,352,750	864,893	455,880	5,673,523
Depreciation And Amortization	187,867	9,611	197,478	20,217	6,525	224,220
Total Expenses	\$ 4,075,266	\$ 474,962	\$ 4,550,228	\$ 885,110	\$ 462,405	\$ 5,897,743

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended August 31, 2017

Expenses	Program Services			Supporting Services		
	School	Professional Development	Total	Management And General	Fundraising	Total
			Program Services			
Salaries	\$ 2,291,953	\$ 222,353	\$ 2,514,306	\$ 505,084	\$ 292,837	\$ 3,312,227
Employee benefits	344,847	33,455	378,302	75,995	44,060	498,357
Payroll taxes	163,138	15,827	178,965	35,951	20,844	235,760
Total salaries and related expenses	2,799,938	271,635	3,071,573	617,030	357,741	4,046,344
Contract service payments	111,684	88,426	200,110	84,194	26,247	310,551
Costs of hearing aids	139,898	—	139,898	—	—	139,898
Miscellaneous	9,066	18,451	27,517	22,876	9,349	59,742
Occupancy	764,432	42,811	807,243	34,481	23,082	864,806
Office equipment, rental and supplies	20,691	4,969	25,660	7,111	2,228	34,999
Postage and shipping	1,850	9,695	11,545	3,541	2,515	17,601
Professional and consulting fees	—	—	—	28,837	—	28,837
Program expenses	89,518	3,360	92,878	12,574	18,128	123,580
Public relations/advertising	—	34,441	34,441	525	3,838	38,804
Publications	—	55,517	55,517	—	—	55,517
Staff training	21,704	708	22,412	1,827	2,529	26,768
Telephone	5,350	537	5,887	2,197	470	8,554
Total Expenses Before Depreciation And Amortization	3,964,131	530,550	4,494,681	815,193	446,127	5,756,001
Depreciation And Amortization	175,971	9,710	185,681	15,365	5,997	207,043
Total Expenses	\$ 4,140,102	\$ 540,260	\$ 4,680,362	\$ 830,558	\$ 452,124	\$ 5,963,044

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF CASH FLOWS

	For The Years	
	Ended August 31,	
	2018	2017
Cash Flows From Operating Activities		
Increase in net assets	\$ 5,538,968	\$ 3,951,968
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	224,220	207,043
Contributions restricted for capital projects	(43,143)	(222,502)
Contributions restricted for endowment	(275,501)	(281,887)
Increase in value of beneficial interests in perpetual trusts	(196,122)	(321,186)
Net realized gains on investments	(2,171,342)	(1,350,893)
Net unrealized gains on investments	(3,420,545)	(3,510,208)
Donated property and equipment	(11,400)	—
Gain on sale of donated securities	—	(1,129)
Changes in assets and liabilities:		
Accounts receivable	48,773	10,521
Bequests receivable	(71,388)	—
Other assets	(61,454)	14,557
Pledges receivable	(45,175)	30,266
Accounts payable	11,305	(96,396)
Other accrued liabilities	11,686	17,416
Deferred revenue	(16,142)	7,382
Net Cash Used In Operating Activities	(477,260)	(1,545,048)
Cash Flows From Investing Activities		
Purchases of property and equipment	(168,102)	(33,645)
Purchases of investments	(14,481,993)	(12,916,594)
Proceeds from sale of investments	12,915,339	11,678,620
Net Cash Used In Investing Activities	(1,734,756)	(1,271,619)
Cash Flows From Financing Activities		
Proceeds from contributions restricted for capital projects	105,300	311,465
Proceeds from contributions restricted for endowment	2,290,032	2,525,520
Net Cash Provided By Financing Activities	2,395,332	2,836,985
Net Increase In Cash And Cash Equivalents	183,316	20,318
Cash And Cash Equivalents - Beginning Of Year	226,777	206,459
Cash And Cash Equivalents - End Of Year	\$ 410,093	\$ 226,777

CENTRAL INSTITUTE FOR THE DEAF

NOTES TO FINANCIAL STATEMENTS

August 31, 2018 And 2017

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 in excess of amount designated/appropriated for operations, bequests 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 August 31, 2018, approximately \$244,000 of cash was over the FDIC insured amount.

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 2018 or 2017.

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 school 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

CID's professional development services include:

- 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

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.

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 \$36,572 and \$38,804 in 2018 and 2017, respectively.

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Notes To Financial Statements (Continued)

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 2014 and later remain subject to examination by taxing authorities.

Subsequent Events

Management has evaluated subsequent events through the date the financial statements are available for issue, which is the date of the Independent Auditors' Report.

3. Pledges Receivable

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

	2018			
	Capital	Operations And Programs	Endowment	Total
Less than one year	\$ 62,300	\$ 98,504	\$ 601,725	\$ 762,529
One to five years	7,000	52,000	133,000	192,000
Five years or more	—	—	11,000	11,000
	69,300	150,504	745,725	965,529
Less: Unamortized discount	281	3,058	15,971	19,310
Less: Allowance for doubtful accounts	—	—	21,484	21,484
	\$ 69,019	\$ 147,446	\$ 708,270	\$ 924,735

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (Continued)

	2017			
	Operations And			Total
	Capital	Programs	Endowment	
Less than one year	\$ 63,700	\$ 100,039	\$ 2,089,368	\$ 2,253,107
One to five years	70,100	3,000	773,327	846,427
Five years or more	—	—	22,000	22,000
	133,800	103,039	2,884,695	3,121,534
Less: Unamortized discount	2,124	268	50,410	52,802
Less: Allowance for doubtful accounts	500	500	11,484	12,484
	\$ 131,176	\$ 102,271	\$ 2,822,801	\$ 3,056,248

During 2018 and 2017, discount rates ranging from 2.00% to 3.444% were used to record pledges receivable at the present value of the future cash flows.

4. Investments

Investments by net asset class are summarized as follows:

	2018	2017
Unrestricted - undesignated	\$ 903,978	\$ 1,203,503
Unrestricted - designated for capital asset acquisition	145,000	160,000
Unrestricted - Board-designated endowment (Note 11)	32,788,123	30,753,046
Temporarily restricted	968,524	116,888
Temporarily restricted - accumulated unspent earnings on endowment funds (Note 11)	4,183,674	2,580,429
Permanently restricted (Notes 10 and 11)	36,314,516	33,331,408
	\$ 75,303,815	\$ 68,145,274

Investment income consists of the following:

	2018	2017
Interest and dividends	\$ 1,644,375	\$ 1,521,845
Investment expenses	(201,442)	(182,239)
Distributions from perpetual trusts	268,226	238,143
Realized gains on investments	2,171,342	1,350,893
Unrealized gains on investments	3,420,545	3,510,208
	\$ 7,303,046	\$ 6,438,850

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (*Continued*)

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 is presented within the statement of activities as follows:

	<u>2018</u>	<u>2017</u>
Investment income designated/appropriated for operations	\$ 3,055,752	\$ 2,797,852
Investment income in excess of amount designated/ appropriated for operations	4,247,294	3,640,998
	<u>\$ 7,303,046</u>	<u>\$ 6,438,850</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.

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Notes To Financial Statements *(Continued)*

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

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

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

	2018			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 1,297,525	\$ —	\$ —	\$ 1,297,525
Common stock	30,611,942	—	—	30,611,942
Exchange traded funds	8,501,044	—	—	8,501,044
Domestic mutual funds	7,596,968	—	—	7,596,968
International equity mutual funds	3,009,031	—	—	3,009,031
Fixed income mutual funds	9,385,504	—	—	9,385,504
Mortgage-backed securities	—	2,420,545	—	2,420,545
Corporate debt obligations	—	7,316,843	—	7,316,843
Treasury securities	1,283,860	—	—	1,283,860
Government agency securities	—	765,010	—	765,010
Asset-backed securities	—	1,426,228	—	1,426,228
Taxable municipal bonds	—	968,052	—	968,052
Diversifiable taxable mutual funds	149,563	—	—	149,563
Tax-exempt revenue securities	—	14,983	—	14,983
Real estate mutual fund	556,717	—	—	556,717
	\$ 62,392,154	\$ 12,911,661	\$ —	\$ 75,303,815
Beneficial interests in perpetual trusts	\$ —	\$ —	\$ 6,596,335	\$ 6,596,335

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements *(Continued)*

	2017			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 973,447	\$ —	\$ —	\$ 973,447
Common stock	26,678,623	—	—	26,678,623
Exchange traded funds	7,812,385	—	—	7,812,385
Domestic mutual funds	6,213,531	—	—	6,213,531
International equity mutual funds	2,755,664	—	—	2,755,664
Fixed income mutual funds	8,813,914	—	—	8,813,914
Mortgage-backed securities	—	1,802,490	—	1,802,490
Corporate debt obligations	—	7,343,835	—	7,343,835
Treasury securities	1,405,810	—	—	1,405,810
Government agency securities	—	833,469	—	833,469
Asset-backed securities	—	1,853,388	—	1,853,388
Taxable municipal bonds	—	994,029	—	994,029
Tax-exempt revenue securities	—	107,925	—	107,925
Real estate mutual fund	556,764	—	—	556,764
	\$ 55,210,138	\$ 12,935,136	\$ —	\$ 68,145,274
Beneficial interests in perpetual trusts	\$ —	\$ —	\$ 6,400,213	\$ 6,400,213

At August 31, 2018 and 2017, 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, and Tax-Exempt Revenue Securities: 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.

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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, 2018 and 2017:

	Beneficial Interests In Perpetual Trusts
Balance - September 1, 2016	\$ 6,079,027
Change in value of beneficial interests in perpetual trusts	<u>321,186</u>
Balance - August 31, 2017	6,400,213
Change in value of beneficial interests in perpetual trusts	<u>196,122</u>
Balance - August 31, 2018	<u><u>\$ 6,596,335</u></u>

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 2018 and 2017, 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 \$6,596,335 and \$6,400,213 at August 31, 2018 and 2017, respectively. The change in value of perpetual trusts was an increase of \$196,122 and \$321,186 during 2018 and 2017, respectively.

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (Continued)

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

	<u>2018</u>	<u>2017</u>
General operations	\$ 960,285	\$ 901,844
School scholarships	2,782,930	2,722,471
School programs	1,037,633	978,510
Multiple purposes	1,815,487	1,797,388
	<u>\$ 6,596,335</u>	<u>\$ 6,400,213</u>

Distributions from perpetual trusts of \$268,226 and \$238,143 in 2018 and 2017, respectively, are designated for the restricted purposes noted above and included in investment income designated/appropriated for operations on the statement of activities (Note 4). The amount unpaid as of August 31, 2017 was \$23,399 and was included in accounts receivable on the statement of financial position. No amount was unpaid as of August 31, 2018.

7. Property And Equipment

Property and equipment consists of the following:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 2,890,063	\$ 2,890,063
Furniture and fixtures	1,133,198	1,150,943
Equipment	318,717	285,837
	<u>4,341,978</u>	<u>4,326,843</u>
Less: Accumulated depreciation and amortization	<u>1,953,073</u>	<u>1,893,220</u>
	<u>\$ 2,388,905</u>	<u>\$ 2,433,623</u>

Depreciation and amortization charged to expense amounted to \$224,220 in 2018 and \$207,043 in 2017.

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 at August 31, 2018 and 2017. 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, 2018 is 4.07%. Amounts outstanding on the line of credit are due in January 2019. Upon expiration, CID is expected to renew the line of credit under similar terms.

No borrowings were made and no interest was incurred in 2018 or 2017. There were no outstanding borrowings under the line of credit at August 31, 2018 or 2017.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes:

	<u>2018</u>	<u>2017</u>
General operations	\$ 2,369,932	\$ 1,488,475
Capital additions	69,019	131,176
School programs	1,668,828	632,424
School scholarships	1,260,884	702,088
	<u>\$ 5,368,663</u>	<u>\$ 2,954,163</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>2018</u>	<u>2017</u>
General operations	\$ 677,128	\$ 585,835
Capital additions	116,700	324,965
School programs	591,736	806,159
School scholarships	819,848	792,253
	<u>\$ 2,205,412</u>	<u>\$ 2,509,212</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>2018</u>	<u>2017</u>
General operations	\$ 14,561,059	\$ 14,444,290
School programs	2,724,654	2,664,145
School scholarships	7,880,498	7,625,971
Multiple purposes	18,552,910	17,820,016
	<u>\$ 43,719,121</u>	<u>\$ 42,554,422</u>

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

	<u>2018</u>	<u>2017</u>
Investments (Note 4)	\$ 36,314,516	\$ 33,331,408
Bequest receivable	100,000	—
Pledges receivable (Note 3)	708,270	2,822,801
Beneficial interests in perpetual trusts (Note 6)	6,596,335	6,400,213
	<u>\$ 43,719,121</u>	<u>\$ 42,554,422</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, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 4,183,674	\$ 36,314,516	\$ 40,498,190
Board-designated endowment funds	32,788,123	—	—	32,788,123
	\$ 32,788,123	\$ 4,183,674	\$ 36,314,516	\$ 73,286,313

CENTRAL INSTITUTE FOR THE DEAFNotes To Financial Statements (*Continued*)**Endowment Asset Composition By Type Of Fund As Of August 31, 2017:**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 2,580,429	\$ 33,331,408	\$ 35,911,837
Board-designated endowment funds	30,753,046	—	—	30,753,046
	<u>\$ 30,753,046</u>	<u>\$ 2,580,429</u>	<u>\$ 33,331,408</u>	<u>\$ 66,664,883</u>

Changes In Endowment Assets For The Fiscal Year Ended August 31, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 30,753,046	\$ 2,580,429	\$ 33,331,408	\$ 66,664,883
Investment income:				
Investment income	588,166	854,767	—	1,442,933
Net realized and unrealized gains	2,699,594	2,199,217	693,076	5,591,887
Total investment income	<u>3,287,760</u>	<u>3,053,984</u>	<u>693,076</u>	<u>7,034,820</u>
Proceeds from endowment contributions	—	—	2,290,032	2,290,032
Transfers to board- designated endowment	60,705	—	—	60,705
Appropriations	<u>(1,313,388)</u>	<u>(1,450,739)</u>	<u>—</u>	<u>(2,764,127)</u>
Endowment assets, end of year	<u>\$ 32,788,123</u>	<u>\$ 4,183,674</u>	<u>\$ 36,314,516</u>	<u>\$ 73,286,313</u>

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (Continued)

Changes In Endowment Assets For The Fiscal Year Ended August 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 29,218,430	\$ 1,122,845	\$ 29,999,343	\$ 60,340,618
Investment income:				
Investment income	586,046	753,560	—	1,339,606
Net realized and unrealized gains	2,013,735	2,040,821	806,545	4,861,101
Total investment income	2,599,781	2,794,381	806,545	6,200,707
Proceeds from endowment contributions	—	—	2,525,520	2,525,520
Transfers to board-designated endowment	181,146	—	—	181,146
Appropriations	(1,246,311)	(1,336,797)	—	(2,583,108)
Endowment assets, end of year	\$ 30,753,046	\$ 2,580,429	\$ 33,331,408	\$ 66,664,883

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, 2018 or 2017.

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 2018 and 2017, 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 \$117,547 and \$115,838 in 2018 and 2017, respectively.

13. Related Party Transactions

During the years ended August 31, 2018 and 2017, CID received approximately \$1,434,000 and \$1,473,000, respectively, in contributions from various Board members and companies of 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.

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 for the years ended August 31, 2018 and 2017.

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 February 2019 through June 2020.

The expected minimum lease payments at August 31, 2018 are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 247,550
2020	8,834
	<u>\$ 256,384</u>

15. Concentrations Of Risk

At August 31, 2018, approximately \$443,000, or 48%, of pledges receivable is related to pledges from two donors. For the year ended August 31, 2018, approximately \$1,334,000 or 47%, of contribution revenue (including special events, United Way funding and bequests) was attributable to three donors.

At August 31, 2017, approximately \$1,897,000 or 62%, of pledges receivable is related to pledges from three donors. For the year ended August 31, 2017, approximately \$768,000, or 21%, of contribution revenue (including special events, United Way funding and bequests) was attributable to three donors.