
***CENTRAL INSTITUTE
FOR THE DEAF***
FINANCIAL STATEMENTS
AUGUST 31, 2019

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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, 2019 and 2018, 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, 2019 and 2018, 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 9, 2019

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF FINANCIAL POSITION

Assets

	August 31,	
	2019	2018
Cash and cash equivalents	\$ 341,629	\$ 410,093
Accounts receivable, net of allowance of \$2,335 and \$10,755 in 2019 and 2018, respectively (Note 6)	41,246	29,744
Pledges receivable, net (Notes 3 and 14)	516,942	924,735
Investments (Notes 4 and 5)	76,719,066	75,303,815
Bequests receivable	400,000	171,388
Other assets	249,515	270,289
Property and equipment, net (Note 7)	2,257,054	2,388,905
Beneficial interests in perpetual trusts (Notes 5 and 6)	6,362,233	6,596,335
Total Assets	\$ 86,887,685	\$ 86,095,304

Liabilities And Net Assets

Liabilities

Accounts payable (Note 13)	\$ 286,261	\$ 101,130
Other accrued liabilities	93,083	79,728
Deferred revenue	19,356	29,459
Total Liabilities	398,700	210,317

Net Assets

Without Donor Restrictions		
Undesignated	1,552,324	1,475,175
Investment in property and equipment	2,257,054	2,388,905
Designated for capital asset acquisition	266,311	145,000
Board-designated endowment (Note 10)	33,586,355	32,788,123
Total Without Donor Restrictions	37,662,044	36,797,203
With Donor Restrictions		
Purpose and time restrictions (Note 9)	5,493,293	5,368,663
Perpetual in nature (Note 9)	43,333,648	43,719,121
Total With Donor Restrictions	48,826,941	49,087,784
Total Net Assets	86,488,985	85,884,987
Total Liabilities And Net Assets	\$ 86,887,685	\$ 86,095,304

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF ACTIVITIES For The Year Ended August 31, 2019

	Without Donor Restrictions	With Donor Restrictions			Total
		Purpose And Time Restrictions	Perpetual In Nature	Total With Donor Restrictions	
Program Revenues					
Tuition and fees, net of \$1,124,675 in scholarships	\$ 642,726	\$ —	\$ —	\$ —	\$ 642,726
Audiology services and sales	274,083	—	—	—	274,083
Professional development services and sales	222,696	—	—	—	222,696
Other income	23,926	—	—	—	23,926
Total Program Revenues	1,163,431	—	—	—	1,163,431
Expenses					
Program Services					
School	4,150,023	—	—	—	4,150,023
Professional development	544,081	—	—	—	544,081
Total Program Activities	4,694,104	—	—	—	4,694,104
Supporting Services					
Management and general	1,006,251	—	—	—	1,006,251
Fundraising	508,927	—	—	—	508,927
Total Supporting Services	1,515,178	—	—	—	1,515,178
Total Expenses	6,209,282	—	—	—	6,209,282
Expenses In Excess Of Program Revenues	(5,045,851)	—	—	—	(5,045,851)
Public Support And Other Revenues					
Contributions (Notes 12 and 14)	930,404	520,844	115,573	636,417	1,566,821
Special events, net of expenses of \$90,322	242,544	102,710	—	102,710	345,254
United Way	141,362	70,684	—	70,684	212,046
Investment income designated/ appropriated for operations (Notes 4, 6 and 10)	1,390,893	1,933,305	—	1,933,305	3,324,198
Net assets released from restrictions (Note 9)	2,407,601	(2,407,601)	—	(2,407,601)	—
Total Public Support And Other Revenues	5,112,804	219,942	115,573	335,515	5,448,319
Increase In Net Assets From Operations	66,953	219,942	115,573	335,515	402,468
Bequests	420,477	—	—	—	420,477
Change In Value Of Beneficial Interests In Perpetual Trusts (Notes 5 And 6)	—	—	(234,102)	(234,102)	(234,102)
Investment Income (Loss) In Excess Of Amount Designated/Appropriated For Operations (Note 4)	377,411	(95,312)	(266,944)	(362,256)	15,155
Increase (Decrease) In Net Assets	864,841	124,630	(385,473)	(260,843)	603,998
Net Assets - Beginning Of Year	36,797,203	5,368,663	43,719,121	49,087,784	85,884,987
Net Assets - End Of Year	\$ 37,662,044	\$ 5,493,293	\$ 43,333,648	\$ 48,826,941	\$ 86,488,985

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF ACTIVITIES For The Year Ended August 31, 2018

	Without Donor Restrictions	With Donor Restrictions			Total With Donor Restrictions	Total
		Purpose And Time Restrictions	Perpetual In Nature	Restrictions		
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 12 and 14)	847,468	303,961	175,501	479,462	1,326,930	
Special events, net of expenses of \$96,044	198,067	57,025	—	57,025	255,092	
United Way	145,010	72,504	—	72,504	217,514	
Investment income designated/ appropriated for operations (Notes 4, 6 and 10)	1,313,388	1,742,364	—	1,742,364	3,055,752	
Net assets released from restrictions (Note 9)	2,205,412	(2,205,412)	—	(2,205,412)	—	
Total Public Support And Other Revenues	4,709,345	(29,558)	175,501	145,943	4,855,288	
Increase (Decrease) In Net Assets From Operations	(87,758)	(29,558)	175,501	145,943	58,185	
Bequests	73,155	864,212	100,000	964,212	1,037,367	
Change In Value Of Beneficial Interests In Perpetual Trusts (Notes 5 And 6)	—	—	196,122	196,122	196,122	
Investment Income In Excess Of Amount Designated/Appropriated For Operations (Note 4)	1,974,372	1,579,846	693,076	2,272,922	4,247,294	
Increase In Net Assets	1,959,769	2,414,500	1,164,699	3,579,199	5,538,968	
Net Assets - Beginning Of Year	34,837,434	2,954,163	42,554,422	45,508,585	80,346,019	
Net Assets - End Of Year	\$ 36,797,203	\$ 5,368,663	\$ 43,719,121	\$ 49,087,784	\$ 85,884,987	

CENTRAL INSTITUTE FOR THE DEAF

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended August 31, 2019

Expenses	Program Services			Supporting Services		
	School	Professional Development	Total	Management And General	Fundraising	Total
			Program Services			
Salaries	\$ 2,208,014	\$ 244,467	\$ 2,452,481	\$ 589,144	\$ 335,606	\$ 3,377,231
Employee benefits	377,518	41,798	419,316	100,730	57,381	577,427
Payroll taxes	154,218	17,075	171,293	41,149	23,440	235,882
Total salaries and related expenses	2,739,750	303,340	3,043,090	731,023	416,427	4,190,540
Contract service payments	172,187	61,989	234,176	92,532	27,848	354,556
Costs of hearing aids	90,764	—	90,764	—	—	90,764
Miscellaneous	10,383	16,287	26,670	21,631	11,380	59,681
Occupancy	780,346	46,732	827,078	35,679	23,650	886,407
Office equipment, rental and supplies	17,727	6,051	23,778	10,903	2,392	37,073
Postage and shipping	1,472	13,554	15,026	6,404	2,371	23,801
Professional and consulting fees	—	—	—	36,842	—	36,842
Program expenses	90,285	2,620	92,905	16,718	12,272	121,895
Public relations/advertising	—	900	900	26,598	4,054	31,552
Publications	—	77,050	77,050	—	—	77,050
Staff training	17,891	1,356	19,247	1,875	403	21,525
Unrelated business income taxes	—	—	—	12,464	—	12,464
Telephone	6,819	669	7,488	1,885	837	10,210
Total Expenses Before Depreciation And Amortization	3,927,624	530,548	4,458,172	994,554	501,634	5,954,360
Depreciation And Amortization	222,399	13,533	235,932	11,697	7,293	254,922
Total Expenses	\$ 4,150,023	\$ 544,081	\$ 4,694,104	\$ 1,006,251	\$ 508,927	\$ 6,209,282

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 And General	Fundraising	Total
			Program Services			
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 CASH FLOWS

	For The Years	
	Ended August 31,	
	2019	2018
Cash Flows From Operating Activities		
Increase in net assets	\$ 603,998	\$ 5,538,968
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	254,922	224,220
Contributions restricted for capital projects	(53,672)	(43,143)
Contributions restricted for endowment	(115,573)	(275,501)
(Increase) decrease in value of beneficial interests in perpetual trusts	234,102	(196,122)
Net realized gains on investments	(2,723,060)	(2,171,342)
Net unrealized (gain) loss on investments	1,525,402	(3,420,545)
Donated property and equipment	—	(11,400)
Changes in assets and liabilities:		
Accounts receivable	(11,502)	48,773
Bequests receivable	(328,612)	(71,388)
Other assets	20,774	(61,454)
Pledges receivable	25,971	(45,175)
Accounts payable	165,366	11,305
Other accrued liabilities	13,355	11,686
Deferred revenue	(10,103)	(16,142)
Net Cash Used In Operating Activities	(398,632)	(477,260)
Cash Flows From Investing Activities		
Purchases of property and equipment	(103,306)	(168,102)
Purchases of investments	(29,910,116)	(14,481,993)
Proceeds from sale of investments	29,692,523	12,915,339
Net Cash Used In Investing Activities	(320,899)	(1,734,756)
Cash Flows From Financing Activities		
Proceeds from contributions restricted for capital projects	109,750	105,300
Proceeds from contributions restricted for endowment	541,317	2,290,032
Net Cash Provided By Financing Activities	651,067	2,395,332
Net Increase (Decrease) In Cash And Cash Equivalents	(68,464)	183,316
Cash And Cash Equivalents - Beginning Of Year	410,093	226,777
Cash And Cash Equivalents - End Of Year	\$ 341,629	\$ 410,093
Supplemental Disclosure Of Cash Flow Information		
Property and equipment acquisitions included		
in accounts payable	\$ 19,765	\$ —
Taxes paid	12,464	—

CENTRAL INSTITUTE FOR THE DEAF

NOTES TO FINANCIAL STATEMENTS

August 31, 2019 And 2018

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 empowers families and professionals in St. Louis and worldwide to help children reach 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 classes of net assets:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of management and the Board of Directors.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of CID or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

New Accounting Standard Implemented

As of September 1, 2018, CID implemented Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. In accordance with the ASU, the statement of financial position presents two classes of net assets, rather than the previously required three classes. The two classes are “Net assets without donor restrictions” (previously “Unrestricted” net assets) and “Net assets with donor restrictions” (previously “Temporarily” and “Permanently” restricted net assets). The ASU also requires information concerning liquidity and presentation of expenses by both functional and natural classifications.

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, 2019, approximately \$147,000 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.

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.

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 2019 or 2018.

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.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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,
- 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, audiologists and other related professionals.

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.

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (*Continued*)

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.

Functional Expense Allocation

The statement of functional expenses presents expenses by function and natural classification. Expenses directly attributable to a specific functional area of CID are reported as specific to that functional area. Expenses that benefit multiple functional or program areas have been allocated across programs and other supporting services based on personnel time studies and square footage.

See summary below for specific allocation methods used for various expenses:

<u>Natural Category</u>	<u>Allocation Methodology</u>
Salaries and related expenses	Personnel time studies
Occupancy	Square footage
Depreciation and amortization	Direct charge and square footage

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.

As a result of the Tax Cuts and Job Act, CID had unrelated business income tax expense of \$12,464 in 2019 related to parking benefits paid for employees.

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (Continued)

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:

	2019			
	Capital	Operations And Programs	Endowment	Total
Less than one year	\$ 12,000	\$ 96,684	\$ 317,700	\$ 426,384
One to five years	1,000	26,000	89,000	116,000
	13,000	122,684	406,700	542,384
Less: Unamortized discount	59	1,209	4,174	5,442
Less: Allowance for doubtful accounts	—	—	20,000	20,000
	\$ 12,941	\$ 121,475	\$ 382,526	\$ 516,942

	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

During 2019 and 2018, discount rates ranging from 2.00% to 3.444% 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>2019</u>	<u>2018</u>
Without Donor Restrictions		
Undesignated	\$ 1,320,679	\$ 903,978
Designated for capital asset acquisition	266,311	145,000
Board-designated endowment (Note 10)	33,186,355	32,788,123
With Donor Restrictions		
Purpose and time restricted	1,270,515	968,524
Accumulated unspent earnings on endowment funds (Note 10)	4,086,317	4,183,674
Perpetual in nature (Notes 9 and 10)	36,588,889	36,314,516
	<u>\$ 76,719,066</u>	<u>\$ 75,303,815</u>

Investment income consists of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 2,052,653	\$ 1,644,375
Investment expenses	(204,726)	(201,442)
Distributions from perpetual trusts	293,768	268,226
Realized gains on investments	2,723,060	2,171,342
Unrealized gains (losses) on investments	(1,525,402)	3,420,545
	<u>\$ 3,339,353</u>	<u>\$ 7,303,046</u>

CID established an investment spending policy whereby up to 5% of the 12-quarter average market value, computed using May 31 as the ending month, of the perpetual in nature 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>2019</u>	<u>2018</u>
Investment income designated/appropriated for operations	\$ 3,324,198	\$ 3,055,752
Investment income in excess of amount designated/appropriated for operations	15,155	4,247,294
	<u>\$ 3,339,353</u>	<u>\$ 7,303,046</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:

	2019			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 838,064	\$ —	\$ —	\$ 838,064
Common stock	26,700,121	—	—	26,700,121
Exchange traded funds	9,525,283	—	—	9,525,283
Domestic mutual funds	6,604,299	—	—	6,604,299
International equity mutual funds	2,520,739	—	—	2,520,739
Fixed income mutual funds	10,869,642	—	—	10,869,642
Mortgage-backed securities	—	2,705,544	—	2,705,544
Corporate debt obligations	—	8,739,627	—	8,739,627
Treasury securities	2,310,926	—	—	2,310,926
Government agency securities	—	721,272	—	721,272
Asset-backed securities	—	892,374	—	892,374
Taxable municipal bonds	—	1,577,389	—	1,577,389
Diversifiable taxable mutual funds	1,190,340	—	—	1,190,340
Tax-exempt revenue securities	—	15,258	—	15,258
Real estate mutual fund	1,508,188	—	—	1,508,188
	\$ 62,067,602	\$ 14,651,464	\$ —	\$ 76,719,066
Beneficial interests in perpetual trusts	\$ —	\$ —	\$ 6,362,233	\$ 6,362,233

	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*)

At August 31, 2019 and 2018, 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.

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, 2019 and 2018:

	Beneficial Interests In Perpetual Trusts
Balance - September 1, 2017	\$ 6,400,213
Change in value of beneficial interests in perpetual trusts	<u>196,122</u>
Balance - August 31, 2018	6,596,335
Change in value of beneficial interests in perpetual trusts	<u>(234,102)</u>
Balance - August 31, 2019	<u><u>\$ 6,362,233</u></u>

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Notes To Financial Statements (*Continued*)

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 2019 and 2018, 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 purpose restricted based upon the donors' restrictions for utilization. The principal of each trust is not available to CID. CID has recorded the pledges receivable at the present value of the future cash flows from the trusts and has recorded these as perpetual in nature net assets 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 \$6,362,233 and \$6,596,335 at August 31, 2019 and 2018, respectively. The change in value of perpetual trusts was a decrease of \$234,102 and an increase of \$196,122 during 2019 and 2018, respectively.

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

	<u>2019</u>	<u>2018</u>
General operations	\$ 901,131	\$ 960,285
School scholarships	2,725,267	2,782,930
School programs	995,495	1,037,633
Multiple purposes	1,740,340	1,815,487
	<u>\$ 6,362,233</u>	<u>\$ 6,596,335</u>

Distributions from perpetual trusts of \$293,768 and \$268,226 in 2019 and 2018, 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, 2019 was \$2,045 and was included in accounts receivable on the statement of financial position. No amount was unpaid as of August 31, 2018.

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (Continued)

7. Property And Equipment

Property and equipment consists of the following:

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 2,890,063	\$ 2,890,063
Furniture and fixtures	1,126,584	1,133,198
Equipment	347,868	318,717
	<u>4,364,515</u>	<u>4,341,978</u>
Less: Accumulated depreciation and amortization	2,107,461	1,953,073
	<u>\$ 2,257,054</u>	<u>\$ 2,388,905</u>

8. Line Of Credit

CID has a bank line of credit with maximum borrowings of \$1,500,000 at August 31, 2019 and 2018. 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, 2019 is 4.19%. Amounts outstanding on the line of credit are due in January 2020. Upon expiration, CID is expected to renew the line of credit under similar terms.

No borrowings were made and no interest was incurred in 2019 or 2018. There were no outstanding borrowings under the line of credit at August 31, 2019 or 2018.

9. Net Assets With Donor Restrictions

Net assets with purpose and time restrictions are restricted for the following:

	<u>2019</u>	<u>2018</u>
General operations	\$ 2,558,929	\$ 2,369,932
Capital additions	12,941	69,019
School programs	1,659,859	1,668,828
School scholarships	1,261,564	1,260,884
	<u>\$ 5,493,293</u>	<u>\$ 5,368,663</u>

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (Continued)

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>2019</u>	<u>2018</u>
General operations	\$ 773,426	\$ 677,128
Capital additions	109,750	116,700
School programs	665,727	591,736
School scholarships	858,698	819,848
	<u>\$ 2,407,601</u>	<u>\$ 2,205,412</u>

Net assets with perpetual in nature restrictions are restricted to income generation for the following purposes:

	<u>2019</u>	<u>2018</u>
General operations	\$ 14,580,903	\$ 14,561,059
School programs	2,718,198	2,724,654
School scholarships	7,842,186	7,880,498
Multiple purposes	18,192,361	18,552,910
	<u>\$ 43,333,648</u>	<u>\$ 43,719,121</u>

Net assets with perpetual in nature restrictions are reflected within the statement of financial position as:

	<u>2019</u>	<u>2018</u>
Investments (Note 4)	\$ 36,588,889	\$ 36,314,516
Bequest receivable	—	100,000
Pledges receivable (Note 3)	382,526	708,270
Beneficial interests in perpetual trusts (Note 6)	6,362,233	6,596,335
	<u>\$ 43,333,648</u>	<u>\$ 43,719,121</u>

10. 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 perpetual in nature net assets (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor-restricted 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 perpetual in nature net assets is classified as unappropriated endowment earnings 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.

CID has a policy that permits prudent spending from underwater endowments, unless otherwise precluded by donor intent or relevant laws and regulations

Endowment Asset Composition By Type Of Fund As Of August 31, 2019:

	Without Donor Restrictions	With Donor Restrictions		Total
		Unappropriated Endowment Earnings	Perpetual In Nature	
Donor-restricted endowment funds	\$ —	\$ 4,086,317	\$ 36,588,889	\$ 40,675,206
Board-designated endowment funds	33,186,355	—	—	33,186,355
	<u>\$ 33,186,355</u>	<u>\$ 4,086,317</u>	<u>\$ 36,588,889</u>	<u>\$ 73,861,561</u>

CENTRAL INSTITUTE FOR THE DEAFNotes To Financial Statements (*Continued*)**Endowment Asset Composition By Type Of Fund As Of August 31, 2018:**

	Without Donor Restrictions	With Donor Restrictions		Total
		Unappropriated Endowment Earnings	Perpetual In Nature	
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

Changes In Endowment Assets For The Fiscal Year Ended August 31, 2019:

	Without Donor Restrictions	With Donor Restrictions		Total
		Unappropriated Endowment Earnings	Perpetual In Nature	
Endowment assets, beginning of year	\$ 32,788,123	\$ 4,183,674	\$ 36,314,516	\$ 73,286,313
Investment income:				
Investment income	752,864	1,095,063	—	1,847,927
Net realized and unrealized gain (losses)	1,015,440	449,162	(266,944)	1,197,658
Total investment income	1,768,304	1,544,225	(266,944)	3,045,585
Proceeds from endowment contributions	—	—	541,317	541,317
Transfers to board- designated endowment	20,821	—	—	20,821
Appropriations	(1,390,893)	(1,641,582)	—	(3,032,475)
Endowment assets, end of year	\$ 33,186,355	\$ 4,086,317	\$ 36,588,889	\$ 73,861,561

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (Continued)

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

	Without Donor Restrictions	With Donor Restrictions		Total
		Unappropriated Endowment Earnings	Perpetual In Nature	
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	3,287,760	3,053,984	693,076	7,034,820
Proceeds from endowment contributions	—	—	2,290,032	2,290,032
Transfers to board- designated endowment	60,705	—	—	60,705
Appropriations	(1,313,388)	(1,450,739)	—	(2,764,127)
Endowment assets, end of year	\$ 32,788,123	\$ 4,183,674	\$ 36,314,516	\$ 73,286,313

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, 2019 or 2018.

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 up to 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.

11. 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 2019 and 2018, 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 \$121,882 and \$117,547 in 2019 and 2018, respectively.

12. Related Party Transactions

During the years ended August 31, 2019 and 2018, CID received approximately \$666,000 and \$1,434,000, respectively, in contributions from various Board members and companies of which Board members are executives or owners.

13. Commitments And Contingencies

Lease 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 fourth five-year term on February 20, 2019. Annual facility rent expense was \$497,655 for the years ended August 31, 2019 and 2018.

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 through June 2020.

The expected minimum lease payments at August 31, 2019 are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 506,449
2021	497,655
2022	497,655
2023	497,655
2024	497,655
Thereafter	497,655
	<u>\$ 2,994,724</u>

Self-Insurance Program

Starting in 2019, CID utilizes a combination of excess insurance coverage and self-insurance programs for employee health insurance. CID has an accrual of approximately \$75,000 for employee health insurance to cover the self-insured portion of this risk based on known facts and historical trends. This amount is included in accounts payable on the statement of financial position. Management believes that this accrual is adequate and the ultimate resolution of this matter will not have a material adverse effect on the financial position of CID.

14. Concentrations Of Risk

At August 31, 2019, approximately \$421,000, or 81%, of pledges receivable is related to pledges from three donors. For the year ended August 31, 2019, approximately \$1,262,000 or 50%, of contribution revenue (including special events, United Way funding and bequests) was attributable to four donors.

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.

CENTRAL INSTITUTE FOR THE DEAF

Notes To Financial Statements (*Continued*)

15. Liquidity And Availability Of Financial Assets

CID's assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and cash equivalents	\$ 341,629
Accounts receivable, net	41,246
Pledges receivable, net	516,942
Investments	76,719,066
Bequest receivable	400,000
Total financial assets	<u>78,018,883</u>
Less amounts not available to be used within one year:	
Pledges receivable with donor restrictions	420,863
Investments with donor purpose restrictions	40,075,224
Investments designated by the Board for specific purposes	31,962,521
Bequest receivable designated by the Board for endowment	400,000
Total financial assets not available to be used within one year	<u>72,858,608</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,160,275</u>

CID monitors liquidity required to meet is operating needs and other contractual commitments, while also striving to maximize the investments of its available funds. CID has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and a line of credit (Note 8).

For purposes of analyzing resources available to meet general expenditures over a 12-month period, CID considers all expenditures related to program and supporting activities. In addition to financial assets available to meet general expenditures within one year, CID operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. If necessary, the Board would undesignate investments to meet cash flow needs.