

Audited Financial Statements

Texas School for the Deaf Foundation

*Fiscal Year Ended August 31, 2010
with Report of Independent Auditors*

Texas School for the Deaf Foundation

Audited Financial Statements

Fiscal Year Ended August 31, 2010

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Reynolds & Franke, PC

CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

To the Board of Directors
Texas School for the Deaf Foundation
Austin, Texas

We have audited the accompanying statement of financial position of the Texas School for the Deaf Foundation (the Foundation) as of August 31, 2010, and the related statements of activities and cash flows for the fiscal year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Texas School for the Deaf Foundation as of August 31, 2010, and the changes in its net assets and cash flows for the fiscal year then ended in conformity with generally accepted accounting principles in the United States of America.

Reynolds & Franke, PC

February 15, 2011

Financial Statements

Texas School for the Deaf Foundation

Statement of Financial Position

August 31, 2010

Assets

Current assets:

Cash and cash equivalents	\$	52,369
Deposits		500
Total current assets		<u>52,869</u>
Restricted cash		82,626
Restricted investments		109,847
Board-designated investments		<u>257,879</u>
Total assets	\$	<u>503,221</u>

Liabilities and Net Assets

Current Liabilities:

Accounts payable	\$	4,667
Accounts payable – restricted		19,451
Scholarships due		4,000
Scholarships due – restricted		<u>6,650</u>
Total current liabilities		<u>34,768</u>

Net Assets:

Board-designated endowment fund		257,879
Undesignated		<u>44,202</u>
Total Unrestricted		302,081
Temporarily restricted		57,959
Permanently restricted		<u>108,413</u>
Total net assets		<u>468,453</u>
Total liabilities and net assets	\$	<u>503,221</u>

The accompanying notes are an integral part of these financial statements.

Texas School for the Deaf Foundation

Statement of Activities
For the Fiscal Year Ended August 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support, revenue and reclassifications				
Contributions	\$ 33,455	\$ 74,699	\$ —	\$ 108,154
Fundraising/special events	32,888	9,951	—	42,839
Investment income	7,546	2,121	—	9,667
Amounts released from restrictions	30,725	(30,725)	—	—
Total support, revenue and reclassifications	104,614	56,046	—	160,660
Expenses				
Program services	53,563	—	—	73,292
Management, general & administrative	21,908	—	—	14,512
Fundraising	25,813	—	—	13,480
Total expenses	101,284	—	—	101,284
Total change in net assets	3,330	56,046	—	59,376
Net assets, beginning of year	298,751	1,913	108,413	409,077
Net assets, end of year	\$ 302,081	\$ 57,959	\$ 108,413	\$ 468,453

The accompanying notes are an integral part of these financial statements.

Texas School for the Deaf Foundation

Statement of Cash Flows For the Fiscal Year Ended August 31, 2010

Cash flows from operating activities	
Change in net assets	\$ 59,376
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Decrease (increase) in:	
Deposits	(500)
Increase (decrease) in:	
Accounts payable	4,667
Accounts payable – restricted	19,451
Scholarships due	4,000
Scholarships due – restricted	6,650
Net cash provided by operating activities	<u>93,644</u>
Cash flows from investing activities	
Purchase of investments	(5,857)
Change in restricted cash	(80,713)
Net cash used in investing activities	<u>(86,570)</u>
Net increase in cash	7,074
Cash and cash equivalents at beginning of year	<u>45,295</u>
Cash and cash equivalents at end of year	<u>\$ 52,369</u>

The accompanying notes are an integral part of these financial statements.

Texas School for the Deaf Foundation

Notes to Financial Statements

For the Fiscal Year Ended August 31, 2010

Note 1 – Summary of Significant Accounting Policies

Organization

The Texas School for the Deaf Foundation (the “Foundation”) is a nonprofit organization that was established in May 2000. The primary purpose of the Foundation is enriching and maximizing the quality of education available to deaf and hard of hearing students in Texas and beyond by providing funding not available through traditional local, state and federal resources. The Foundation’s revenues are primarily generated from individual and business contributions.

Basis of Accounting

The financial statements of the Foundation are prepared using the accrual basis of accounting generally accepted in the United States of America. Under the accrual basis, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Long-Term Investments

Long-term investments are carried at market value. Gains or losses on investments are recognized at time of sale. Unrealized gains or losses are also recognized on the statement of activities.

Texas School for the Deaf Foundation

Notes to Financial Statements (continued) *For the Fiscal Year Ended August 31, 2010*

Note 1 – Summary of Significant Accounting Policies (continued)

Income Taxes

The Foundation is a not-for-profit organization exempt from federal income taxes pursuant to the provisions of Section 501(c)(3) of the Internal Revenue Code. However, income generated from activities unrelated to the Foundation's exempt purpose is subject to tax under Section 511. The Foundation has been classified as a supporting organization of the Texas School for the Deaf (TSD) under Section 509(a)(3) and as such is not a private foundation. The Foundation had no unrelated business taxable income during the fiscal year ended August 31, 2010.

Net Assets

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The financial statement presentation follows the recommendation of the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 958), that net assets be classified and reported as follows:

Unrestricted net assets – These types of net assets are not subject to donor-imposed stipulations. This also includes Board-designated net assets for specific purposes, since these restrictions may be reversed by the Board at anytime in the future.

Temporarily restricted net assets – These types of net assets are subject to donor-imposed stipulations, which limit their use to a specific purpose and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Permanently restricted net assets – These types of net assets are subject to donor-imposed stipulations, which require them to be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific use.

Texas School for the Deaf Foundation

Notes to Financial Statements (continued) *For the Fiscal Year Ended August 31, 2010*

Note 1 – Summary of Significant Accounting Policies (continued)

Financial Instruments

The Foundation follows FASB ASC 820 *Fair Value Measurements and Disclosures*, (formerly SFAS 157, as amended by FASB Financial Staff Position (FSP) No. 157-2, on the effective date of FASB Statement No. 157). Those provisions relate to the Foundation's financial assets and liabilities carried at fair value and the Foundation's fair value disclosures related to financial assets and liabilities. FASB ASC 820 defines fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

There are three levels of inputs to fair value measurements - Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs.

The Foundation's financial instruments consist principally of cash and cash equivalents, restricted cash, restricted investments, board-designated investments, and accounts payable – restricted. The Foundation believes all of the financial instruments' recorded values approximate current market values.

Note 2 – Date of Management's Review

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through February 15, 2011, the date the financial statements were available to be issued.

Note 3 – Functional Allocation of Expenses

The Foundation records its revenues and expenses on a functional basis, allocating between program services, management, general & administrative, and fundraising purposes. Expenses that can be identified with a specific program are allocated directly to that program. Management, general & administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

Texas School for the Deaf Foundation

Notes to Financial Statements (continued) For the Fiscal Year Ended August 31, 2010

Note 3 – Functional Allocation of Expenses (continued)

The following schedule shows the functional allocation of expenses for the fiscal year ended August 31, 2010:

	Program Services	Fundraising	Management, General & Administrative	Total
Allocations to TSD	\$ 29,742	\$ —	\$ 686	\$ 30,428
Board expenses	—	—	2,381	2,381
Bank fees	—	—	3,122	3,122
Computer services	—	—	2,400	2,400
Contract services/ employment	1,334	12,333	5,833	19,500
Fundraising expense	—	12,618	—	12,618
Insurance	—	300	—	300
Postage	—	562	70	632
Professional fees	1,015	—	6,376	7,391
Scholarships and awards	21,349	—	—	21,349
Supplies	123	—	1,040	1,163
	<u>\$ 53,563</u>	<u>\$ 25,813</u>	<u>\$ 21,908</u>	<u>\$ 101,284</u>

Note 4 – Investments

The investments are presented in the financial statements at fair value using level 1 fair value measures (quoted prices in active markets). Total investments at August 31, 2010 consisted of the following:

	Unrestricted (Board- designated Endowment)	Temporarily Restricted	Permanently Restricted	Total
Money funds	\$ 6,719	\$ —	\$ 6,558	\$ 13,277
Certificates of deposit	—	1,434	101,855	103,289
Mutual funds – fixed income	124,501	—	—	124,501
Mutual funds – equities	126,659	—	—	126,659
Total investments	<u>\$ 257,879</u>	<u>\$ 1,434</u>	<u>\$ 108,413</u>	<u>\$ 367,726</u>

Texas School for the Deaf Foundation

Notes to Financial Statements (continued) For the Fiscal Year Ended August 31, 2010

Note 4 – Investments (continued)

The following schedule summarizes investment income and its classification in the statement of activities for the fiscal year ended August 31, 2010:

	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 3,532	\$ 2,121	\$ 5,653
Unrealized and realized gains	4,014	-	4,014
Total investment income	\$ 7,546	\$ 2,121	\$ 9,667

Note 5 – Endowment Fund / Permanently Restricted Net Assets

During the fiscal year ended August 31, 2007, the Foundation received an initial contribution of \$100,000 to be held as a permanently restricted scholarship endowment fund. During the fiscal year ended August 31, 2008, the Foundation received an additional contribution to the permanently restricted scholarship endowment fund of \$8,413 bringing the total permanently restricted endowment fund to \$108,413. Per the donor's wishes, the income generated from this endowment is to be used to provide scholarships to individuals attending the Texas School for the Deaf and therefore is reflected as temporarily restricted within the statement of activities.

The Foundation's endowment fund follows the Uniform Management of Institutional Funds Act of 2006 ("UMPMIFA"). The Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As such, the endowment fund seeks to preserve the purchasing power of the principal, and to provide for the long-term growth of the endowment. In order to achieve this objective, the Foundation has developed investment spending policies that will provide a growing stream of current income and appreciation of principal above and beyond inflation.

In addition, the Foundation's Board of Directors agreed to increase the endowment fund by the unrestricted portion of the investment funds. As of August 31, 2010, the Board-designated portion of the endowment fund is \$257,879.

Texas School for the Deaf Foundation

Notes to Financial Statements (continued) For the Fiscal Year Ended August 31, 2010

Note 6 – Temporarily Restricted Net Assets

The Foundation had the following temporarily restricted activity during the fiscal year ended August 31, 2010:

	Beginning Balance	Contributions and Interest Received	Released from Restrictions	Ending Balance
Temporarily Restricted Donations:				
Scholarships	\$ 1,913	\$ 6,771	\$ (6,650)	\$ 2,034
Special Needs Department	-	20,000	(19,451)	549
Meadows Grant	-	60,000	(4,624)	55,376
	\$ 1,913	\$ 86,771	\$ (30,725)	\$ 57,959

Note 7 – Concentrations

Financial instruments which potentially subject Texas School for the Deaf Foundation to credit risk principally consist of cash and investments. To minimize this risk, Texas School for the Deaf Foundation places its temporary cash investments with high credit quality financial institutions insured by the FDIC. Effective October 3, 2008, deposit insurance coverage by the FDIC was changed from \$100,000 per bank to \$250,000 per bank under the FDIC general deposit insurance rules. These rules cover all traditional types of accounts including checking, savings, and CDs. There were no amounts over the insured portion as of August 31, 2010. Texas School for the Deaf Foundation has not experienced any losses in such accounts in the past.