

LEAGUE FOR THE DEAF & HARD OF HEARING

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2004

JOEL D. PARKS, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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LEAGUE FOR THE DEAF & HARD OF HEARING

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
League for the Deaf & Hard of Hearing
Nashville, Tennessee

I have audited the accompanying statement of financial position of League for the Deaf & Hard of Hearing (a nonprofit organization) as of June 30, 2004, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the League's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of League for the Deaf & Hard of Hearing as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 2, 2004, on my consideration of the League's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of the League taken as a whole. The accompanying schedule of federal and state awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements.

Also, other financial information listed as additional information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Joel D. Panko, P.C.

September 2, 2004

League for the Deaf & Hard of Hearing
Statement of Financial Position
June 30, 2004

ASSETS

Current:	
Cash (Note 1)	\$ 166,782
Unconditional promises to give (Note 2)	16,600
Accounts receivable (Note 3)	49,832
Grants receivable	12,489
Prepaid expenses	1,175
Investments (Note 4,11)	4,572
Property and Equipment:	
Land, building and equipment (Note 5)	1,395,766
Restricted:	
Cash (Note 6)	<u>10,000</u>
	<u>\$ 1,657,216</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Current:	
Accounts payable	\$ 6,388
Accrued expenses	<u>10,178</u>
Total	<u>16,566</u>

NET ASSETS

Unrestricted	
Undesignated	1,614,050
Temporarily restricted (Note 2,6)	<u>26,600</u>
Total net assets	<u>1,640,650</u>
	<u>\$ 1,657,216</u>

See Accompanying Notes to Financial Statements

League for the Deaf & Hard of Hearing
Statement of Activities
For the Year Ended June 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue				
Received directly - contributions	\$ 86,190	\$ 26,600	\$ -	\$ 112,790 ✓
Received indirectly - United Way	120,525	-	-	120,525 ✓
Federal and state awards	-	170,000	-	170,000 ✓
Program service fees	312,064	-	-	312,064 ✓
Rent income	43,305	-	-	43,305
Miscellaneous	4,452	-	-	4,452
Total support and reclassifications	566,536	196,600	-	763,136
Net assets released from restrictions (Note 7,8)	174,167	(172,800)	(1,367)	-
Total public support, revenue and reclassifications	740,703	23,800	(1,367)	763,136
Expenses				
Program services	521,937	-	-	521,937
Supporting services	212,844	-	-	212,844
Unrelated rental	42,105	-	-	42,105
Total expenses	776,886	-	-	776,886
Increase (decrease) in net assets from operations	(36,183)	23,800	(1,367)	(13,750)
<u>Non-operating revenues (expenses)</u>				
Unrealized gain on investments (Note 11)	667	-	-	667
Total non-operating revenues (expenses)	667	-	-	667
Net assets, beginning	1,649,566	2,800	1,367	1,653,733
Net assets, ending	\$ 1,614,050	\$ 26,600	\$ -	\$ 1,640,650

See Accompanying Notes to Financial Statements

League for the Deaf & Hard of Hearing
Statement of Functional Expenses
For the Year Ended June 30, 2004

	Program Services						Supporting Services			Unrelated Rental	Grand Total
	Employment Services	Education	Interpreter Referral	Social Adjustment	Teen Center	Total	Management & General	Fundraising	Total		
Salaries	\$ 23,539	\$ -	\$ 106,546	\$ -	\$ 43,107	\$ 173,192	\$ 106,427	\$ -	\$ 106,427	\$ -	\$ 279,619
Payroll taxes & benefits	2,939	-	13,301	-	5,381	21,621	13,286	-	13,286	-	34,907
Pension (Note 9)	1,364	-	6,173	-	2,498	10,035	6,166	-	6,166	-	16,201
Telephone	831	411	5,787	-	1,668	8,697	2,085	419	2,504	-	11,201
Postage & mailing	237	237	1,243	474	947	3,138	947	947	1,894	-	5,032
Computer related	-	-	-	-	-	-	4,142	-	4,142	-	4,142
Conferences & workshops	113	-	556	-	225	894	273	-	273	-	1,167
Books, subscriptions & dues	-	114	1,613	-	8	1,735	1,117	113	1,230	-	2,965
Insurance	1,142	571	3,932	2,206	2,324	10,175	4,018	2,245	6,263	2,285	18,723
Utilities	1,003	1,003	2,452	1,003	5,019	10,480	4,025	-	4,025	6,022	20,527
Janitorial/grounds	840	840	1,680	840	4,220	8,420	3,360	-	3,360	5,040	16,820
Maintenance & repair	644	644	1,288	644	3,218	6,438	2,574	-	2,574	3,861	12,873
Equipment rental	224	224	460	224	1,121	2,253	897	125	1,022	1,345	4,620
Supplies	1,053	1,449	2,652	412	6,015	11,581	8,025	802	8,827	2,106	22,514
Taxes	-	-	-	-	-	-	-	-	-	3,525	3,525
Advertising & public relations	3,843	4,121	8,228	21	5,879	22,092	21,327	8,483	29,810	-	51,902
Professional fees - interpreters	-	-	179,087	-	-	179,087	-	-	-	-	179,087
Professional fees - other	-	3,056	350	-	1,222	4,628	899	2,250	3,149	-	7,777
Travel	713	-	2,500	-	760	3,973	225	-	225	-	4,198
Vehicle expense	-	-	-	-	2,011	2,011	445	-	445	-	2,456
Youth activities	-	329	151	30	2,746	3,256	134	-	134	-	3,390
Miscellaneous	628	628	1,884	628	4,595	8,363	5,141	-	5,141	-	13,504
Depreciation	2,987	2,987	5,973	2,987	14,934	29,868	11,947	-	11,947	17,921	59,736
Total expense	\$ 42,100	\$ 16,614	\$ 345,856	\$ 9,469	\$ 107,898	\$ 521,937	\$ 197,460	\$ 15,384	\$ 212,844	\$ 42,105	\$ 776,886

See Accompanying Notes to Financial Statements

League for the Deaf and Hard of Hearing
Statement of Cash Flows
For the Year Ended June 30, 2004

Cash flows from operating activities

Increase (decrease) in net assets from operations	\$ (13,750)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	59,736
Decrease in unconditional promises to give	(13,800)
Decrease in accounts receivable	25,052
Increase in prepaid expenses	(192)
Increase in market value of investments	(667)
Increase in accounts payable	3,517
Increase in accrued expenses	5,185
Net cash from operating activities	<u>65,081</u>

Cash flows from capital and related financing activities

Acquisition of capital assets	<u>(11,196)</u>
Net cash used by capital and related financing activities	<u>(11,196)</u>

Cash flows from investing activities

Unrealized gain on investments (Note 11)	<u>667</u>
Net cash from investing activities	<u>667</u>
Net increase in cash	54,552

Beginning cash and cash equivalents	122,230
Ending cash and cash equivalents	\$ <u><u>176,782</u></u>

Required Supplemental Disclosure

Taxes Paid	\$ <u><u>3,525</u></u>
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See Accompanying Notes to Financial Statements

LEAGUE FOR THE DEAF & HARD OF HEARING
Notes to Financial Statements
June 30, 2004

Note 1 – Nature of Activities and Significant Accounting Policies

Nature of Activities

The League for the Deaf & Hard of Hearing (the League) was formed to provide interpreters for the deaf and hard of hearing in educational, vocational, medical and legal situations. The League also provides the deaf and hard of hearing with information and referral services. The League is supported primarily through federal financial assistance, service fees and donor contributions. Approximately 22% of the League's support came from federal & state financial assistance.

Reporting Entity

The Board of Directors is the governing body to which management is accountable.

Basis of Accounting

The League follows the accrual basis of accounting where revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Financial Statement Presentation

The League has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the League is required to report information regarding its financial position and activities according to three classes of net assets. In addition, the League is required to present a statement of cash flows.

The League has also adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received, which include unconditional promises to give (pledges) are recognized as revenue in the period received. Revenue is classified as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may be met either by actions of the League and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the League maintains them permanently. Generally, the donors of these assets permit the League to use all or part of the income earned on related investments for general or specific purposes.

LEAGUE FOR THE DEAF & HARD OF HEARING
Notes to Financial Statements (Cont.)
June 30, 2004

Note 1 – Nature of Activities and Significant Accounting Policies (Cont.)

Promises to Give

Contributions are recognized when the donor makes a promise to give to the League that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Cash Equivalents

Cash and cash equivalents are comprised of cash, demand deposits, and savings.

Investments

The League has adopted SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Contributed Materials and Services

Contributed materials and services represent the estimated fair value of materials and general corporate services provided. Contributed services are reflected in the financial statements at the fair value of the services received. The contribution of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skill that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the League's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The League is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The League has no excise or unrelated business income.

LEAGUE FOR THE DEAF & HARD OF HEARING
Notes to Financial Statements (Cont.)
June 30, 2004

Note 2 – Unconditional Promises To Give

Pledges receivable as of June 30, 2004, is presented as a component of temporarily restricted net assets. These unconditional promises to give, amounting to \$16,600, are to be received by the League for years subsequent to June 30, 2004, and management periodically reviews their collectible status. Unconditional promises to give arise primarily from individuals and corporations located within the region and are deemed to reflect present value.

Note 3 – Accounts Receivable

Receivables are comprised of the following:

Program service fees	\$ 52,440
Less: allowance for uncollectible accounts	(<u>2,608</u>)
Net receivables	\$ <u>49,832</u>

The League uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific outstanding balances.

Note 4 – Investments

Investments are comprised marketable securities that are stated at estimated fair value and are summarized as follows as of June 30, 2004:

	<u>Cost</u>	<u>Estimated Fair Value</u>
Marketable Securities	\$ <u>1,338</u>	\$ <u>4,572</u>

There were no indicators at the issuance of this report that the estimated fair value of the marketable securities had decreased substantially from the last date of fieldwork.

Note 5 – Land, Building and Equipment

Land, building and equipment is valued at cost or estimated fair market value, if contributed. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire equipment are reported as restricted support.

LEAGUE FOR THE DEAF & HARD OF HEARING
Notes to Financial Statements - (Cont.)
June 30, 2004

Note 5 – Land, Building and Equipment (Cont.)

Absent donor stipulations regarding how long those donated assets must be maintained, the League reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The League reclassifies temporarily restricted net assets to unrestricted net assets at that time. Generally the League capitalizes assets that carry forward value to future periods purchased at a cost of \$250 or more. Depreciation is calculated using the straight-line method over the estimated useful life of each asset that ranges from 5-35 years based upon the purpose of the asset.

The carrying value of such assets at June 30, 2004 is as follows:

Land	\$ 479,354
Furniture & equipment	163,081
Vehicles	25,244
Building	766,963
Building improvements	<u>295,137</u>
	1,729,779
Less: accumulated depreciation	(334,013)
	<u>\$1,395,766</u>

Depreciation expense amounted to \$59,736 for the fiscal year ended June 30, 2004.

Note 6 – Restricted Cash

The League received a temporarily restricted donation of \$10,000 during June 2004. These funds are strictly to be used for alcohol and drug prevention for the League's youth and are presented as a component of temporarily restricted net assets.

Note 7 – Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Note 8 – Permanently Restricted Net Assets

Permanently restricted net assets, comprised of funds held for Southeast Regional Institute for the Deaf (SERID), were released at request of SERID during the fiscal year ended June 30, 2004.

LEAGUE FOR THE DEAF & HARD OF HEARING
Notes to Financial Statements - (Cont.)
June 30, 2004

Note 9 – Employee Benefit Plan

The League has a defined contribution employee benefit plan covering all full-time employees over the age of 21 with at least one year of employment. Expense related to this plan amounted to \$16,201 for the year ended June 30, 2004.

Note 10 – Commitments

The League, during June 1998, entered into a five-year lease with a tenant to occupy space in the League's building at a monthly rent of \$3,125. Both parties adopted an amendment during October 2003, for an increase of \$650 in exchange for additional space leased. This lease continues in absence of an official renewal. The League is also a party to two leases for copy machines and related maintenance agreements.

Note 11 – Fair Values of Financial Instruments

The League's financial instruments include cash, receivables and investments. The League estimates that the aggregate fair value of all financial instruments at June 30, 2004, is recorded in the accompanying statement of financial position. The League uses available market information and appropriate valuation methodologies have determined the estimated fair value amounts. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the League could realize in a current market exchange.

ADDITIONAL INFORMATION

Schedule of Federal and State Awards - This schedule presents the recipient and program name of federal and state financial assistance.

League for the Deaf & Hard of Hearing
Schedule of Federal and State Awards
For the Year Ended June 30, 2004

Program Name	CFDA Number	Contract Number	Grantor Agency	Beginning Balance	Receipts	Expenditures	Ending Balance
Federal grants as identified in the							
Catalog of Federal Domestic Assistance							
Rehabilitation services (7-1-02 through 6-30-03)	84.126	GR-01-13451-02	Dept of Health & Human Svcs	\$ 12,489	\$ 12,489	\$ -	\$ -
Rehabilitation services (7-1-03 through 6-30-04)	84.126	GR-04-15529-01	"	-	105,561	118,050	12,489
Total				<u>12,489</u>	<u>118,050</u>	<u>118,050</u>	<u>12,489</u>
State grants							
Rehabilitation services	-	GR-01-13453-04	Dept of Health & Human Svcs	-	20,000	20,000	-
Rehabilitation services	-	GR-04-15529-01	"	-	31,950	31,950	-
Total				<u>-</u>	<u>51,950</u>	<u>51,950</u>	<u>-</u>
				<u>\$ 12,489</u>	<u>\$ 170,000</u>	<u>\$ 170,000</u>	<u>\$ 12,489</u>

COMPLIANCE AND INTERNAL CONTROL SECTION

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors
League for the Deaf & Hard of Hearing
Nashville, Tennessee

I have audited the financial statements of League for the Deaf & Hard of Hearing (a nonprofit organization) as of and for the year ended June 30, 2004, and have issued my report dated September 2, 2004, which was unqualified. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the League's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the League's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the management, federal and state awarding agencies and other regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Joel D. Palm, P.C.

September 2, 2004

LEAGUE FOR THE DEAF & HARD OF HEARING
Schedule of Findings and Questioned Costs
June 30, 2004

PART I - SUMMARY OF AUDITOR'S RESULTS

1. An unqualified opinion was issued on the financial statements of the League for the Deaf & Hard of Hearing
2. No reportable conditions in internal control were disclosed by the audit of the financial statements.
3. The audit did not disclose any noncompliance that is material to the financial statements of the League.
4. Federal grant expenditures amounted to less than \$300,000.

**PART II - FINDINGS AND QUESTIONED COSTS REPORTED IN ACCORDANCE WITH
GENERALLY ACCEPTED GOVERNMENT AUDITING PROCEDURES**

None

LEAGUE FOR THE DEAF & HARD OF HEARING
Disposition of Prior Year Findings
June 30, 2004

PRIOR YEAR AUDIT RECOMMENDATIONS IMPLEMENTED
(REF: Annual Financial Report for the FYE June 30, 2003)

None

PRIOR YEAR AUDIT RECOMMENDATIONS NOT IMPLEMENTED
(REF: Annual Financial Report for the FYE June 30, 2003)

None