

Sunshine Cottage School for Deaf Children

Independent Auditor's Report and Financial Statements -
Income Tax Basis

May 31, 2020 and 2019

Independent Auditor's Report

To the Board of Directors
Sunshine Cottage School for Deaf Children
San Antonio, Texas

We have audited the accompanying financial statements of Sunshine Cottage School for Deaf Children (School), which comprise the statements of assets, liabilities and net assets - income tax basis as of May 31, 2020 and 2019, and the related statements of activities, functional expenses and cash flows - income tax basis, 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 the basis of accounting the School uses for income tax purposes described in Note 1; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditor's 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 qualified audit opinion.

Basis for Qualified Opinion

As explained in Note 9 of the financial statements, oil and gas royalty interests that the School acquired by gift are not recorded in the financial statements. In our opinion, the income tax basis of accounting requires that such a gift be recorded at its estimated fair value at the date of receipt. It is not practicable to determine the effects of the unrecorded oil and gas royalty interests on the financial statements.

Qualified Opinion

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of the School as of May 31, 2020 and 2019, and its activities, changes in net assets and cash flows for the years then ended in accordance with the basis of accounting the School uses for income tax purposes described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the School uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

BKD, LLP

San Antonio, Texas
September 18, 2020

Sunshine Cottage School for Deaf Children
Statements of Assets, Liabilities and Net Assets – Income Tax Basis
May 31, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,938,005	\$ 3,962,990
Accounts receivable	134,723	159,247
Prepaid expenses	17,721	8,056
Certificates of deposit	2,447,760	1,906,054
	<u>6,538,209</u>	<u>6,036,347</u>
Total current assets		
	<u>6,538,209</u>	<u>6,036,347</u>
Beneficial Interests in Perpetual Trusts	<u>478,028</u>	<u>486,526</u>
Beneficial Interests in Charitable Remainder Unitrusts	<u>2,096,027</u>	<u>2,027,599</u>
Property, Plant and Equipment		
Land improvements	277,799	-
Buildings and improvements	16,448,896	16,165,292
Furniture, fixtures and equipment	461,117	448,206
Audiology equipment	1,520,885	1,406,733
Education equipment	1,611,493	1,492,475
Automobile	122,566	141,764
Construction in progress	-	93,665
	<u>20,442,756</u>	<u>19,748,135</u>
Accumulated Depreciation	<u>(7,117,438)</u>	<u>(6,385,203)</u>
Net Property, Plant and Equipment	<u>13,325,318</u>	<u>13,362,932</u>
Total assets	<u><u>\$ 22,437,582</u></u>	<u><u>\$ 21,913,404</u></u>

See Notes to Financial Statements

	2020	2019
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 99,217	\$ 163,391
Employee compensation	812,435	741,208
Deferred income	90,599	19,880
Total current liabilities	1,002,251	924,479
Net Assets		
Without donor restrictions		
Undesignated	3,947,191	3,419,462
Designated for capital campaign	12,170	12,170
Designated for property, plant and equipment	13,608,505	13,873,186
Other designations	425,000	75,000
Total without donor restrictions net assets	17,992,866	17,379,818
With donor restrictions		
Time-restricted for future periods	2,324,739	2,408,183
Purpose restrictions	642,949	717,649
Perpetual in nature	474,777	483,275
Total with donor restrictions net assets	3,442,465	3,609,107
Total net assets	21,435,331	20,988,925
Total liabilities and net assets	\$ 22,437,582	\$ 21,913,404

Sunshine Cottage School for Deaf Children

Statements of Activities – Income Tax Basis

Years Ended May 31, 2020 and 2019

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Tuition and registration	\$ 888,065	\$ -	\$ 888,065
Scholarship grants, allowances and discounts	(682,970)	-	(682,970)
Net tuition	205,095	-	205,095
Contributions and gifts	845,406	667,330	1,512,736
Contributions and gifts - related party	5,280,776	-	5,280,776
Scholarship fund income - related party	135,000	-	135,000
Dividend and interest income	73,503	-	73,503
Royalty income	2,105,568	-	2,105,568
Change in value of perpetual trusts	-	(8,498)	(8,498)
Change in value of charitable remainder unitrust	-	68,428	68,428
Other	167,004	-	167,004
Net assets released - program restrictions satisfied	941,027	(941,027)	-
Total revenues and other support	9,753,379	(213,767)	9,539,612
Expenses and Losses			
Academic	6,853,299	-	6,853,299
Support services	813,922	-	813,922
General and administrative	1,254,338	-	1,254,338
Fundraising	307,317	-	307,317
Total expenses and losses	9,228,876	-	9,228,876
Revenue Over Expenses	524,503	(213,767)	310,736
Other Changes in Net Assets			
Contributions restricted for capital assets	-	135,670	135,670
Release of restricted assets for capital outlays	88,545	(88,545)	-
Total other changes in net assets	88,545	47,125	135,670
Increase (Decrease) in Net Assets	613,048	(166,642)	446,406
Net Assets, Beginning of Year	17,379,818	3,609,107	20,988,925
Net Assets, End of Year	\$ 17,992,866	\$ 3,442,465	\$ 21,435,331

See Notes to Financial Statements