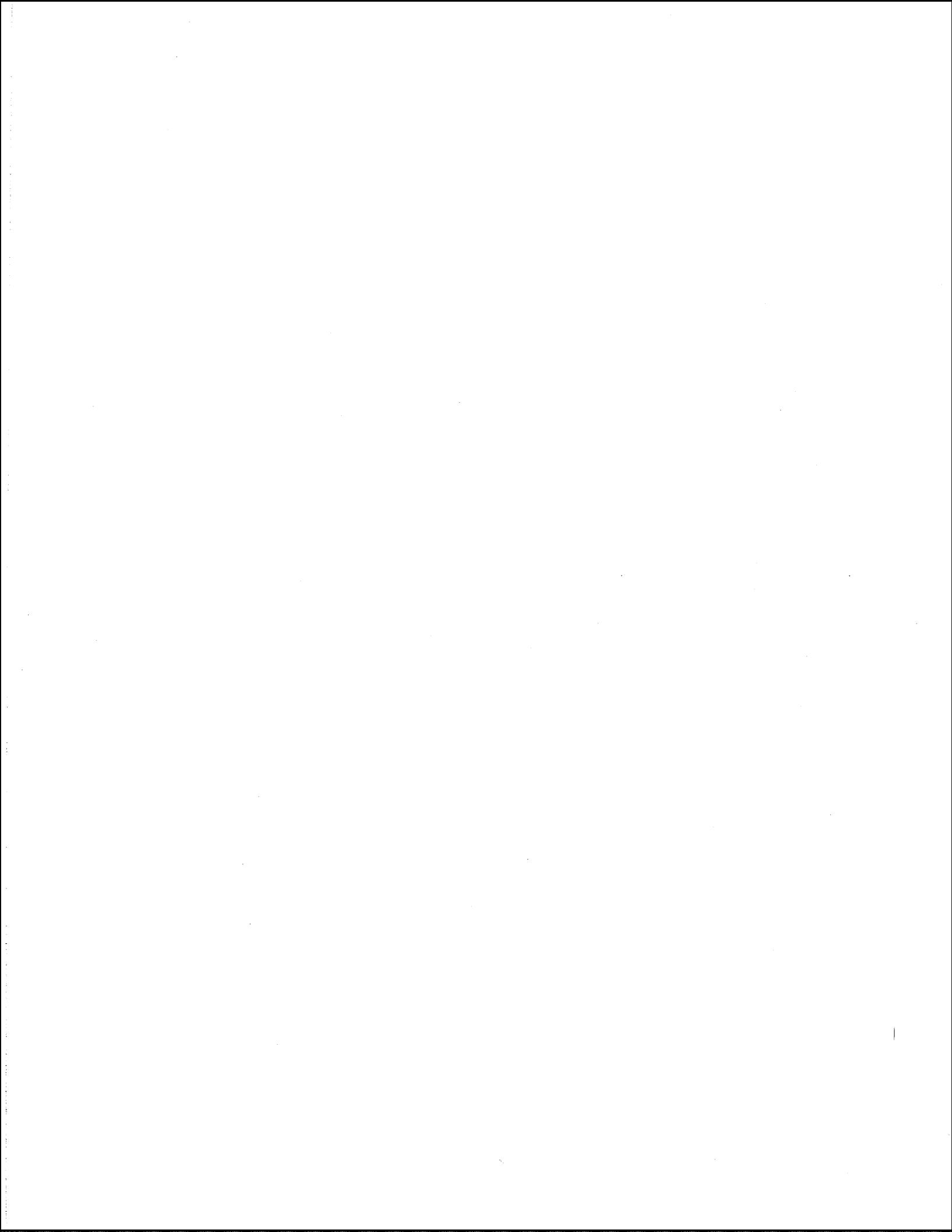


CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

**COMMUNICATION SERVICE FOR
THE DEAF, INC.**





CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Communication Service for the Deaf, Inc.
Sioux Falls, South Dakota

We have audited the accompanying consolidated balance sheets of Communication Service for the Deaf, Inc. (a nonprofit corporation), and controlled entities as of June 30, 2009 and 2008, and the related consolidated statements of activities and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated 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 of material misstatement. An audit includes consideration on internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express such an opinion. 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Communication Service for the Deaf, Inc. and controlled entities as of June 30, 2009 and 2008, 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.

Eide Bailly LLP

Sioux Falls, South Dakota
December 21, 2009

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COMMUNICATION SERVICE FOR THE DEAF, INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,583,813	\$ 2,699,043
Accounts receivable - [REDACTED]	1,912,769	3,270,028
Accounts receivable - [REDACTED]	1,663,881	1,485,944
Accounts receivable, less allowance for doubtful accounts	3,954,851	3,312,421
Inventory	278,116	309,723
Prepaid expenses	336,298	391,311
Prepaid insurance	71,735	69,597
Total current assets	<u>9,801,463</u>	<u>11,538,067</u>
ASSETS LIMITED AS TO USE		
Cash and cash equivalents	2,919,909	2,915,456
Corporate bonds	-	100,000
Mutual funds	249,804	369,780
Total assets limited as to use	<u>3,169,713</u>	<u>3,385,236</u>
PROPERTY AND EQUIPMENT		
Land and improvements	1,251,106	1,271,106
Buildings and improvements	15,172,918	16,229,669
Equipment	8,595,284	8,719,980
Vehicles	260,961	260,961
	<u>25,280,269</u>	<u>26,481,716</u>
Accumulated depreciation	(15,624,736)	(14,935,958)
Total property and equipment	<u>9,655,533</u>	<u>11,545,758</u>
OTHER ASSETS		
Investment in [REDACTED]	6,075,000	6,075,000
Property held for future expansion	2,965,181	2,965,181
Intangible assets, less accumulated amortization	166,654	67,554
Deposits	99,416	128,653
Total other assets	<u>9,306,251</u>	<u>9,236,388</u>
TOTAL ASSETS	<u><u>\$ 31,932,960</u></u>	<u><u>\$ 35,705,449</u></u>

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 977,060	\$ 1,119,774
Accounts payable	1,705,310	2,074,667
Accrued health insurance	5,000	1,282,693
Accrued wages	950,081	807,463
Accrued paid-time-off	766,358	883,267
Deferred revenue	94,955	340,303
Accrued payroll taxes and deductions	103,160	140,789
Accrued interest	2,830	5,258
Total current liabilities	<u>4,604,754</u>	<u>6,654,214</u>
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	4,426,177	5,176,612
Retirement benefit obligation	2,474,000	2,855,116
Funds held for others	1,260,646	1,373,111
Total long-term liabilities	<u>8,160,823</u>	<u>9,404,839</u>
DEFERRED LOANS	<u>433,843</u>	<u>511,343</u>
Total liabilities	<u>13,199,420</u>	<u>16,570,396</u>
UNRESTRICTED NET ASSETS	<u>18,733,540</u>	<u>19,135,053</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 31,932,960</u>	<u>\$ 35,705,449</u>

COMMUNICATION SERVICE FOR THE DEAF, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
OPERATING REVENUES		
Fees for services	\$ 42,285,663	\$ 48,531,939
Government grants	425,497	629,524
Contracts	2,310,632	932,220
Program receipts and registrations	205,187	443,054
Contributions and foundation awards	65,196	84,466
Miscellaneous income	360,282	281,931
Total operating revenues	45,652,457	50,903,134
OPERATING EXPENSES		
Salaries	26,347,476	30,837,510
Employee benefits	6,394,030	8,290,005
Interpreters, teachers and contract labor	3,866,222	4,299,749
Occupancy expense	3,506,655	4,302,360
Depreciation and amortization	1,617,934	1,805,900
Technology costs	451,607	418,594
Professional services	822,971	705,629
Supplies, printing and postage	441,324	1,637,345
Communications	493,771	596,365
Travel and training	526,873	634,191
Sponsorships, special events and dues	218,997	730,772
Marketing and outreach	265,584	261,172
Insurance	239,055	306,279
Interest and fees	591,096	724,956
Equipment repairs and maintenance	186,037	194,105
Equipment leased	50,962	53,351
Bad debts	21,051	32,908
Miscellaneous	26,175	22,229
Total operating expenses	46,067,820	55,853,420
OPERATING LOSS	(415,363)	(4,950,286)
NON-OPERATING REVENUES/EXPENSES		
Rent income and other	204,760	214,357
Investment (loss) income	(36,516)	104,579
Loss on disposal of property and equipment	(154,394)	(15,737)
Total non-operating revenues/expenses	13,850	303,199
DECREASE IN UNRESTRICTED NET ASSETS	(401,513)	(4,647,087)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	19,135,053	23,782,140
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 18,733,540	\$ 19,135,053

COMMUNICATION SERVICE FOR THE DEAF, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in unrestricted net assets	\$ (401,513)	\$ (4,647,087)
Adjustments to reconcile decrease in unrestricted net assets to net cash (used for) from operating activities:		
Depreciation and amortization	1,617,934	1,805,900
Bad debts	21,051	32,908
Loss on impairment of inventory	-	904,176
Loss on disposal of property and equipment	154,394	15,737
Changes in assets and liabilities		
Accounts receivable	515,840	1,353,899
Deposits	29,237	(4,723)
Other current assets	84,482	28,279
Accounts payable	(366,179)	778,479
Accrued expenses	(1,292,041)	(575,698)
Deferred revenue	(245,348)	201,236
Retirement benefit obligation	(381,116)	414,516
NET CASH (USED FOR) FROM OPERATING ACTIVITIES	<u>(263,259)</u>	<u>307,622</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(60,375)	(985,651)
Increase in assets limited as to use	215,523	(233,913)
Increase in funds held for others	(112,465)	162,077
Proceeds from disposal of fixed assets	132,845	-
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	<u>175,528</u>	<u>(1,057,487)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(902,795)	(306,732)
Payments on lease obligations	(124,704)	(575,847)
NET CASH USED FOR FINANCING ACTIVITIES	<u>(1,027,499)</u>	<u>(882,579)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,115,230)	(1,632,444)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,699,043</u>	<u>4,331,487</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,583,813</u>	<u>\$ 2,699,043</u>

Communication Service for the Deaf, Inc

COMMUNICATION SERVICE FOR THE DEAF, INC

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CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Communication Service for the Deaf, Inc.
Sioux Falls, South Dakota

We have audited the accompanying consolidated balance sheet of **Communication Services for the Deaf, Inc. and its controlled entities**, as of June 30, 2007, and the related consolidated statements of activities and of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements as of June 30, 2006 were audited by Henry Scholten & Company, LLP, who joined Eide Bailly LLP on June 1, 2007, and whose report dated September 29, 2006 and January 16, 2007, expressed an unqualified opinion on those statements..

We conducted our 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 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 the 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Communication Service for the Deaf, Inc. and controlled entities** as of June 30, 2007, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2007, on our consideration of **Communication Services for the Deaf, Inc.'s** internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That 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 our audit.

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Our audit was performed for the purpose of forming an opinion on the basic financial statements of **Communication Services for the Deaf, Inc. and its controlled entities** taken as a whole. The accompanying schedule of expenditures of federal and state financial assistance is presented for purposes of 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eido Bailly LLP

Sioux Falls, South Dakota
December 12, 2007

COMMUNICATION SERVICES FOR THE DEAF, INC.
CONSOLIDATED BALANCE SHEETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,331,487	\$ 192,273
Accounts receivable - [REDACTED]	2,955,464	2,345,807
Accounts receivable, less allowance for doubtful accounts	6,499,736	3,414,048
Inventory	458,581	8,390
Prepaid expenses	357,125	357,798
Prepaid insurance	15,130	53,953
	14,617,523	6,372,269
ASSETS LIMITED AS TO USE		
Cash and cash equivalents	3,151,323	1,125,547
PROPERTY AND EQUIPMENT		
Land and improvements	1,271,606	1,263,020
Buildings and improvements	16,426,574	16,628,058
Equipment	8,042,149	9,809,692
Vehicles	260,961	265,364
	26,001,290	27,966,134
Accumulated depreciation	(13,716,327)	(13,222,613)
	12,284,963	14,743,521
OTHER ASSETS		
Investment in [REDACTED]	6,075,000	-
Property held for future expansion	2,980,990	2,980,990
Intangible and other assets, less accumulated depreciation	72,620	131,764
Deposits	123,930	527,871
	9,252,540	3,640,625
TOTAL ASSETS	\$ 39,306,349	\$ 25,881,962

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 881,713	\$ 1,586,100
Accounts payable	1,299,783	1,956,061
Accrued health insurance	1,297,786	1,419,144
Accrued wages	781,504	915,606
Accrued paid-time-off	915,765	858,785
Deferred revenue	139,067	785,736
Accrued payroll taxes and deductions	696,007	203,514
Accrued interest	4,106	60,556
	<u>6,015,731</u>	<u>7,785,502</u>
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	5,345,501	3,663,410
Retirement benefit obligation	2,440,600	2,250,363
Funds held for others	1,211,034	742,298
	<u>8,997,135</u>	<u>6,656,071</u>
DEFERRED LOANS		
	<u>511,343</u>	<u>511,343</u>
Total liabilities	<u>15,524,209</u>	<u>14,952,916</u>
UNRESTRICTED NET ASSETS	<u>23,782,140</u>	<u>10,929,046</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 39,306,349</u>	<u>\$ 25,881,962</u>

COMMUNICATION SERVICES FOR THE DEAF, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING REVENUES		
Fees for services	\$ 54,302,574	\$ 54,367,763
Government grants	1,210,554	618,244
Contracts	264,425	948,569
Program receipts and registrations	209,389	240,680
Contributions and foundation awards	132,676	121,137
Miscellaneous income	212,323	285,452
Total operating revenues	<u>56,331,941</u>	<u>56,581,845</u>
OPERATING EXPENSES		
Salaries	35,865,680	38,523,318
Employee benefits	10,442,978	7,512,509
Interpreters, teachers and contract labor	4,045,107	3,582,297
Occupancy expense	4,505,948	4,604,949
Depreciation and amortization	2,386,312	2,570,317
Technology costs	217,143	247,330
Professional services	910,673	907,373
Supplies, printing and postage	679,903	606,079
Communications	550,869	639,214
Travel and training	641,029	624,066
Sponsorships, special events and dues	697,936	877,528
Marketing and outreach	235,370	315,364
Insurance	416,052	362,283
Interest expense	812,239	668,799
Equipment repairs and maintenance	191,618	183,399
Equipment leased	59,902	43,223
Bad debts	175,389	52,057
Miscellaneous	22,568	38,012
Total operating expenses	<u>62,856,716</u>	<u>62,358,117</u>
OPERATING LOSS	<u>(6,524,775)</u>	<u>(5,776,272)</u>
NON-OPERATING REVENUES/EXPENSES		
Rent income and other	269,109	209,425
Interest income	219,779	14,352
Gain on sale of VRS operations and disposal of property and equipment	18,653,825	(24,976)
Total non-operating revenues/expenses	<u>19,142,713</u>	<u>198,801</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS BEFORE EFFECTS OF DISCONTINUED OPERATIONS	12,617,938	(5,577,471)
EXCESS OF REVENUES OVER EXPENSES FROM DISCONTINUED VRS OPERATIONS	<u>235,156</u>	<u>2,615,914</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	12,853,094	(2,961,557)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>10,929,046</u>	<u>13,890,603</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 23,782,140</u>	<u>\$ 10,929,046</u>

COMMUNICATION SERVICES FOR THE DEAF, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in unrestricted net assets	\$ 12,853,094	\$ (2,961,557)
Adjustments to reconcile decrease in unrestricted net assets to net cash (used in) from operating activities:		
Depreciation and amortization	2,623,555	3,180,281
Bad debts	175,389	42,466
Gain on sale of VRS operations and disposal of property and equipment	(18,653,825)	23,776
Noncash payment of interest	100,585	-
Changes in assets and liabilities		
Accounts receivable	(834,788)	2,202,026
Deposits	47,598	(30,100)
Other current assets	37,886	299,162
Accounts payable	(638,441)	119,635
Accrued expenses	237,563	(2,539,478)
Deferred revenue	(646,669)	536,642
Retirement benefit obligation	190,237	(1,660,330)
NET CASH FROM OPERATING ACTIVITIES	<u>(4,507,816)</u>	<u>(787,477)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(273,330)	(2,090,355)
Increase in assets limited as to use	(2,025,776)	(562,581)
Increase in funds held for others	468,736	275,000
Proceeds from sale of VRS operations and disposal of property and equipment	9,470,976	1,200
NET CASH FROM INVESTING ACTIVITIES	<u>7,640,606</u>	<u>(2,376,736)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	2,268,393	1,768,467
Payments on notes payable	(413,377)	(670,296)
Payments on lease obligations	(772,594)	(848,167)
Loan fees	(75,998)	-
NET CASH FROM FINANCING ACTIVITIES	<u>1,006,424</u>	<u>250,004</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,139,214	(2,914,209)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>192,273</u>	<u>3,106,482</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,331,487</u>	<u>\$ 192,273</u>

MAY 15 2008

Communication Service for the Deaf, Inc

REVISED

MAY 15 2008

EIN: 460332149 000 SD FY: 6/30/2007 N 08
COMMUNICATION SERVICES FOR THE
DEAF, INC.
Box 1323 Loc 3 SFlag 60 DBKey 68937

COMMUNICATION SERVICE FOR THE DEAF, INC

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REVISED

MAY 15 2006



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Communication Service for the Deaf, Inc.
Sioux Falls, South Dakota

We have audited the accompanying consolidated balance sheet of **Communication Services for the Deaf, Inc. and its controlled entities**, as of June 30, 2007, and the related consolidated statements of activities and of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements as of June 30, 2006 were audited by Henry Scholten & Company, LLP, who joined Eide Bailly LLP on June 1, 2007, and whose report dated September 29, 2006 and January 16, 2007, expressed an unqualified opinion on those statements..

We conducted our 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 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 the 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Communication Service for the Deaf, Inc. and controlled entities** as of June 30, 2007, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2007, on our consideration of **Communication Services for the Deaf, Inc.'s** internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That 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 our audit.

REVISED

MAY 15 2008

PEOPLE. PRINCIPLES. POSSIBILITIES.

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Our audit was performed for the purpose of forming an opinion on the basic financial statements of **Communication Services for the Deaf, Inc. and its controlled entities** taken as a whole. The accompanying schedule of expenditures of federal and state financial assistance is presented for purposes of 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Sioux Falls, South Dakota
December 12, 2007

REVISED

MAY 15 2008

COMMUNICATION SERVICES FOR THE DEAF, INC.
CONSOLIDATED BALANCE SHEETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,331,487	\$ 192,273
Accounts receivable [REDACTED]	2,955,464	2,345,807
Accounts receivable, less allowance for doubtful accounts	6,499,736	3,414,048
Inventory	458,581	8,390
Prepaid expenses	357,125	357,798
Prepaid insurance	15,130	53,953
	<u>14,617,523</u>	<u>6,372,269</u>
ASSETS LIMITED AS TO USE		
Cash and cash equivalents	<u>3,151,323</u>	<u>1,125,547</u>
PROPERTY AND EQUIPMENT		
Land and improvements	1,271,606	1,263,020
Buildings and improvements	16,426,574	16,628,058
Equipment	8,042,149	9,809,692
Vehicles	260,961	265,364
	<u>26,001,290</u>	<u>27,966,134</u>
Accumulated depreciation	<u>(13,716,327)</u>	<u>(13,222,613)</u>
	<u>12,284,963</u>	<u>14,743,521</u>
OTHER ASSETS		
Investment in [REDACTED]	6,075,000	-
Property held for future expansion	2,980,990	2,980,990
Intangible and other assets, less accumulated depreciation	72,620	131,764
Deposits	123,930	527,871
	<u>9,252,540</u>	<u>3,640,625</u>
TOTAL ASSETS	<u>\$ 39,306,349</u>	<u>\$ 25,881,962</u>

See Notes to Consolidated Financial Statements

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	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 881,713	\$ 1,586,100
Accounts payable	1,299,783	1,956,061
Accrued health insurance	1,297,786	1,419,144
Accrued wages	781,504	915,606
Accrued paid-time-off	915,765	858,785
Deferred revenue	139,067	785,736
Accrued payroll taxes and deductions	696,007	203,514
Accrued interest	4,106	60,556
	<u>6,015,731</u>	<u>7,785,502</u>
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	5,345,501	3,663,410
Retirement benefit obligation	2,440,600	2,250,363
Funds held for others	1,211,034	742,298
	<u>8,997,135</u>	<u>6,656,071</u>
DEFERRED LOANS	<u>511,343</u>	<u>511,343</u>
Total liabilities	<u>15,524,209</u>	<u>14,952,916</u>
UNRESTRICTED NET ASSETS	<u>23,782,140</u>	<u>10,929,046</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 39,306,349</u>	<u>\$ 25,881,962</u>

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COMMUNICATION SERVICES FOR THE DEAF, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING REVENUES		
Fees for services	\$ 54,302,574	\$ 54,367,763
Government grants	1,210,554	618,244
Contracts	264,425	948,569
Program receipts and registrations	209,389	240,680
Contributions and foundation awards	132,676	121,137
Miscellaneous income	212,323	285,452
Total operating revenues	<u>56,331,941</u>	<u>56,581,845</u>
OPERATING EXPENSES		
Salaries	35,865,680	38,523,318
Employee benefits	10,442,978	7,512,509
Interpreters, teachers and contract labor	4,045,107	3,582,297
Occupancy expense	4,505,948	4,604,949
Depreciation and amortization	2,386,312	2,570,317
Technology costs	217,143	247,330
Professional services	910,673	907,373
Supplies, printing and postage	679,903	606,079
Communications	550,869	639,214
Travel and training	641,029	624,066
Sponsorships, special events and dues	697,936	877,528
Marketing and outreach	235,370	315,364
Insurance	416,052	362,283
Interest expense	812,239	668,799
Equipment repairs and maintenance	191,618	183,399
Equipment leased	59,902	43,223
Bad debts	175,389	52,057
Miscellaneous	22,568	38,012
Total operating expenses	<u>62,856,716</u>	<u>62,358,117</u>
OPERATING LOSS	<u>(6,524,775)</u>	<u>(5,776,272)</u>
NON-OPERATING REVENUES/EXPENSES		
Rent income and other	269,109	209,425
Interest income	219,779	14,352
Gain on sale of VRS operations and disposal of property and equipment	18,653,825	(24,976)
Total non-operating revenues/expenses	<u>19,142,713</u>	<u>198,801</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS BEFORE EFFECTS OF DISCONTINUED OPERATIONS	<u>12,617,938</u>	<u>(5,577,471)</u>
EXCESS OF REVENUES OVER EXPENSES FROM DISCONTINUED VRS OPERATIONS	<u>235,156</u>	<u>2,615,914</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>12,853,094</u>	<u>(2,961,557)</u>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>10,929,046</u>	<u>13,890,603</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 23,782,140</u>	<u>\$ 10,929,046</u>

See Notes to Consolidated Financial Statements

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COMMUNICATION SERVICES FOR THE DEAF, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in unrestricted net assets	\$ 12,853,094	\$ (2,961,557)
Adjustments to reconcile decrease in unrestricted net assets to net cash (used in) from operating activities:		
Depreciation and amortization	2,623,555	3,180,281
Bad debts	175,389	42,466
Gain on sale of VRS operations and disposal of property and equipment	(18,653,825)	23,776
Noncash payment of interest	100,585	-
Changes in assets and liabilities		
Accounts receivable	(834,788)	2,202,026
Deposits	47,598	(30,100)
Other current assets	37,886	299,162
Accounts payable	(638,441)	119,635
Accrued expenses	237,563	(2,539,478)
Deferred revenue	(646,669)	536,642
Retirement benefit obligation	190,237	(1,660,330)
NET CASH FROM OPERATING ACTIVITIES	<u>(4,507,816)</u>	<u>(787,477)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(273,330)	(2,090,355)
Increase in assets limited as to use	(2,025,776)	(562,581)
Increase in funds held for others	468,736	275,000
Proceeds from sale of VRS operations and disposal of property and equipment	9,470,976	1,200
NET CASH FROM INVESTING ACTIVITIES	<u>7,640,606</u>	<u>(2,376,736)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	2,268,393	1,768,467
Payments on notes payable	(413,377)	(670,296)
Payments on lease obligations	(772,594)	(848,167)
Loan fees	(75,998)	-
NET CASH FROM FINANCING ACTIVITIES	<u>1,006,424</u>	<u>250,004</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,139,214	(2,914,209)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>192,273</u>	<u>3,106,482</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,331,487</u>	<u>\$ 192,273</u>

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COMMUNICATION SERVICES FOR THE DEAF, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Principals of Consolidation

The financial statements include the consolidated accounts of Communication Service for the Deaf, Inc. (CSD), Camp Lakodia, LLC and Lakodia Outfitters, LLC (Lake Herman Entities) and CSD Ventures, Inc. (Ventures). All material intercompany balances, transactions and earnings have been eliminated.

Nature of Organization

Communication Service for the Deaf, Inc. provides services for the deaf community, which include interpreting, relay services, equipment distribution and other broad-based services throughout the United States.

CSD Ventures, Inc. operates multimedia call centers, which provide answering services and customer support to businesses throughout the United States.

Camp Lakodia, LLC located near Madison, South Dakota, provides leadership and literacy camps to students of school age who are deaf, hard of hearing or affluent in American sign language.

Lakodia Outfitters, LLC uses the Camp Lakodia facilities in the fall. Guided hunting packages are available as well as lodging.

Tax Status

CSD is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Lake Herman Entities are disregarded entities under the Internal Revenue Code. Accordingly, the activities of the Lake Herman Entities are combined with CSD activities on CSD's annual return. Certain activities of the Lake Herman Entities are subject to unrelated business income tax. CSD Ventures, Inc. is a South Dakota Corporation subject to federal income tax.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Concentration of Credit Risk

CSD's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents and temporary cash investments. Management believes CSD places its cash, cash equivalents and temporary cash investments with high quality credit institutions. At times these balances may exceed the applicable FDIC insurance limit.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, CSD considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The carrying amount of cash equivalents is a reasonable estimate of fair value.

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(continued on next page)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounts Receivable

Substantially all of the accounts receivable are considered collectible. Accordingly, the allowance for doubtful accounts is \$16,500 at June 30, 2007 and 2006. If accounts become uncollectible, they are charged to operations when that determination is made.

In 2006, certain receivables were sold with partial recourse at the face amount less fees, trade discounts, credits, or adjustments. Accounts receivable at June 30, 2006 were shown net of receivables sold totaling approximately \$4,100,000. Fees for the years ending June 30, 2007 and 2006 totaling \$168,035 and \$82,624, respectively, were included in interest expense. The agreement terminated on December 15, 2006.

Intangible and Other Assets

Intangible and other assets consist of the following:

<u>Intangible Asset</u>	<u>Date Acquired</u>	<u>Amortization Period</u>	<u>Cost at 6/30/2007</u>	<u>Accumulated Amortization 6/30/2007</u>	<u>Accumulated Amortization 6/30/2006</u>
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Donated Services

A number of people have contributed their time to the activities of CSD without compensation. The income and expenses attributable to donated services are not reflected in the statements of activities. These services enhance the quality of services furnished by CSD, but do not represent services that would require additional staffing if the services were not provided on a volunteer basis.

Donor Restrictions

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, CSD reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Supplemental Statements of Cash Flow Information

Non-cash investing and financing activities for the years ended June 30, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>

Cash payments for interest totaled \$886,150 and \$622,430 for the years ended June 30, 2007 and 2006, respectively. Cash payments for income taxes were \$0.

Reclassifications

Certain amounts from the accompanying 2006 financial statements have been reclassified to conform with the 2007 presentation.

NOTE 2 - ASSETS LIMITED AS TO USE

Assets limited as to use include cash held on behalf of the Regulatory Commission of Alaska in connection with providing telephone relay services in Alaska, cash held for camp scholarships, and cash and mutual funds designated by management to fund retirement benefit obligations. Mutual fund investments are recorded at fair value determined by quoted market prices.

Assets limited as to use also include cash held in an escrow account as stipulated by the terms of the sale agreement of the video interpreting services division in December 2006. The balance in the escrow account was \$508,583 at June 30, 2007.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment is generally recorded at cost. Donated land and other property and equipment items are recorded at their estimated value at the time of donation.

Maintenance, repairs, and replacements, which do not improve the assets or extend the assets' lives, are expensed as incurred. Costs of additions and improvements are added to the land, land improvements, buildings, and furniture and equipment accounts.

Depreciation of property is provided on the straight-line basis. Depreciation rates are based on the estimated useful lives of the assets ranging from five to forty years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property at June 30, 2007 and 2006 is summarized as follows:

	2007		2006	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and land improvements	\$ 1,271,606	\$ 62,208	\$ 1,263,020	57,483
Buildings and improvements	16,426,574	6,901,285	16,628,058	6,202,759
Equipment	8,042,149	6,536,040	9,809,692	6,782,558
Vehicles	260,961	216,794	265,364	179,813
Total	\$ 26,001,290	\$ 13,716,327	\$ 27,966,134	\$ 13,222,613

NOTE 4 - INVESTMENT IN CSDVRS, LLC

On December 13, 2006, CSD sold its video interpreting services business to CSDVRS, LLC, a Delaware limited liability company. In addition to cash proceeds, CSD received 6,075,000 Series A common shares of CSDVRS, LLC. CSD has a 20.2% interest in CSDVRS, LLC, therefore the investment has been recorded using the equity method of accounting. No income or loss was allocated to CSD during the year ending June 30, 2007 as the 8% preferred cumulative and compounding income allocated to owners of preferred stock were not met.

NOTE 5 - LONG-TERM DEBT

CSD's long-term debt as of June 30, 2007 and 2006 consists of the following:

<i>Notes Payable</i>	2007	2006
Minnwest Bank, due in monthly installments of \$47,439, including interest at 9.25% through December 1, 2021. This note is secured by all buildings and lands.	\$ 4,501,263	\$ -
Midwest Oil Co., due in monthly installments of \$3,560, including interest at 8.0%, with a balloon principal and interest payment on March 20, 2009. Secured by land on E. 10 th Street, Sioux Falls, South Dakota.	285,291	304,351
Mark Reynolds, due in monthly installments of \$3,312, including interest at 5.75% through January 1, 2014. This note is secured by land in Lake County, SD adjacent to Camp Lakodia.	215,145	241,688
Enterprise Zone Development Corporation of Vineland and Millville, due in monthly installments of \$3,397, including interest at 5.0% through April 27, 2011. This note is secured by machinery, equipment, inventory, furniture and fixtures, accounts receivable and all business assets now owned or acquired.	141,924	174,695
Frank Guaracini, Jr. Transportation Company, LLC, due in monthly installments of \$6,360, including interest at 9.0% through March 10, 2009. This note is unsecured.	123,146	185,317

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Notes Payable (continued)</u>	<u>2007</u>	<u>2006</u>
Charleston Court Condominium Association, due in monthly installments of \$824, including including interest at 8.5% through September 1, 2007. This note is not collateralized.	\$ 2,446	\$ -
Ford Motor Credit, due in monthly installments of \$444, including 0% interest through September 1, 2007. This loan is secured by a vehicle.	1,333	6,661
Wells Fargo Bank, due in monthly installments of \$6,385, including interest through September 20, 2008. Collateralized by a mortgage on the William Janklow Building, 3520 Gateway Lane, Sioux Falls, SD. Refinanced November 17, 2006.	-	93,558
Wells Fargo Bank, due in monthly principal installments of \$9,545, plus interest through October 10, 2006. Secured by a mortgage on Krohn Hall, 101 N. Krohn Place, Sioux Falls, South Dakota.	-	38,158
Wells Fargo Bank, due in monthly principal installments of \$2,750, plus interest, with a balloon principal and interest payment on August 10, 2009. Secured by a mortgage on the warehouse, 2000 N. 4th Ave, Sioux Falls, South Dakota. Refinanced November 17, 2006.	-	434,500
Soukup Services, Inc. due in monthly installments of \$5,677, including interest at 8.0% through July 1, 2007. This note was not collateralized.	-	65,266
Wells Fargo Bank, due in monthly principal installments of \$4,891, plus interest, with a balloon principal and interest payment on June 25, 2008. Secured by a mortgage on 100 N. Krohn Place, Sioux Falls, South Dakota. Refinanced November 17, 2006.	-	997,687
Wells Fargo Bank, due in monthly principal installments of \$12,087, including interest, with a balloon principal and interest payment on March 5, 2009. Secured by a mortgage on Camp Lakodia. Refinanced November 17, 2006.	-	861,626
First American Equipment Finance, due in monthly installments of \$63,524, including interest, through January 15, 2008. Secured by equipment. Note was paid off on December 15, 2006.	-	1,175,918
<u>Capital Leases</u>		
Various copier leases from A & B Business Equipment, due in monthly installments ranging from \$56 to \$322, including interest ranging from 7.7% to 21.0%. Final installments are due April 15, 2010. (Note 5)	24,864	53,327

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>2007</u>	<u>2006</u>
<i>Capital Leases (continued)</i>		
Various equipment leases from Axis Capital, Inc., due in monthly installments from \$832 to \$8,418, including interest ranging from 10.2% to 12.0%. Final installments are due November 20, 2011. (Note 5)	\$ 921,079	\$ 353,011
Equipment lease from Cisco Systems Capital, due in monthly installments of \$1,269, including interest at 15.36% through March 1, 2008.	10,723	-
Various telecommunications equipment leases from First American Equipment Finance, due in monthly installments ranging from \$7,233 to \$38,483, including interest ranging from 7.83% to 11.93%. Final installments were due May 1, 2007.	-	263,747
	<u>\$ 6,227,214</u>	<u>\$ 5,249,510</u>
Less current maturities	<u>881,713</u>	<u>1,586,100</u>
	<u>\$ 5,345,501</u>	<u>3,663,410</u>

Scheduled maturities of long-term debt are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2008	\$ 881,713
2009	666,177
2010	378,103
2011	403,514
2012	270,507
Thereafter	<u>3,627,200</u>
	<u>\$ 6,227,214</u>

NOTE 6 - CAPITAL LEASES

CSD has entered into several long-term leases for office and computer equipment that expire at various times between 2008 and 2012. The total cost of the equipment under capital lease is \$1,083,052 and \$1,523,181 as of June 30, 2007 and 2006, respectively, and is capitalized in the accompanying balance sheets. Depreciation is provided using the straight-line method over the estimated useful lives of the equipment. Accumulated depreciation totaled \$214,326 and \$757,056 as of June 30, 2007 and 2006, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Future lease payments under capital lease obligations are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2008	\$ 632,858
2009	147,955
2010	146,797
2011	143,280
Thereafter	<u>13,435</u>
Total minimum lease payments	1,084,325
Less imputed interest	<u>(127,659)</u>
Present value of minimum lease payments	<u>\$ 956,666</u>

NOTE 8 - DEFERRED LOANS

CSD has received the following zero interest rate Department of Community Development loans to acquire various buildings in Sioux Falls, South Dakota.

Simpson Hall	December 14, 1993	\$ 55,243
Evergreen Rental	May 2, 1990	77,500
Krohn Hall	June 20, 1994	<u>378,600</u>
		<u>\$ 511,343</u>

These loans were provided by the City of Sioux Falls with Community Development Block Grant funds. The principal sums as specified in the agreements, shall not become due and payable until the occurrence of one of the following events: (1) conveyance of the property by CSD, (2) voluntary or involuntary relinquishment of the property by CSD, or (3) termination of the agreement by the City for noncompliance. These buildings are secured by mortgages and are currently being used as specified in the agreements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - LEASE OBLIGATIONS

Operating Leases

CSD leases certain equipment under agreements that have been recorded as operating leases. Operating equipment lease expense for the years ended June 30, 2007 and 2006 was \$60,257 and \$44,129, respectively.

The following is a schedule by years of future minimum rentals under the leases as of June 30, 2007:

<u>Years Ending June 30,</u>	<u>Amount</u>
2008	\$ 46,093
2009	35,349
2010	16,686
2011	12,816
2012	5,340
	<u>\$ 116,284</u>

CSD also leases real estate facilities under agreements that have been recorded as operating leases. Total rent charged to occupancy was \$2,796,600 and \$3,215,035 for the years ended June 30, 2007 and 2006, respectively. Future minimum lease payments under non-cancelable operating facilities leases as of June 30, 2007 are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2008	\$ 2,360,362
2009	1,486,662
2010	991,602
2011	521,164
2012	157,223
Thereafter	11,802
	<u>\$ 5,528,815</u>

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Employee Health Insurance

CSD self-insures employee health insurance benefits. Employee health insurance expense was \$6,610,981 and \$6,121,809 for the years ended June 30, 2007 and 2006, respectively.

Pension Plan

CSD has a contributory 403(b) plan covering all eligible employees. CSD makes a discretionary contribution considering employee contributions up to 4% of annual compensation. The plan expense for the years ended June 30, 2007 and 2006 was \$427,286 and (\$333,540), respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Material Concentration

CSD has a continuing contract with a telecommunications company to provide personnel, management, expertise and leasehold facilities for use by the company in providing telecommunications relay services (TRS) to residents of various states. The current contract expires December 31, 2007 but may be renewed at the Company's option on sixty days notice or by mutual agreement on an annual basis.

Revenue from this contract represents a substantial portion of CSD's total operating revenue.

Regulated Revenue Reimbursement Rates

Services provided by CSD are paid in substantial part by regulatory agencies. Accordingly, reimbursement rates for call center fees and video interpreting are subject to change beyond CSD's control. CSD's operating results are substantially dependent on the regulated reimbursement rates of these programs.

General Liability

General liability claims have been asserted against CSD by certain claimants. The claims are in various stages of processing and some may ultimately be brought to trial. In the opinion of management, the outcome of these actions will not have a significant effect on the financial position or the results of operations of CSD. Incidents occurring through June 30, 2007 may result in the assertion of additional claims. Management believes that these claims, if asserted, would be settled at amounts which would not result in additional losses to CSD.

Contribution Intention

CSD has expressed its intention to contribute \$2,000,000 to an educational institution for the deaf to construct a student development center. The contribution is being paid at a rate of \$37,963 per month. A total of \$1,088,889 has been paid through June 30, 2007.

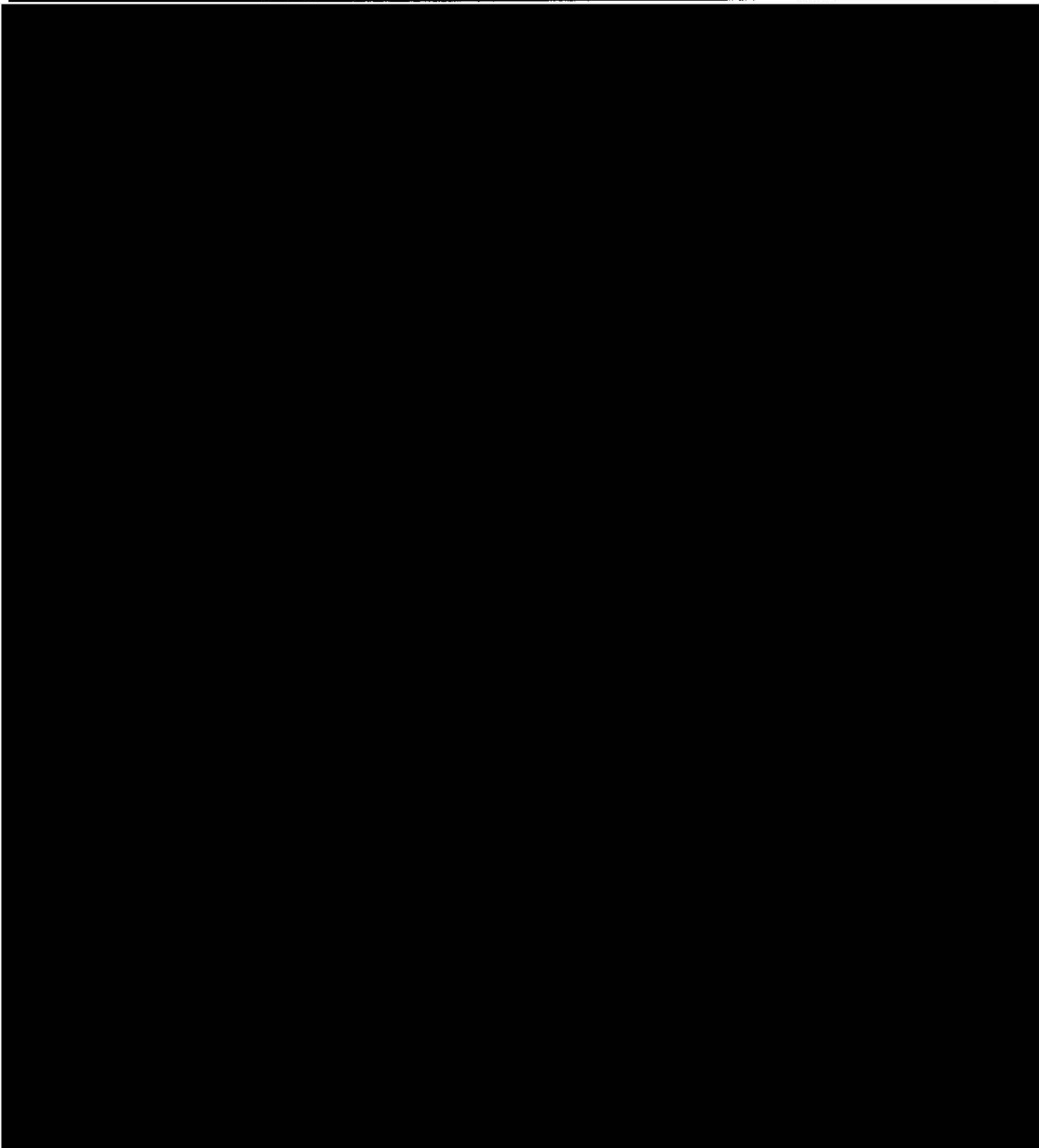
NOTE 11 - FUNCTIONAL EXPENSES

CSD provides services to the deaf community in many states across the United States. Expenses related to providing these services for the years ended June 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Program	\$ 63,064,247	\$ 73,847,960
General and administrative	<u>8,461,536</u>	<u>8,627,137</u>
	<u>\$ 71,525,783</u>	<u>\$ 82,475,097</u>

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

To the Board of Directors
Communication Services for the Deaf, Inc.
Sioux Falls, South Dakota

We have audited the consolidated financial statements of **Communication Services for the Deaf, Inc.** as of and for the year ended June 30, 2007, and have issued our report thereon dated December 12, 2007. We conducted our 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Communication Services for the Deaf, Inc.**'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's consolidated financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the items described as item 07-01 and 07-02 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the consolidated financial statements will not be prevented or detected by the entity's internal control.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe the significant deficiencies described in the accompanying Schedule of Findings and Questioned Costs as findings 07-01 and 07-02 to be material weaknesses.

Communication Services for the Deaf, Inc.'s written response to the material weaknesses identified in our audit can be found on page 25 and has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion on it.

Compliance and Other Matters

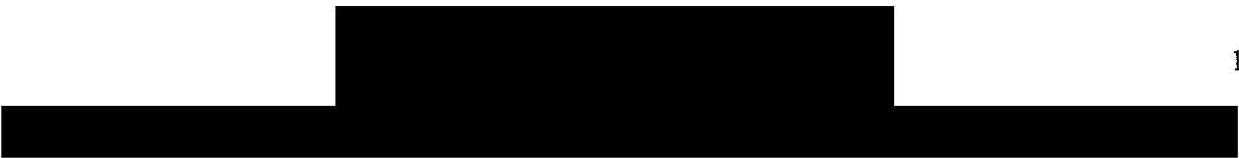
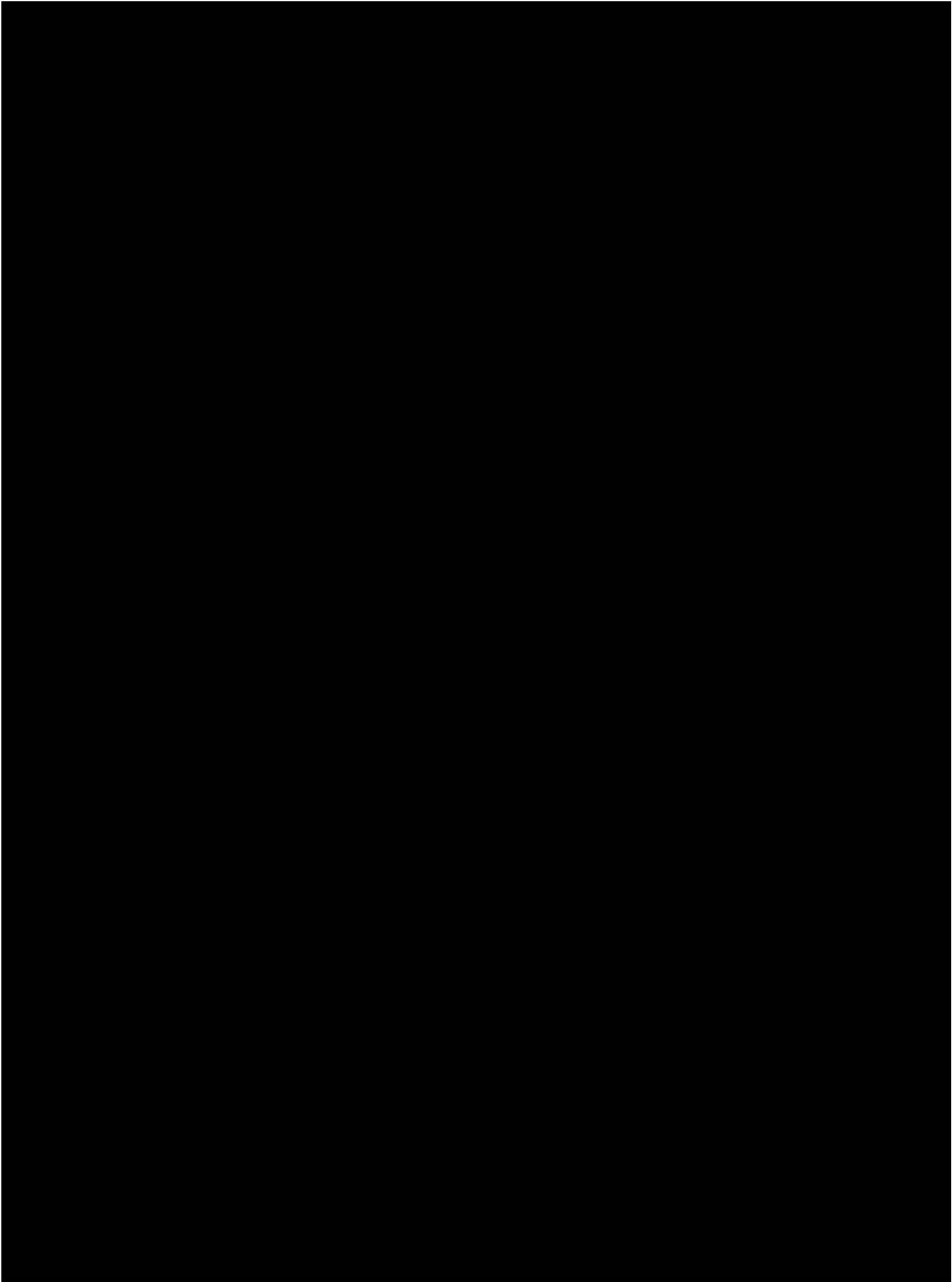
As part of obtaining reasonable assurance about whether **Communication Services for the Deaf, Inc.**'s consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance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

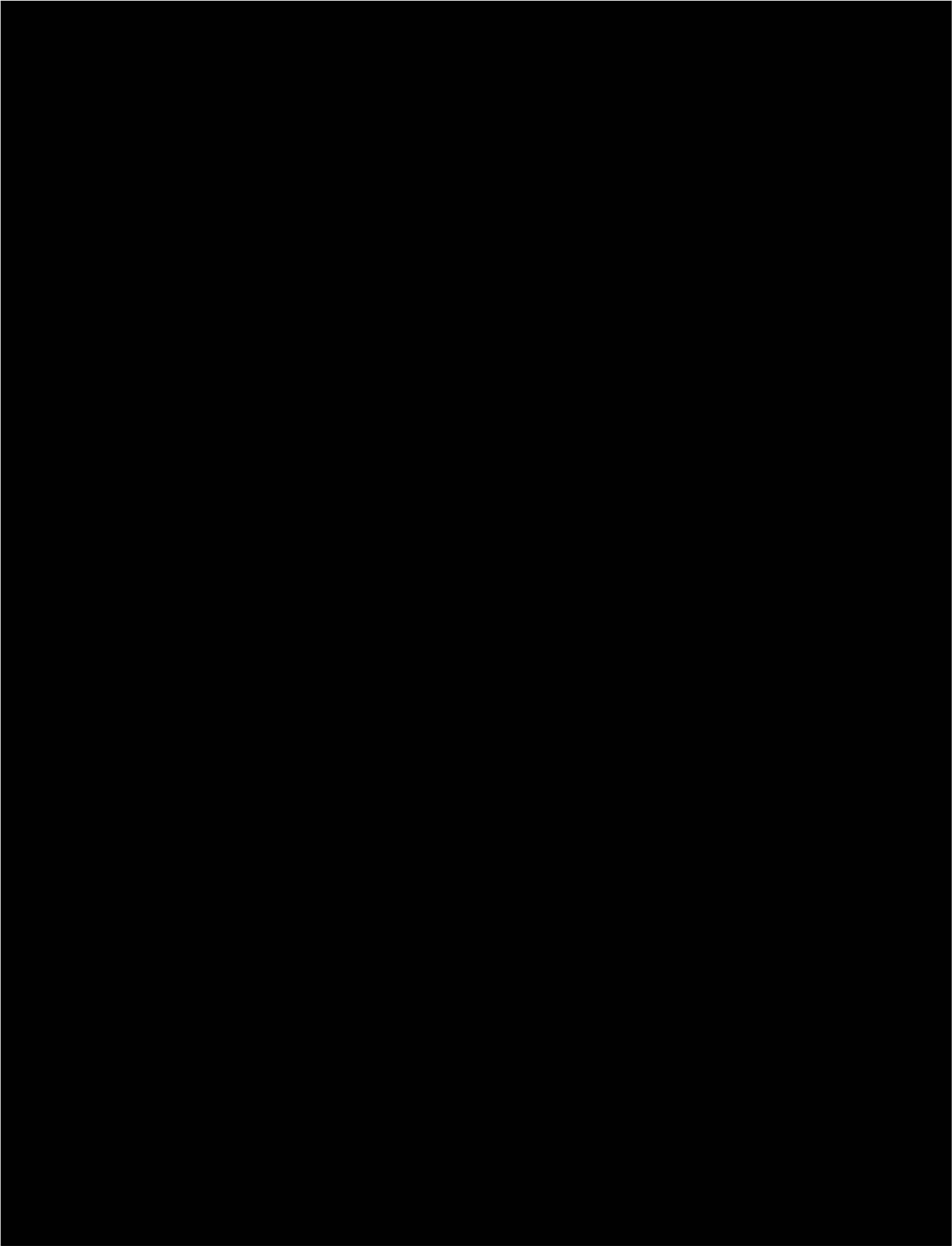
This report is intended solely for the information and use of the audit committee, management, others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

December 12, 2007
Sioux Falls, South Dakota

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COMMUNICATION SERVICES FOR THE DEAF, INC.
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

<u>Federal Grantor/Pass Through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>Department of Housing and Urban Development</u>		
Passed through City of Sioux Falls, South Dakota Community Development Block Grants	14.218	\$ 511,343
<u>Department of Education</u>		
Passed through State of Minnesota Adult Education_State Grant Program	84.002	\$ 17,570
Passed through State of Iowa Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126	\$ 34,504
Passed through State of Texas Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126	427,182
Subtotal Rehabilitation Services_Vocational Rehabilitation Grants to States		<u>461,686</u>
<u>Department of Justice</u>		
Passed through State of Minnesota Education and Training to End Violence Against and Abuse of Women With Disabilities	16.529	\$ 80,622
Passed through State of Oklahoma Violence Against Women Formula Grants	16.588	<u>46,197</u>
<u>Department of Homeland Security</u>		
Passed through State of Oklahoma Competitive Training Grants	97.068	\$ 72,487
<u>Department of Health & Human Services</u>		
Passed through State of North Dakota Voting Access for Invididuals with Disabilities_Grants to States	93.617	\$ 13,843
Passed through State of Ohio Block Grants for Community Mental Health Services	93.958	<u>170,578</u>
Total expenditures of federal awards		<u>\$ 1,374,326</u>

The accompanying notes are an integral part of this schedule.

REVISED
MAY 15 2008

COMMUNICATION SERVICES FOR THE DEAF, INC.
NOTES TO THE CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

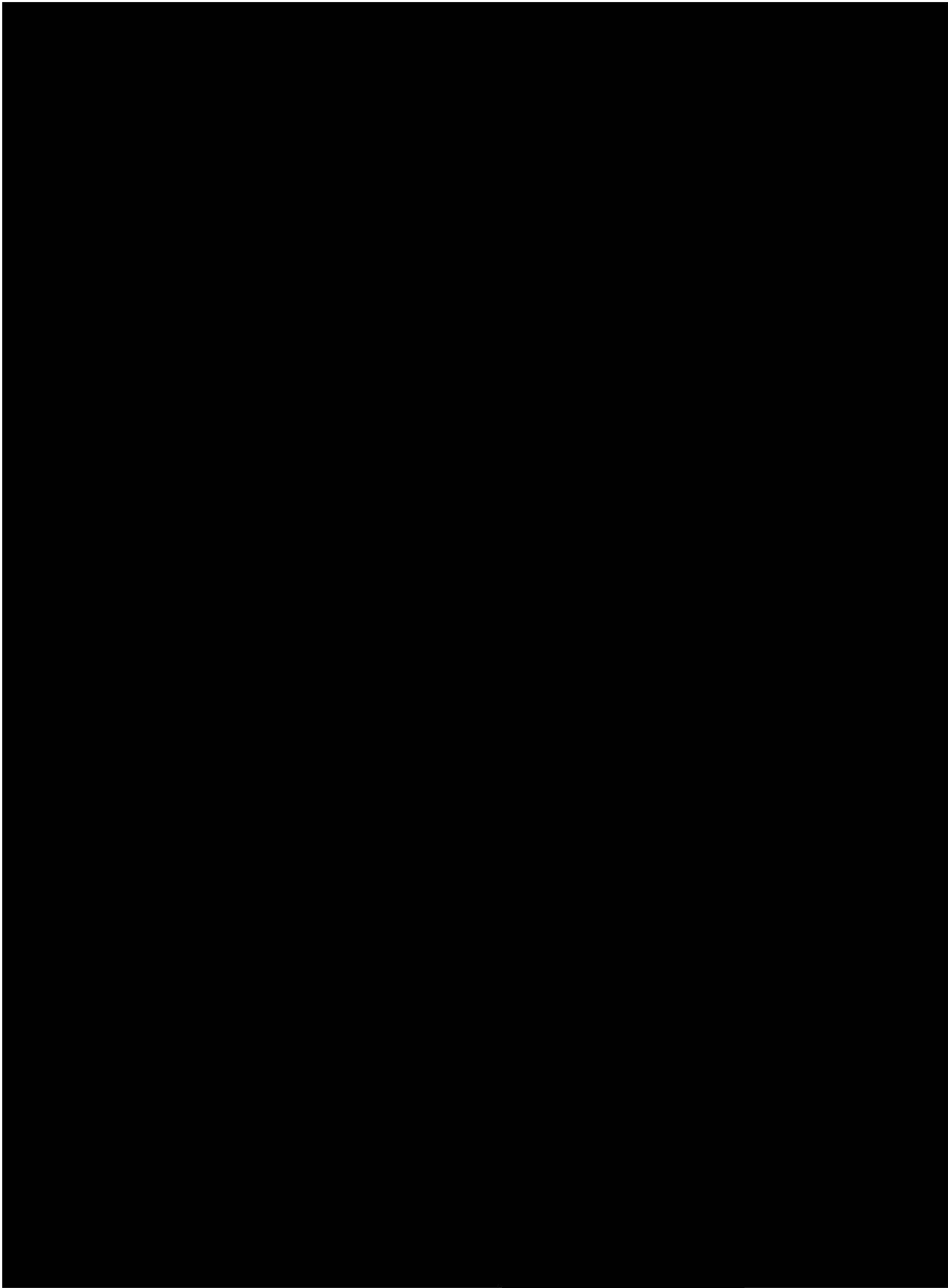
The accompanying Consolidated Schedule of Expenditures of Federal Awards includes the federal grant activity of **Communication Services for the Deaf, Inc.** and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

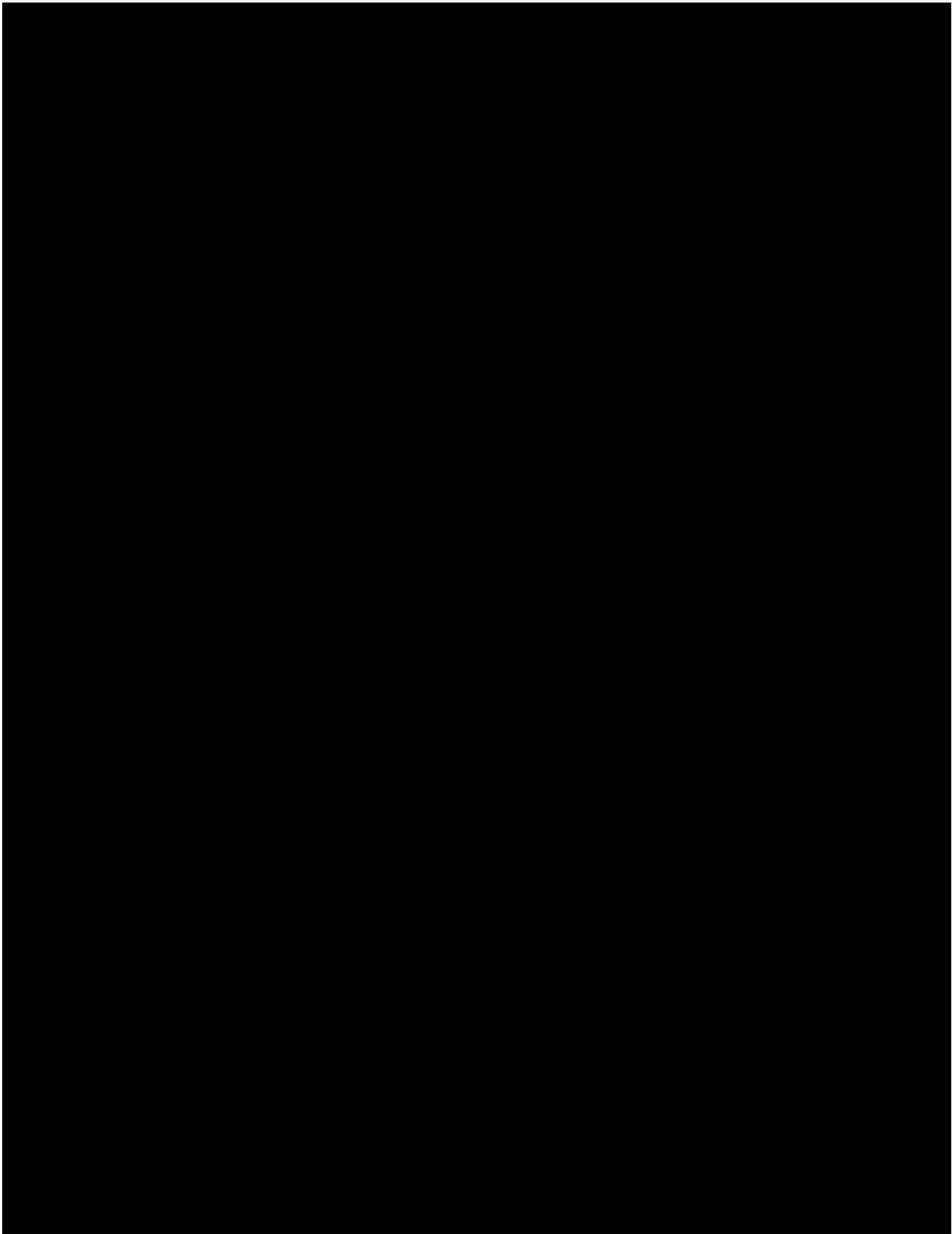
NOTE 2 – LOANS OUTSTANDING

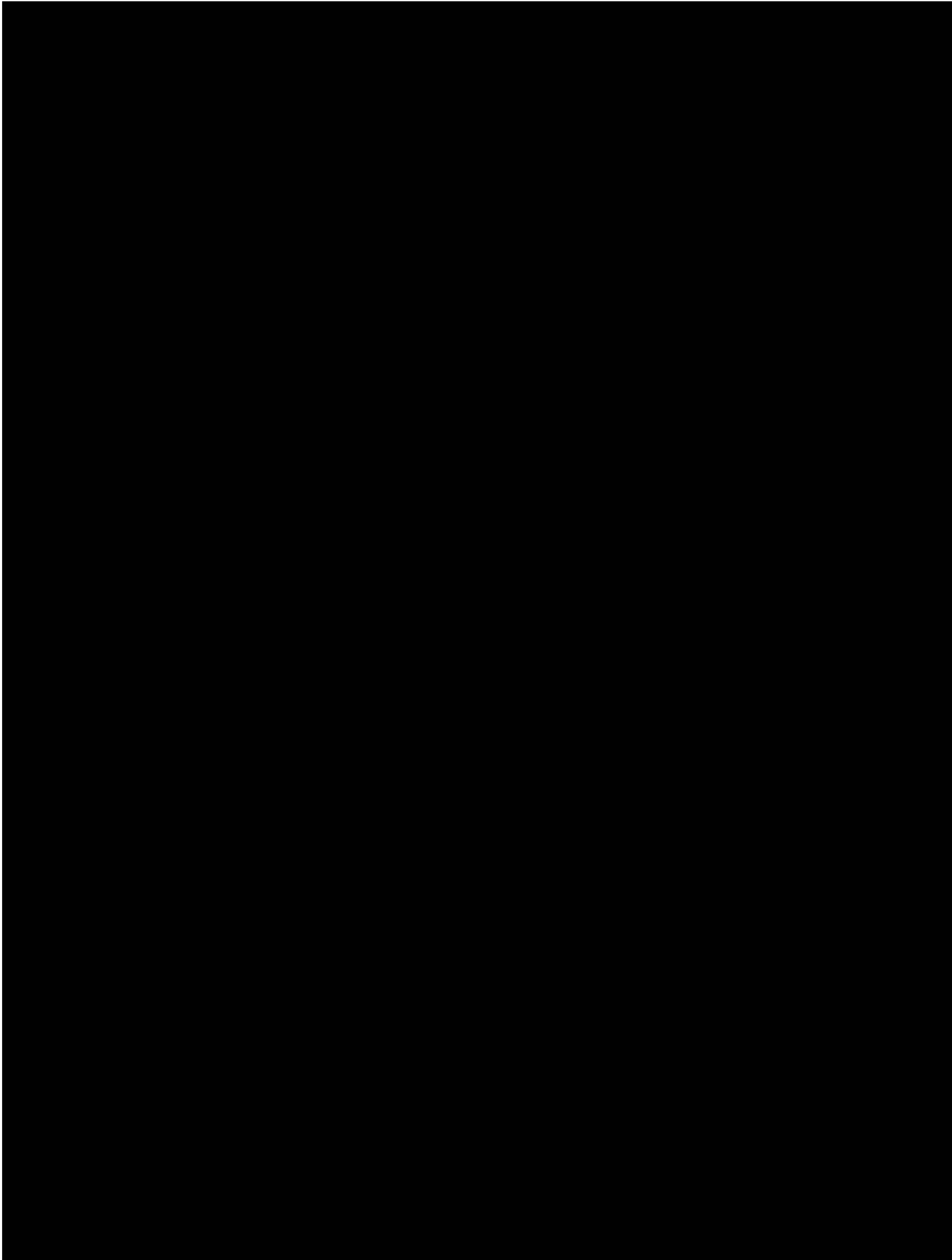
The Organization has the following loan balances outstanding at June 30, 2007. These loan balances are included in the federal expenditures presented in the schedule.

<u>PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AMOUNTS OUTSTANDING</u>
Community Development Block Grant	14.218	\$511,343

REVISED
MAY 15 2008







COMMUNICATION SERVICES FOR THE DEAF, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007

There were no prior audit findings reported for **Communication Services for the Deaf, Inc.**

REVISED
MAY 15 2006

JAN 22 2008

Communication Service for the Deaf, Inc

COMMUNICATION SERVICE FOR THE DEAF, INC

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CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Communication Service for the Deaf, Inc.
Sioux Falls, South Dakota

We have audited the accompanying consolidated balance sheet of **Communication Services for the Deaf, Inc. and its controlled entities**, as of June 30, 2007, and the related consolidated statements of activities and of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements as of June 30, 2006 were audited by Henry Scholten & Company, LLP, who joined Eide Bailly LLP on June 1, 2007, and whose report dated September 29, 2006 and January 16, 2007, expressed an unqualified opinion on those statements..

We conducted our 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 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 the 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Communication Service for the Deaf, Inc. and controlled entities** as of June 30, 2007, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2007, on our consideration of **Communication Services for the Deaf, Inc.'s** internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That 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 our audit.

PEOPLE. PRINCIPLES. POSSIBILITIES.

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Our audit was performed for the purpose of forming an opinion on the basic financial statements of **Communication Services for the Deaf, Inc. and its controlled entities** taken as a whole. The accompanying schedule of expenditures of federal and state financial assistance is presented for purposes of 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Sioux Falls, South Dakota
December 12, 2007

COMMUNICATION SERVICES FOR THE DEAF, INC.
CONSOLIDATED BALANCE SHEETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,331,487	\$ 192,273
Accounts receivable	2,955,464	2,345,807
Accounts receivable, less allowance for doubtful accounts	6,499,736	3,414,048
Inventory	458,581	8,390
Prepaid expenses	357,125	357,798
Prepaid insurance	15,130	53,953
	<u>14,617,523</u>	<u>6,372,269</u>
ASSETS LIMITED AS TO USE		
Cash and cash equivalents	<u>3,151,323</u>	<u>1,125,547</u>
PROPERTY AND EQUIPMENT		
Land and improvements	1,271,606	1,263,020
Buildings and improvements	16,426,574	16,628,058
Equipment	8,042,149	9,809,692
Vehicles	260,961	265,364
	<u>26,001,290</u>	<u>27,966,134</u>
Accumulated depreciation	<u>(13,716,327)</u>	<u>(13,222,613)</u>
	<u>12,284,963</u>	<u>14,743,521</u>
OTHER ASSETS		
Investment in	6,075,000	-
Property held for future expansion	2,980,990	2,980,990
Intangible and other assets, less accumulated depreciation	72,620	131,764
Deposits	123,930	527,871
	<u>9,252,540</u>	<u>3,640,625</u>
TOTAL ASSETS	<u>\$ 39,306,349</u>	<u>\$ 25,881,962</u>

See Notes to Consolidated Financial Statements

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 881,713	\$ 1,586,100
Accounts payable	1,299,783	1,956,061
Accrued health insurance	1,297,786	1,419,144
Accrued wages	781,504	915,606
Accrued paid-time-off	915,765	858,785
Deferred revenue	139,067	785,736
Accrued payroll taxes and deductions	696,007	203,514
Accrued interest	4,106	60,556
	<u>6,015,731</u>	<u>7,785,502</u>
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	5,345,501	3,663,410
Retirement benefit obligation	2,440,600	2,250,363
Funds held for others	1,211,034	742,298
	<u>8,997,135</u>	<u>6,656,071</u>
DEFERRED LOANS	<u>511,343</u>	<u>511,343</u>
Total liabilities	<u>15,524,209</u>	<u>14,952,916</u>
UNRESTRICTED NET ASSETS	<u>23,782,140</u>	<u>10,929,046</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 39,306,349</u>	<u>\$ 25,881,962</u>

COMMUNICATION SERVICES FOR THE DEAF, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Fees for services	\$ 54,302,574	\$ 54,367,763
Government grants	1,210,554	618,244
Contracts	264,425	948,569
Program receipts and registrations	209,389	240,680
Contributions and foundation awards	132,676	121,137
Miscellaneous income	212,323	285,452
Total operating revenues	<u>56,331,941</u>	<u>56,581,845</u>
OPERATING EXPENSES		
Salaries	35,865,680	38,523,318
Employee benefits	10,442,978	7,512,509
Interpreters, teachers and contract labor	4,045,107	3,582,297
Occupancy expense	4,505,948	4,604,949
Depreciation and amortization	2,386,312	2,570,317
Technology costs	217,143	247,330
Professional services	910,673	907,373
Supplies, printing and postage	679,903	606,079
Communications	550,869	639,214
Travel and training	641,029	624,066
Sponsorships, special events and dues	697,936	877,528
Marketing and outreach	235,370	315,364
Insurance	416,052	362,283
Interest expense	812,239	668,799
Equipment repairs and maintenance	191,618	183,399
Equipment leased	59,902	43,223
Bad debts	175,389	52,057
Miscellaneous	22,568	38,012
Total operating expenses	<u>62,856,716</u>	<u>62,358,117</u>
OPERATING LOSS	<u>(6,524,775)</u>	<u>(5,776,272)</u>
NON-OPERATING REVENUES/EXPENSES		
Rent income and other	269,109	209,425
Interest income	219,779	14,352
Gain on sale of VRS operations and disposal of property and equipment	18,653,825	(24,976)
Total non-operating revenues/expenses	<u>19,142,713</u>	<u>198,801</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS BEFORE EFFECTS OF DISCONTINUED OPERATIONS	12,617,938	(5,577,471)
EXCESS OF REVENUES OVER EXPENSES FROM DISCONTINUED VRS OPERATIONS	235,156	2,615,914
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	12,853,094	(2,961,557)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	10,929,046	13,890,603
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 23,782,140	\$ 10,929,046

See Notes to Consolidated Financial Statements

COMMUNICATION SERVICES FOR THE DEAF, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in unrestricted net assets	\$ 12,853,094	\$ (2,961,557)
Adjustments to reconcile decrease in unrestricted net assets to net cash (used in) from operating activities:		
Depreciation and amortization	2,623,555	3,180,281
Bad debts	175,389	42,466
Gain on sale of VRS operations and disposal of property and equipment	(18,653,825)	23,776
Noncash payment of interest	100,585	-
Changes in assets and liabilities		
Accounts receivable	(834,788)	2,202,026
Deposits	47,598	(30,100)
Other current assets	37,886	299,162
Accounts payable	(638,441)	119,635
Accrued expenses	237,563	(2,539,478)
Deferred revenue	(646,669)	536,642
Retirement benefit obligation	190,237	(1,660,330)
NET CASH FROM OPERATING ACTIVITIES	<u>(4,507,816)</u>	<u>(787,477)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(273,330)	(2,090,355)
Increase in assets limited as to use	(2,025,776)	(562,581)
Increase in funds held for others	468,736	275,000
Proceeds from sale of VRS operations and disposal of property and equipment	9,470,976	1,200
NET CASH FROM INVESTING ACTIVITIES	<u>7,640,606</u>	<u>(2,376,736)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	2,268,393	1,768,467
Payments on notes payable	(413,377)	(670,296)
Payments on lease obligations	(772,594)	(848,167)
Loan fees	(75,998)	-
NET CASH FROM FINANCING ACTIVITIES	<u>1,006,424</u>	<u>250,004</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>4,139,214</u>	<u>(2,914,209)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>192,273</u>	<u>3,106,482</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,331,487</u>	<u>\$ 192,273</u>

COMMUNICATION SERVICES FOR THE DEAF, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Principals of Consolidation

The financial statements include the consolidated accounts of Communication Service for the Deaf, Inc. (CSD), Camp Lakodia, LLC and Lakodia Outfitters, LLC (Lake Herman Entities) and CSD Ventures, Inc. (Ventures). All material intercompany balances, transactions and earnings have been eliminated.

Nature of Organization

Communication Service for the Deaf, Inc. provides services for the deaf community, which include interpreting, relay services, equipment distribution and other broad-based services throughout the United States.

CSD Ventures, Inc. operates multimedia call centers, which provide answering services and customer support to businesses throughout the United States.

Camp Lakodia, LLC located near Madison, South Dakota, provides leadership and literacy camps to students of school age who are deaf, hard of hearing or affluent in American sign language.

Lakodia Outfitters, LLC uses the Camp Lakodia facilities in the fall. Guided hunting packages are available as well as lodging.

Tax Status

CSD is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Lake Herman Entities are disregarded entities under the Internal Revenue Code. Accordingly, the activities of the Lake Herman Entities are combined with CSD activities on CSD's annual return. Certain activities of the Lake Herman Entities are subject to unrelated business income tax. CSD Ventures, Inc. is a South Dakota Corporation subject to federal income tax.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Concentration of Credit Risk

CSD's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents and temporary cash investments. Management believes CSD places its cash, cash equivalents and temporary cash investments with high quality credit institutions. At times these balances may exceed the applicable FDIC insurance limit.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, CSD considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The carrying amount of cash equivalents is a reasonable estimate of fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounts Receivable

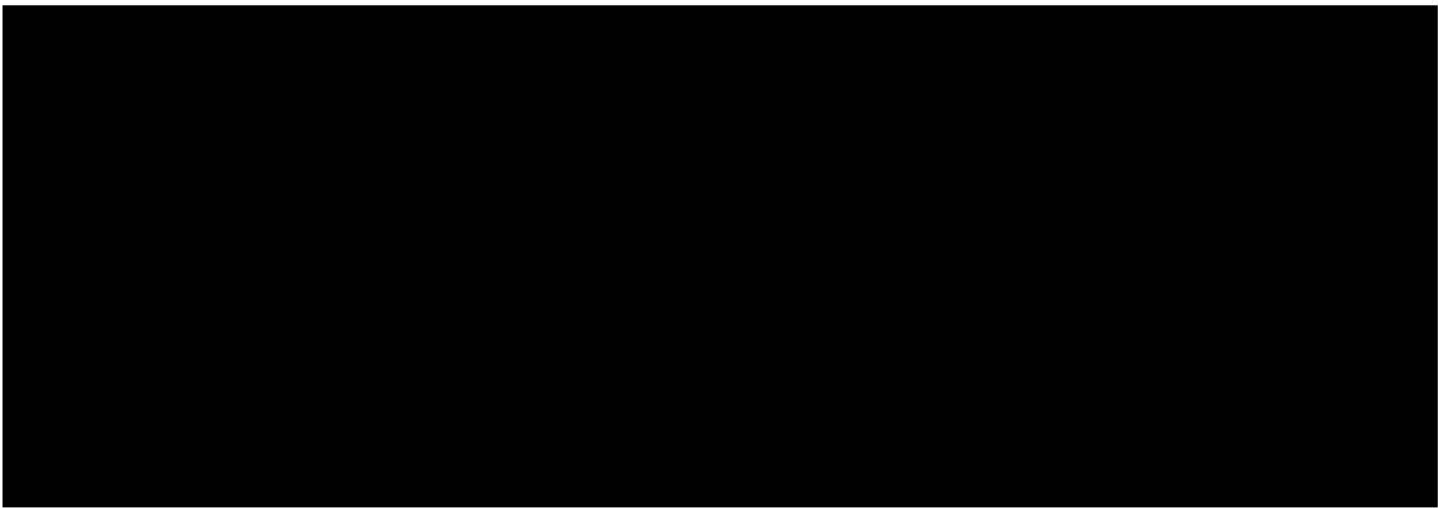
Substantially all of the accounts receivable are considered collectible. Accordingly, the allowance for doubtful accounts is \$16,500 at June 30, 2007 and 2006. If accounts become uncollectible, they are charged to operations when that determination is made.

In 2006, certain receivables were sold with partial recourse at the face amount less fees, trade discounts, credits, or adjustments. Accounts receivable at June 30, 2006 were shown net of receivables sold totaling approximately \$4,100,000. Fees for the years ending June 30, 2007 and 2006 totaling \$168,035 and \$82,624, respectively, were included in interest expense. The agreement terminated on December 15, 2006.

Intangible and Other Assets

Intangible and other assets consist of the following:

<u>Intangible Asset</u>	<u>Date Acquired</u>	<u>Amortization Period</u>	<u>Cost at 6/30/2007</u>	<u>Accumulated Amortization 6/30/2007</u>	<u>Accumulated Amortization 6/30/2006</u>
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Donated Services

A number of people have contributed their time to the activities of CSD without compensation. The income and expenses attributable to donated services are not reflected in the statements of activities. These services enhance the quality of services furnished by CSD, but do not represent services that would require additional staffing if the services were not provided on a volunteer basis.

Donor Restrictions

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, CSD reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

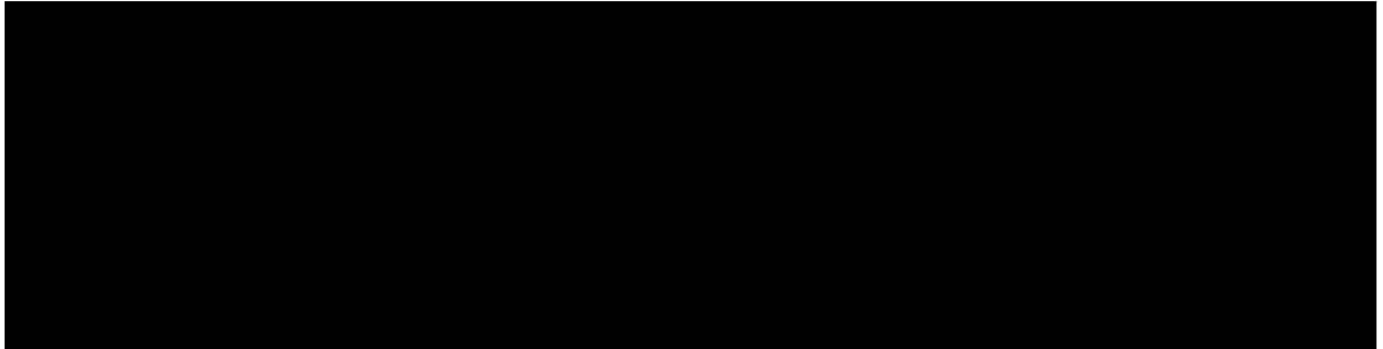
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Supplemental Statements of Cash Flow Information

Non-cash investing and financing activities for the years ended June 30, 2007 and 2006 consist of the following:

2007

2006



Cash payments for interest totaled \$886,150 and \$622,430 for the years ended June 30, 2007 and 2006, respectively. Cash payments for income taxes were \$0.

Reclassifications

Certain amounts from the accompanying 2006 financial statements have been reclassified to conform with the 2007 presentation.

NOTE 2 - ASSETS LIMITED AS TO USE

Assets limited as to use include cash held on behalf of the Regulatory Commission of Alaska in connection with providing telephone relay services in Alaska, cash held for camp scholarships, and cash and mutual funds designated by management to fund retirement benefit obligations. Mutual fund investments are recorded at fair value determined by quoted market prices.

Assets limited as to use also include cash held in an escrow account as stipulated by the terms of the sale agreement of the video interpreting services division in December 2006. The balance in the escrow account was \$508,583 at June 30, 2007.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment is generally recorded at cost. Donated land and other property and equipment items are recorded at their estimated value at the time of donation.

Maintenance, repairs, and replacements, which do not improve the assets or extend the assets' lives, are expensed as incurred. Costs of additions and improvements are added to the land, land improvements, buildings, and furniture and equipment accounts.

Depreciation of property is provided on the straight-line basis. Depreciation rates are based on the estimated useful lives of the assets ranging from five to forty years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property at June 30, 2007 and 2006 is summarized as follows:

	2007		2006	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and land improvements	\$ 1,271,606	\$ 62,208	\$ 1,263,020	57,483
Buildings and improvements	16,426,574	6,901,285	16,628,058	6,202,759
Equipment	8,042,149	6,536,040	9,809,692	6,782,558
Vehicles	260,961	216,794	265,364	179,813
Total	\$ 26,001,290	\$ 13,716,327	\$ 27,966,134	\$ 13,222,613

NOTE 4 - INVESTMENT IN CSDVRS, LLC

On December 13, 2006, CSD sold its video interpreting services business to CSDVRS, LLC, a Delaware limited liability company. In addition to cash proceeds, CSD received 6,075,000 Series A common shares of CSDVRS, LLC. CSD has a 20.2% interest in CSDVRS, LLC, therefore the investment has been recorded using the equity method of accounting. No income or loss was allocated to CSD during the year ending June 30, 2007 as the 8% preferred cumulative and compounding income allocated to owners of preferred stock were not met.

NOTE 5 - LONG-TERM DEBT

CSD's long-term debt as of June 30, 2007 and 2006 consists of the following:

<i>Notes Payable</i>	2007	2006
Minnwest Bank, due in monthly installments of \$47,439, including interest at 9.25% through December 1, 2021. This note is secured by all buildings and lands.	\$ 4,501,263	\$ -
Midwest Oil Co., due in monthly installments of \$3,560, including interest at 8.0%, with a balloon principal and interest payment on March 20, 2009. Secured by land on E. 10 th Street, Sioux Falls, South Dakota.	285,291	304,351
Mark Reynolds, due in monthly installments of \$3,312, including interest at 5.75% through January 1, 2014. This note is secured by land in Lake County, SD adjacent to Camp Lakodia.	215,145	241,688
Enterprise Zone Development Corporation of Vineland and Millville, due in monthly installments of \$3,397, including interest at 5.0% through April 27, 2011. This note is secured by machinery, equipment, inventory, furniture and fixtures, accounts receivable and all business assets now owned or acquired.	141,924	174,695
Frank Guaracini, Jr. Transportation Company, LLC, due in monthly installments of \$6,360, including interest at 9.0% through March 10, 2009. This note is unsecured.	123,146	185,317

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Notes Payable (continued)</u>	<u>2007</u>	<u>2006</u>
Charleston Court Condominium Association, due in monthly installments of \$824, including including interest at 8.5% through September 1, 2007. This note is not collateralized.	\$ 2,446	\$ -
Ford Motor Credit, due in monthly installments of \$444, including 0% interest through September 1, 2007. This loan is secured by a vehicle.	1,333	6,661
Wells Fargo Bank, due in monthly installments of \$6,385, including interest through September 20, 2008. Collateralized by a mortgage on the William Janklow Building, 3520 Gateway Lane, Sioux Falls, SD. Refinanced November 17, 2006.	-	93,558
Wells Fargo Bank, due in monthly principal installments of \$9,545, plus interest through October 10, 2006. Secured by a mortgage on Krohn Hall, 101 N. Krohn Place, Sioux Falls, South Dakota.	-	38,158
Wells Fargo Bank, due in monthly principal installments of \$2,750, plus interest, with a balloon principal and interest payment on August 10, 2009. Secured by a mortgage on the warehouse, 2000 N. 4th Ave, Sioux Falls, South Dakota. Refinanced November 17, 2006.	-	434,500
Soukup Services, Inc. due in monthly installments of \$5,677, including interest at 8.0% through July 1, 2007. This note was not collateralized.	-	65,266
Wells Fargo Bank, due in monthly principal installments of \$4,891, plus interest, with a balloon principal and interest payment on June 25, 2008. Secured by a mortgage on 100 N. Krohn Place, Sioux Falls, South Dakota. Refinanced November 17, 2006.	-	997,687
Wells Fargo Bank, due in monthly principal installments of \$12,087, including interest, with a balloon principal and interest payment on March 5, 2009. Secured by a mortgage on Camp Lakodia. Refinanced November 17, 2006.	-	861,626
First American Equipment Finance, due in monthly installments of \$63,524, including interest, through January 15, 2008. Secured by equipment. Note was paid off on December 15, 2006.	-	1,175,918
<u>Capital Leases</u>		
Various copier leases from A & B Business Equipment, due in monthly installments ranging from \$56 to \$322, including interest ranging from 7.7% to 21.0%. Final installments are due April 15, 2010. (Note 5)	24,864	53,327

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2007	2006
<i>Capital Leases (continued)</i>		
Various equipment leases from Axis Capital, Inc., due in monthly installments from \$832 to \$8,418, including interest ranging from 10.2% to 12.0%. Final installments are due November 20, 2011. (Note 5)	\$ 921,079	\$ 353,011
Equipment lease from Cisco Systems Capital, due in monthly installments of \$1,269, including interest at 15.36% through March 1, 2008.	10,723	-
Various telecommunications equipment leases from First American Equipment Finance, due in monthly installments ranging from \$7,233 to \$38,483, including interest ranging from 7.83% to 11.93%. Final installments were due May 1, 2007.	-	263,747
	\$ 6,227,214	\$ 5,249,510
Less current maturities	881,713	1,586,100
	\$ 5,345,501	3,663,410

Scheduled maturities of long-term debt are as follows:

Years Ending June 30,	Amount
2008	\$ 881,713
2009	666,177
2010	378,103
2011	403,514
2012	270,507
Thereafter	3,627,200
	\$ 6,227,214

NOTE 6 - CAPITAL LEASES

CSD has entered into several long-term leases for office and computer equipment that expire at various times between 2008 and 2012. The total cost of the equipment under capital lease is \$1,083,052 and \$1,523,181 as of June 30, 2007 and 2006, respectively, and is capitalized in the accompanying balance sheets. Depreciation is provided using the straight-line method over the estimated useful lives of the equipment. Accumulated depreciation totaled \$214,326 and \$757,056 as of June 30, 2007 and 2006, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Future lease payments under capital lease obligations are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2008	\$ 632,858
2009	147,955
2010	146,797
2011	143,280
Thereafter	<u>13,435</u>
Total minimum lease payments	1,084,325
Less imputed interest	<u>(127,659)</u>
Present value of minimum lease payments	<u>\$ 956,666</u>

NOTE 8 - DEFERRED LOANS

CSD has received the following zero interest rate Department of Community Development loans to acquire various buildings in Sioux Falls, South Dakota.

Simpson Hall	December 14, 1993	\$ 55,243
Evergreen Rental	May 2, 1990	77,500
Krohn Hall	June 20, 1994	<u>378,600</u>
		<u>\$ 511,343</u>

These loans were provided by the City of Sioux Falls with Community Development Block Grant funds. The principal sums as specified in the agreements, shall not become due and payable until the occurrence of one of the following events: (1) conveyance of the property by CSD, (2) voluntary or involuntary relinquishment of the property by CSD, or (3) termination of the agreement by the City for noncompliance. These buildings are secured by mortgages and are currently being used as specified in the agreements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - LEASE OBLIGATIONS

Operating Leases

CSD leases certain equipment under agreements that have been recorded as operating leases. Operating equipment lease expense for the years ended June 30, 2007 and 2006 was \$60,257 and \$44,129, respectively.

The following is a schedule by years of future minimum rentals under the leases as of June 30, 2007:

<u>Years Ending June 30,</u>	<u>Amount</u>
2008	\$ 46,093
2009	35,349
2010	16,686
2011	12,816
2012	5,340
	<u>\$ 116,284</u>

CSD also leases real estate facilities under agreements that have been recorded as operating leases. Total rent charged to occupancy was \$2,796,600 and \$3,215,035 for the years ended June 30, 2007 and 2006, respectively. Future minimum lease payments under non-cancelable operating facilities leases as of June 30, 2007 are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2008	\$ 2,360,362
2009	1,486,662
2010	991,602
2011	521,164
2012	157,223
Thereafter	11,802
	<u>\$ 5,528,815</u>

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Employee Health Insurance

CSD self-insures employee health insurance benefits. Employee health insurance expense was \$6,610,981 and \$6,121,809 for the years ended June 30, 2007 and 2006, respectively.

Pension Plan

CSD has a contributory 403(b) plan covering all eligible employees. CSD makes a discretionary contribution considering employee contributions up to 4% of annual compensation. The plan expense for the years ended June 30, 2007 and 2006 was \$427,286 and (\$333,540), respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Material Concentration

CSD has a continuing contract with a telecommunications company to provide personnel, management, expertise and leasehold facilities for use by the company in providing telecommunications relay services (TRS) to residents of various states. The current contract expires December 31, 2007 but may be renewed at the Company's option on sixty days notice or by mutual agreement on an annual basis.

Revenue from this contract represents a substantial portion of CSD's total operating revenue.

Regulated Revenue Reimbursement Rates

Services provided by CSD are paid in substantial part by regulatory agencies. Accordingly, reimbursement rates for call center fees and video interpreting are subject to change beyond CSD's control. CSD's operating results are substantially dependent on the regulated reimbursement rates of these programs.

General Liability

General liability claims have been asserted against CSD by certain claimants. The claims are in various stages of processing and some may ultimately be brought to trial. In the opinion of management, the outcome of these actions will not have a significant effect on the financial position or the results of operations of CSD. Incidents occurring through June 30, 2007 may result in the assertion of additional claims. Management believes that these claims, if asserted, would be settled at amounts which would not result in additional losses to CSD.

Contribution Intention

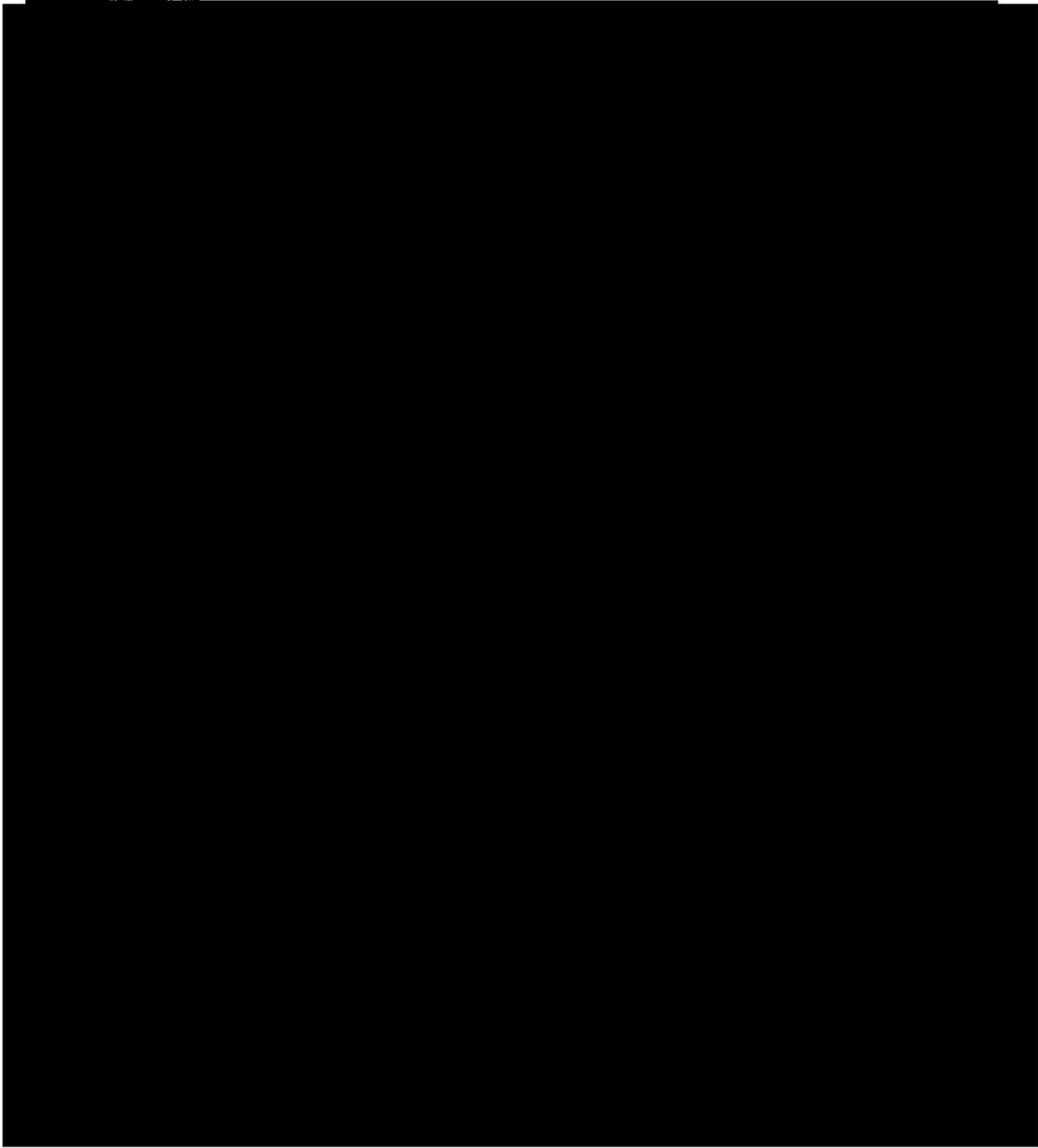
CSD has expressed its intention to contribute \$2,000,000 to an educational institution for the deaf to construct a student development center. The contribution is being paid at a rate of \$37,963 per month. A total of \$1,088,889 has been paid through June 30, 2007.

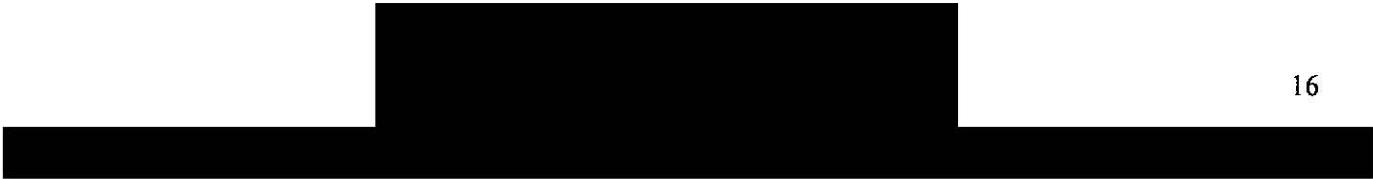
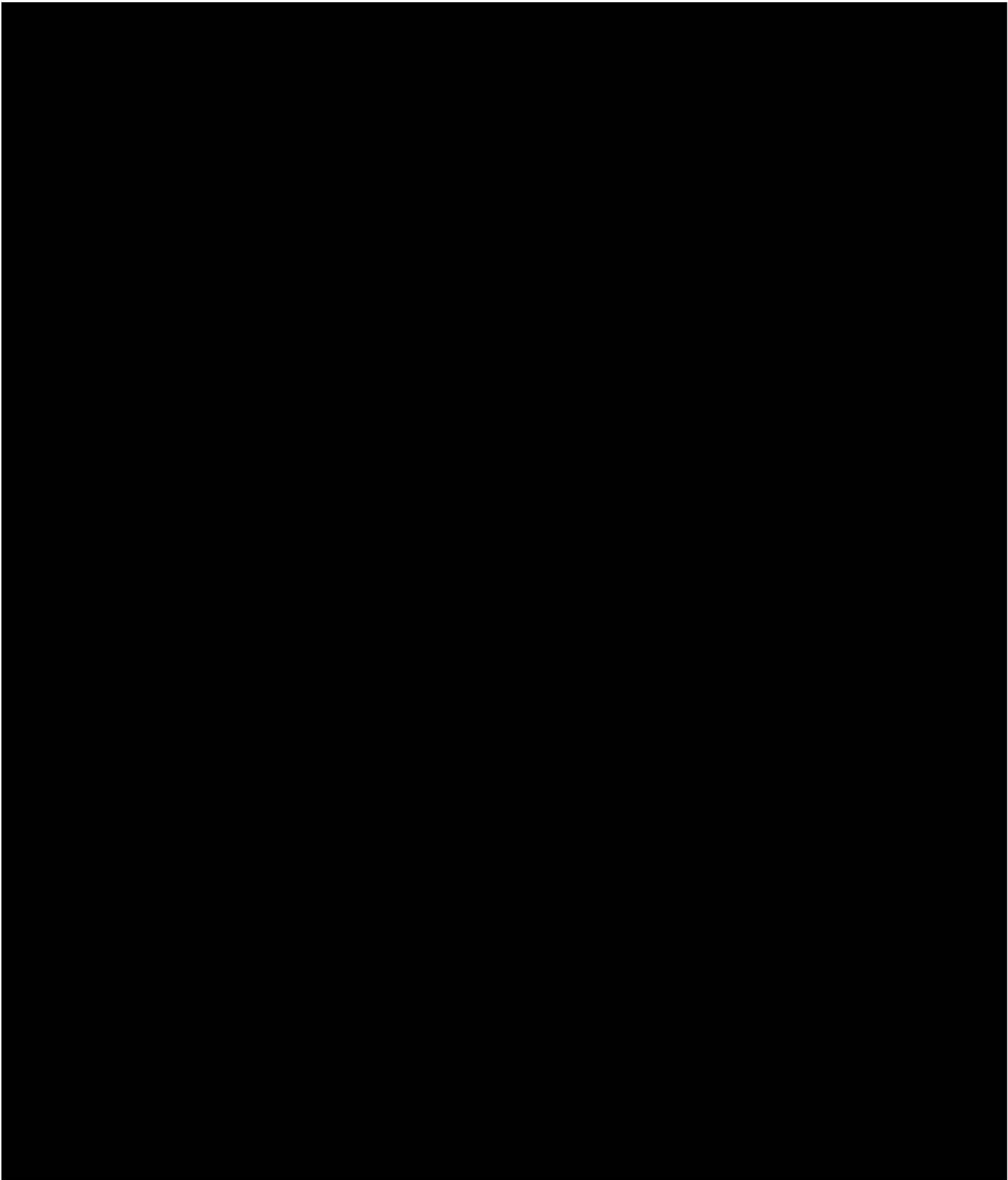
NOTE 11 - FUNCTIONAL EXPENSES

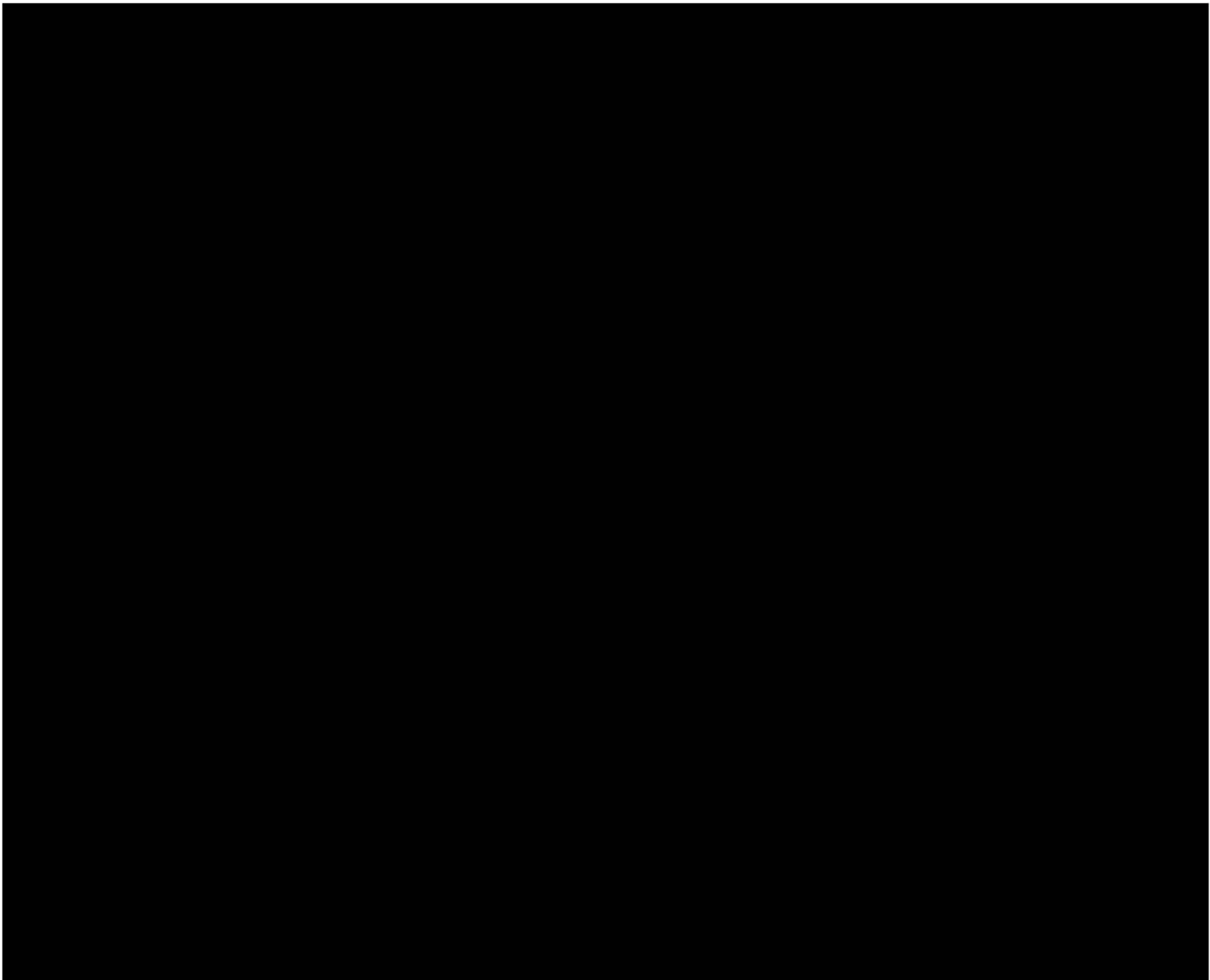
CSD provides services to the deaf community in many states across the United States. Expenses related to providing these services for the years ended June 30, 2007 and 2006 are as follows:

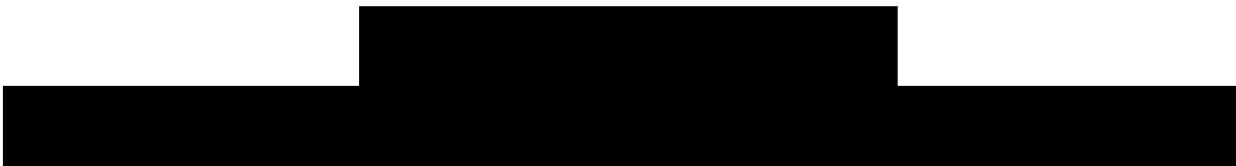
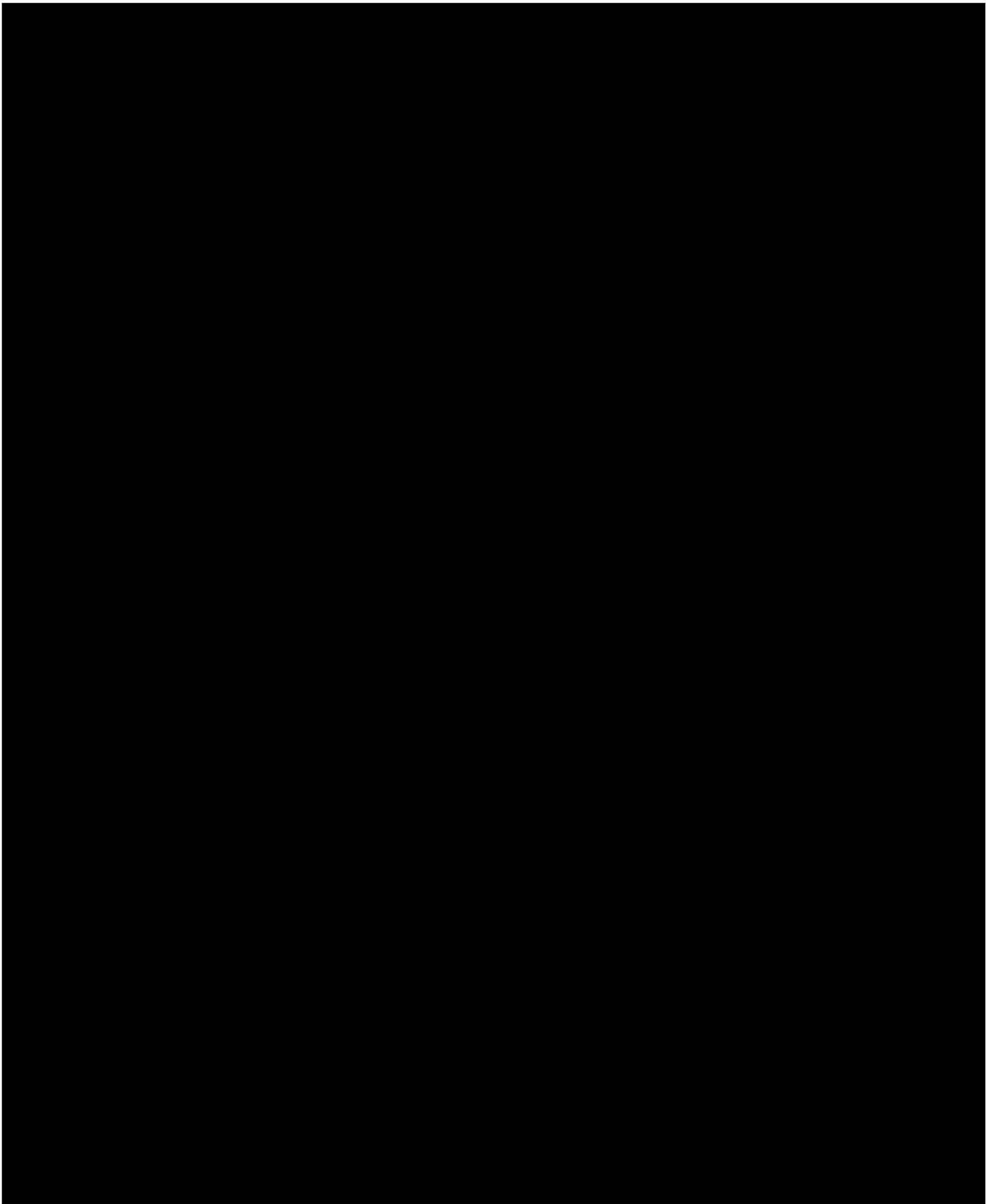
	<u>2007</u>	<u>2006</u>
Program	\$ 63,064,247	\$ 73,847,960
General and administrative	<u>8,461,536</u>	<u>8,627,137</u>
	<u>\$ 71,525,783</u>	<u>\$ 82,475,097</u>

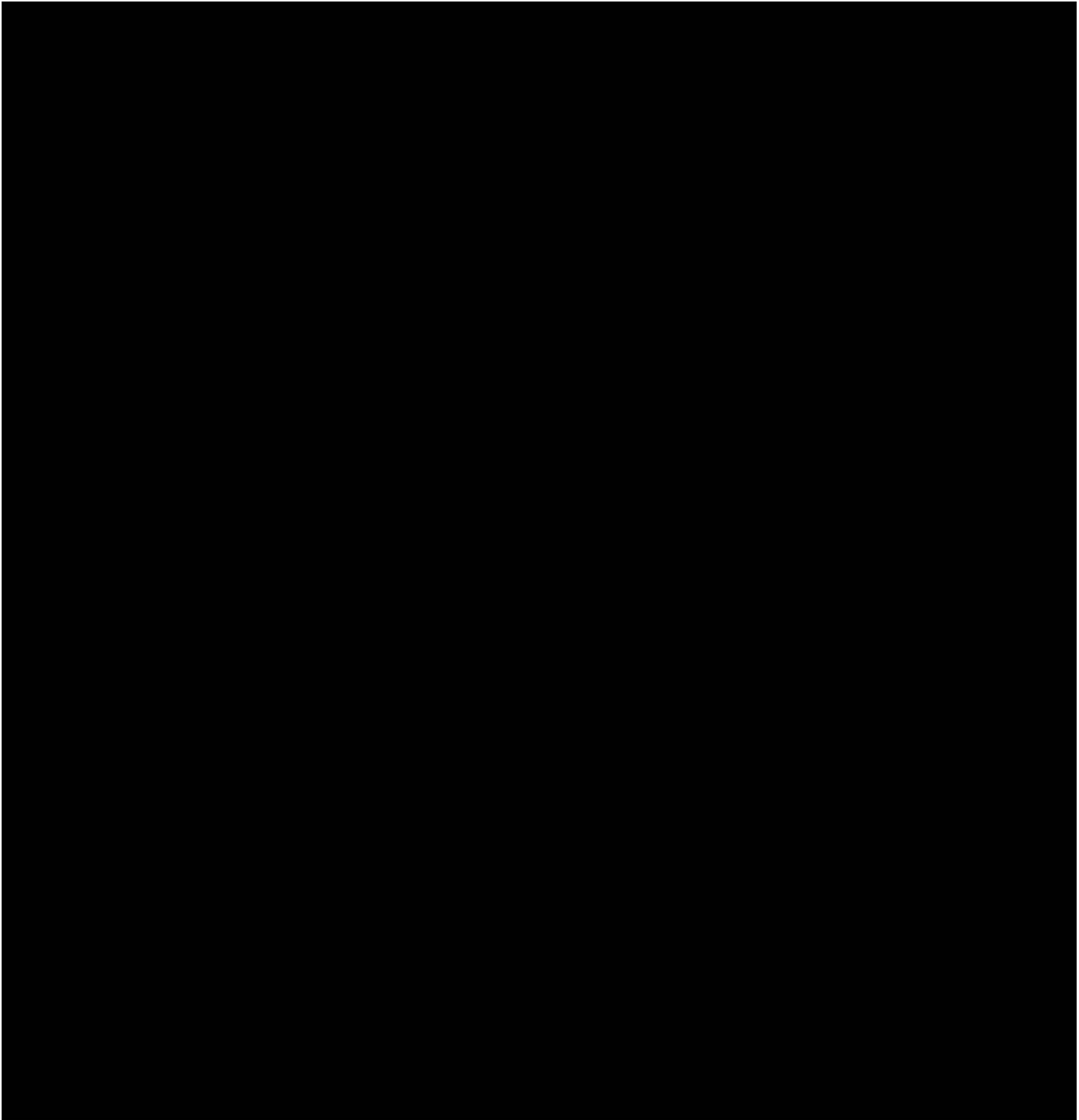
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS











COMMUNICATION SERVICES FOR THE DEAF, INC.
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

<u>Federal Grantor/Pass Through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>Department of Housing and Urban Development</u>		
Passed through City of Sioux Falls, South Dakota Community Development Block Grants	14.218	\$ 511,343
<u>Department of Education</u>		
Passed through State of Minnesota Adult Education_State Grant Program	84.002	\$ 17,570
Passed through State of Iowa Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126	\$ 34,504
Passed through State of Texas Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126	427,182
Subtotal Rehabilitation Services_Vocational Rehabilitation Grants to States		<u>461,686</u>
<u>Department of Justice</u>		
Passed through State of Minnesota Education and Training to End Violence Against and Abuse of Women With Disabilities	16.529	\$ 80,622
Passed through State of Oklahoma Violence Against Women Formula Grants	16.588	<u>46,197</u>
<u>Department of Homeland Security</u>		
Passed through State of Oklahoma Competitive Training Grants	97.068	\$ 72,487
<u>Department of Health & Human Services</u>		
Passed through State of North Dakota Voting Access for Invididuals with Disabilities_Grants to States	93.617	\$ 13,843
Passed through State of Ohio Block Grants for Community Mental Health Services	93.958	<u>170,578</u>
Total expenditures of federal awards		<u>\$ 1,374,326</u>

The accompanying notes are an integral part of this schedule.

COMMUNICATION SERVICES FOR THE DEAF, INC.
NOTES TO THE CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying Consolidated Schedule of Expenditures of Federal Awards includes the federal grant activity of **Communication Services for the Deaf, Inc.** and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

NOTE 2 – LOANS OUTSTANDING

The Organization has the following loan balances outstanding at June 30, 2007. These loan balances are included in the federal expenditures presented in the schedule.

<u>PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AMOUNTS OUTSTANDING</u>
Community Development Block Grant	14.218	\$511,343

