



**PERKINS SCHOOL FOR THE BLIND**

Consolidated Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

**PERKINS SCHOOL FOR THE BLIND**

June 30, 2019 and 2018

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KPMG LLP  
Two Financial Center  
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## Independent Auditors' Report

The Board of Trustees  
Perkins School for the Blind:

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Perkins School for the Blind and its subsidiaries (the School), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the School as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



***Emphasis of Matter***

As discussed in note 2(l) to the consolidated financial statements, in 2019, the School adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

Boston, Massachusetts  
November 8, 2019

**PERKINS SCHOOL FOR THE BLIND**  
Consolidated Statements of Financial Position  
June 30, 2019 and 2018

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Cash	\$ 7,503,497	\$ 7,618,831
Accounts receivable, net of reserves of \$121,000 and \$115,445 for 2019 and 2018, respectively	6,828,032	6,005,988
Grants receivable	1,206,742	1,657,130
Pledges receivable, net (note 4)	888,918	1,537,452
Prepaid expense and other assets	2,022,435	1,697,903
Inventory, net (note 5)	4,623,472	4,274,208
Investments (note 6)	296,579,069	296,237,040
Assets held by outside trusts (note 2)	9,484,911	9,524,005
Fixed assets, net (note 8)	62,063,271	63,629,416
Total assets	\$ 391,200,347	\$ 392,181,973
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 8,748,808	\$ 7,992,169
Bond payable (note 9)	28,980,091	29,881,610
Asset retirement obligations (note 2)	1,463,161	1,463,161
Total liabilities	39,192,060	39,336,940
Without donor restrictions (note 10)	\$ 195,967,520	\$ 192,885,484
With donor restrictions (note 10)	156,040,767	159,959,549
Total net assets	352,008,287	352,845,033
Total liabilities and net assets	\$ 391,200,347	\$ 392,181,973

See accompanying notes to the consolidated financial statements

**PERKINS SCHOOL FOR THE BLIND**  
Consolidated Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>2019 Total</u>
<b>Operating</b>			
Revenues and other support (note 2)			
Tuition	\$ 30,527,557	\$ -	\$ 30,527,557
Government revenue	7,925,080	-	7,925,080
Sales of materials for the blind	5,843,104	-	5,843,104
Library services	2,902,786	-	2,902,786
Contributions	3,704,216	1,707,848	5,412,064
Private grants	1,230,863	-	1,230,863
Other revenues	2,662,022	-	2,662,022
Income from outside trusts	450,095	-	450,095
Total operating revenues	<u>55,245,723</u>	<u>1,707,848</u>	<u>56,953,571</u>
Endowment return utilized in operations	15,843,591	-	15,843,591
Net assets released from restrictions and transfers	<u>2,784,803</u>	<u>(2,784,803)</u>	<u>-</u>
Total operating revenues and other support	<u>73,874,117</u>	<u>(1,076,955)</u>	<u>72,797,162</u>
<b>Expenses</b>			
Program expense			
Educational programs	39,273,393	-	39,273,393
Supporting services	21,308,039	-	21,308,039
Administration	10,376,855	-	10,376,855
Fundraising	<u>3,734,041</u>	<u>-</u>	<u>3,734,041</u>
Total operating expenses	<u>74,692,328</u>	<u>-</u>	<u>74,692,328</u>
Change in net assets from operating activities	(818,211)	(1,076,955)	(1,895,166)
<b>Nonoperating</b>			
Net investment return	6,744,980	6,203,052	12,948,032
Endowment return utilized in operations	(8,691,567)	(7,152,024)	(15,843,591)
Gifts and legacies	3,637,758	159,977	3,797,735
Change in value of split interest agreements	109,076	47,168	156,244
Net assets released from restrictions for capital expenditures	<u>2,100,000</u>	<u>(2,100,000)</u>	<u>-</u>
Change in net assets from nonoperating activities	<u>3,900,247</u>	<u>(2,841,827)</u>	<u>1,058,420</u>
Total change in net assets	3,082,036	(3,918,782)	(836,746)
<b>Net assets</b>			
Beginning of year	<u>192,885,484</u>	<u>159,959,549</u>	<u>352,845,033</u>
End of year	<u>\$ 195,967,520</u>	<u>\$ 156,040,767</u>	<u>\$ 352,008,287</u>

See accompanying notes to the consolidated financial statements

**PERKINS SCHOOL FOR THE BLIND**  
Consolidated Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2018

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>2018 Total</u>
<b>Operating</b>			
Revenues and other support (note 2)			
Tuition	\$ 28,882,785	\$ -	\$ 28,882,785
Government revenue	7,854,229	-	7,854,229
Sales of materials for the blind	5,722,075	-	5,722,075
Library services	2,806,561	-	2,806,561
Contributions	3,269,187	4,439,643	7,708,830
Private grants	1,688,189	-	1,688,189
Other revenues	2,325,340	-	2,325,340
Income from outside trusts	386,953	-	386,953
Total operating revenues	52,935,319	4,439,643	57,374,962
Endowment return utilized in operations	17,846,636		17,846,636
Net assets released from restrictions and transfers	2,745,532	(2,745,532)	-
Total operating revenues and other support	73,527,487	1,694,111	75,221,598
<b>Expenses</b>			
Program expense			
Educational programs	37,962,260	-	37,962,260
Supporting services	20,775,443	-	20,775,443
Administration	10,118,082	-	10,118,082
Fundraising	4,171,655	-	4,171,655
Total operating expenses	73,027,440	-	73,027,440
Change in net assets from operating activities	500,047	1,694,111	2,194,158
<b>Nonoperating</b>			
Net investment return	14,015,336	13,301,847	27,317,183
Endowment return utilized in operations	(9,976,725)	(7,869,911)	(17,846,636)
Gifts and legacies	3,110,761	343,485	3,454,246
Change in value of split interest agreements	159,842	411,312	571,154
Change in net assets from nonoperating activities	7,309,214	6,186,733	13,495,947
Total change in net assets	7,809,261	7,880,844	15,690,105
<b>Net assets</b>			
Beginning of year, as restated	185,076,223	152,078,705	337,154,928
End of year	\$ 192,885,484	\$ 159,959,549	\$ 352,845,033

See accompanying notes to the consolidated financial statements

**PERKINS SCHOOL FOR THE BLIND**  
Consolidated Statements of Functional Expenses  
Years Ended June 30, 2019 and 2018

Year End June 30, 2019	<u>Program Expense</u>	<u>Administration</u>	<u>Fundraising</u>	<u>2019 Total</u>
Employee Compensation & Related Benefits	\$ 40,768,318	\$ 6,479,913	\$ 2,158,150	\$ 49,406,381
Occupancy	3,713,006	450,175	126,495	4,289,676
Other Programs/ Operating Expenses	10,847,720	339,380	199,629	11,386,729
Subcontract Expense	261,380	-	-	261,380
Direct Administrative Expense	1,045,428	2,508,160	1,161,993	4,715,581
Other Expense	-	22,000	-	22,000
Depreciation	3,945,580	577,227	87,774	4,610,581
<b>Total Expense</b>	<u>\$ 60,581,432</u>	<u>\$ 10,376,855</u>	<u>\$ 3,734,041</u>	<u>\$ 74,692,328</u>

Year End June 30, 2018	<u>Program Expense</u>	<u>Administration</u>	<u>Fundraising</u>	<u>2018 Total</u>
Employee Compensation & Related Benefits	\$ 37,485,248	\$ 6,130,119	\$ 2,040,165	\$ 45,655,532
Occupancy	4,107,381	492,762	103,937	4,704,080
Other Programs/ Operating Expenses	10,666,876	473,576	212,676	11,353,128
Subcontract Expense	829,084	-	-	829,084
Direct Administrative Expense	1,297,110	2,409,489	1,365,591	5,072,190
Other Expense	8,055	17,055	349,655	374,765
Depreciation	4,343,949	595,081	99,631	5,038,661
<b>Total Expense</b>	<u>\$ 58,737,703</u>	<u>\$ 10,118,082</u>	<u>\$ 4,171,655</u>	<u>\$ 73,027,440</u>

See accompanying notes to the consolidated financial statements



**PERKINS SCHOOL FOR THE BLIND**  
Consolidated Statements of Cash Flows  
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (836,746)	\$ 15,690,105
Adjustments to reconcile change in net assets to net cash used in operations		
Depreciation expense	4,610,581	5,038,660
Contributed securities	(422,791)	(75,393)
Contributions restricted for long-term investment	(118,500)	(67,732)
Interest and dividends restricted for long-term investment	(34,208)	(25,364)
Realized investment gains	(23,848,763)	(8,856,775)
Unrealized investment losses (gains)	13,731,605	(16,364,385)
Change in value of assets held by outside trusts	(47,168)	(411,314)
Change in operating assets and liabilities:		
Accounts receivable	(822,044)	(498,431)
Grants receivable	450,388	(495,351)
Pledges receivable	648,534	(121,896)
Prepaid expenses and other assets	(324,532)	28,599
Inventory	(349,264)	(457,358)
Accounts payable and accrued liabilities	437,349	231,569
Asset retirement obligations	-	(4,590)
Net cash used in operating activities	<u>(6,925,559)</u>	<u>(6,389,656)</u>
<b>Cash flows from investing activities</b>		
Purchases of fixed assets	(2,685,509)	(1,524,228)
Proceeds from sales of investments	118,216,406	100,692,268
Purchases of investments	<u>(108,018,486)</u>	<u>(88,426,344)</u>
Net cash provided by investing activities	<u>7,512,411</u>	<u>10,741,696</u>
<b>Cash flows from financing activities</b>		
Contributions restricted for long-term investment	118,500	67,732
Interest and dividends restricted for long-term investment	34,208	25,364
Annuity payments	(39,637)	(84,810)
Payments of debt	(901,519)	(867,426)
Proceeds from outside trust distribution	<u>86,262</u>	<u>34,953</u>
Net cash used in financing activities	<u>(702,186)</u>	<u>(824,187)</u>
Net (decrease) increase in cash	(115,334)	3,527,853
<b>Cash</b>		
Beginning of year	<u>7,618,831</u>	<u>4,090,978</u>
End of year	<u>\$ 7,503,497</u>	<u>\$ 7,618,831</u>
<b>Supplemental data</b>		
Interest paid	\$ 864,970	\$ 823,112
Change in accounts payable attributable to fixed assets	\$ 358,927	\$ 297,458

See accompanying notes to the consolidated financial statements

## PERKINS SCHOOL FOR THE BLIND

### Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

#### (1) Organization

Perkins School for the Blind (the "School") provides educational programs, services, and products to individuals who are blind, deafblind or multi-impaired, and their parents and teachers. These services include the manufacture and distribution of educational products for individuals who are blind, deafblind or multi-impaired. This manufacture and distribution of educational products is an integral part of the School's operations. The School's consolidated financial statements include two separate subsidiaries, referred to in Notes 13 and 14, respectively: The John Milton Society for the Blind and the Kilimanjaro Blind Trust, Inc. All significant intercompany transactions and balances have been eliminated in consolidation.

#### (2) Summary of Significant Accounting Policies

##### (a) Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The financial statements present information on School's financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

##### *Without Donor Restrictions*

Net assets that are not subject to donor-imposed restrictions but may be designated for specific purposes by action of the Board of Trustees, including to function as an endowment.

##### *With Donor Restrictions*

Net assets that are subject to donor-imposed restrictions that expire with the passage of time, can be fulfilled by actions pursuant to the restrictions, or which may be perpetual.

Changes in net assets are classified as operating and nonoperating. Changes in nonoperating net assets include: investment income on long-term investments, less amounts distributed for operating purposes; bequests; changes in value of split interest agreements; and net assets released from restrictions for capital expenditures.

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor imposed restrictions, in which case they are reported as increases in net assets with donor restrictions. Expirations of donor restrictions are reflected in the statement of activities as net assets released from restrictions. Net realized gains (losses) from the sale or other disposition of investments and the change in unrealized appreciation (depreciation) of investments are reported as revenue in net assets without donor restriction, unless use of these gains (losses) is restricted by donor-imposed stipulations, in which case they are reported as revenue in net assets with donor restrictions. Expenses are reported as decreases in net assets without donor restrictions.

##### (b) Cash and Cash Equivalents

The School maintains its cash in deposit accounts which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to any significant credit risk on cash. Cash equivalents consist of short-term highly liquid investments with maturities of 90 days or less at date of purchase and are included in investments in the consolidated statements of financial position.

**PERKINS SCHOOL FOR THE BLIND**

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

**(c) Fair Value Measurements**

The School reports required types of investments at fair value. Fair value represents the price that would be received upon the sale or transfer of an investment in an orderly transaction between market participants as of the measurement date. GAAP establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

Level 1 – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical investments.

Level 2 – Inputs other than quoted prices that are observable for the investments, either directly or indirectly.

Level 3 – Unobservable inputs are used in situations in which little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The School utilizes the valuation techniques that maximizes the use of observable inputs and minimizes the use of unobservable inputs to the extent possible. Transfers between categories occur when there is an event that changes the inputs used to measure the fair value of an investment. Transfers between fair value categories are recognized at the end of the reporting period.

**(d) Assets Held by Outside Trusts**

Assets held by outside trusts include split interest agreements and perpetual trusts which are held by external trustees, as specified by the donors, and are reported by the School at fair value. Trust income is distributed at least annually to the School in accordance with the terms of the trusts and is recorded as revenue. Changes in the fair value of the trusts are recorded as increases or decreases to net assets depending on the nature of the restriction. The outside trusts are classified as Level 3 in the fair value hierarchy because they are held by the trustees in perpetuity.

The following table presents activity for the years ended June 30, 2019 and 2018 for assets held by outside trusts that are classified in Level 3 of the fair value hierarchy:

	<u>2019</u>	<u>2018</u>
Fair value, beginning	\$ 9,524,005	\$ 9,147,644
Unrealized gains	47,168	411,314
Distributions	<u>(86,262)</u>	<u>(34,953)</u>
Fair value, ending	<u>\$ 9,484,911</u>	<u>\$ 9,524,005</u>

**(e) Fixed Assets**

Fixed assets are recorded at cost if purchased or constructed, or at fair market or appraised value on the date of donation in the case of gifts.

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Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

Depreciation expense is computed on the straight-line basis using the following useful lives:

Automobiles	5 years
Furniture and equipment	3–7 years
Machinery and equipment	10 years
Building improvements	20 years
Building	27.5–40 years

Maintenance and repairs are expensed as incurred, and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed from the accounts, and gains or losses are included in operations.

**(f) Asset Retirement Obligations**

Asset retirement obligations (“ARO”) are legal obligations associated with the retirement of long lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to the initial recognition, the School records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows and as ARO liabilities are settled.

**(g) Revenue Recognition**

**Tuition Revenue**

The School receives tuition revenue from state and local agencies including cities and towns in the Commonwealth of Massachusetts, based on established rates. These cities and towns are partially dependent on the Commonwealth of Massachusetts to provide sufficient local aid to assist them in supporting such educational programs.

Tuition revenue is received from the following sources as of June 30:

	<u>2019</u>	<u>2018</u>
Massachusetts local agencies	\$ 23,040,202	\$ 21,998,316
Out of state agencies	6,805,755	6,336,241
Private payers	<u>681,600</u>	<u>548,228</u>
Tuition revenue	<u>\$ 30,527,557</u>	<u>\$ 28,882,785</u>

The School defines tuition revenue as the funds earned for providing educational and other services to students who attend the School on campus. Evidence of these arrangements exists in the form of signed contracts that the School has with each student’s city/town and State agency. Services are considered rendered each day the student attends school. The School is allowed to consider services rendered even on days when students are absent, up to twenty school days in a row. After twenty school days, the School can no longer consider services rendered from that point forward until the

## PERKINS SCHOOL FOR THE BLIND

### Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

student returns to school, at which point the School can resume considering services provided. The School's price to the student is determined in accordance with the daily rates set each year by the Massachusetts Operational Services Division (MA OSD). In some instances, the School has certain partial day rates or individualized extended day rates approved by the MA OSD and these rates are in the aforementioned contract with the student's city/town and State agency.

#### **Contributions and Grants**

Contributions, including assets held by outside trusts and unconditional pledges, are recognized as revenues in the period received. Conditional promises to give are not recorded until they become unconditional, that is when the conditions on which they depend are substantially met.

Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues without donor restrictions. Contributions of cash or other assets which a donor has stipulated be used to acquire land, building and equipment are reported as revenues with donor restrictions. The restrictions are considered to be released at the time such long-lived assets are placed in service.

Revenues associated with contracts and grants are recognized as the related expenses are incurred. Expenses consist of direct costs incurred and related indirect costs as reimbursed under the terms and conditions of such agreements.

#### **Sales of Materials for the Blind**

Revenue from the sales of educational products for individuals who are blind, deaf-blind or multi-impaired is recognized when delivery has occurred. Delivery occurs when the ownership of the goods has transferred to the customer, per the shipping terms. The School's shipping term is for transfer of ownership to occur when the product has shipped.

#### **Donated Services**

Revenues and expenses include the value of donated services which otherwise would have been performed by salaried personnel. The total donated services were valued at \$558,658 and \$540,968 in 2019 and 2018, respectively, and are classified as revenue without donor restrictions.

#### ***(h) Expenses***

Educational program expenses include expenses for education and services to individuals who are blind, deaf-blind or multi-impaired and to their parents and teachers. Supporting services expenses include expenses for the manufacture and distribution of educational products as well as for the library, outreach services, international programs and federal grant expenses.

#### ***(i) Methods Used for Allocation of Expenses***

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the School. Those expenses include the operation and maintenance of facilities (occupancy), depreciation and certain costs in the president's office. Occupancy costs and depreciation are allocated based on square footage and costs in the president's office are allocated based on estimates of time and effort.

**PERKINS SCHOOL FOR THE BLIND**

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

**(j) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used in the allowances for doubtful accounts and reserve for inventory excess and obsolescence. Actual results could differ from those estimates.

**(k) Tax Status**

The School is a tax-exempt organization as described under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally exempt from federal and state income taxes under Section 501(a) of the IRC and applicable state laws. The School believes it has no significant uncertain tax positions.

**(l) Recent Accounting Pronouncements**

In July 2018, the School adopted ASU 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The main provisions of this guidance include a reduction in the number of net asset classifications from three to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily and permanently restricted net assets. Additionally, it increases the quantitative and qualitative disclosures regarding liquidity and availability of resources, and requires expenses to be reported by both their natural and functional classification in one location.

A summary of net asset reclassifications resulting from the adoption of ASU 2016-14 as of June 30, 2017 is as follows:

	<b>ASU 2016-14 Classification</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total net Assets</b>
2017 ending net assets as previously presented			
Unrestricted	\$ 185,076,223	\$ -	\$ 185,076,223
Temporarily Restricted	-	77,018,559	77,018,559
Permanently Restricted	-	75,060,146	75,060,146
2017 ending net assets, as restated	<u>\$ 185,076,223</u>	<u>\$ 152,078,705</u>	<u>\$ 337,154,928</u>

**PERKINS SCHOOL FOR THE BLIND**

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

**(3) Financial Assets and Liquidity Resources**

As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital expenditures not financed with debt, were as follows:

Financial assets	
Cash and cash equivalents	\$ 7,503,497
Accounts receivable, net	6,828,032
Grants receivable	1,206,742
Pledges receivable, available for use within one year	47,000
Operational funds within investments	258,442
Board designations	
Fiscal 2020 budgeted endowment payout	<u>16,540,300</u>
Total financial assets available within one year	32,384,013
Liquidity resources	
Bank line of credit	<u>5,000,000</u>
Total financial assets and liquidity resources available within one year	<u><u>\$ 37,384,013</u></u>

Resources available to fund general expenditures have seasonal variations related to the timing of tuition and other student related billing, receipts of gift, grant and pledge payments and sales of materials. These resources, along with the financial assets available within one year, have historically been sufficient to cover annual general expenditures. The school's board-designated endowment has been set aside for debt repayment, capital expenditures, program support and strategic initiatives. Although the School does not intend to spend from its board-designated endowment funds other than amounts appropriated for spending, amounts could be made available if necessary. As of June 30, 2019, the School has approximately \$105 million in board-designated endowment funds that could be liquidated within one year.

**(4) Pledges Receivable**

Pledges receivable are expected to be realized in the following time frame as of June 30:

	<u>2019</u>	<u>2018</u>
One year or less	\$ 461,218	\$ 1,477,428
One to five years	490,000	112,500
Less: Present value discount	(29,375)	(2,476)
Less: Allowance for uncollectible pledges	<u>(32,925)</u>	<u>(50,000)</u>
Pledges receivable, net	<u><u>\$ 888,918</u></u>	<u><u>\$ 1,537,452</u></u>

Pledges are recorded after discounting to the present value of future cash flows with discount rates ranging from 1.20% to 3.40% depending upon the anticipated pledge fulfillment date.

## PERKINS SCHOOL FOR THE BLIND

### Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

#### (5) Inventory

Inventory consists of raw materials, work in progress and finished goods related to the production of braille, appliances and other products are stated at the lower of cost (first-in, first-out method) or market.

Inventory is comprised of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Raw material	\$ 3,443,502	\$ 3,172,512
Work in progress	379,287	270,750
Finished goods	823,451	873,549
Inventory reserve	<u>(22,768)</u>	<u>(42,603)</u>
Net inventory	<u>\$ 4,623,472</u>	<u>\$ 4,274,208</u>

#### (6) Investments

The investment objective of the School is to invest its assets in a prudent manner to achieve a long-term rate of return sufficient to fund a portion of its spending and to increase investment value after inflation. The School diversifies its investments among asset classes by incorporating several strategies and managers. Major investment decisions are authorized by the School's Board of Trustees Investment Committee, who oversees the School's investments.

In addition to equity and fixed income investments, the School may also hold shares or units in institutional funds and alternative investment funds involving hedged, private equity, and real estate strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists, and may include stocks, bonds and securities sold short and often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material.

Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Investments also include assets associated with gift annuities.

Investments are reported at estimated fair value. If an investment is held directly by the School and an active market with quoted prices exists, the market price of an identical security is used as the reported fair value. Reported fair values for shares in registered mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. These investments are classified in Level 1 of the fair value hierarchy. The School's interests in alternative investment funds are generally reported at net asset values (NAV) reported by fund managers, which are used as a practical expedient to estimate the fair value of the School's interests therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2019 and 2018, the School had no plans or intentions to sell investments at amounts different from NAV.



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The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

For purposes of recording realized and unrealized gains and losses, the cost of securities sold is determined on a specific identification basis.

Investments are summarized in the following table by strategy and fair value hierarchy classification as of June 30, 2019:

	<b>Investments measured at fair value Level 1</b>	<b>Other investments measured at NAV</b>	<b>Other investments - Cash</b>	<b>Total</b>
<b>Investments</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 12,646,188	\$ 12,646,188
Domestic bond funds	21,233,324	-	-	21,233,324
International bond funds	9,662,224	12,680,200	-	22,342,424
Domestic equity	78,129,274	-	-	78,129,274
International equity	21,404,322	-	-	21,404,322
Real estate limited partnerships	-	12,844	-	12,844
Private equity	-	57,031,379	-	57,031,379
Hedge strategies	-	83,779,314	-	83,779,314
Total investments	<u>\$ 130,429,144</u>	<u>\$ 153,503,737</u>	<u>\$ 12,646,188</u>	<u>\$ 296,579,069</u>

Investments are summarized in the following table by strategy and fair value hierarchy classification as of June 30, 2018:

	<b>Investments measured at fair value Level 1</b>	<b>Other investments measured at NAV</b>	<b>Other investments - Cash</b>	<b>Total</b>
<b>Investments</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 9,793,828	\$ 9,793,828
Domestic bond funds	14,668,314	-	-	14,668,314
International bond funds	9,877,515	12,048,083	-	21,925,598
Domestic equity	70,958,249	-	-	70,958,249
International equity	24,223,061	-	-	24,223,061
Real estate limited partnerships	-	904,574	-	904,574
Private equity	-	59,136,355	-	59,136,355
Hedge strategies	-	94,627,061	-	94,627,061
Total investments	<u>\$ 119,727,139</u>	<u>\$ 166,716,073</u>	<u>\$ 9,793,828</u>	<u>\$ 296,237,040</u>

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The following table presents liquidity information, based on redemption terms, for investments as of June 30, 2019:

	<u>Daily</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Annual</u>	<u>Illiquid</u>	<u>Total Investments</u>
Cash and cash equivalents	\$ 12,646,188	\$ -	\$ -	\$ -	\$ -	\$ 12,646,188
Domestic bond funds	21,233,324	-	-	-	-	21,233,324
International bond funds	9,662,224	12,680,200	-	-	-	22,342,424
Domestic equity	78,129,274	-	-	-	-	78,129,274
International equity	21,404,322	-	-	-	-	21,404,322
Real estate limited partnerships	-	-	-	-	12,844	12,844
Private equity	-	31,718,881	-	-	25,312,498	57,031,379
Hedge strategies	-	-	64,837,285	18,942,029	-	83,779,314
<b>Total</b>	<b>\$ 143,075,332</b>	<b>\$ 44,399,081</b>	<b>\$ 64,837,285</b>	<b>\$ 18,942,029</b>	<b>\$ 25,325,342</b>	<b>\$ 296,579,069</b>

The following table represents liquidity information, based on redemption terms, for investments as of June 30, 2018:

	<u>Daily</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Annual</u>	<u>Illiquid</u>	<u>Total Investments</u>
Cash and cash equivalents	\$ 9,793,828	\$ -	\$ -	\$ -	\$ -	\$ 9,793,828
Domestic bond funds	14,668,314	-	-	-	-	14,668,314
International bond funds	9,877,515	12,048,083	-	-	-	21,925,598
Domestic equity	70,958,249	-	-	-	-	70,958,249
International equity	24,223,061	-	-	-	-	24,223,061
Real estate limited partnerships	-	-	-	-	904,574	904,574
Private equity	-	33,592,038	-	-	25,544,317	59,136,355
Hedge strategies	-	-	66,557,018	28,070,043	-	94,627,061
<b>Total</b>	<b>\$ 129,520,967</b>	<b>\$ 45,640,121</b>	<b>\$ 66,557,018</b>	<b>\$ 28,070,043</b>	<b>\$ 26,448,891</b>	<b>\$ 296,237,040</b>

**Commitments**

In connection with the investments in certain limited partnership agreements, the School has an additional \$9,639,635 and \$10,810,611 committed for capital calls as of June 30, 2019 and 2018, respectively that are scheduled to be funded over a number of years.

The School may have exposure to derivative financial instruments through its mutual fund investments and alternative investments. Derivatives, such as forward foreign currency and future contracts, are used by the funds, at the discretion of the investment managers, to hedge against risk.

**(7) Endowment**

The School's endowment is pooled for investment purposes and consists of approximately 100 individual funds established for a variety of purposes. The endowment consists of funds with donor restrictions as well as funds without donor restriction but designated by the board to function as endowment funds (quasi-endowment). The net assets associated with each endowment fund are classified and reported based on the existence or absence of donor imposed restrictions.

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The Board of Trustees of the School has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original gift value of donor restricted endowment funds, absent explicit donor stipulations to the contrary. As a result, the School classifies as net assets with donor restrictions, (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the donor restricted endowment, and (c) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument. Also included in net assets with donor restrictions is accumulated appreciation on donor restricted funds, until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund.
- The purposes of the School and the donor restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the School.
- The investment policies of the School.

The School's endowment is comprised of the following as of June 30, 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor restricted	\$ -	\$ 142,105,129	\$ 142,105,129
Quasi (Board-designated)	153,624,319	-	153,624,319
Total	<u>\$ 153,624,319</u>	<u>\$ 142,105,129</u>	<u>\$ 295,729,448</u>

The School's endowment is comprised of the following as of June 30, 2018:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor restricted	\$ -	\$ 142,935,601	\$ 142,935,601
Quasi (Board-designated)	151,498,528	-	151,498,528
Total	<u>\$ 151,498,528</u>	<u>\$ 142,935,601</u>	<u>\$ 294,434,129</u>

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Changes in the School's endowment are as follows for the year ended June 30, 2019:

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
<b>Endowment at June 30, 2018</b>	\$ 151,498,528	\$ 142,935,601	\$ 294,434,129
Net investment return	6,714,329	6,203,052	12,917,381
Contributions	4,016,767	118,500	4,135,267
Outside trust distribution	86,262	-	86,262
Utilized in operations	<u>(8,691,567)</u>	<u>(7,152,024)</u>	<u>(15,843,591)</u>
<b>Endowment at June 30, 2019</b>	<u>\$ 153,624,319</u>	<u>\$ 142,105,129</u>	<u>\$ 295,729,448</u>

Changes in the School's endowment are as follows for the year ended June 30, 2018:

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
<b>Endowment at June 30, 2017</b>	\$ 144,147,861	\$ 137,645,552	\$ 281,793,413
Net investment return	13,916,631	13,301,847	27,218,478
Contributions	3,410,761	67,732	3,478,493
Outside trust distribution	-	34,953	34,953
Released from restriction	-	(244,572)	(244,572)
Utilized in operations	<u>(9,976,725)</u>	<u>(7,869,911)</u>	<u>(17,846,636)</u>
<b>Endowment at June 30, 2018</b>	<u>\$ 151,498,528</u>	<u>\$ 142,935,601</u>	<u>\$ 294,434,129</u>

**Endowment Funds with Deficits**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts. When these donor endowments deficits exist, they are classified as a reduction of net assets with donor restrictions. As of June 30, 2019 and 2018, there are no funds with deficits.

**Return Objectives and Risk Parameters**

The School's endowment investment and spending activities attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The School expects its endowment funds over time, to provide an average rate of return of approximately 6% annually. Actual returns in any given year may vary from this amount.

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#### Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, the School relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The School targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

#### Endowment Spending

The School invests its endowment funds and allocates the related return for expenditure. The utilization of the endowment is determined by guidelines established by the Board of Trustees of the School. The endowment value is based on the average fair market value of the endowment over the prior 12 quarters, as of the prior December 31. The established guideline for spending is up to 5% for operating and capital expenses and an additional 1% for debt service. At their discretion, the Board may approve a higher rate. The endowment spending rate was 6.51% and 6.83% for the years ended June 30, 2019 and 2018, respectively.

#### (8) Fixed Assets

Fixed assets are comprised of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Buildings	\$ 59,632,186	\$ 59,632,186
Building improvements	98,795,240	95,574,771
Furniture and equipment	20,493,001	19,951,000
Construction in progress	196,905	1,029,479
Machinery	4,462,405	4,373,045
Automobiles	1,471,001	1,445,821
	<u>185,050,738</u>	<u>182,006,302</u>
Less: Accumulated depreciation	<u>(122,987,467)</u>	<u>(118,376,886)</u>
	<u>\$ 62,063,271</u>	<u>\$ 63,629,416</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$4,610,581 and \$5,038,660, respectively.

#### (9) Bonds Payable

The Massachusetts Development Finance Agency issued \$30,000,000 in private placement Revenue Bonds, Perkins School for the Blind Issue, Series 2010 in February, 2010. The Bond owner is TD Bank. The proceeds of the Bond were for the Lower School Project and a Central Cooling Plant. The agreement had a 15 year term, 25 year amortization, maturing in 2035, with a fixed interest rate of 4.5%. In September 10, 2012, the Bond was amended with a fix rate of 2.774% until February 2025, at which time the bond is subject to a mandatory tender. All other terms of the original issuance remain unchanged. The School has covenants of banking relationships, liquidity ratios and annual reporting requirements. The

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outstanding balance of the bond is \$25,544,161 and \$26,200,680 as of June 30, 2019 and 2018, respectively.

The Massachusetts Development Finance Agency issued \$4,100,000 in private placement Revenue Bonds, Perkins School for the Blind Issue, Series 2016 in September 2016. The bondholder is TD Bank. The agreement has a 10 year term, 15 year amortization, with a fixed interest rate of 1.98%. The proceeds of the bond have been used for renovations to the Hilton and Howe buildings and for other capital needs. The outstanding balance of the bond is \$3,435,930 and \$3,680,929 as of June 30, 2019 and 2018, respectively.

Principal payments are due as follows as of June 30, 2019:

<b>Year Ended June 30,</b>	
2020	\$ 933,716
2021	973,996
2022	1,012,660
2023	1,052,991
2024	1,092,148
Thereafter	<u>23,914,580</u>
Total principal payments	<u>\$ 28,980,091</u>

Interest expense was \$798,329 and \$821,266 for the years ended June 30, 2019 and 2018, respectively.

**(10) Net Assets**

**(a) Net Assets Without Donor Restrictions**

Net assets without donor restrictions are comprised of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Quasi (Board-designated) endowment	\$ 153,624,319	\$ 151,498,528
Other net assets without donor restrictions	<u>42,343,201</u>	<u>41,386,956</u>
Total	<u>\$ 195,967,520</u>	<u>\$ 192,885,484</u>

The School's board-designated endowment has been set aside for debt repayment, capital expenditures, program support and strategic initiatives.

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**(b) Net Assets With Donor Restrictions**

Net assets with donor restrictions are comprised of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Donor restricted endowment funds	\$ 68,408,424	\$ 68,193,866
Accumulated unspent endowment return	73,696,705	74,741,735
Restricted annual gifts	3,561,809	5,962,491
Pledges receivable, net	888,918	1,537,452
Assets held by outside trusts	9,484,911	9,524,005
Total	<u>\$ 156,040,767</u>	<u>\$ 159,959,549</u>

**(11) Retirement Plan**

The Retirement Plan (the "Plan") is a defined contribution plan that qualifies under code Sections 401(a), 501(a), and 404(c) of the Internal Revenue Code. The Plan has discretionary basic contributions and supplemental discretionary contributions.

Employees with a year of continuous service who work 500 or more hours qualify for the discretionary basic contributions of the Plan. Contributions are determined annually by the Board of Trustees based on a percentage of eligible gross salary. The School contributed 3.5% of eligible employees' salaries to the Plan in 2019 and 2018. Total retirement plan expense for the years ended June 30, 2019 and 2018 was \$1,161,751 and \$813,604, respectively, for the discretionary basic portion of the Plan.

The supplemental discretionary contributions of the Plan are made by the School based on employees' years of service. Total retirement plan expense under this portion of the Plan for the years ended June 30, 2019 and 2018 was \$1,415,539 and \$1,158,738, respectively.

**(12) Commitments and Contingencies**

The School is engaged in legal cases that have arisen in the normal course of its operations. The School believes that the outcomes of these cases will not have a material adverse effect on the financial position of the School.

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**(13) John Milton Society**

John Milton Society is a Section 501(c)(3) organization. Its mission is to support one of the Perkins International Programs. John Milton Society's financial information is as follows as of June 30:

	<u>2019</u>	<u>2018</u>
Investments	\$ 724,469	\$ 729,942
Total net assets	<u>724,469</u>	<u>729,942</u>
Contributions and grants	\$ -	\$ 232
Investment income	(27,175)	27,152
Unrealized gains	58,844	40,765
Expenses	<u>(37,142)</u>	<u>(40,965)</u>
Revenue less expenses	<u>\$ (5,473)</u>	<u>\$ 27,184</u>

**(14) Kilimanjaro Blind Trust, Inc.**

The Kilimanjaro Blind Trust, Inc. ("KBT") is a Section 501(c)(3) organization. Its mission is to raise funds to support Perkins School for the Blind. The School is in the process of dissolving the organization. As of June 30, 2018, KBT has are no assets, liabilities or net assets.

The financial information for KBT for the year ended June 30, 2018, is as follows:

	<u>\$ -</u>
Contributions and grants	\$ 5,188
Investment income	9,119
Unrealized gains	2,068
Expenses	<u>(418,561)</u>
Revenue less expenses	<u>\$ (402,186)</u>

**(15) Related Parties**

Members of the School's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the School. The School as a written conflict of interest policy that requires, among other things, that no member of the Board of Trustees may participate in any decision in which he or she has a material financial interest. Each Trustee is required to certify compliance with the conflict of interest policy on an annual basis as well as disclose any potential related party transactions to the audit committee.



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When such a relationship exists, the School requires that such transactions be conducted at arms' length with terms that are fair and reasonable to and for the benefit of the School. For senior management, the School requires annual disclosure of significant financial interests in, or governance of employment or consulting relationships with, entities doing business with the School. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interest of the School.

#### **(16) UFR Surplus Revenue (Deficit) Retention (Unaudited)**

In accordance with the Commonwealth of Massachusetts' Operational Services Division (the "OSD") regulation 808 CMR 1.03 (7), a provider of human services is allowed to retain a portion of the excess of revenues over expenses in a fiscal year (the "Surplus"). A provider may retain as its surplus up to 20% of its total revenue from the Commonwealth of Massachusetts during the fiscal year. The OSD can recoup or reduce future program service fees for the amount of any Commonwealth surplus in excess of 20% of Commonwealth revenues. Perkins did not have a surplus of Commonwealth revenues in excess of 20% during fiscal years 2019 and 2018.

#### **(17) Subsequent Events**

Management has evaluated events subsequent to June 30, 2019 and through November 8, 2019, the date on which these audited consolidated financial statements were issued.