



Consolidated Financial Statements
June 30, 2020 and 2019
(With Independent Auditors' Report Thereon)

PERKINS SCHOOL FOR THE BLIND

June 30, 2020 and 2019

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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 (the School), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, 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, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Boston, Massachusetts
November 6, 2020

PERKINS SCHOOL FOR THE BLIND
Consolidated Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Cash	\$ 5,995,265	\$ 7,503,497
Accounts receivable, net of reserves of \$271,000 and \$121,000 for 2020 and 2019, respectively	7,602,201	6,828,032
Grants receivable	908,604	1,206,742
Pledges receivable, net (note 4)	2,354,553	888,918
Prepaid expense and other assets	2,074,095	2,022,435
Inventory, net (note 5)	4,522,288	4,623,472
Investments (note 6)	290,324,534	296,579,069
Assets held by outside trusts (note 2)	9,341,764	9,484,911
Fixed assets, net (note 8)	59,414,244	62,063,271
Total assets	\$ 382,537,548	\$ 391,200,347
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 10,307,343	\$ 8,748,808
Bond payable (note 9)	28,046,375	28,980,091
Asset retirement obligations (note 2)	1,423,531	1,463,161
Total liabilities	39,777,249	39,192,060
Without donor restrictions (note 10)	187,947,726	195,967,520
With donor restrictions (note 10)	154,812,573	156,040,767
Total net assets	342,760,299	352,008,287
Total liabilities and net assets	\$ 382,537,548	\$ 391,200,347

See accompanying notes to the consolidated financial statements.

PERKINS SCHOOL FOR THE BLIND

Consolidated Statement of Activities

Year Ended June 30, 2020

	Without donor restrictions	With donor restrictions	2020 Total
Operating			
Revenues and other support (note 2)			
Tuition	\$ 30,688,091	\$ -	\$ 30,688,091
Program service revenue	7,647,850	-	7,647,850
Sales of materials for the blind	4,981,933	-	4,981,933
Federal grants	4,743,958	-	4,743,958
Gifts and grants	2,856,323	5,853,506	8,709,829
Other revenues	575,976	-	575,976
Income from outside trusts	422,600	-	422,600
Total operating revenues	51,916,731	5,853,506	57,770,237
Endowment return utilized in operations	18,945,294	-	18,945,294
Net assets released from restrictions and transfers	4,634,641	(4,634,641)	-
Total operating revenues and other support	75,496,666	1,218,865	76,715,531
Expenses			
Program expense			
Educational programs	40,474,425	-	40,474,425
Supporting services	20,434,644	-	20,434,644
Administration	11,457,160	-	11,457,160
Fundraising	3,596,616	-	3,596,616
Total operating expenses	75,962,845	-	75,962,845
Change in net assets from operating activities	(466,179)	1,218,865	752,686
Nonoperating			
Net investment return	4,534,278	4,225,665	8,759,943
Endowment return utilized in operations	(12,278,085)	(6,667,209)	(18,945,294)
Gifts and legacies	1,685,053	137,632	1,822,685
Change in value of split interest agreements	(22,198)	(143,147)	(165,345)
Nonoperating expenses	(1,472,663)	-	(1,472,663)
Change in net assets from nonoperating activities	(7,553,615)	(2,447,059)	(10,000,674)
Total change in net assets	(8,019,794)	(1,228,194)	(9,247,988)
Net assets			
Beginning of year	195,967,520	156,040,767	352,008,287
End of year	\$ 187,947,726	\$ 154,812,573	\$ 342,760,299

See accompanying notes to the consolidated financial statements.

PERKINS SCHOOL FOR THE BLIND

Consolidated Statement of Activities

Year Ended June 30, 2019

	Without donor restrictions	With donor restrictions	2019 Total
Operating			
Revenues and other support (note 2)			
Tuition	\$ 30,527,557	\$ -	\$ 30,527,557
Program service revenue	8,055,259	-	8,055,259
Sales of materials for the blind	5,843,104	-	5,843,104
Federal grants	4,638,781	-	4,638,781
Gifts and grants	4,935,079	1,707,848	6,642,927
Other revenues	795,848	-	795,848
Income from outside trusts	450,095	-	450,095
Total operating revenues	55,245,723	1,707,848	56,953,571
Endowment return utilized in operations	15,843,591	-	15,843,591
Net assets released from restrictions and transfers	2,784,803	(2,784,803)	-
Total operating revenues and other support	73,874,117	(1,076,955)	72,797,162
Expenses			
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	3,734,041	-	3,734,041
Total operating expenses	74,692,328	-	74,692,328
Change in net assets from operating activities	(818,211)	(1,076,955)	(1,895,166)
Nonoperating			
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	2,100,000	(2,100,000)	-
Change in net assets from nonoperating activities	3,900,247	(2,841,827)	1,058,420
Total change in net assets	3,082,036	(3,918,782)	(836,746)
Net assets			
Beginning of year	192,885,484	159,959,549	352,845,033
End of year	\$ 195,967,520	\$ 156,040,767	\$ 352,008,287

See accompanying notes to the consolidated financial statements.

PERKINS SCHOOL FOR THE BLIND
Consolidated Statements of Functional Expenses
Years Ended June 30, 2020 and 2019

Year End June 30, 2020	Program Expense	Administration	Fundraising	2020 Total
Employee Compensation & Related Benefits	\$ 41,785,671	\$ 7,097,996	\$ 2,149,006	\$ 51,032,673
Occupancy	4,452,687	405,470	138,449	4,996,606
Other Programs/Operating Expenses	9,612,154	394,101	108,688	10,114,943
Subcontract Expense	242,652	-	-	242,652
Direct Administrative Expense	1,053,962	3,034,704	1,117,133	5,205,799
Other Expense	12,110	-	-	12,110
Depreciation	3,749,833	524,889	83,340	4,358,062
Total Expense	\$ 60,909,069	\$ 11,457,160	\$ 3,596,616	\$ 75,962,845

Year End June 30, 2019	Program Expense	Administration	Fundraising	2019 Total
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
Total Expense	\$ 60,581,432	\$ 10,376,855	\$ 3,734,041	\$ 74,692,328

See accompanying notes to the consolidated financial statements.

PERKINS SCHOOL FOR THE BLIND
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ (9,247,988)	\$ (836,746)
Adjustments to reconcile change in net assets to net cash used in operations		
Depreciation expense	4,358,062	4,610,581
Contributed securities	(971,579)	(422,791)
Contributions restricted for long-term investment	(137,632)	(118,500)
Interest and dividends restricted for long-term investment	(30,078)	(34,208)
Realized investment (gains) losses	(5,836,376)	(23,848,763)
Unrealized investment (gains) losses	(433,947)	13,731,605
Change in value of assets held by outside trusts	143,147	(47,168)
Change in operating assets and liabilities:		
Accounts receivable	(774,169)	(822,044)
Grants receivable	298,138	450,388
Pledges receivable	(1,465,635)	648,534
Prepaid expenses and other assets	(51,660)	(324,532)
Inventory	101,184	(349,264)
Accounts payable and accrued liabilities	1,973,640	437,349
Asset retirement obligations	(39,630)	-
Net cash used in operating activities	<u>(12,114,523)</u>	<u>(6,925,559)</u>
Cash flows from investing activities		
Purchases of fixed assets	(2,096,394)	(2,685,509)
Proceeds from sales of investments	125,643,075	118,216,406
Purchases of investments	(112,146,638)	(108,018,486)
Net cash provided by investing activities	<u>11,400,043</u>	<u>7,512,411</u>
Cash flows from financing activities		
Contributions restricted for long-term investment	137,632	118,500
Interest and dividends restricted for long-term investment	30,078	34,208
Annuity payments	(27,746)	(39,637)
Payments of debt	(933,716)	(901,519)
Proceeds from outside trust distribution	-	86,262
Net cash used in financing activities	<u>(793,752)</u>	<u>(702,186)</u>
Net decrease in cash	(1,508,232)	(115,334)
Cash		
Beginning of year	<u>7,503,497</u>	<u>7,618,831</u>
End of year	<u>\$ 5,995,265</u>	<u>\$ 7,503,497</u>
Supplemental data		
Interest paid	\$ 778,558	\$ 864,970
Change in accounts payable attributable to fixed assets	\$ (387,359)	\$ 358,927

See accompanying notes to the consolidated financial statements.

PERKINS SCHOOL FOR THE BLIND

Notes to the Consolidated Financial Statements

June 30, 2020 and 2019

(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 a separate subsidiary of The John Milton Society for the Blind, referred to in Note 13. 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 ("GAAP"). The financial statements present information on the 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; net assets released from restrictions for capital expenditures; and certain nonrecurring transactions.

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. Money market funds held for investment purposes are classified as investments and are not reflected as cash equivalents in the statement of cash flows.

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Notes to the Consolidated Financial Statements

June 30, 2020 and 2019

(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 technique 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, 2020 and 2019 for assets held by outside trusts:

	<u>2020</u>	<u>2019</u>
Fair value, beginning	\$ 9,484,911	\$ 9,524,005
Unrealized (loss)gain	(143,147)	47,168
Distributions	-	(86,262)
Fair value, ending	<u>\$ 9,341,764</u>	<u>\$ 9,484,911</u>

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Notes to the Consolidated Financial Statements

June 30, 2020 and 2019

(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.

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 was received from the following sources for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Massachusetts local agencies	\$ 23,427,807	\$ 23,040,202
Out of state agencies	6,586,222	6,805,755
Private payers	<u>674,062</u>	<u>681,600</u>
Tuition revenue	<u>\$ 30,688,091</u>	<u>\$ 30,527,557</u>

The School defines tuition revenue as the funds earned for providing educational and other services to students who attend the School’s on-campus programs. 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

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Notes to the Consolidated Financial Statements

June 30, 2020 and 2019

row. After twenty school days, the School can no longer consider services rendered from that point forward until the student returns to school, at which point the School can resume considering services rendered. 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.

Program Service Revenue

Program service revenue is comprised of revenue from various activities including community programs, library services, transitional services, international training programs and accessibility consulting. Revenue is recognized when services have been delivered.

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.

Federal Grants

Federal grants are accounted for as nonexchange transactions. Revenue is 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.

Gifts and Grants

Gifts and grants, 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.

Gifts of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues without donor restrictions. Gifts 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.

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 \$291,680 and \$558,658 in 2020 and 2019, respectively, and are classified as revenue without donor restrictions.

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Notes to the Consolidated Financial Statements

June 30, 2020 and 2019

(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.

(j) Use of Estimates

The preparation of financial statements in conformity with GAAP 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 in the reserves for excess and obsolete inventory. 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

ASU 2018-08: *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, was issued by the FASB in June 2018. The new ASU is intended to assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonexchange transactions) within the scope of Topic 958: *Not-for-Profit Entities*, or as exchange transactions subject to other guidance, and 2) determining whether a contribution is conditional. The ASU clarifies that a contribution is conditional if the agreement includes both (a) a barrier or barriers that must be overcome for the recipient to be entitled to the assets transferred and (b) a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The ASU became effective for the School for the year ended June 30, 2020. The School's adoption of ASU 2018-08, on a modified prospective basis, on July 1, 2019, did not have a material effect on its financial statements.

(m) Reclassifications

With the adoption of ASU 2018-08, the School reevaluated the presentation of certain of its activities. Accordingly, the School reclassified certain 2019 information to conform to the 2020 presentation.

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Notes to the Consolidated Financial Statements

June 30, 2020 and 2019

(3) Financial Assets and Liquidity Resources

As of June 30, 2020 and 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:

	2020	2019
Financial assets		
Cash and cash equivalents	\$ 5,995,265	\$ 7,503,497
Accounts receivable, net	7,602,201	6,828,032
Grants receivable	908,604	1,206,742
Pledges receivable, available for use within one year	270,000	47,000
Operational funds within investments	2,404,994	258,442
Board designations		
Budgeted endowment payout	18,534,800	16,540,300
Total financial assets available within one year	\$ 35,715,864	\$ 32,384,013

Resources available to fund general expenditures have seasonal variations related to the timing of tuition and other student related billing, receipts of gifts and grants, pledge payments, program service revenue 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, 2020, the School has approximately \$100 million in board-designated endowment funds that could be liquidated within one year. In addition, the School has a \$5 million line of credit facility that it has renewed annually and fully expects to do so again in March 2021, the date the line of credit is scheduled to expire.

(4) Pledges Receivable

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

	2020	2019
Less than one year	\$ 1,375,118	\$ 461,218
One to five years	1,074,101	490,000
Less: Present value discount	(21,189)	(29,375)
Less: Allowance for uncollectible pledges	(73,477)	(32,925)
Pledges receivable, net	\$ 2,354,553	\$ 888,918

Pledges are recorded after discounting to the present value of future cash flows with discount rates ranging from 0.6% to 3.40% depending upon the anticipated pledge fulfillment date.

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Notes to the Consolidated Financial Statements

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(5) Inventory

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

Inventory is comprised of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Raw material	\$ 3,280,470	\$ 3,443,502
Work in progress	287,280	379,287
Finished goods	975,047	823,451
Inventory reserve	<u>(20,509)</u>	<u>(22,768)</u>
Net inventory	<u>\$ 4,522,288</u>	<u>\$ 4,623,472</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 and implement long/short investment strategies. Alternative investment funds often hold securities or other financial instruments for which a ready market exists, but may also hold securities and financial instruments that 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, 2020 and 2019, 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, 2020:

	Investments measured at fair value Level 1	Other investments measured at NAV	Other investments - Cash equivalents	Total
Investments				
Cash equivalents	\$ -	\$ -	\$ 18,486,454	\$ 18,486,454
Domestic bond funds	31,381,801	-	-	31,381,801
International bond funds	-	13,119,504	-	13,119,504
Domestic equity	68,221,238	-	-	68,221,238
International equity	15,139,580	-	-	15,139,580
Private equity	-	55,808,377	-	55,808,377
Hedged strategies	-	88,167,580	-	88,167,580
Total investments	<u>\$ 114,742,619</u>	<u>\$ 157,095,461</u>	<u>\$ 18,486,454</u>	<u>\$ 290,324,534</u>

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

	Investments measured at fair value Level 1	Other investments measured at NAV	Other investments - Cash equivalents	Total
Investments				
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
Hedged 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>

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The following table presents liquidity information, based on redemption terms, for investments as of June 30, 2020:

	Daily	Weekly	Monthly	Quarterly	Annually	Illiquid	Total Investments
Cash equivalents	\$ 18,486,454	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,486,454
Domestic bond funds	31,381,801	-	-	-	-	-	31,381,801
International bond funds	-	-	13,119,504	-	-	-	13,119,504
Domestic equity	68,221,238	-	-	-	-	-	68,221,238
International equity	9,127,610	6,011,970	-	-	-	-	15,139,580
Private equity	-	-	29,085,970	-	-	26,722,407	55,808,377
Hedged strategies	-	-	-	70,360,867	17,806,713	-	88,167,580
Total	\$ 127,217,103	\$ 6,011,970	\$ 42,205,474	\$ 70,360,867	\$ 17,806,713	\$ 26,722,407	\$ 290,324,534

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

	Daily	Monthly	Quarterly	Annually	Illiquid	Total Investments
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
Hedged strategies	-	-	64,837,285	18,942,029	-	83,779,314
Total	\$ 143,075,332	\$ 44,399,081	\$ 64,837,285	\$ 18,942,029	\$ 25,325,342	\$ 296,579,069

Commitments

In connection with the investments in certain limited partnership agreements, the School has an additional \$14,664,628 and \$11,616,913 committed for capital calls as of June 30, 2020 and 2019, respectively, which 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 futures contracts, are used by the funds, at the discretion of the fund managers.

(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.

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

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(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, 2020:

	Without donor restrictions	With donor restrictions	Total
Donor restricted	\$ -	\$ 139,801,217	\$ 139,801,217
Quasi (Board-designated)	<u>147,577,021</u>	<u>-</u>	<u>147,577,021</u>
 Total	 <u>\$ 147,577,021</u>	 <u>\$ 139,801,217</u>	 <u>\$ 287,378,238</u>

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

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

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Changes in the School's endowment are as follows for the year ended June 30, 2020:

	Without donor restrictions	With donor restrictions	Total
Endowment at June 30, 2019	\$ 153,624,319	\$ 142,105,129	\$ 295,729,448
Net investment return	4,515,734	4,225,665	8,741,399
Contributions	1,715,053	137,632	1,852,685
Utilized in operations	<u>(12,278,085)</u>	<u>(6,667,209)</u>	<u>(18,945,294)</u>
Endowment at June 30, 2020	<u>\$ 147,577,021</u>	<u>\$ 139,801,217</u>	<u>\$ 287,378,238</u>

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

	Without donor restrictions	With donor restrictions	Total
Endowment at June 30, 2018	\$ 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>
Endowment at June 30, 2019	<u>\$ 153,624,319</u>	<u>\$ 142,105,129</u>	<u>\$ 295,729,448</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 endowment deficits exist, they are classified as a reduction of net assets with donor restrictions. As of June 30, 2020 and 2019, there are no endowment 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 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. Utilization of the endowment is determined by guidelines established by the School's Board of Trustees. The established guideline for annual spending is up to 5% of the average fair market value of the endowment for operating and capital expenses and an additional 1% for debt service. The average fair market value is equal to the 12 quarter moving average as of the preceding December 31. At their discretion, the Board of Trustees may approve a higher rate. The endowment spending rate was 6.84% and 5.91% for the years ended June 30, 2020 and 2019, respectively. The rate for the year ended June 30, 2020, includes 0.9% (or \$2,500,000) in additional endowment spending approved by the Board of Trustees in the fourth quarter of the year.

(8) Fixed Assets

Fixed assets are comprised of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Buildings	\$ 59,632,186	\$ 59,632,186
Building improvements	99,838,425	98,795,240
Furniture and equipment	20,602,252	20,493,001
Construction in progress	684,504	196,905
Machinery	4,531,405	4,462,405
Automobiles	1,471,001	1,471,001
	<u>186,759,773</u>	<u>185,050,738</u>
Less: Accumulated depreciation	<u>(127,345,529)</u>	<u>(122,987,467)</u>
	<u>\$ 59,414,244</u>	<u>\$ 62,063,271</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$4,358,062 and \$4,610,581, 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 a 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%. On September 10, 2012, the Bond was amended with a fixed 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 outstanding balance of the bond is \$24,860,228 and \$25,544,161 as of June 30, 2020 and 2019, respectively.

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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 \$3,186,147 and \$3,435,930 as of June 30, 2020 and 2019, respectively.

Principal payments are due as follows as of June 30, 2020:

Year Ended June 30,	
2021	\$ 973,996
2022	1,012,661
2023	1,052,991
2024	1,092,149
2025	1,138,817
Thereafter	<u>22,775,761</u>
Total principal payments	<u>\$ 28,046,375</u>

Interest expense was \$776,565 and 798,329 for the years ended June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
Quasi (Board-designated) endowment	\$ 147,577,021	\$ 153,624,319
Other net assets without donor restrictions	<u>40,370,705</u>	<u>42,343,201</u>
Total	<u>\$ 187,947,726</u>	<u>\$ 195,967,520</u>

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

(b) Net Assets With Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Donor restricted endowment funds	\$ 68,615,134	\$ 68,408,424
Accumulated unspent endowment return	71,186,083	73,696,705
Restricted annual gifts	3,315,039	3,561,809
Pledges receivable, net	2,354,553	888,918
Assets held by outside trusts	<u>9,341,764</u>	<u>9,484,911</u>
Total	<u>\$ 154,812,573</u>	<u>\$ 156,040,767</u>

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(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 provides for discretionary basic and supplemental contributions by the School. Contributions are made based on employee compensation, as defined by the Plan, at contribution rates determined annually by the Board of Trustees.

Employees become eligible for basic contributions when they have one year of continuous service and have worked 500 or more hours. The basic contribution rate was 3.5% for the 2020 and 2019 Plan years. Total retirement plan expense for the basic portion of the Plan was \$1,073,187 and \$1,161,751 for the years ended June 30, 2020 and 2019, respectively.

Employees are also eligible for supplemental contributions if as of the beginning of the plan year they were eligible for basic contributions. The supplemental contribution rate was 3.5% for the 2020 and 2019 Plan years. The annual rate is multiplied by defined factors based on an employee's years of service. Total retirement plan expense for the supplemental portion of the Plan was \$1,393,055 and \$1,415,539 for the years ended June 30, 2020 and 2019, 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.

(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>2020</u>	<u>2019</u>
Investments	\$ 712,082	\$ 724,469
Total net assets	<u>712,082</u>	<u>724,469</u>
Gifts and grants	\$ 632	\$ -
Net investment return	21,604	31,669
Expenses	<u>(34,623)</u>	<u>(37,142)</u>
Revenue less expenses	<u>\$ (12,387)</u>	<u>\$ (5,473)</u>

(14) 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 has 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.

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

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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.

(15) 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 2020 and 2019.

(16) Subsequent Events

Management has evaluated events subsequent to June 30, 2020 and through November 6, 2020, the date on which these audited consolidated financial statements were issued.

The COVID 19 Pandemic did not have a material impact of the School's financial statements for the year ended June 30, 2020. The School is monitoring the impact for the year ending June 30, 2021.