Perkins School for the Blind

Consolidated Financial Statements
June 30, 2016 and 2015

(with Independent Auditors' Report Thereon)

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

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 statement of financial position as of June 30, 2016 and 2015, 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 audit 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, 2016 and 2015, 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.

KPMG LLP

November 8, 2016

Perkins School for the Blind
Consolidated Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
Assets		
Cash	$ 3,559,950	$ 3,119,260
Accounts receivable, net of reserves of $165,000 and $339,637 for 2016 and 2015, respectively	5,468,621	5,130,119
Grants receivable	1,720,329	2,099,437
Pledges receivable, net (Note 3)	1,615,997	2,405,083
Prepaid and other assets	1,751,613	1,732,614
Inventory, net (Note 4)	4,652,130	4,624,368
Investments (Note 5)	258,097,164	275,666,276
Assets held by outside trusts (Note 2)	8,845,718	12,788,820
Fixed assets, net (Note 8)	66,722,369	69,612,358
Total assets	$ 352,433,891	$ 377,178,335
Liabilities and Net Assets		
Accounts payable and accrued liabilities	$ 8,003,522	$ 8,106,622
Bond payable (Note 10)	27,427,338	27,948,475
Asset retirement obligation	1,500,620	1,621,285
Total liabilities	36,931,480	37,676,382
Unrestricted net assets	$ 174,297,369	$ 186,615,573
Temporarily restricted net assets (Note 6)	66,737,619	78,039,527
Permanently restricted net assets (Note 6)	74,467,423	74,846,853
Total net assets	315,502,411	339,501,953
Total liabilities and net assets	$ 352,433,891	$ 377,178,335

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total
Operating				
Revenues and other support				
Tuition	$ 30,285,517	$ -	$ -	$ 30,285,517
Income from outside trusts	429,860	-	-	429,860
Library services	2,736,120	-	-	2,736,120
Private grants	1,900,384	-	-	1,900,384
Government revenue	6,335,706	-	-	6,335,706
Annual donations	3,401,388	2,247,389	-	5,648,777
Sale of materials for the blind	8,293,584	-	-	8,293,584
Other revenues	1,361,469	-	-	1,361,469
Total operating revenues	54,744,028	2,247,389	-	56,991,417
Endowment return utilized	13,464,543	-	-	13,464,543
Net assets released from restrictions and transfers	2,765,377	(2,765,377)	-	-
Total operating revenues and other support	70,973,948	(517,988)	-	70,455,960
Expenses				
Program expense				
Educational programs	37,833,253	-	-	37,833,253
Supporting services	20,561,759	-	-	20,561,759
Administration	9,914,659	-	-	9,914,659
Fundraising	4,418,405	-	-	4,418,405
Total operating expenses	72,728,076	-	-	72,728,076
Change in net assets from operating activities	(1,754,128)	(517,988)	-	(2,272,116)
Nonoperating				
Net investment return	(4,364,740)	(4,187,072)	71,737	(8,480,075)
Endowment return utilized	(6,891,636)	(6,572,907)	-	(13,464,543)
Gifts and legacies	727,812	-	66,835	794,647
Change in value of split interest agreements	(35,512)	(23,941)	(518,002)	(577,455)
Change in net assets from nonoperating activities	(10,564,076)	(10,783,920)	(379,430)	(21,727,426)
Total change in net assets	(12,318,204)	(11,301,908)	(379,430)	(23,999,542)
Net assets				
Beginning of year	186,615,573	78,039,527	74,846,853	339,501,953
End of year	$ 174,297,369	$ 66,737,619	$ 74,467,423	$ 315,502,411

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, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Operating				
Revenues and other support				
Tuition	$ 30,335,064	$ -	$ -	$ 30,335,064
Income from outside trusts	448,757	-	-	448,757
Library services	2,678,797	-	-	2,678,797
Private grants	1,915,137	-	-	1,915,137
Government revenue	6,880,640	-	-	6,880,640
Annual donations	3,366,880	2,568,932	-	5,935,812
Sale of materials for the blind	8,449,306	-	-	8,449,306
Other revenues	1,113,874	-	-	1,113,874
Total operating revenues	55,188,455	2,568,932	-	57,757,387
Endowment return utilized	12,479,987	-	-	12,479,987
Net assets released from restrictions and transfers	1,834,966	(1,834,966)	-	-
Total operating revenues and other support	69,503,408	733,966	-	70,237,374
Expenses				
Program expense				
Educational programs	37,225,605	-	-	37,225,605
Supporting services	21,580,296	-	-	21,580,296
Administration	9,645,854	-	-	9,645,854
Fundraising	4,163,730	-	-	4,163,730
Total operating expenses	72,615,485	-	-	72,615,485
Change in net assets from operating activities	(3,112,077)	733,966	-	(2,378,111)
Nonoperating				
Net investment return	3,605,280	3,733,906	29,187	7,368,373
Endowment return utilized	(6,452,614)	(6,027,373)	-	(12,479,987)
Gifts and legacies	1,916,358	-	443,765	2,360,123
Change in value of split interest agreements	(143,699)	(41,889)	472,231	286,643
Change in net assets from nonoperating activities	(1,074,675)	(2,335,356)	945,183	(2,464,848)
Total change in net assets	(4,186,752)	(1,601,390)	945,183	(4,842,959)
Net assets				
Beginning of year	190,802,325	79,640,917	73,901,670	344,344,912
End of year	$ 186,615,573	$ 78,039,527	$ 74,846,853	$ 339,501,953

See accompanying notes to the consolidated financial statements.

Perkins School for the Blind
Consolidated Statements of Functional Expenses
Years Ended June 30, 2016 and 2015

Year End June 30, 2016	Program Expense	Administration	Fundraising	2016 Total
Employee Compensation & Related Benefits	36,455,960	5,958,872	2,307,695	44,722,527
Occupancy	3,344,036	698,911	261,948	4,304,895
Other Programs/ Operating Expenses	9,923,611	319,989	261,640	10,505,240
Subcontract Expense	793,949	-	-	793,949
Direct Administrative Expense	3,309,598	2,412,582	1,158,054	6,880,234
Other Expense	162,872	7,871	375,133	545,876
Depreciation	4,404,986	516,434	53,935	4,975,355
Total Expense	$ 58,395,012	$ 9,914,659	$ 4,418,405	$ 72,728,076

Year End June 30, 2015	Program Expense	Administration	Fundraising	2015 Total
Employee Compensation & Related Benefits	35,863,439	5,691,927	2,351,964	43,907,330
Occupancy	4,277,296	797,668	279,183	5,354,147
Other Programs/ Operating Expenses	10,198,449	296,005	267,724	10,762,178
Subcontract Expense	1,396,771	-	-	1,396,771
Direct Administrative Expense	2,547,713	2,359,347	1,211,001	6,118,061
Other Expense	126,335	7,888	488	134,711
Depreciation	4,395,898	493,019	53,370	4,942,287
Total Expense	$ 58,805,901	$ 9,645,854	$ 4,163,730	$ 72,615,485

See accompanying notes to the consolidated financial statements.

Perkins School for the Blind
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	$ (23,999,542)	$ (4,842,959)
Adjustments to reconcile change in net assets to net cash used in operations		
Depreciation expense	4,975,355	4,942,287
Contributed securities	(219,069)	(60,889)
Contributions restricted for long-term investment	(66,835)	(443,765)
Interest and dividends restricted for long-term investment	(19,594)	(28,083)
Realized investment (gains) loss	(4,960,206)	153,912
Unrealized investment loss (gains)	14,999,882	(5,325,102)
Change in value of assets held by outside trusts	532,802	(528,188)
Change in operating assets and liabilities:		
Accounts receivable	(338,502)	(244,736)
Grants receivable	379,108	(922,749)
Pledges receivable	789,086	1,213,676
Prepaid and other assets	(18,999)	(291,477)
Inventory	(27,762)	(40,031)
Accounts payable and accrued liabilities	76,850	771,324
Asset retirement obligation	(120,665)	73,542
Net cash used in operating activities	(8,018,091)	(5,573,238)
Cash flows from investing activities		
Purchases of fixed assets	(2,136,772)	(2,585,794)
Proceeds from sales of investments	72,972,991	68,740,224
Purchases of investments	(65,224,486)	(60,510,173)
Net cash provided by investing activities	5,611,733	5,644,257
Cash flows from financing activities		
Contributions restricted for long-term investment	66,835	443,765
Interest and dividends restricted for long-term investment	19,594	28,083
Annuity payments	(128,544)	(142,484)
Payments of debt	(521,137)	(549,394)
Proceeds from outside trust distribution	3,410,300	-
Net cash provided by (used in) financing activities	2,847,048	(220,030)
Net increase (decrease) in cash	440,690	(149,011)
Cash		
Beginning of year	3,119,260	3,268,271
End of year	$ 3,559,950	$ 3,119,260
Supplemental data		
Interest paid	$ 781,247	$ 730,738
Change in accounts payable attributable to fixed assets	(51,406)	(102,348)

See accompanying notes to the consolidated financial statements.

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 Note 12 and 13, respectively: The John Milton Society for the Blind and the Kilimanjaro Blind Trust, Inc.

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 and present net assets and revenues, expenses, and gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes in net assets are classified as follows:

Unrestricted

Net assets that are not subject to donor-imposed stipulations and available for general operations of the School. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees, including to function as endowment.

Temporarily Restricted

Net assets subject to donor-imposed stipulations as to the timing of their availability or use for a particular purpose. Investment returns on donor-restricted endowment funds are classified as changes in temporarily restricted net assets and are generally available for appropriation to support operational needs in accordance with the School’s endowment spending guideline and any restrictions on use imposed by donors.

Permanently Restricted

Net assets subject to donor-imposed stipulations that they be maintained permanently by the School. The School classifies the following portions of donor-restricted endowment funds as permanently restricted net assets: (a) the original value of assets contributed to permanently restricted net assets, (b) subsequent contributions to such funds valued at the date of contribution, and (c) reinvested earnings on permanent endowment when specified by the donor.

(b) Revenues

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions or by law in which case they are reported as increases in temporarily or permanently restricted net assets. Expirations of temporary 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 unrestricted net assets, unless use of these gains is restricted by donor-imposed stipulations or by law. Expenses are reported as decreases in unrestricted net assets.

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 unrestricted revenues. Contributions of cash or other assets which a donor has stipulated be used to acquire land, building and equipment are reported as temporarily restricted revenues. The temporary 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 costs are incurred. Expenses consist of direct costs incurred and related indirect costs as reimbursed under the terms and conditions of such agreements.

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 $593,237 and $600,262 in 2016 and 2015, respectively, and are classified as unrestricted revenue.

Tuition Revenue
The School receives tuition income 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:

	2016	2015
Commonwealth of Massachusetts	$ -	$ 25,025
Massachusetts local agencies	20,653,482	19,850,573
Out of state agencies	9,474,786	10,244,493
Private payers	157,249	214,973
Tuition revenue	$ 30,285,517	$ 30,335,064

The School defines tuition revenue as the funds earned for providing educational and other services to students who attend the School. 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 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.

(c) Expenses
Educational program expenses include expenses for education and services to individuals who are blind, deafblind or multi-impaired, severely impaired, early intervention and 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, and certain grant expenses.

(d) Functional Allocation of Expenses

The School used several different methods to allocate costs to its programs, administrative, supporting services and fundraising functions. Time and expense reports and after-the-fact determinations of effort were used to distribute salary and wage expenses. Other expenses were allocated using one of the following bases: salary and wages; student full-time equivalents; square footage, or some other appropriate base.

(e) Nonoperating Activities

The consolidated statements of activities report the changes in net assets from operating and nonoperating activities. Nonoperating activities include gifts and legacies, net investment income, an offset for endowment return appropriated for operating activities, changes in value of split interests, and other nonoperating revenues, if applicable, during the year. Nonoperating activities are classified as unrestricted, temporarily restricted or permanently restricted. To the extent the restrictions on temporarily restricted gifts and legacies are not met within the year, they are classified as temporarily restricted. Subsequently, as the restrictions are met and used for operations, they are reclassified as net assets released from restrictions on the consolidated statements of activities. All other activity is classified as operating activities.

(f) Cash and Cash Equivalents

The School maintains its cash at one financial institution. 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.

(g) 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. The School has not valued its land holdings. Land is not expected to be disposed of for financial gain and therefore is not capitalized for financial statement purposes.

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.

(h) 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.

(i) Fair Value Measurements

The School reports required types of assets and liabilities at fair value. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability 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 assets or liabilities.

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

Level 3 – Unobservable inputs are used in situation 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 asset or liability. Transfers between fair value categories are recognized at the end of the reporting period.

(j) 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 income. Changes in fair value of the trusts are recorded as increase or decreases to temporarily and permanently restricted net assets depending on the nature of the restriction. The outside trusts are all classified in Level 3 in the fair value hierarchy because they are held by the trustees in perpetuity.

The following table present activity for the years ended June 30, 2016 and 2015 for assets held by outside trusts that are classified in Level 3 of the fair value hierarchy:

	2016	2015
Fair value, beginning	$ 12,788,820	$ 12,260,632
Unrealized (losses) gains	(532,802)	528,188
Distributions received	(3,410,300)	-
Fair value, ending	$ 8,845,718	$ 12,788,820

(k) 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.

(l) 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.

(m) Recently Issued Accounting Standards

Effective in 2016, the School retrospectively adopted the provisions of ASU No. 2015-07, Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent) (ASU 2015-07). Among other things, ASU 2015-07 removes the requirement to classify within the fair value hierarchy table in Levels 2 or 3 investments in certain funds measured at net asset value (NAV) as a practical expedient to estimate fair value. The ASU also requires that any NAV-measured investments excluded from the fair value hierarchy table be summarized as an adjustment to the table so that total investments can be reconciled to the balance sheet. The adoption resulted only in changes to the School's investment disclosures. As a result of the adoption, the June 30, 2015 fair value hierarchy table was restated to reflect the removal of NAV-measured investments aggregating $115,547,681 in Level 2 and $69,492,352 in Level 3. In addition, the June 30, 2014 opening balance in the Level 3 roll forward has been restated to reflect the removal of NAV-measured investments aggregating $72,317,387.

(n) Reclassifications

Certain 2015 information has been reclassified to conform to the 2016 presentation.

3. Pledges Receivable

Pledges receivable as of June 30, 2016 and 2015 are expected to be realized in the following time frame:

	2016	2015
One year or less	$ 1,105,967	$ 1,443,837
More than one year and less than five	683,606	984,939
More than five years	5,349	10,000
Less: Present value discount	(18,925)	(33,693)
Less: Allowance for uncollectible pledges	(160,000)	-
Pledges receivable, net	$ 1,615,997	$ 2,405,083

Pledges are recorded after discounting to the present value of future cash flows with discount rates ranging from 1.20% to 3.20% depending upon the anticipated pledge fulfillment date.

4. Inventory

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

The components of inventory at June 30, 2016 and 2015 include the following:

	2016	2015
Raw material	$ 2,035,340	$ 1,852,300
Work in progress	1,416,888	1,616,521
Finished goods	1,240,500	1,469,631
Inventory reserve	(40,598)	(314,084)
Net inventory	$ 4,652,130	$ 4,624,368

5. 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 Trustee Investment Committee that 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 and private equity 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, 2016 and 2015, the School had no plans or intentions to sell investments at amounts different from NAV.

The School's investments at June 30, 2016 are summarized in the following table by strategy, and as applicable their fair value hierarchy classification:

	NAV	Level 1	Total Fair Value
Investments			
Cash and cash equivalents	$ -	$ 11,762,301	$ 11,762,301
International bond funds	12,114,875	9,748,340	21,863,215
Domestic equity	-	52,633,673	52,633,673
International equity	-	15,989,861	15,989,861
Real assets	6,747,006	357,644	7,104,650
Private equity	47,065,740	-	47,065,740
Hedge	101,677,724	-	101,677,724
Total investments	$ 167,605,345	$ 90,491,819	$ 258,097,164

The School's investments at June 30, 2015 are summarized in the following table by strategy, and as applicable their fair value hierarchy classification:

	NAV	Level 1	Total Fair Value
Investments			
Cash and cash equivalents	$ -	$ 7,302,095	$ 7,302,095
International bond funds	11,255,133	10,514,774	21,769,907
Domestic equity	-	51,293,351	51,293,351
International equity	-	18,202,355	18,202,355
Real assets	10,354,649	3,313,668	13,668,317
Private equity	47,823,892	-	47,823,892
Hedge	115,606,359	-	115,606,359
Total investments	$ 185,040,033	$ 90,626,243	$ 275,666,276

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.

The following table represents liquidity information for investments as of June 30, 2016:

Redemption Terms	Daily	Monthly	Quarterly	Semi-Annual	Annual	Illiquid	Total Investments
Cash and cash equivalents	$ 11,762,301	$ -	$ -	$ -	$ -	$ -	$ 11,762,301
International bond funds	9,748,340	12,114,875	-	-	-	-	21,863,215
Domestic equity	52,633,673	-	-	-	-	-	52,633,673
International equity	15,989,861		-	-	-	-	15,989,861
Real assets	357,644	-	-	-	-	6,747,006	7,104,650
Private equity	-	22,979,173	-	-	-	24,086,567	47,065,740
Hedge	-	-	76,308,078	12,754,853	12,614,793	-	101,677,724
Total	$ 90,491,819	$ 35,094,048	$ 76,308,078	$ 12,754,853	$ 12,614,793	$ 30,833,573	$ 258,097,164

The following table represents liquidity information for investments as of June 30, 2015:

Redemption Terms	Daily	Monthly	Quarterly	Semi-Annual	Annual	Illiquid	Total Investments
Cash and cash equivalents	$ 7,302,095	$ -	$ -	$ -	$ -	$ -	$ 7,302,095
International bond funds	10,514,774	11,255,133	-	-	-	-	21,769,907
Domestic equity	51,293,351	-	-	-	-	-	51,293,351
International equity	18,202,355	-	-	-	-	-	18,202,355
Real assets	3,313,668	-	-	-	-	10,354,649	13,668,317
Private equity	-	25,142,798	-	-	-	22,681,094	47,823,892
Hedge	-	-	91,867,759	11,407,023	12,331,577	-	115,606,359
Total	$ 90,626,243	$ 36,397,931	$ 91,867,759	$ 11,407,023	$ 12,331,577	$ 33,035,743	$ 275,666,276

Commitments

In connection with the investments in certain limited partnership agreements, the School has an additional $11,529,501 and $8,065,401 committed for calls as of June 30, 2016 and 2015, 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.

As of June 30, 2016 and 2015 investment returns were as follows:

	2016	2015
Investment return		
Net change in unrealized appreciation	$ (14,999,882)	$ 5,325,102
Net realized gains (losses)	4,960,206	(153,912)
Interest and dividends	1,559,601	2,197,183
Net investment return	$ (8,480,075)	$ 7,368,373

Net investment return is net of investment management fees of $2,338,693 and $3,249,090 for fiscal years 2016 and 2015, respectively.

6. Net Assets

(a) Temporarily Restricted Net Assets

The composition of temporarily restricted net assets as of June 30 is as follows:

	2016	2015
Restricted contributions for endowment	$ 1,859,757	$ 1,859,757
Unspent net endowment return and term endowments	59,060,717	69,820,696
Restricted annual gifts	3,734,447	3,792,377
Contributions receivable, net	1,539,647	2,010,419
Funds held in outside trusts	543,051	556,278
Total temporarily restricted net assets	$ 66,737,619	$ 78,039,527

(b) *Permanently Restricted Net Assets*

The composition of permanently restricted net assets as of June 30 is as follows:

	2016	2015
Donor-restricted endowment funds	$ 66,164,756	$ 62,316,147
Contributions receivable, net	-	298,164
Funds held in outside trusts	8,302,667	12,232,542
Total permanently restricted net assets	$ 74,467,423	$ 74,846,853

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 both donor restricted endowment funds and board designated funds functioning as endowment funds (quasi-endowment). The net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, 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 as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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 had the following endowment activities during the years ended June 30, 2016 and 2015 delineated by net asset class and donor-restricted versus undesignated funds:

Endowment composition by type of fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ (207,995)	$ 60,920,474	$ 66,164,756	$ 126,877,235
Quasi (Board-designated)	131,219,929	-	-	131,219,929
Total	$ 131,011,934	$ 60,920,474	$ 66,164,756	$ 258,097,164

Endowment composition by type of fund as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ -	$ 71,680,453	$ 62,316,147	$ 133,996,600
Quasi (Board-designated)	141,399,460	-	-	141,399,460
Total	$ 141,399,460	$ 71,680,453	$ 62,316,147	$ 275,396,060

Changes in endowment for the year ended June 30, 2016 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment at June 30, 2015	$ 141,399,460	$ 71,680,453	$ 62,316,147	$ 275,396,060
Net investment return	(4,364,740)	(4,187,072)	71,737	(8,480,075)
Contributions	736,053	-	65,000	801,053
Perpetual trust distribution	-	-	3,410,300	3,410,300
Transfers	132,797	-	301,572	434,369
Utilized in operations	(6,891,636)	(6,572,907)	-	(13,464,543)
Endowment at June 30, 2016	$ 131,011,934	$ 60,920,474	$ 66,164,756	$ 258,097,164

Changes in endowment for the year ended June 30, 2015 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment at June 30, 2014	$ 142,474,135	$ 74,013,556	$ 60,943,866	$ 277,431,557
Net investment return	3,605,280	3,733,906	29,187	7,368,373
Contributions	1,916,358	-	217,333	2,133,691
Transfers	(143,699)	(39,636)	1,125,761	942,426
Utilized in operations	(6,452,614)	(6,027,373)	-	(12,479,987)
Endowment at June 30, 2015	$ 141,399,460	$ 71,680,453	$ 62,316,147	$ 275,396,060

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 (deficit). When donor endowments deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were $207,995 and $0 as of June 30, 2016 and 2015, respectively. These deficits resulted from unfavorable market fluctuations.

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 6.0 percent annually. Actual returns in any given year may vary from this amount.

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 Allocation

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. For the years ended June 30, 2016 and 2015, the budgeted endowment spending allocation was 5% of the average fair value of applicable endowments over the prior 12 quarters.

8. Fixed Assets

Fixed assets consist of the following as of June 30, 2016 and 2015:

	2016	2015
Buildings	$ 59,632,186	59,635,186
Building improvements	90,326,363	88,686,979
Furniture and equipment	19,023,889	18,621,538
Construction in progress	314,282	336,752
Machinery	4,299,345	4,230,245
Automobiles	1,419,132	1,419,132
	175,015,197	172,929,832
Less: Accumulated depreciation	(108,292,828)	(103,317,474)
	$ 66,722,369	$ 69,612,358

Depreciation expense for the years ended June 30, 2016 and 2015 was $4,975,355 and $4,942,287, respectively.

9. 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 2016 and 2015. Total retirement plan expense for the years ended June 30, 2016 and 2015 was $1,031,907 and $968,440, 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, 2016 and 2015 was $1,287,144 and $1,353,370, respectively.

10. Bond Payable

The Massachusetts Development Finance Agency issued $30,000,000 in Revenue Bonds, Perkins School for the Blind Issue, Series 2010 in February, 2010. The Bondowner 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 reporting requirements during each year. The bank requires the School to maintain a liquidity ratio. The School has met all of its covenants at June 30, 2016 and 2015.

As of June 30, 2016 and 2015, the outstanding bond balance is $27,427,338 and $27,948,475, respectively. The School's principal payment obligations as of June 30, 2016 are as follows:

Year Ended June 30,	
2017	$ 599,366
2018	627,292
2019	656,518
2020	683,933
2021	718,971
Thereafter	24,141,258
Carrying amount of Bond	$ 27,427,338

For fiscal years 2016 and 2015 the bond interest expense was $778,840 and $795,457, respectively.

11. 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.

12. John Milton Society

John Milton Society, a Section 501(c)(3) organization, received $0 and $223 related to gifts and earned $603 and $73 in investment returns in 2016 and 2015, respectively. The John Milton Society had expenses of $49,606 and $35,903 during fiscal years 2016 and 2015 and had $683,309 and $682,455 in net assets at June 30, 2016 and 2015, respectively. According to a New York court ruling, the John Milton Society unrestricted net assets are to be used by Perkins School for the Blind and the restricted net assets should be used for the restricted purposes originally designated by the donors. Accordingly, the assets received from the John Milton Society have been recorded as either a temporarily or permanently restricted contribution. There were no inter-company transactions during the fiscal years.

13. Kilimanjaro Blind Trust, Inc.

On December 12, 2006, the Kilimanjaro Blind Trust, Inc. was incorporated as a Section 501(c)(3) organization. Its mission is to raise funds to support Perkins School for the Blind. During the fiscal years ended June 30, 2016 and 2015, the Kilimanjaro Blind Trust raised $2,201 and $14,827, respectively, in gifts and pledges and incurred investment (losses) returns of $(20,531) and $16,325, respectively. The Trust had expenses of $83,617 and $297,959 in fiscal years 2016 and 2015, respectively. The Trust had $602,032 and $636,737 in net assets at June 30, 2016 and 2015, respectively. There were no inter-company transactions during the fiscal years.

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 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. 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.

15. UFR Surplus Revenue (Deficit) Retention (Unaudited)

In accordance with the Commonwealth of Massachusetts' Operational Services Division 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 5% of its total revenue from the Commonwealth of Massachusetts during the fiscal year. In addition, the provider may retain a cumulative amount of surplus over a period of years not to exceed 20% of the prior year's total revenue from the Commonwealth of Massachusetts. For the years ended June 30, 2016 and 2015 the School had a deficit of ($9,619,661) and ($8,937,045), respectively. The cumulative amount of the deficit attributed to the surplus revenue retention policy for the years ended June 30, 2016 and 2015 was ($130,621,272) and ($121,001,611) respectively.

16. Subsequent Events

Management has evaluated events subsequent to June 30, 2016 and through November 8, 2016, the date on which these audited consolidated financial statements were issued.

On September 9, 2016 the School issued $4,100,000 in tax-exempt bonds through the Massachusetts Development Finance Agency. 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 will be used for renovations to the Hilton and Howe buildings and for other capital needs.