

Hadley Institute
For the Blind and Visually Impaired

Financial Statements
and Independent Auditor's Report

June 30, 2019 and 2018



HADLEY INSTITUTE FOR THE BLIND AND VISUALLY IMPAIRED

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Hadley Institute for the Blind and Visually Impaired

We have audited the accompanying financial statements of the Hadley Institute for the Blind and Visually Impaired, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the year then ended, the statement of functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hadley Institute for the Blind and Visually Impaired as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Hadley Institute for the Blind and Visually Impaired as of and for the year ended June 30, 2018, were audited by other auditors whose reported dated October 8, 2018, expressed an unmodified opinion on those statements.

FGMK, LLC

Bannockburn, Illinois
November 8, 2019

HADLEY INSTITUTE FOR THE BLIND AND VISUALLY IMPAIRED

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

ASSETS

	2019	2018
Cash and cash equivalents	\$ 1,103,877	\$ 1,305,430
Investments	89,444,051	88,559,029
Tuition receivable	9,950	-
Property and equipment, net	920,842	848,232
Construction in progress	8,508,058	1,107,539
	<u>\$ 99,986,778</u>	<u>\$ 91,820,230</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Line of credit	\$ 5,874,001	\$ -
Construction payable	1,399,553	285,203
Accounts payable and accrued expenses	642,939	631,531
Gift annuities payable	19,109	21,157
	<u>7,935,602</u>	<u>937,891</u>

NET ASSETS

Without donor restrictions	85,281,421	83,110,908
With donor restrictions	6,769,755	7,771,431
	<u>92,051,176</u>	<u>90,882,339</u>
	<u>\$ 99,986,778</u>	<u>\$ 91,820,230</u>

The accompanying notes are an integral part of these statements.

HADLEY INSTITUTE FOR THE BLIND AND VISUALLY IMPAIRED

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND PUBLIC SUPPORT						
Contributions						
Corporate	\$ 42,299	\$ -	\$ 42,299	\$ 8,457	\$ -	\$ 8,457
Foundations	111,500	306,939	418,439	196,068	188,513	384,581
Individuals	1,038,039	17,389	1,055,428	772,896	31,040	803,936
Service Clubs	22,528	1,000	23,528	22,069	3,000	25,069
Woman's Board	145,100	-	145,100	345,300	-	345,300
Bequests	1,696,411	25,000	1,721,411	1,974,090	10,000	1,984,090
Major Gifts Campaign	376,791	-	376,791	-	-	-
Donated materials and services	439,331	-	439,331	441,164	-	441,164
	<u>3,871,999</u>	<u>350,328</u>	<u>4,222,327</u>	<u>3,760,044</u>	<u>232,553</u>	<u>3,992,597</u>
Total contributions						
Release of net assets from restriction arising from satisfaction of program restrictions	1,599,512	(1,599,512)	-	640,125	(640,125)	-
Investment income (net of management fees)	1,710,751	368,956	2,079,707	1,595,833	260,893	1,856,726
Net realized gains on sales of investments	2,411,886	-	2,411,886	1,527,342	-	1,527,342
Net change in unrealized gain/loss on investments	692,288	(121,448)	570,840	4,187,832	(166,391)	4,021,441
Tuition	81,120	-	81,120	108,024	-	108,024
Other	6,578	-	6,578	8,216	-	8,216
	<u>10,374,134</u>	<u>(1,001,676)</u>	<u>9,372,458</u>	<u>11,827,416</u>	<u>(313,070)</u>	<u>11,514,346</u>
EXPENSES						
Educational programs and public awareness	6,162,680	-	6,162,680	5,770,350	-	5,770,350
Fundraising	895,341	-	895,341	661,589	-	661,589
General and administrative	1,145,600	-	1,145,600	1,080,843	-	1,080,843
	<u>8,203,621</u>	<u>-</u>	<u>8,203,621</u>	<u>7,512,782</u>	<u>-</u>	<u>7,512,782</u>
CHANGE IN NET ASSETS	2,170,513	(1,001,676)	1,168,837	4,314,634	(313,070)	4,001,564
NET ASSETS						
Beginning of year	83,110,908	7,771,431	90,882,339	78,796,274	8,084,501	86,880,775
End of year	<u>\$ 85,281,421</u>	<u>\$ 6,769,755</u>	<u>\$ 92,051,176</u>	<u>\$ 83,110,908</u>	<u>\$ 7,771,431</u>	<u>\$ 90,882,339</u>

The accompanying notes are an integral part of these statements.

HADLEY INSTITUTE FOR THE BLIND AND VISUALLY IMPAIRED

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Educational Programs and Public Awareness							Total
	Learning Domains and Support Services	Technology Services	Media and Materials Production	Communications and Outreach	Total Programs	Fundraising	General and Administrative	
PERSONNEL								
Salaries	\$ 2,641,799	\$ 433,495	\$ 311,644	\$ 627,906	\$ 4,014,844	\$ 548,441	\$ 542,145	\$ 5,105,430
Employee benefits	671,561	103,534	85,391	188,655	1,049,141	117,328	149,780	1,316,249
	<u>3,313,360</u>	<u>537,029</u>	<u>397,035</u>	<u>816,561</u>	<u>5,063,985</u>	<u>665,769</u>	<u>691,925</u>	<u>6,421,679</u>
EXPENSES								
Consulting services	27,384	4,945	-	117,435	149,764	88,950	74,127	312,841
Legal services	-	-	-	-	-	-	10,551	10,551
Accounting services	24,846	4,027	2,977	6,123	37,973	3,392	23,974	65,339
Content dev contracts	31,311	-	7,819	-	39,130	-	-	39,130
Professional development	26,095	6,953	4,266	5,001	42,315	5,833	13,383	61,531
Conferences and meetings	106,853	1,015	2,723	12,825	123,416	8,475	65,943	197,834
Utilities	36,772	5,960	4,406	9,062	56,200	6,022	10,886	73,108
Postage and delivery	7,246	1,174	868	2,545	11,833	10,062	1,512	23,407
Leases, repairs and maintenance	44,556	46,566	2,865	5,099	99,086	6,530	24,171	129,787
Insurance premiums	51,096	8,282	6,123	12,592	78,093	8,089	13,848	100,030
Bank fees and interest	20	-	-	40	60	3,549	42,908	46,517
External printing services	-	-	-	22,620	22,620	74,493	-	97,113
Advertising and promotion	-	-	-	5,114	5,114	590	6,493	12,197
General supplies	19,915	8,832	12,489	352	41,588	5,972	7,965	55,525
Textbooks and materials	689	-	310,369	-	311,058	-	-	311,058
Non-capital expenditures	-	17,891	4,113	520	22,524	-	-	22,524
Rent	-	-	-	-	-	-	150,000	150,000
	<u>376,783</u>	<u>105,645</u>	<u>359,018</u>	<u>199,328</u>	<u>1,040,774</u>	<u>221,957</u>	<u>445,761</u>	<u>1,708,492</u>
DEPRECIATION AND AMORTIZATION EXPENSE	<u>37,898</u>	<u>6,142</u>	<u>4,541</u>	<u>9,340</u>	<u>57,921</u>	<u>7,615</u>	<u>7,914</u>	<u>73,450</u>
	<u>\$ 3,728,041</u>	<u>\$ 648,816</u>	<u>\$ 760,594</u>	<u>\$ 1,025,229</u>	<u>\$ 6,162,680</u>	<u>\$ 895,341</u>	<u>\$ 1,145,600</u>	<u>\$ 8,203,621</u>

The accompanying notes are an integral part of this statement.

HADLEY INSTITUTE FOR THE BLIND AND VISUALLY IMPAIRED

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,168,837	\$ 4,001,564
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	73,450	68,399
Contributions restricted for long-term investment	(25,000)	(10,000)
Loss on disposal of equipment	-	21,496
Net realized gain on sales of investments	(2,411,886)	(1,527,342)
Net change in unrealized gain/loss on investments	(570,840)	(4,021,441)
Changes in operating assets and liabilities:		
Tuition receivable	(9,950)	-
Accounts payable and accrued expenses	11,408	(535,532)
Construction payable	1,114,350	285,203
Gift annuities payable	(2,048)	(1,362)
Net Cash Used In Operating Activities	<u>(651,679)</u>	<u>(1,719,015)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(7,546,579)	(822,249)
Proceeds from sales of investments	8,617,602	7,512,444
Purchases of investments	(6,519,898)	(4,347,018)
Net Cash Provided By (Used In) Investing Activities	<u>(5,448,875)</u>	<u>2,343,177</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	5,874,001	-
Collections of contributions restricted for investment in endowment	25,000	10,000
Net Cash Provided By Financing Activities	<u>5,899,001</u>	<u>10,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(201,553)	634,162
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,305,430</u>	<u>671,268</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,103,877</u>	<u>\$ 1,305,430</u>

The accompanying notes are an integral part of these statements.

HADLEY INSTITUTE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities. Hadley Institute for the Blind and Visually Impaired (“Hadley”) is a not-for-profit educational institution located in Winnetka, Illinois whose mission is to create personalized distance learning opportunities that empower people to thrive at home, at work, and in their communities.

Programs for non-professional students are offered free of charge; Hadley’s activities are funded primarily by charitable contributions and investment returns. As a result, fundraising is a critically important function and supporting service at Hadley.

Basis of Accounting. Hadley’s financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other assets and liabilities. Hadley reports its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Management Estimates and Assumptions. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. Future events and their effects cannot be predicted with certainty; accordingly, accounting estimates require the exercise of judgment. Accounting estimates used in the preparation of these financial statements change as new events occur, as more experience is acquired, as additional information is obtained, and the operating environment changes.

Cash and Cash Equivalents. Hadley maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Hadley has not experienced any losses in such accounts. Management believes that Hadley is not exposed to any significant credit risk on cash. Cash and cash equivalents with an original maturity of ninety days or less that are considered a portion of investments are classified and reported as investments.

Investments. Investments are presented in the financial statements at fair value. Investment income, realized gains (losses), and change in unrealized gains (losses) are reflected in the statements of activities. Investments received as contributions are recorded at fair value at the date of receipt.

Hadley’s investment portfolio is subject to various risks, such as interest rate, credit and overall market volatility. Because of these risks, it is possible that changes in the fair value of investments may occur and that such changes could materially affect Hadley’s financial statements.

Property and Equipment. Property and equipment are stated at cost, except for donated assets, which are recorded at fair value at the time of receipt. Additions and improvements to existing property and equipment over \$1,000 during the year are capitalized, while general maintenance and repairs are charged to expense. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets. For building and improvements, lives range from 5 to 40 years, and for equipment, lives range from 3 to 10 years.

Financial Statement Presentation. Hadley is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Without Donor Restrictions - Amounts that are currently available for use in Hadley’s operations and for acquisition of property and equipment.

With Donor Restrictions - Amounts that are stipulated by donors for specific operating purposes, for use in future periods or to be maintained permanently by Hadley.

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HADLEY INSTITUTE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gift Annuities Payable. Assets received as a result of charitable gift annuities are recorded at fair value and liabilities resulting from charitable gift annuities are recorded at the present value of estimated future payments. Support for charitable gift annuities is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments to be made to the designated beneficiaries.

Contributions. Hadley reports contributions, including unconditional promises to give, as revenue in the period the contribution or promise is received. Contributions of cash and other assets are reported as restricted support if received with donor stipulations that limit the use of the contribution. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. When the donor restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Donated Services. Donated services and other noncash donations are recorded as contributions at their estimated fair value on the date received. Many individuals volunteer their time and perform a variety of tasks that assist Hadley with its programs and administration, but these donated services are not reflected in the financial statements because they do not meet the requirements for inclusion. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Hadley recorded in-kind contribution revenue under other revenue in the statements of activities for donated printing services, legal consultation, and office space.

Deferred Compensation. Hadley has deferred compensation arrangements with a former employee. The agreement requires equal quarterly payments of \$25,889 including interest at a rate of 9% through April of 2021. The related liability which is included in the accounts payable and accrued expenses on the statement of financial position, was approximately \$166,000 and \$250,000 as of June 30, 2019 and 2018, respectively.

Income Taxes. Hadley is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes excluding any income not related to its tax-exempt purpose. Accordingly, no provision for income taxes has been recorded in the financial statements.

Functional Allocation of Expenses. The costs of providing the various programs and other activities for the year ended June 30, 2019 have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services on the basis of management estimates.

Reclassification. Certain amounts in the 2018 financial statements have been reclassified in order to conform with the 2019 presentation.

Liquidity and Availability. Hadley regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Hadley has various sources of liquidity at its disposal, including cash and cash equivalents, equity securities, and a line of credit. See note 8 for information about Hadley's line of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Hadley considers all expenditures related to its ongoing activities to be general expenditures. While tuition makes up a small portion of revenue, most of Hadley's content is provided tuition-free. As of June 30, 2019, approximately \$1.1 million of cash and \$83 million of investments without donor restriction could readily be made available within one year of the statement of financial position date to meet general expenditures.

(Continued)

HADLEY INSTITUTE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Adoption of New Accounting Pronouncement. In 2019, Hadley adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profits*. The ASU amends the reporting model for not-for-profit organizations and enhances the required disclosures. Major changes include requiring presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, new disclosures regarding liquidity and the availability of resources, a requirement for a statement of expenses by both nature and functional classification, and disclosures related to the functional allocation of expenses were expanded. Net assets that were previously reported as unrestricted are now reported as net assets without donor restrictions. Net assets that were previously reported as either temporarily or permanently restricted are now reported as net assets with donor restrictions.

NOTE 2 – DESCRIPTION OF PROGRAMS

Learning Domains and Support Services. These departments are responsible for the development and delivery of Hadley’s program content, and interaction with learners. Included in these departments are vision professionals, instructional designers, and customer support staff.

Technology Services. As a distance learning organization, technology is central to Hadley’s ability to deliver its content in formats that are accessible to people who are visually impaired. The Technology Services department also supports the technology needs of Hadley’s staff.

Media and Materials Production. Hadley provides content in four formats: braille, large print, audio, and online. This department is responsible for the production of the content in these formats and for the delivery of offline materials to learners.

Communications and Outreach. The number of older individuals who are visually impaired is expected to double in the next 10 years. This is due to the incidence of age-related eye conditions such as macular degeneration, glaucoma, and diabetic retinopathy. Hadley is committed to reaching members of this population as early as possible following diagnosis in order to help people live as independently as possible for as long as possible. Hadley continually reaches out to target populations to identify content for learners that is relevant and timely.

NOTE 3 – FAIR VALUE MEASUREMENTS

FASB *Accounting Standard Codification (“ASC”) 820, Fair Value Measurements and Disclosure*, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

(Continued)

HADLEY INSTITUTE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

- Level 1.** Inputs to the valuation methodology are unadjusted quoted prices for identical assets and liabilities in active markets that Hadley has the ability to access.
- Level 2.** Inputs to the valuation methodology include the following:
- Quoted prices for similar assets or liabilities in active market;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3.** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The assets or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2019 and 2018.

Cash and Cash Equivalents. Fair values of money market funds are estimated to approximate deposit account balances, payable on demand, as no discounts for credit quality or liquidity were determined to be applicable (Level 2 inputs – market approach).

Mutual Funds. These investments consist of mutual fund holdings primarily invested in equity securities, fixed income funds, and real estate funds. The fair values of these investments are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs – market approach).

Alternative Investments. Investments in hedge funds and real estate funds are reported at fair value based on net asset values ("NAV") provided by the external investment manager as of the date of their most recent audited financial statements, adjusted for cash receipts, cash disbursements and other anticipated income or loss through Hadley's fiscal year end. The NAVs of the investment funds are determined on the accrual basis of accounting in conformity with GAAP. The managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of Hadley's investments in investment limited partnerships generally represents the amount Hadley would expect to receive if it were to liquidate its investment in the investment limited partnerships excluding any redemption charges that may apply.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Hadley believes the 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 fair value measurement at the reporting date.

The partnerships have annual, quarterly, or weekly redemption periods with notice periods ranging from 5 to 90 days. As of June 30, 2019 and 2018, Hadley had unfunded commitments of approximately \$4,845,000 and \$3,748,000 related to hedge fund investments, respectively, and no unfunded commitments related to the real estate funds investment. Unfunded commitments represent capital calls which can be made at the discretion of the general partner within contractual limits. These commitments do not represent obligations required to be accrued on the Statements of Financial Position.

(Continued)

HADLEY INSTITUTE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – FAIR VALUE MEASUREMENTS (Concluded)

Hadley's hedge fund holdings invest primarily in other hedge funds that invest primarily in exchange traded equity and debt securities and private equity investments. Hadley's real estate fund holdings invest primarily in core stable institutional quality office, retail, industrial and multi-family residential properties that are substantially leased and have minimal deferred maintenance or functional obsolescence.

The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in those instruments.

The following table summarizes investments according to the fair value hierarchy as of June 30, 2019 and 2018.

	Assets at Fair Value as of June 30, 2019				Total
	Level 1	Level 2	Level 3	NAV	
Cash and Cash					
Equivalents	\$ -	\$ 1,161,950	\$ -	\$ -	\$ 1,161,950
Mutual Funds:					
Mortgage backed					
fixed income	11,084,642	-	-	-	11,084,642
U.S. Equities	31,930,118	-	-	-	31,930,118
International Equities	18,470,549	-	-	-	18,470,549
Alternative					
Investments:					
Real estate funds	-	-	-	10,253,350	10,253,350
Hedge funds	-	-	-	16,543,442	16,543,442
	<u>\$61,485,309</u>	<u>\$ 1,161,950</u>	<u>\$ -</u>	<u>\$26,796,792</u>	<u>\$89,444,051</u>
	Assets at Fair Value as of June 30, 2018				Total
	Level 1	Level 2	Level 3	NAV	
Cash and Cash					
Equivalents	\$ -	\$ 89,430	\$ -	\$ -	\$ 89,430
Mutual Funds:					
Government fixed					
income	3,517,049	-	-	-	3,517,049
Mortgage backed					
fixed income	5,157,400	-	-	-	5,157,400
Corporate fixed					
income	2,393,706	-	-	-	2,393,706
U.S. Equities	33,073,962	-	-	-	33,073,962
International Equities	18,726,645	-	-	-	18,726,645
Alternative					
Investments:					
Real estate funds	-	-	-	10,111,914	10,111,914
Hedge funds	-	-	-	15,488,923	15,488,923
	<u>\$62,868,762</u>	<u>\$ 89,430</u>	<u>\$ -</u>	<u>\$25,600,837</u>	<u>\$88,559,029</u>

HADLEY INSTITUTE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	2019	2018
Land	\$ 39,908	\$ 39,908
Building and improvements	2,861,145	2,861,145
Equipment	1,724,836	1,578,776
Website development costs	15,300	15,300
	<u>4,641,189</u>	<u>4,495,129</u>
Less: Accumulated depreciation and amortization	<u>3,720,347</u>	<u>3,646,897</u>
	<u>\$ 920,842</u>	<u>\$ 848,232</u>

The construction project for remodeling Hadley's office building was completed in July 2019 and is separately reported as construction in progress on the statement of financial position.

NOTE 5 – EMPLOYEE BENEFIT PLANS

Hadley provides a tax-sheltered retirement program in accordance with the provisions of Section 403(b) of the Internal Revenue Code, whereby it makes contributions equal to 50 cents for each dollar of payroll reduction contribution up to \$1,200, and 25 cents for each dollar of payroll reduction contribution above \$1,200, subject to IRS limitations. Hadley's contribution was approximately \$269,000 and \$64,000 for the years ended June 30, 2019 and 2018, respectively. This plan was restated in January 2018. The restatement did not affect Hadley's contributions as described in this paragraph.

Hadley previously maintained a target benefit plan which was terminated in December 2017. Employer contributions to that plan were approximately \$246,000 for the year ended June 30, 2018.

HADLEY INSTITUTE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose*:		
Audio/visual	\$ -	\$ 2,320
Awards ceremony	12,982	22,162
Braille instruction	10,910	-
Communications	318,581	449,597
Course development	124,154	366,387
Deaf/blind	-	19,082
Entrepreneurship	239,025	501,222
Everitt room	-	203,133
Florida recruiting	43,201	43,201
Independent living and low vision	1,275	1,275
Reference materials	62	316
Low vision	-	99,388
Leadership	37,242	93,995
Texas recruiting	71,432	71,432
Veterans	563,145	575,175
	<u>1,422,009</u>	<u>2,448,685</u>
Endowments:		
Awards ceremony	288,000	288,000
Braille instruction	169,700	169,700
Communications	1,000,000	1,000,000
Course development	100,000	100,000
Deaf/blind	185,000	185,000
Everitt room repairs	20,000	20,000
General purpose	2,587,451	2,562,451
Independent living and low vision	299,631	299,631
Macular degeneration	406,464	406,464
Older blind	100,000	100,000
Reference materials	5,000	5,000
Student education	101,500	101,500
Student scholarship	50,000	50,000
Veterans	25,000	25,000
Youth education	10,000	10,000
	<u>5,347,746</u>	<u>5,322,746</u>
Total	<u>\$ 6,769,755</u>	<u>\$ 7,771,431</u>

* Balance of \$335,250 and \$711,701 as of June 30, 2019 and 2018, respectively, was restricted by time until appropriation.

HADLEY INSTITUTE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – ENDOWMENT NET ASSETS

Hadley's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Hadley has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") to require the preservation of the fair value 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, Hadley retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by Hadley in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Hadley considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purpose of Hadley and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of Hadley; and
7. The investment policies of Hadley.

Endowment Composition. Hadley's endowment net assets are as follows:

	June 30, 2019		
	Without Donor Restriction	With Donor Restrictions	Total
Board designated endowment funds	\$ 83,417,334	\$ -	\$ 83,417,334
Donor restricted endowment funds:			
Original donor restricted gift amount	-	5,347,746	5,347,746
Accumulated investment gains	-	335,250	335,250
	<u>\$ 83,417,334</u>	<u>\$ 5,682,996</u>	<u>\$ 89,100,330</u>
	June 30, 2018		
	Without Donor Restriction	With Donor Restrictions	Total
Board designated endowment funds	\$ 82,839,058	\$ -	\$ 82,839,058
Donor restricted endowment funds:			
Original donor restricted gift amount	-	5,322,746	5,322,746
Accumulated investment gains	-	711,701	711,701
	<u>\$ 82,839,058</u>	<u>\$ 6,034,447</u>	<u>\$ 88,873,505</u>

(Continued)

HADLEY INSTITUTE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – ENDOWMENT NET ASSETS (Concluded)

Changes in Endowment Net Assets. Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	Year Ended June 30, 2019		
	Without Donor Restriction	With Donor Restrictions	Total
Balance, beginning of year	\$ 82,839,058	\$ 6,034,447	\$ 88,873,505
Contributions	1,694,695	25,000	1,719,695
Net investment return	4,687,416	247,508	4,934,924
Appropriation of endowment assets for expenditure	(5,803,835)	(623,959)	(6,427,794)
Balance, end of year	<u>\$ 83,417,334</u>	<u>\$ 5,682,996</u>	<u>\$ 89,100,330</u>
	Year Ended June 30, 2018		
	Without Donor Restriction	With Donor Restrictions	Total
Balance, beginning of year	\$ 77,444,172	\$ 6,145,077	\$ 83,589,249
Contributions	1,971,687	10,000	1,981,687
Net investment return	7,310,806	94,502	7,405,308
Appropriation of endowment assets for expenditure	(3,887,607)	(215,132)	(4,102,739)
Balance, end of year	<u>\$ 82,839,058</u>	<u>\$ 6,034,447</u>	<u>\$ 88,873,505</u>

Funds with Deficiencies. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Illinois UPMIFA requires Hadley to retain as a fund of perpetual duration. Hadley has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of June 30, 2019 and 2018, there were no individual donor restricted endowment funds with deficiencies.

Return Objectives and Risk Parameters. Hadley has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Hadley must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner intended to achieve a rate of return that is consistently 3% to 5% over the rate of inflation (as measured by the National Consumer Price Index), on an after-fee-basis over a typical market cycle of no less than three years and no more than five years. Actual returns in any given year may vary from this amount.

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

Spending Policy. Hadley has a policy of appropriating an estimate of expenditures each year as part of a formal, annual budget. Changes to appropriations are also approved during the year as unexpected needs arise. In establishing this policy, Hadley considered the long-term expected return on its endowment and historical levels of contributions.

HADLEY INSTITUTE FOR THE BLIND AND VISUALLY IMPAIRED**NOTES TO THE FINANCIAL STATEMENTS****NOTE 8 – LINE OF CREDIT**

Hadley has an unsecured \$8.5 million line of credit agreement with a commercial bank that matures on May 31, 2020. Borrowings under the line bear interest at the LIBOR rate plus 1.65% (4.04% at June 30, 2019). The line of credit agreement requires Hadley to maintain a minimum of \$40 million of cash, marketable securities, mutual funds, money market accounts, and managed investment accounts at all times.

NOTE 9 – SUBSEQUENT EVENTS

Hadley's management has evaluated all known subsequent events from June 30, 2019 through November 8, 2019, the date the accompanying financial statements were available to be issued, and is not aware of any material subsequent events occurring during this period.