

NEW ENGLAND KURN HATTIN HOMES

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

AND

INDEPENDENT AUDITORS' REPORT



86 West Street, PO Box 623, Keene, NH 03431
Phone: (603) 352-4500 Fax: (603) 352-8558

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
New England Kurn Hattin Homes:

We have audited the accompanying financial statements of New England Kurn Hattin Homes (a not-for-profit organization) which are comprised of the statements of financial position as of June 30, 2019 and 2018 and the related statements of activities, functional expenses and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 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 auditors' 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 New England Kurn Hattin Homes as of June 30, 2019 and 2018, and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Oster & Wheeler, P.C.

Keene, New Hampshire
September 25, 2019

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
<u>ASSETS</u>		
Cash	\$ 121,472	\$ 126,981
Accounts receivable	11,791	8,682
Prepaid expenses	22,793	15,773
Investments	46,738,510	46,794,917
Land, buildings and equipment, net of accumulated depreciation	3,024,214	3,181,347
Total assets	\$ 49,918,780	\$ 50,127,700
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 168,319	\$ 112,450
Present value of annuities	205,575	259,802
Other liabilities	5,840	20,730
Total liabilities	379,734	392,982
NET ASSETS:		
Without donor restrictions	27,838,264	27,918,948
With donor restrictions	21,700,782	21,815,770
Total net assets	49,539,046	49,734,718
Total liabilities and net assets	\$ 49,918,780	\$ 50,127,700

The accompanying notes to financial statements are an integral part of these statements.

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING ACTIVITIES						
REVENUES, GAINS, OTHER SUPPORT AND RECLASSIFICATIONS:						
Parents and guardians	\$ 114,793	\$ -	\$ 114,793	\$ 130,473	\$ -	\$ 130,473
Bequests and contributions	830,605	162,091	992,696	758,860	1,263,865	2,022,725
Income from other trusts	727,409	27,315	754,724	497,092	21,097	518,189
Charitable gift annuities	94,449	-	94,449	60,567	-	60,567
School lunch and fruits & vegetables programs	144,449	-	144,449	161,285	-	161,285
Other	37,096	2,835	39,931	43,706	3,934	47,640
Endowment funds appropriated for expenditure	<u>2,788,246</u>	<u>723,393</u>	<u>3,511,639</u>	<u>1,903,841</u>	<u>1,650,862</u>	<u>3,554,703</u>
Revenues, gains and other support before reclassifications	4,737,047	915,634	5,652,681	3,555,824	2,939,758	6,495,582
Net assets released from restrictions:						
Satisfaction of purpose restrictions	<u>849,606</u>	<u>(849,606)</u>	<u>-</u>	<u>1,739,727</u>	<u>(1,739,727)</u>	<u>-</u>
Total revenues, gains, other support, and reclassifications	<u>5,586,653</u>	<u>66,028</u>	<u>5,652,681</u>	<u>5,295,551</u>	<u>1,200,031</u>	<u>6,495,582</u>
EXPENSES:						
Residential and food service	1,476,258	-	1,476,258	1,503,673	-	1,503,673
Education	903,213	-	903,213	887,943	-	887,943
Farm and equestrian	65,765	-	65,765	70,637	-	70,637
Facilities, repairs and general	1,092,626	-	1,092,626	1,046,639	-	1,046,639
Health services	125,957	-	125,957	117,932	-	117,932
Counseling	319,938	-	319,938	232,857	-	232,857
Admissions and family outreach	228,030	-	228,030	223,315	-	223,315
Development and public relations	466,096	-	466,096	428,842	-	428,842
Special purpose	131,804	-	131,804	93,831	-	93,831
Administrative services	<u>552,973</u>	<u>-</u>	<u>552,973</u>	<u>552,114</u>	<u>-</u>	<u>552,114</u>
Total expenses before depreciation	<u>5,362,660</u>	<u>-</u>	<u>5,362,660</u>	<u>5,157,783</u>	<u>-</u>	<u>5,157,783</u>
Income from operations before depreciation	223,993	66,028	290,021	137,768	1,200,031	1,337,799
Depreciation	<u>354,585</u>	<u>-</u>	<u>354,585</u>	<u>374,251</u>	<u>-</u>	<u>374,251</u>
Change in net assets from operating activities	<u>(130,592)</u>	<u>66,028</u>	<u>(64,564)</u>	<u>(236,483)</u>	<u>1,200,031</u>	<u>963,548</u>
NON-OPERATING ACTIVITIES						
Realized and unrealized gains on investments	554,601	484,797	1,039,398	1,339,496	1,161,500	2,500,996
Income from investments, net	626,123	57,580	683,703	557,157	51,616	608,773
Allocation of unrestricted bequests to investments	1,606,633	-	1,606,633	-	-	-
Change in value of charitable gift annuities	50,797	-	50,797	94,972	-	94,972
Endowment funds appropriated for expenditure	<u>(2,788,246)</u>	<u>(723,393)</u>	<u>(3,511,639)</u>	<u>(1,903,841)</u>	<u>(1,650,862)</u>	<u>(3,554,703)</u>
Change in net assets from non-operating activities	<u>49,908</u>	<u>(181,016)</u>	<u>(131,108)</u>	<u>87,784</u>	<u>(437,746)</u>	<u>(349,962)</u>
CHANGES IN NET ASSETS	(80,684)	(114,988)	(195,672)	(148,699)	762,285	613,586
NET ASSETS, beginning of year	<u>27,918,948</u>	<u>21,815,770</u>	<u>49,734,718</u>	<u>28,067,647</u>	<u>21,053,485</u>	<u>49,121,132</u>
NET ASSETS, end of year	\$ <u>27,838,264</u>	\$ <u>21,700,782</u>	\$ <u>49,539,046</u>	\$ <u>27,918,948</u>	\$ <u>21,815,770</u>	\$ <u>49,734,718</u>

The accompanying notes to financial statements are an integral part of these statements.

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019				2018			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 2,494,140	\$ 249,756	\$ 337,144	\$ 3,081,040	\$ 2,587,327	\$ 242,169	\$ 263,002	\$ 3,092,498
Benefits	746,575	71,992	94,671	913,238	586,904	81,192	42,768	710,864
Communications	31,692	8,977	46,780	87,449	22,675	9,826	48,854	81,355
Supplies	248,457	17,279	8,108	273,844	257,064	2,979	4,955	264,998
Professional services	15,713	67,802	54,141	137,656	94,595	50,828	39,131	184,554
Banking and insurance	4,740	106,498	4,450	115,688	82,060	20,515	3,866	106,441
Trade services	142,660	2,747	4,419	149,826	138,525	2,916	4,375	145,816
Travel	45,685	7,848	13,322	66,855	20,370	5,213	8,473	34,056
Utilities	262,658	4,510	6,314	273,482	231,792	12,200	-	243,992
Equipment	24,568	6,226	750	31,544	37,374	3,677	-	41,051
Activities	217,992	2,846	11,200	232,038	208,695	28,997	14,466	252,158
Depreciation	336,856	17,729	-	354,585	355,538	18,713	-	374,251
 Total expenses	 \$ <u>4,571,736</u>	 \$ <u>564,210</u>	 \$ <u>581,299</u>	 \$ <u>5,717,245</u>	 \$ <u>4,622,919</u>	 \$ <u>479,225</u>	 \$ <u>429,890</u>	 \$ <u>5,532,034</u>

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from:		
Program services	\$ 296,064	\$ 342,121
Bequests and contributions	2,540,656	857,568
Investment income	680,992	606,280
Trust income	754,724	518,189
Charitable gift annuities	40,222	3,399
Cash paid to employees and suppliers	<u>(5,328,701)</u>	<u>(5,174,801)</u>
Net cash flows from operating activities	<u>(1,016,043)</u>	<u>(2,847,244)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land, buildings and equipment	(197,453)	(149,922)
Sale of land, buildings and equipment	15,746	-
Purchase of investments	(2,742,019)	(1,301,663)
Sale of investments	<u>3,872,876</u>	<u>3,139,018</u>
Net cash flows from investing activities	<u>949,150</u>	<u>1,687,433</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted contributions and investment income	<u>61,384</u>	<u>1,167,650</u>
Net cash flows from financing activities	<u>61,384</u>	<u>1,167,650</u>
CHANGE IN CASH	(5,509)	7,839
CASH, beginning of year	<u>126,981</u>	<u>119,142</u>
CASH, end of year	\$ <u><u>121,472</u></u>	\$ <u><u>126,981</u></u>

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF CHANGE IN NET ASSETS		
TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ <u>(195,672)</u>	\$ <u>613,586</u>
Adjustment to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation	354,585	374,251
Realized and unrealized gain on investments	(1,090,195)	(2,595,968)
(Increase) decrease in the following assets:		
Accounts receivable	(3,109)	2,723
Prepaid expenses	(7,020)	(191)
Increase (decrease) in the following liabilities:		
Accounts payable and accrued expenses	55,869	(31,882)
Present value of annuities	(54,227)	(57,168)
Other liabilities	(14,890)	15,055
Restricted contributions and investment income	<u>(61,384)</u>	<u>(1,167,650)</u>
Total adjustments	<u>(820,371)</u>	<u>(3,460,830)</u>
Net cash flows from operating activities	\$ <u>(1,016,043)</u>	\$ <u>(2,847,244)</u>

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

1. Significant accounting policies:

Organization – New England Kurn Hattin Homes (Kurn Hattin) was incorporated in the State of Vermont on August 18, 1894, and in the State of Massachusetts on July 10, 1914, for the purpose of providing homes and educational facilities for children from families affected by tragedy, and social or economic hardship.

Financial statement presentation – Kurn Hattin presents its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958 *Not-For-Profit Entities*. The accompanying financial statements have been prepared on the accrual basis of accounting. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Non-cash contributions are recorded at fair market value on the date of donation. Income earned on net assets, including net realized appreciation on investments, is reflected as a change in net assets without donor restrictions or net assets with donor restrictions in accordance with donor stipulations.

Amounts related to Kurn Hattin’s financial position and activities are reported in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed time or purpose restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished. When a donor restriction expires the net assets are reclassified as net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting Kurn Hattin to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a board-approved spending policy. Restricted contributions that are received and utilized in accordance with donor stipulations in the same year are reported as contributions without donor restrictions. Kurn Hattin follows a similar policy for investment return on these funds.

Cash equivalents – For the purpose of the statements of cash flows, Kurn Hattin considers cash equivalents to be all highly liquid securities with an original maturity of three months or less.

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash and cash equivalents.

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Contributions – Contributions are recognized as revenues when received or unconditionally pledged. All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other contributions with donor restrictions are reported as an increase in net assets with temporary or permanent donor restrictions, depending on the nature of the restriction.

When a restriction expires, net assets with temporary donor restrictions are reclassified to net assets without donor restrictions.

Kurn Hattin recognizes bequests from estates and trusts after the statutory period for claims has expired and notification has been received that the funds are available for disbursement.

Allowance for doubtful accounts – Kurn Hattin considers tuition charges unpaid after 30 days to be probable bad debts. Accounts receivable are shown net of an allowance for doubtful accounts of \$55,334 and \$57,228 as of June 30, 2019 and 2018, respectively.

Investments – Investments in equity securities with readily determinable fair values, and all debt securities, are measured and reported at fair value as of the date of the financial statements.

Land, buildings and equipment – Land, buildings and equipment are stated at cost, except donated assets which are recorded at fair value on the date of donation.

Depreciation – Kurn Hattin follows the policy of charging to expense annual amounts of depreciation which allocate the cost of depreciable assets over their estimated useful lives. Kurn Hattin uses the straight-line method for determining the annual charge for depreciation. The ranges of estimated useful lives are as follows:

	<u>Years</u>
Land improvements	5 – 20
Buildings	19 – 40
Building improvements	5 – 40
Furnishings	5 – 7
Equipment	3 – 10
Vehicles	3 – 10

Repairs and maintenance costs are expensed when incurred and betterments are capitalized. Assets sold or otherwise disposed of are removed from the accounts, along with the related depreciation, and any gain or loss is recognized. Fully depreciated property is continued in the accounts until retired from service.

Plans are continuously being formulated to modernize and upgrade existing facilities in line with anticipated future needs of Kurn Hattin and state requirements.

NEW ENGLAND KURN HATTIN HOMES
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Pension plan – Kurn Hattin has a contributory defined contribution (money purchase) pension plan. All employees are eligible to participate after meeting age and length of service requirements. For each of the years ended June 30, 2019 and 2018, Kurn Hattin contributed 4% and 3%, respectively, of cash compensation. The employees contributed 4% and 3% of cash compensation for each of the years ended June 30, 2019 and 2018, respectively. Pension expense was \$60,729 and \$48,614 for the years ended June 30, 2019 and 2018, respectively.

Investment income – Investment income is reported net of related investment management fees.

Use of estimates – The preparation of financial statements in conformity with 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. Actual results could differ from those estimates.

Income tax status – Kurn Hattin is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes. In addition, Kurn Hattin qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Kurn Hattin has evaluated its significant tax positions, including their tax-exempt status, and determined that they do not need to recognize a liability for any uncertain tax positions for interest, penalties or potential taxes. Accordingly, no provision for income taxes is required. Kurn Hattin's annual return filings (Forms 990, NHCT-2A and MA Form PC) remain subject to examination by major tax jurisdictions for the standard three-year statute of limitations.

Functional allocation of expense - The costs of providing the various program and supporting services have been summarized on a functional basis in the Statements of Activities. The Statements of Functional Expenses present the natural classification detail of expenses by function. Expenses are charged to programs and supporting services on the basis of periodic expense reviews and management estimates. Expenses directly attributable to a specific functional area of Kurn Hattin are reported as expenses of those functional areas. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Kurn Hattin.

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Accounting pronouncements adopted - In August 2016, the FASB issued ASU 2016-14, “*Presentation of Financial Statements of Not-for-Profit Entities*” (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. In addition, ASU 2016-14 removes the requirement that not-for-profit entities that chose to prepare the statements of cash flows using the direct method must also present a reconciliation (the indirect method). Kurn Hattin has adopted this ASU as of and for the year ended June 30, 2019.

2. Liquidity:

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the Statement of Financial Position date, comprise the following:

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash	\$ 121,472	\$ 126,981
Accounts receivable	11,791	8,682
Investments	<u>46,738,510</u>	<u>46,794,917</u>
Total financial assets available within one year	46,871,773	46,930,580
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	<u>(21,361,185)</u>	<u>(21,483,528)</u>
	<u>\$ 25,510,588</u>	<u>\$ 25,447,052</u>

Kurn Hattin maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due.

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
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3. Investments:

Kurn Hattin's investment assets are reported at fair value in the accompanying statements of financial position. FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels:

- Level I – Quoted prices in active markets for identical assets
- Level II – Significant other observable inputs
- Level III – Significant unobservable inputs

Investments are presented in the financial statements at fair value as measured on a recurring basis, using the following methods:

	<u>2019</u>	<u>2018</u>
<u>Quoted prices in active markets for identical assets (Level I):</u>		
Investments:		
Money market funds and other cash equivalents	\$ 3,449,070	\$ 2,298,293
Fixed income	156,158	117,881
Corporate equities	640,369	703,071
Mutual funds of:		
Domestic equities	13,157,245	14,258,783
International equities	11,638,138	12,171,418
Alternative investments	9,331,246	9,662,639
Fixed income securities	<u>8,366,284</u>	<u>7,582,832</u>
	<u>\$ 46,738,510</u>	<u>\$ 46,794,917</u>

Investment income (loss) consists of the following:

Interest and dividends, net of investment fees of \$107,980 in 2019 and \$113,103 in 2018	\$ 683,703	\$ 608,773
Unrealized gain	(455,116)	932,333
Realized gains	<u>1,494,514</u>	<u>1,568,663</u>
	<u>\$ 1,723,101</u>	<u>\$ 3,109,769</u>

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
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4. Endowment funds:

New England Kurn Hattin's investments consist of board designated endowment funds and donor restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Kurn Hattin has interpreted the State of Vermont's Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation for the future of donor restricted investment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Kurn Hattin classifies as net assets with permanent donor restrictions (1) the original value of gifts donated as investment funds with permanent donor restrictions, (2) the original value of subsequent gifts to the investment funds with permanent restrictions, and (3) accumulations to the investment funds with permanent donor restrictions made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In the absence of donor direction, unrealized gains on investment fund assets with permanent donor restrictions in excess of the principal value will be classified as net assets with temporary donor restrictions until appropriated by the Board for expenditures. Board designated investment funds are classified as net assets without donor restrictions. Investment income (dividends and interest) is considered unrestricted when earned, unless explicitly restricted by the donor.

In making the determination to appropriate expenditures from the net assets with temporary donor restrictions, consideration is given by Kurn Hattin to:

1. The duration and preservation of the fund.
2. The purpose of the organization and the investment funds with donor restrictions.
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 the organization.
7. The investment policies of the organization.

Kurn Hattin has adopted investment and spending policies approved by the Board of Trustees. The investment objective is to preserve the fund's purchasing power while providing a continuing and stable funding source to support Kurn Hattin's programs. It is the intention that all total return (interest income, dividends, realized gains, and unrealized gains) above and beyond the amount approved for expenditure or distribution will be reinvested in the fund. The fund has a long-term investment horizon with moderately high liquidity needs.

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JUNE 30, 2019 AND 2018

To achieve its investment objective, the fund will allocate among several asset classes, with a bias toward equity and equity-like investments due to their higher long-term return expectations. Other asset classes may be added to the fund to enhance returns, reduce volatility through diversifications, and/or offer a broader investment opportunity set. Spending is guided by several factors. The most important is the value of the portfolio. Generally, the spending policy limits annual expenditures for operating expenditures to five percent of the value of fund assets based on a twelve-quarter rolling average. The Board may also approve additional expenditures from Board designated funds or funds without donor restrictions, and funds with temporary donor restrictions as necessary to support Kurn Hattin's programs.

The endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 24,436,881	\$ -	\$ -	\$ 24,436,881
Donor restricted endowment funds	<u>-</u>	<u>-</u>	<u>21,361,185</u>	<u>21,361,185</u>
Total	<u>\$ 24,436,881</u>	<u>\$ -</u>	<u>\$ 21,361,185</u>	<u>\$ 45,798,066</u>

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

Endowment net assets, beginning of year	\$ 24,380,190	\$ 183,727	\$ 21,299,801	\$ 45,863,718
Investment return:				
Investment income, net of fees	683,703	54,869	2,711	741,283
Change in market value	554,601	484,797	-	1,039,398
Contributions	1,606,633	-	58,673	1,665,306
Appropriation of endowment net asset for expenditures	<u>(2,788,246)</u>	<u>(723,393)</u>	<u>-</u>	<u>(3,511,639)</u>
Endowment net assets, end of year	<u>\$ 24,436,881</u>	<u>\$ -</u>	<u>\$ 21,361,185</u>	<u>\$ 45,798,066</u>

NEW ENGLAND KURN HATTIN HOMES
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The endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 24,380,190	\$ -	\$ -	\$ 24,380,190
Donor restricted endowment funds	<u>-</u>	<u>183,727</u>	<u>21,299,801</u>	<u>21,483,528</u>
Total	<u>\$ 24,380,190</u>	<u>\$ 183,727</u>	<u>\$ 21,299,801</u>	<u>\$ 45,863,718</u>

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

Endowment net assets, beginning of year	\$ 24,387,378	\$ 623,966	\$ 20,132,151	\$ 45,143,495
Investment return:				
Investment income, net of fees	557,157	49,123	2,493	608,773
Change in market value	1,339,496	1,161,500	-	2,500,996
Contributions	-	-	1,165,157	1,165,157
Appropriation of endowment net assets for expenditures	<u>(1,903,841)</u>	<u>(1,650,862)</u>	<u>-</u>	<u>(3,554,703)</u>
Endowment net assets, end of year	<u>\$ 24,380,190</u>	<u>\$ 183,727</u>	<u>\$ 21,299,801</u>	<u>\$ 45,863,718</u>

Total investments consist of:

	<u>2019</u>	<u>2018</u>
Board designated funds	\$ 24,436,881	\$ 24,380,190
Appreciation of permanently restricted	-	183,727
Permanently restricted	<u>21,361,185</u>	<u>21,299,801</u>
Subtotal	45,798,066	45,863,718
Unrestricted	<u>940,444</u>	<u>931,199</u>
Total	<u>\$ 46,738,510</u>	<u>\$ 46,794,917</u>

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5. Land, buildings and equipment:

Land, buildings and equipment, at cost, included the following as of June 30:

	<u>2019</u>	<u>2018</u>
Buildings	\$ 7,172,625	\$ 7,172,625
Building improvements	2,773,748	2,724,757
Equipment	898,436	894,936
Land improvements	637,621	522,658
Vehicles	459,318	445,064
Furnishings	261,545	261,545
Land	37,791	37,791
Livestock	15,500	15,500
	<u>12,256,584</u>	<u>12,074,876</u>
Less - Accumulated depreciation	<u>9,232,370</u>	<u>8,893,529</u>
	<u>\$ 3,024,214</u>	<u>\$ 3,181,347</u>

A summary of acquisitions during the years ended June 30 is as follows:

	<u>2019</u>	<u>2018</u>
Land improvements	\$ 114,963	\$ -
Building improvements	48,990	85,551
Vehicles	30,000	42,702
Furnishings and equipment	3,500	-
	<u>\$ 197,453</u>	<u>\$ 128,253</u>

6. Other liabilities:

Kurn Hattin acts as a self-insurer for Vermont unemployment compensation. In the opinion of management, adequate provision has been made for liabilities existing as of June 30, 2019 and 2018.

7. Charitable gift annuities:

Kurn Hattin has established a Charitable Gift Annuity Program. Kurn Hattin entered into agreements totaling \$50,000 in 2019 and \$20,000 in 2018. The contributions to Kurn Hattin were recorded net of the present value of the estimated future annuity payments of \$26,612 in 2019 and \$9,841 in 2018, based on the donors' life expectancy and a 4.5% discount rate.

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8. Beneficial interest in assets held by others:

Kurn Hattin has beneficial interests held in various trusts. In accordance with their policies, annual distributions are made from the trusts to the school and are classified as income without donor restrictions and income with donor restrictions. These funds are owned and controlled by the trusts. Kurn Hattin has no influence over investment decisions or distributions from the trusts.

Distributions of \$727,410 and \$497,092 were received from trustee income without donor restrictions for the years ended June 30, 2019 and 2018, respectively. The market value of the funds was approximately \$13,776,361 for the year ended June 30, 2019 (\$13,564,530 in 2018).

Distributions of \$27,314 and \$21,097 were received from trustee income with donor restrictions for the years ended June 30, 2019 and 2018, respectively. The market value of the funds was approximately \$623,291 for the year ended June 30, 2019 (\$626,295 in 2018).

9. Operating lease:

Kurn Hattin entered into an operating lease for a new vehicle beginning November 2018. The lease payments are \$492 per month, through November 2021. There is an option to purchase the vehicle at the end of its lease for \$17,077. The value of the vehicle is \$31,083 per the lease agreement.

Future minimum lease payments due in subsequent years are as follows:

2019-2020	\$ 5,904
2020-2021	5,904
2021-2022	<u>1,968</u>
	\$ <u><u>13,776</u></u>

10. Measure of operations:

Change in net assets from operating activities includes revenues, releases, and expenses deemed by management to be ongoing, major, or central to its mission of providing homes and educational facilities for children from families affected by tragedy and social or economic hardship.

Change in net assets from non-operating activities includes realized and unrealized gains and losses from investments and the amount allocated for operating expenditures.

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11. Board designated net assets:

The board of directors has designated \$24,436,881 and \$24,380,190 as of June 30, 2019 and 2018, respectively, to be invested and managed as endowment funds for the long term benefit of Kurn Hattin. These balances are included in net assets without donor restriction on the statement of financial position.

12. Donor restricted net assets:

Kurn Hattin holds net assets with donor restrictions for the years ended June 30, 2019 and 2018. Net assets with donor restrictions are available for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
<u>Permanently restricted:</u>		
Endowment funds	\$ 21,361,185	\$ 21,299,801
<u>Temporarily restricted:</u>		
Special purpose funds	339,597	332,242
Endowment funds	<u>-</u>	<u>183,727</u>
Total	\$ <u>21,700,782</u>	\$ <u>21,815,770</u>

13. Subsequent events:

In preparing these financial statements, Kurn Hattin has evaluated events and transactions for potential recognition or disclosure through September 25, 2019, the date the financial statements were available to be issued. No events were noted for disclosure.

14. Reclassifications:

Certain items have been reclassified in the prior year financial statements to conform with the current year presentation. These reclassifications had no effect on net assets or changes in net assets as previously reported.