

NEW ENGLAND KURN HATTIN HOMES

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

AND

INDEPENDENT AUDITORS' REPORT



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

14 Grove Street, Peterborough, NH 03458
Phone: (603) 924-3062 Fax: (603) 924-7805

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, 2017 and 2016 and the related statements of activities and net assets 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, 2017 and 2016, and the results of its operations 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
October 25, 2017

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|---|----------------------|----------------------|
| <u>ASSETS</u> | | |
| Cash | \$ 119,142 | \$ 92,367 |
| Accounts receivable | 11,405 | 13,382 |
| Prepaid expenses | 15,582 | 34,194 |
| Investments | 46,036,304 | 44,073,329 |
| Land, buildings and equipment, net of accumulated depreciation | <u>3,405,676</u> | <u>3,664,415</u> |
| Total assets | \$ <u>49,588,109</u> | \$ <u>47,877,687</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 144,332 | \$ 142,025 |
| Present value of annuities | 316,970 | 344,790 |
| Other liabilities | <u>5,675</u> | <u>4,645</u> |
| Total liabilities | <u>466,977</u> | <u>491,460</u> |
| NET ASSETS: | | |
| Unrestricted | 28,050,487 | 26,960,662 |
| Temporarily restricted | 873,419 | 295,692 |
| Permanently restricted | <u>20,197,226</u> | <u>20,129,873</u> |
| Total net assets | <u>49,121,132</u> | <u>47,386,227</u> |
| Total liabilities and net assets | \$ <u>49,588,109</u> | \$ <u>47,877,687</u> |

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

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF ACTIVITIES AND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | | | | 2016 | | | |
|---|----------------------|---------------------------|---------------------------|----------------------|----------------------|---------------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| <u>OPERATING ACTIVITIES</u> | | | | | | | | |
| REVENUES, GAINS, OTHER SUPPORT AND RECLASSIFICATIONS: | | | | | | | | |
| Parents and guardians | \$ 164,300 | \$ - | \$ - | \$ 164,300 | \$ 171,681 | \$ - | \$ - | \$ 171,681 |
| Bequests and contributions | 799,145 | 69,694 | 65,075 | 933,914 | 697,808 | 106,641 | 53,601 | 858,050 |
| Income from other trusts | 485,773 | 27,616 | - | 513,389 | 449,125 | 19,959 | - | 469,084 |
| Charitable gift annuities | 47,268 | - | - | 47,268 | - | - | - | - |
| School lunch and fruits & vegetables programs | 172,024 | - | - | 172,024 | 166,724 | - | - | 166,724 |
| Other | 39,029 | 4,183 | - | 43,212 | 34,345 | 7,883 | - | 42,228 |
| Endowment funds appropriated for expenditure | <u>1,753,700</u> | <u>1,411,590</u> | <u>-</u> | <u>3,165,290</u> | <u>3,607,589</u> | <u>-</u> | <u>-</u> | <u>3,607,589</u> |
| Revenues, gains and other support before reclassifications | 3,461,239 | 1,513,083 | 65,075 | 5,039,397 | 5,127,272 | 134,483 | 53,601 | 5,315,356 |
| Net assets released from restrictions: | | | | | | | | |
| Satisfaction of purpose restrictions | <u>1,559,322</u> | <u>(1,559,322)</u> | <u>-</u> | <u>-</u> | <u>118,300</u> | <u>(118,300)</u> | <u>-</u> | <u>-</u> |
| Total revenues, gains, other support, and reclassifications | <u>5,020,561</u> | <u>(46,239)</u> | <u>65,075</u> | <u>5,039,397</u> | <u>5,245,572</u> | <u>16,183</u> | <u>53,601</u> | <u>5,315,356</u> |
| EXPENSES: | | | | | | | | |
| Residential and food service | 1,494,561 | - | - | 1,494,561 | 1,497,414 | - | - | 1,497,414 |
| Education | 801,256 | - | - | 801,256 | 793,553 | - | - | 793,553 |
| Farm and equestrian | 60,985 | - | - | 60,985 | 40,658 | - | - | 40,658 |
| Facilities, repairs and general | 977,424 | - | - | 977,424 | 1,059,309 | - | - | 1,059,309 |
| Health services | 120,708 | - | - | 120,708 | 135,356 | - | - | 135,356 |
| Counseling | 211,691 | - | - | 211,691 | 221,450 | - | - | 221,450 |
| Admissions and family outreach | 211,862 | - | - | 211,862 | 208,692 | - | - | 208,692 |
| Development and public relations | 328,736 | - | - | 328,736 | 494,256 | - | - | 494,256 |
| Special purpose | 103,761 | - | - | 103,761 | 74,231 | - | - | 74,231 |
| Administrative services | <u>527,790</u> | <u>-</u> | <u>-</u> | <u>527,790</u> | <u>516,015</u> | <u>-</u> | <u>-</u> | <u>516,015</u> |
| Total expenses before depreciation | <u>4,838,774</u> | <u>-</u> | <u>-</u> | <u>4,838,774</u> | <u>5,040,934</u> | <u>-</u> | <u>-</u> | <u>5,040,934</u> |
| Income from operations before depreciation | 181,787 | (46,239) | 65,075 | 200,623 | 204,638 | 16,183 | 53,601 | 274,422 |
| Depreciation | <u>386,991</u> | <u>-</u> | <u>-</u> | <u>386,991</u> | <u>395,669</u> | <u>-</u> | <u>-</u> | <u>395,669</u> |
| Change in net assets from operating activities | <u>(205,204)</u> | <u>(46,239)</u> | <u>65,075</u> | <u>(186,368)</u> | <u>(191,031)</u> | <u>16,183</u> | <u>53,601</u> | <u>(121,247)</u> |
| <u>NON-OPERATING ACTIVITIES</u> | | | | | | | | |
| Realized and unrealized gains (losses) on investments | 2,473,647 | 1,991,090 | - | 4,464,737 | (3,075,837) | (271,011) | - | (3,346,848) |
| Income from investments | 493,749 | 44,466 | 2,278 | 540,493 | 560,209 | 49,509 | 2,555 | 612,273 |
| Allocation of unrestricted bequests to investments | - | - | - | - | 500,000 | - | - | 500,000 |
| Change in value of charitable gift annuities | 81,333 | - | - | 81,333 | (29,058) | - | - | (29,058) |
| Endowment funds appropriated for expenditure | <u>(1,753,700)</u> | <u>(1,411,590)</u> | <u>-</u> | <u>(3,165,290)</u> | <u>(3,607,589)</u> | <u>-</u> | <u>-</u> | <u>(3,607,589)</u> |
| Change in net assets from non-operating activities | <u>1,295,029</u> | <u>623,966</u> | <u>2,278</u> | <u>1,921,273</u> | <u>(5,652,275)</u> | <u>(221,502)</u> | <u>2,555</u> | <u>(5,871,222)</u> |
| CHANGES IN NET ASSETS | 1,089,825 | 577,727 | 67,353 | 1,734,905 | (5,843,306) | (205,319) | 56,156 | (5,992,469) |
| NET ASSETS, beginning of year | <u>26,960,662</u> | <u>295,692</u> | <u>20,129,873</u> | <u>47,386,227</u> | <u>32,803,968</u> | <u>501,011</u> | <u>20,073,717</u> | <u>53,378,696</u> |
| NET ASSETS, end of year | <u>\$ 28,050,487</u> | <u>\$ 873,419</u> | <u>\$ 20,197,226</u> | <u>\$ 49,121,132</u> | <u>\$ 26,960,662</u> | <u>\$ 295,692</u> | <u>\$ 20,129,873</u> | <u>\$ 47,386,227</u> |

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

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from: | | |
| Program services | \$ 381,513 | \$ 372,209 |
| Bequests and contributions | 868,839 | 1,304,449 |
| Investment income | 538,215 | 609,718 |
| Trust income | 513,389 | 469,084 |
| Charitable gift annuities | 19,448 | (9,771) |
| Cash paid to employees and suppliers | <u>(4,816,825)</u> | <u>(5,078,920)</u> |
| Net cash provided by (used in) operating activities | <u>(2,495,421)</u> | <u>(2,333,231)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of land, buildings and equipment | (128,252) | (253,085) |
| Sale of land, buildings and equipment | - | 5,000 |
| Purchase of investments | (5,307,022) | (9,950,000) |
| Sale of investments | <u>7,890,117</u> | <u>12,459,952</u> |
| Net cash provided by (used in) investing activities | <u>2,454,843</u> | <u>2,261,867</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Restricted contributions and investment income | <u>67,353</u> | <u>56,156</u> |
| Net cash provided by (used in) financing activities | <u>67,353</u> | <u>56,156</u> |
| INCREASE (DECREASE) IN CASH | 26,775 | (15,208) |
| CASH, beginning of year | <u>92,367</u> | <u>107,575</u> |
| CASH, end of year | <u>\$ 119,142</u> | <u>\$ 92,367</u> |

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| RECONCILIATION OF CHANGE IN NET ASSETS | | |
| TO NET CASH USED IN OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ <u>1,734,905</u> | \$ <u>(5,992,469)</u> |
| Adjustment to reconcile changes in net assets | | |
| to net cash provided by (used in) operating activities: | | |
| Depreciation | 386,991 | 395,669 |
| Realized gain (loss) on sale of assets | - | (4,700) |
| Realized and unrealized gain (loss) on investments | (4,546,070) | 3,375,906 |
| (Increase) decrease in the following assets: | | |
| Accounts receivable | 1,977 | (3,724) |
| Prepaid expenses | 18,612 | 1,990 |
| Increase (decrease) in the following liabilities: | | |
| Accounts payable and accrued expenses | 2,307 | (42,646) |
| Present value of annuities | (27,820) | (9,771) |
| Other liabilities | 1,030 | 2,670 |
| Restricted contributions and investment income | <u>(67,353)</u> | <u>(56,156)</u> |
| Total adjustments | <u>(4,230,326)</u> | <u>3,659,238</u> |
| Net cash provided by (used in) operating activities | \$ <u>(2,495,421)</u> | \$ <u>(2,333,231)</u> |

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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.

Basis of presentation – 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 unrestricted net assets or temporarily or permanently restricted net assets in accordance with donor stipulations.

Amounts related to Kurn Hattin’s financial position and activities are reported in three classes of net assets: permanently restricted, temporarily restricted and unrestricted.

Permanently restricted net assets have been restricted by donors to be maintained permanently. Generally, donors of these assets permit Kurn Hattin to use the income earned for general or restricted purposes.

Temporarily restricted net assets are those whose use has been limited by donors for a specific purpose. When the donor restriction has been accomplished, temporarily restricted net assets are reclassified as unrestricted net assets in the statements of activities and changes in net assets. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

Unrestricted net assets result from normal operating activities, gifts and bequests on which the donor has placed no restrictions, and (unless donor imposed restrictions or state laws preclude) gains and losses on permanently restricted net assets.

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.

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 unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted contributions are reported as an increase in temporarily restricted or permanently restricted net assets depending on the nature of the restriction.

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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 is shown net of an allowance for doubtful accounts of \$68,419 and \$46,337 as of June 30, 2017 and 2016, 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.

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, 2017 and 2016, Kurn Hattin contributed 2% of cash compensation. The employees contributed 2% of cash compensation for each of the years ended June 30, 2017 and 2016. Pension expense was \$36,685 and \$37,077 for the years ended June 30, 2017 and 2016, respectively.

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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.

2. 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

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| <u>Quoted prices in active markets for identical assets (Level I):</u> | | |
| Investments: | | |
| Money market funds and other cash equivalents | \$ 2,421,373 | \$ 225,450 |
| Fixed income | 143,340 | 113,716 |
| Corporate equities | 672,094 | 629,456 |
| Mutual funds of: | | |
| Domestic equities | 13,165,163 | 10,778,391 |
| International equities | 12,820,949 | 12,993,587 |
| Alternative investments | 9,580,934 | 10,243,809 |
| Fixed income securities | <u>7,232,450</u> | <u>9,087,920</u> |
| | <u>\$ 46,036,304</u> | <u>\$ 44,072,329</u> |

Investment income (loss) consists of the following:

| | | |
|--|---------------------|-----------------------|
| Interest and dividends, net of investment fees of \$110,500 in 2017 and \$117,038 in 2016 | \$ 540,493 | \$ 612,273 |
| Unrealized gain (loss) | 3,615,766 | (4,508,734) |
| Realized gains | <u>848,972</u> | <u>1,161,886</u> |
| | <u>\$ 5,005,231</u> | <u>\$ (2,734,575)</u> |

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

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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 permanently restricted net assets (1) the original value of gifts donated as permanently restricted investment funds, (2) the original value of subsequent gifts to the permanently restricted investment funds, and (3) accumulations to the permanently restricted investment funds 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, the accumulation of investment returns on permanently restricted investment fund assets in excess of the principal value will be classified as temporarily restricted net assets until appropriated by the Board for expenditures. Board designated investment funds are classified as unrestricted net assets.

In making the determination to appropriate expenditures from the temporarily restricted net assets, consideration is given by Kurn Hattin to:

1. The duration and preservation of the fund.
2. The purpose of the organization and the donor restricted investment funds.
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.

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 or unrestricted funds, and temporarily restricted funds as necessary to support Kurn Hattin's programs.

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

The investment net asset composition by type of fund as of June 30, 2017 is as follows:

| | <u>Unrestricted</u> | Temporarily <u>Restricted</u> | Permanently <u>Restricted</u> | <u>Total</u> |
|-----------------------------------|----------------------|----------------------------------|----------------------------------|----------------------|
| Board designated investment funds | \$ 24,387,378 | \$ - | \$ - | \$ 24,387,378 |
| Donor restricted investment funds | <u>-</u> | <u>623,966</u> | <u>20,132,151</u> | <u>20,756,117</u> |
| Total | \$ <u>24,387,378</u> | \$ <u>623,966</u> | \$ <u>20,132,151</u> | \$ <u>45,143,495</u> |

Changes in investment net assets for the year ended June 30, 2017 are as follows:

| | | | | |
|--|----------------------|--------------------|----------------------|----------------------|
| Investment net assets, beginning of year | \$ 22,911,404 | \$ - | \$ 20,129,873 | \$ 43,041,277 |
| Net asset reclassification | 197,201 | - | - | 197,201 |
| Investment return: | | | | |
| Investment income, net of fees | 493,750 | 44,466 | 2,278 | 540,494 |
| Change in market value | 2,473,648 | 1,991,090 | - | 4,464,738 |
| Contributions | 65,075 | - | - | 65,075 |
| Appropriation of investment assets for expenditures | <u>(1,753,700)</u> | <u>(1,411,590)</u> | <u>-</u> | <u>(3,165,290)</u> |
| Investment net assets, end of year | \$ <u>24,387,378</u> | \$ <u>623,966</u> | \$ <u>20,132,151</u> | \$ <u>45,143,495</u> |

The investment net asset composition by type of fund as of June 30, 2016 is as follows:

| | <u>Unrestricted</u> | Temporarily <u>Restricted</u> | Permanently <u>Restricted</u> | <u>Total</u> |
|-----------------------------------|----------------------|----------------------------------|----------------------------------|----------------------|
| Board designated investment funds | \$ 22,911,404 | \$ - | \$ - | \$ 22,911,404 |
| Donor restricted investment funds | <u>-</u> | <u>-</u> | <u>20,129,873</u> | <u>20,129,873</u> |
| Total | \$ <u>22,911,404</u> | \$ <u>-</u> | \$ <u>20,129,873</u> | \$ <u>43,041,277</u> |

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Changes in investment net assets for the year ended June 30, 2016 are as follows:

| | | | | |
|--|----------------------|-------------|----------------------|----------------------|
| Investment net assets, beginning of year | \$ 28,326,509 | \$ 429,614 | \$ 20,073,717 | \$ 48,829,840 |
| Investment return: | | | | |
| Investment income, net of fees | 560,209 | 49,509 | 2,555 | 612,273 |
| Change in market value | (2,867,725) | (479,123) | - | (3,346,848) |
| Contributions | 500,000 | - | 53,601 | 553,601 |
| Appropriation of investment assets for expenditures | <u>(3,607,589)</u> | <u>-</u> | <u>-</u> | <u>(3,607,589)</u> |
| Investment net assets, end of year | \$ <u>22,911,404</u> | \$ <u>-</u> | \$ <u>20,129,873</u> | \$ <u>43,041,277</u> |

During the year ended June 30, 2016, Kurn Hattin incurred market losses on donor restricted endowment funds that exceeded the funds available for appropriation. These excess losses of approximately \$1,086,156 were reclassified as a reduction of unrestricted net assets. At June 30, 2016, Kurn Hattin maintained investment funds at a level sufficient to satisfy all donor stipulations.

Total investments consist of:

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Board designated funds | \$ 24,387,378 | \$ 22,911,404 |
| Appreciation of permanently restricted | 623,966 | - |
| Permanently restricted | <u>20,132,151</u> | <u>20,129,873</u> |
| Subtotal | 45,143,495 | 43,041,277 |
| Unrestricted | <u>892,809</u> | <u>1,032,052</u> |
| Total | \$ <u>46,036,304</u> | \$ <u>44,073,329</u> |

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

3. Land, buildings and equipment:

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

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|---------------------|---------------------|
| Buildings | \$ 7,172,625 | \$ 7,172,625 |
| Building improvements | 2,591,016 | 2,505,466 |
| Equipment | 890,548 | 890,548 |
| Land improvements | 510,866 | 510,866 |
| Vehicles | 445,064 | 419,958 |
| Furnishings | 261,545 | 261,545 |
| Land | 37,791 | 37,791 |
| Livestock | <u>15,500</u> | <u>15,500</u> |
| | 11,924,955 | 11,814,299 |
| Less - Accumulated depreciation | <u>8,519,279</u> | <u>8,149,884</u> |
| | <u>\$ 3,405,676</u> | <u>\$ 3,664,415</u> |

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

| | <u>2017</u> | <u>2016</u> |
|---------------------------|-------------------|-------------------|
| Building improvements | \$ 85,551 | \$ 153,714 |
| Vehicles | 42,702 | 25,407 |
| Furnishings and equipment | - | 40,817 |
| Land improvements | <u>-</u> | <u>33,147</u> |
| | <u>\$ 128,253</u> | <u>\$ 253,085</u> |

4. 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, 2017 and 2016.

5. Charitable gift annuities:

Kurn Hattin has established a Charitable Gift Annuity Program. Kurn Hattin entered into agreements totaling \$25,000 in 2017 and \$0 in 2016. The contributions to Kurn Hattin were recorded net of the present value of the estimated future annuity payments of \$11,252 in 2017 and \$0 in 2016, based on the donors' life expectancy and a 4.5% discount rate.

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

6. Beneficial Interest in Assets Held by Others:

Kurn Hattin has beneficial interest held in various trusts. In accordance with their policies, annual distributions are made from the trusts to the school and are classified as restricted and unrestricted income. These funds are owned and controlled by the trusts. Kurn Hattin has no influence over investment decisions or distributions from the trusts.

Distributions of \$485,773 and \$449,125 were received from unrestricted trustee income for the years ended June 30, 2017 and 2016, respectively. The market value of the funds was approximately \$12,924,450 for the year ended June 30, 2017 (\$12,231,787 in 2016).

Distributions of \$27,616 and \$19,959 were received from restricted trustee income for the years ended June 30, 2017 and 2016, respectively. The market value of the funds was approximately \$595,667 for the year ended June 30, 2017 (\$559,946 in 2016).

7. 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.

8. Functional classification of expenditures:

The costs of providing the various programs and other activities have been summarized on a functional basis. These costs include direct and indirect costs that have been allocated, on a consistent basis, among the program and supporting services benefited.

Kurn Hattin made total expenditures of \$5,232,744 and \$5,436,603 for the years ended June 30, 2017 and 2016, respectively. The following table shows the allocation of these expenditures by functional classification:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|---------------------|---------------------|
| Program services | \$ 4,498,316 | \$ 4,534,043 |
| Management and general expenses | 403,883 | 426,455 |
| Fundraising | <u>330,545</u> | <u>476,105</u> |
| | \$ <u>5,232,744</u> | \$ <u>5,436,603</u> |

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

9. Subsequent events:

In preparing these financial statements, Kurn Hattin has evaluated events and transactions for potential recognition or disclosure through October 25, 2017, the date the financial statements were available to be issued. No events were noted for disclosure.

10. 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.