

NEW ENGLAND KURN HATTIN HOMES

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

AND

INDEPENDENT AUDITORS' REPORT



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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, 2018 and 2017 and the related statements of activities 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, 2018 and 2017, 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
September 20, 2018

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
<u>ASSETS</u>		
Cash	\$ 126,981	\$ 119,142
Accounts receivable	8,682	11,405
Prepaid expenses	15,773	15,582
Investments	46,794,917	46,036,304
Land, buildings and equipment, net of accumulated depreciation	3,181,347	3,405,676
Total assets	\$ 50,127,700	\$ 49,588,109
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 112,450	\$ 144,332
Present value of annuities	259,802	316,970
Other liabilities	20,730	5,675
Total liabilities	392,982	466,977
NET ASSETS:		
Unrestricted	27,950,910	28,050,487
Temporarily restricted	418,932	873,419
Permanently restricted	21,364,876	20,197,226
Total net assets	49,734,718	49,121,132
Total liabilities and net assets	\$ 50,127,700	\$ 49,588,109

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES								
REVENUES, GAINS, OTHER SUPPORT AND RECLASSIFICATIONS:								
Parents and guardians	\$ 130,473	\$ -	\$ -	\$ 130,473	\$ 164,300	\$ -	\$ -	\$ 164,300
Bequests and contributions	758,860	98,708	1,165,157	2,022,725	799,145	69,694	65,075	933,914
Income from other trusts	497,092	21,097	-	518,189	485,773	27,616	-	513,389
Charitable gift annuities	60,567	-	-	60,567	47,268	-	-	47,268
School lunch and fruits & vegetables programs	161,285	-	-	161,285	172,024	-	-	172,024
Other	43,706	3,934	-	47,640	39,029	4,183	-	43,212
Endowment funds appropriated for expenditure	<u>1,903,841</u>	<u>1,650,862</u>	<u>-</u>	<u>3,554,703</u>	<u>1,753,700</u>	<u>1,411,590</u>	<u>-</u>	<u>3,165,290</u>
Revenues, gains and other support before reclassifications	3,555,824	1,774,601	1,165,157	6,495,582	3,461,239	1,513,083	65,075	5,039,397
Net assets released from restrictions:								
Satisfaction of purpose restrictions	<u>1,788,849</u>	<u>(1,788,849)</u>	<u>-</u>	<u>-</u>	<u>1,559,322</u>	<u>(1,559,322)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, other support, and reclassifications	<u>5,344,673</u>	<u>(14,248)</u>	<u>1,165,157</u>	<u>6,495,582</u>	<u>5,020,561</u>	<u>(46,239)</u>	<u>65,075</u>	<u>5,039,397</u>
EXPENSES:								
Residential and food service	1,503,673	-	-	1,503,673	1,494,561	-	-	1,494,561
Education	887,943	-	-	887,943	801,256	-	-	801,256
Farm and equestrian	70,637	-	-	70,637	60,985	-	-	60,985
Facilities, repairs and general	1,046,639	-	-	1,046,639	977,424	-	-	977,424
Health services	117,932	-	-	117,932	120,708	-	-	120,708
Counseling	232,857	-	-	232,857	211,691	-	-	211,691
Admissions and family outreach	223,315	-	-	223,315	211,862	-	-	211,862
Development and public relations	428,842	-	-	428,842	328,736	-	-	328,736
Special purpose	93,831	-	-	93,831	103,761	-	-	103,761
Administrative services	<u>552,114</u>	<u>-</u>	<u>-</u>	<u>552,114</u>	<u>527,790</u>	<u>-</u>	<u>-</u>	<u>527,790</u>
Total expenses before depreciation	<u>5,157,783</u>	<u>-</u>	<u>-</u>	<u>5,157,783</u>	<u>4,838,774</u>	<u>-</u>	<u>-</u>	<u>4,838,774</u>
Income from operations before depreciation	186,890	(14,248)	1,165,157	1,337,799	181,787	(46,239)	65,075	200,623
Depreciation	<u>374,251</u>	<u>-</u>	<u>-</u>	<u>374,251</u>	<u>386,991</u>	<u>-</u>	<u>-</u>	<u>386,991</u>
Change in net assets from operating activities	<u>(187,361)</u>	<u>(14,248)</u>	<u>1,165,157</u>	<u>963,548</u>	<u>(205,204)</u>	<u>(46,239)</u>	<u>65,075</u>	<u>(186,368)</u>
NON-OPERATING ACTIVITIES								
Realized and unrealized gains on investments	1,339,496	1,161,500	-	2,500,996	2,473,647	1,991,090	-	4,464,737
Income from investments	557,157	49,123	2,493	608,773	493,749	44,466	2,278	540,493
Change in value of charitable gift annuities	94,972	-	-	94,972	81,333	-	-	81,333
Endowment funds appropriated for expenditure	<u>(1,903,841)</u>	<u>(1,650,862)</u>	<u>-</u>	<u>(3,554,703)</u>	<u>(1,753,700)</u>	<u>(1,411,590)</u>	<u>-</u>	<u>(3,165,290)</u>
Change in net assets from non-operating activities	<u>87,784</u>	<u>(440,239)</u>	<u>2,493</u>	<u>(349,962)</u>	<u>1,295,029</u>	<u>623,966</u>	<u>2,278</u>	<u>1,921,273</u>
CHANGES IN NET ASSETS	(99,577)	(454,487)	1,167,650	613,586	1,089,825	577,727	67,353	1,734,905
NET ASSETS, beginning 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>
NET ASSETS, end of year	\$ <u>27,950,910</u>	\$ <u>418,932</u>	\$ <u>21,364,876</u>	\$ <u>49,734,718</u>	\$ <u>28,050,487</u>	\$ <u>873,419</u>	\$ <u>20,197,226</u>	\$ <u>49,121,132</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from:		
Program services	\$ 342,121	\$ 381,513
Bequests and contributions	857,568	868,839
Investment income	606,280	538,215
Trust income	518,189	513,389
Charitable gift annuities	3,399	19,448
Cash paid to employees and suppliers	<u>(5,174,801)</u>	<u>(4,816,825)</u>
Net cash flows from operating activities	<u>(2,847,244)</u>	<u>(2,495,421)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land, buildings and equipment	(149,922)	(128,252)
Purchase of investments	(1,301,663)	(5,307,022)
Sale of investments	<u>3,139,018</u>	<u>7,890,117</u>
Net cash flows from investing activities	<u>1,687,433</u>	<u>2,454,843</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted contributions and investment income	<u>1,167,650</u>	<u>67,353</u>
Net cash flows from financing activities	<u>1,167,650</u>	<u>67,353</u>
CHANGE IN CASH	7,839	26,775
CASH, beginning of year	<u>119,142</u>	<u>92,367</u>
CASH, end of year	\$ <u>126,981</u>	\$ <u>119,142</u>

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
RECONCILIATION OF CHANGE IN NET ASSETS		
TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ <u>613,586</u>	\$ <u>1,734,905</u>
Adjustment to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation	374,251	386,991
Realized and unrealized gain on investments	(2,595,968)	(4,546,070)
(Increase) decrease in the following assets:		
Accounts receivable	2,723	1,977
Prepaid expenses	(191)	18,612
Increase (decrease) in the following liabilities:		
Accounts payable and accrued expenses	(31,882)	2,307
Present value of annuities	(57,168)	(27,820)
Other liabilities	15,055	1,030
Restricted contributions and investment income	<u>(1,167,650)</u>	<u>(67,353)</u>
Total adjustments	<u>(3,460,830)</u>	<u>(4,230,326)</u>
Net cash flows from operating activities	\$ <u><u>(2,847,244)</u></u>	\$ <u><u>(2,495,421)</u></u>

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018 AND 2017

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 are shown net of an allowance for doubtful accounts of \$57,228 and \$68,419 as of June 30, 2018 and 2017, 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, 2018 and 2017, Kurn Hattin contributed 3% and 2%, respectively, of cash compensation. The employees contributed 3% and 2% of cash compensation for each of the years ended June 30, 2018 and 2017, respectively. Pension expense was \$48,614 and \$36,685 for the years ended June 30, 2018 and 2017, respectively.

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018 AND 2017

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

<u>Quoted prices in active markets for identical assets (Level I):</u>	<u>2018</u>	<u>2017</u>
Investments:		
Money market funds and other cash equivalents	\$ 2,298,293	\$ 2,421,374
Fixed income	117,881	143,340
Corporate equities	703,071	672,094
Mutual funds of:		
Domestic equities	14,258,783	13,165,163
International equities	12,171,418	12,820,949
Alternative investments	9,662,639	9,580,934
Fixed income securities	<u>7,582,832</u>	<u>7,232,450</u>
	<u>\$ 46,794,917</u>	<u>\$ 46,036,304</u>

Investment income (loss) consists of the following:

Interest and dividends, net of investment fees of \$113,103 in 2018 and \$110,500 in 2017	\$ 608,773	\$ 540,493
Unrealized gain	932,333	3,615,766
Realized gains	<u>1,568,663</u>	<u>848,972</u>
	<u>\$ 3,109,769</u>	<u>\$ 5,005,231</u>

3. 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.

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, unrealized gains 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. 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 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, 2018 AND 2017

The endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>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 asset 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>

The endowment 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 endowment funds	\$ 24,387,378	\$ -	\$ -	\$ 24,387,378
Donor restricted endowment 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>

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

Endowment 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 endowment net assets for expenditures	<u>(1,753,700)</u>	<u>(1,411,590)</u>	<u>-</u>	<u>(3,165,290)</u>
Endowment net assets, end of year	\$ <u>24,387,378</u>	\$ <u>623,966</u>	\$ <u>20,132,151</u>	\$ <u>45,143,495</u>

Total investments consist of:

	<u>2018</u>	<u>2017</u>
Board designated funds	\$ 24,380,190	\$ 24,387,378
Appreciation of permanently restricted	183,727	623,966
Permanently restricted	<u>21,299,801</u>	<u>20,132,151</u>
Subtotal	45,863,718	45,143,495
Unrestricted	<u>931,199</u>	<u>892,809</u>
Total	\$ <u>46,794,917</u>	\$ <u>46,036,304</u>

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

4. Land, buildings and equipment:

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

	<u>2018</u>	<u>2017</u>
Buildings	\$ 7,172,625	\$ 7,172,625
Building improvements	2,724,757	2,591,016
Equipment	894,936	890,548
Land improvements	522,658	510,866
Vehicles	445,064	445,064
Furnishings	261,545	261,545
Land	37,791	37,791
Livestock	15,500	15,500
	<u>12,074,876</u>	<u>11,924,955</u>
Less - Accumulated depreciation	<u>8,893,529</u>	<u>8,519,279</u>
	<u>\$ 3,181,347</u>	<u>\$ 3,405,676</u>

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

	<u>2018</u>	<u>2017</u>
Building improvements	\$ 85,551	\$ 153,714
Vehicles	42,702	25,407
Furnishings and equipment	-	40,817
Land improvements	-	33,147
	<u>\$ 128,253</u>	<u>\$ 253,085</u>

5. 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, 2018 and 2017.

6. Charitable gift annuities:

Kurn Hattin has established a Charitable Gift Annuity Program. Kurn Hattin entered into agreements totaling \$20,000 in 2018 and \$25,000 in 2017. The contributions to Kurn Hattin were recorded net of the present value of the estimated future annuity payments of \$9,841 in 2018 and \$11,252 in 2017, based on the donors' life expectancy and a 4.5% discount rate.

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

7. 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 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 \$497,092 and \$485,773 were received from unrestricted trustee income for the years ended June 30, 2018 and 2017, respectively. The market value of the funds was approximately \$13,564,530 for the year ended June 30, 2018 (\$12,924,450 in 2017).

Distributions of \$21,097 and \$27,616 were received from restricted trustee income for the years ended June 30, 2018 and 2017, respectively. The market value of the funds was approximately \$626,295 for the year ended June 30, 2018 (\$595,667 in 2017).

8. 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.

9. 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 \$5,537,391 and \$5,232,744 for the years ended June 30, 2018 and 2017, respectively. The following table shows the allocation of these expenditures by functional classification:

	<u>2018</u>	<u>2017</u>
Program services	\$ 4,630,362	\$ 4,498,316
Management and general expenses	479,225	403,883
Fundraising	<u>427,804</u>	<u>330,545</u>
	<u>\$ 5,537,391</u>	<u>\$ 5,232,744</u>

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10. Subsequent events:

In preparing these financial statements, Kurn Hattin has evaluated events and transactions for potential recognition or disclosure through September 20, 2018, the date the financial statements were available to be issued. No events were noted for disclosure.

11. 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.