

NEW ENGLAND KURN HATTIN HOMES

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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, 2020 and 2019 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, 2020 and 2019, 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 30, 2020

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Cash	\$ 211,446	\$ 121,472
Accounts receivable	-	11,791
Prepaid expenses	17,573	22,793
Investments	43,805,070	46,738,510
Land, buildings and equipment, net of accumulated depreciation	2,978,464	3,024,214
Beneficial interest in trusts	<u>15,006,336</u>	<u>14,399,652</u>
Total assets	\$ <u>62,018,889</u>	\$ <u>64,318,432</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 123,194	\$ 168,319
Loans payable	813,600	-
Present value of annuities	209,105	205,575
Other liabilities	<u>6,680</u>	<u>5,840</u>
Total liabilities	<u>1,152,579</u>	<u>379,734</u>
NET ASSETS:		
Without donor restrictions	24,076,424	27,838,264
With donor restrictions	<u>36,789,886</u>	<u>36,100,434</u>
Total net assets	<u>60,866,310</u>	<u>63,938,698</u>
Total liabilities and net assets	\$ <u>62,018,889</u>	\$ <u>64,318,432</u>

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<u>OPERATING ACTIVITIES</u>						
REVENUES, GAINS, OTHER SUPPORT AND RECLASSIFICATIONS:						
Parents and guardians	\$ 93,575	\$ -	\$ 93,575	\$ 114,793	\$ -	\$ 114,793
Bequests and contributions	978,679	168,871	1,147,550	830,605	162,091	992,696
Income from other trusts	594,158	25,619	619,777	727,409	27,315	754,724
Charitable gift annuities	17,973	-	17,973	94,449	-	94,449
School lunch and fruits & vegetables programs	99,915	-	99,915	144,449	-	144,449
Other	26,397	4,363	30,760	37,096	2,835	39,931
Endowment funds appropriated for expenditure	<u>3,149,008</u>	<u>178,905</u>	<u>3,327,913</u>	<u>2,788,246</u>	<u>723,393</u>	<u>3,511,639</u>
Revenues, gains and other support before reclassifications	4,959,705	377,758	5,337,463	4,737,047	915,634	5,652,681
Net assets released from restrictions:						
Satisfaction of purpose restrictions	<u>178,905</u>	<u>(178,905)</u>	<u>-</u>	<u>849,606</u>	<u>(849,606)</u>	<u>-</u>
Total revenues, gains, other support, and reclassifications	<u>5,138,610</u>	<u>198,853</u>	<u>5,337,463</u>	<u>5,586,653</u>	<u>66,028</u>	<u>5,652,681</u>
EXPENSES:						
Residential and food service	1,560,677	-	1,560,677	1,476,258	-	1,476,258
Education	967,947	-	967,947	903,213	-	903,213
Farm and equestrian	65,526	-	65,526	65,765	-	65,765
Facilities, repairs and general	1,012,073	-	1,012,073	1,092,626	-	1,092,626
Health services	128,393	-	128,393	125,957	-	125,957
Counseling	298,130	-	298,130	319,938	-	319,938
Admissions and family outreach	207,047	-	207,047	228,030	-	228,030
Development and public relations	439,974	-	439,974	466,096	-	466,096
Special purpose	107,082	-	107,082	131,804	-	131,804
Administrative services	<u>717,126</u>	<u>-</u>	<u>717,126</u>	<u>552,973</u>	<u>-</u>	<u>552,973</u>
Total expenses before depreciation	<u>5,503,975</u>	<u>-</u>	<u>5,503,975</u>	<u>5,362,660</u>	<u>-</u>	<u>5,362,660</u>
Income from operations before depreciation	(365,365)	198,853	(166,512)	223,993	66,028	290,021
Depreciation	<u>329,574</u>	<u>-</u>	<u>329,574</u>	<u>354,585</u>	<u>-</u>	<u>354,585</u>
Change in net assets from operating activities	<u>(694,939)</u>	<u>198,853</u>	<u>(496,086)</u>	<u>(130,592)</u>	<u>66,028</u>	<u>(64,564)</u>
<u>NON-OPERATING ACTIVITIES</u>						
Realized and unrealized gains (losses) on investments	(860,722)	-	(860,722)	554,601	484,797	1,039,398
Income from investments, net	705,707	62,820	768,527	626,123	57,580	683,703
Allocation of unrestricted bequests to investments	215,000	-	215,000	1,606,633	-	1,606,633
Change in value of beneficial interest in trusts	-	606,684	606,684	-	208,827	208,827
Change in value of charitable gift annuities	22,122	-	22,122	50,797	-	50,797
Endowment funds appropriated for expenditure	<u>(3,149,008)</u>	<u>(178,905)</u>	<u>(3,327,913)</u>	<u>(2,788,246)</u>	<u>(723,393)</u>	<u>(3,511,639)</u>
Change in net assets from non-operating activities	<u>(3,066,901)</u>	<u>490,599</u>	<u>(2,576,302)</u>	<u>49,908</u>	<u>27,811</u>	<u>77,719</u>
CHANGES IN NET ASSETS	(3,761,840)	689,452	(3,072,388)	(80,684)	93,839	13,155
NET ASSETS, beginning of year	<u>27,838,264</u>	<u>36,100,434</u>	<u>63,938,698</u>	<u>27,918,948</u>	<u>36,006,595</u>	<u>63,925,543</u>
NET ASSETS, end of year	\$ <u>24,076,424</u>	\$ <u>36,789,886</u>	\$ <u>60,866,310</u>	\$ <u>27,838,264</u>	\$ <u>36,100,434</u>	\$ <u>63,938,698</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, 2020 AND 2019

	2020				2019			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 2,696,299	\$ 258,017	\$ 322,943	\$ 3,277,259	\$ 2,494,140	\$ 249,756	\$ 337,144	\$ 3,081,040
Benefits	832,900	76,415	97,443	1,006,758	746,575	71,992	94,671	913,238
Communications	28,568	9,618	50,060	88,246	31,692	8,977	46,780	87,449
Supplies	208,698	8,062	10,347	227,107	248,457	17,279	8,108	273,844
Professional services	10,456	112,613	57,250	180,319	15,713	67,802	54,141	137,656
Banking and insurance	5,030	95,882	4,981	105,893	4,740	106,498	4,450	115,688
Trade services	117,940	2,167	4,601	124,708	142,660	2,747	4,419	149,826
Travel	39,471	12,623	16,172	68,266	45,685	7,848	13,322	66,855
Utilities	198,561	3,409	4,773	206,743	262,658	4,510	6,314	273,482
Equipment	22,282	7,034	768	30,084	24,568	6,226	750	31,544
Activities	178,927	6,525	3,140	188,592	217,992	2,846	11,200	232,038
Depreciation	316,530	5,435	7,609	329,574	336,856	17,729	-	354,585
Total expenses	\$ <u>4,655,662</u>	\$ <u>597,800</u>	\$ <u>580,087</u>	\$ <u>5,833,549</u>	\$ <u>4,571,736</u>	\$ <u>564,210</u>	\$ <u>581,299</u>	\$ <u>5,717,245</u>

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from:		
Program services	\$ 236,041	\$ 296,064
Bequests and contributions	1,307,048	2,540,656
Investment income	765,604	680,992
Trust income	619,777	754,724
Charitable gift annuities	21,503	40,222
Cash paid to employees and suppliers	<u>(5,543,040)</u>	<u>(5,328,701)</u>
Net cash flows from operating activities	<u>(2,593,067)</u>	<u>(1,016,043)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land, buildings and equipment	(283,824)	(197,453)
Sale of land, buildings and equipment	-	15,746
Purchase of investments	(8,644,373)	(2,742,019)
Sale of investments	<u>10,739,213</u>	<u>3,872,876</u>
Net cash flows from investing activities	<u>1,811,016</u>	<u>949,150</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans payable	813,600	-
Restricted contributions and investment income	<u>58,425</u>	<u>61,384</u>
Net cash flows from financing activities	<u>872,025</u>	<u>61,384</u>
CHANGE IN CASH	89,974	(5,509)
CASH, beginning of year	<u>121,472</u>	<u>126,981</u>
CASH, end of year	\$ <u><u>211,446</u></u>	\$ <u><u>121,472</u></u>

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ <u>(3,072,388)</u>	\$ <u>13,155</u>
Adjustment to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation	329,574	354,585
Realized and unrealized (gain) loss on investments	860,722	(1,039,398)
Change in value of beneficial interest in trusts	(606,684)	(208,827)
Change in value of charitable gift annuities	(22,122)	(50,797)
(Increase) decrease in the following assets:		
Accounts receivable	11,791	(3,109)
Prepaid expenses	5,220	(7,020)
Increase (decrease) in the following liabilities:		
Accounts payable and accrued expenses	(45,125)	55,869
Present value of annuities	3,530	(54,227)
Other liabilities	840	(14,890)
Restricted contributions and investment income	<u>(58,425)</u>	<u>(61,384)</u>
Total adjustments	<u>479,321</u>	<u>(1,029,198)</u>
Net cash flows from operating activities	\$ <u>(2,593,067)</u>	\$ <u>(1,016,043)</u>

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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, 2020 AND 2019

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 \$31,202 and \$55,334 as of June 30, 2020 and 2019, 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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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, 2020 and 2019, Kurn Hattin contributed 5% and 4%, respectively, of cash compensation. The employees contributed 5% and 4% of cash compensation for each of the years ended June 30, 2020 and 2019, respectively. Pension expense was \$77,783 and \$60,729 for the years ended June 30, 2020 and 2019, 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, 2020 AND 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>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 211,446	\$ 121,472
Accounts receivable	-	11,791
Investments	43,805,070	46,738,510
Beneficial interest in trusts	<u>15,006,336</u>	<u>14,399,652</u>
Total financial assets available within one year	59,022,852	61,271,425
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	<u>(36,789,886)</u>	<u>(36,100,434)</u>
	\$ <u>22,232,966</u>	\$ <u>25,170,991</u>

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

3. Fair value measurements:

Kurn Hattin has financial instruments that 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

Kurn Hattin's financial instruments are presented in the financial statements at fair value as measured on a recurring basis, using the following methods:

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>Quoted prices in active markets for identical assets (Level I):</u>		
Investments:		
Money market funds and other cash equivalents	\$ 4,893,212	\$ 3,449,070
Fixed income	152,020	156,158
Corporate equities	717,229	640,369
Mutual funds of:		
Domestic equities	13,462,906	13,157,245
International equities	10,811,549	11,638,138
Alternative investments	4,808,957	9,331,246
Fixed income securities	8,959,197	8,366,284
	<u>\$ 43,805,070</u>	<u>\$ 46,738,510</u>

Significant unobservable inputs (Level 3):

Beneficial interest in trusts	\$ <u>15,006,336</u>	\$ <u>14,399,652</u>
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Investment income (loss) consists of the following:

Interest and dividends, net of investment fees of \$104,161 in 2020 and \$107,980 in 2019	\$ 768,527	\$ 683,703
Unrealized gain	(3,663,601)	(455,116)
Realized gains	2,802,879	1,494,514
	<u>\$ (92,195)</u>	<u>\$ 1,723,101</u>

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.

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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. 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.

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

The endowment net asset composition by type of fund as of June 30, 2020 is as follows:

	Without Donor Restrictions		With Donor Restrictions	
	<u>Unrestricted</u>		Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>
				<u>Total</u>
Board designated endowment funds	\$ 21,407,755	\$ -	\$ -	\$ 21,407,755
Donor restricted endowment funds	-	-	21,419,110	21,419,110
Total	\$ <u>21,407,755</u>	\$ <u>-</u>	\$ <u>21,419,110</u>	\$ <u>42,826,865</u>

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

Endowment net assets, beginning of year	\$ 24,436,881	\$ -	\$ 21,361,185	\$ 45,798,066
Investment return:				
Investment income, net of fees	705,707	59,897	2,923	768,527
Change in market value	(860,722)	-	-	(860,722)
Contributions	215,000	-	55,002	270,002
Appropriation of endowment net asset for expenditures	(3,089,111)	(59,897)	-	(3,149,008)
Endowment net assets, end of year	\$ <u>21,407,755</u>	\$ <u>-</u>	\$ <u>21,419,110</u>	\$ <u>42,826,865</u>

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

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

Total investments consist of:

	<u>2020</u>	<u>2019</u>
Board designated funds	\$ 21,407,755	\$ 24,436,881
Permanently restricted	<u>21,419,110</u>	<u>21,361,185</u>
Subtotal	42,826,865	45,798,066
Unrestricted	<u>978,205</u>	<u>940,444</u>
Total	\$ <u>43,805,070</u>	\$ <u>46,738,510</u>

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5. Land, buildings and equipment:

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

	<u>2020</u>	<u>2019</u>
Buildings	\$ 7,172,625	\$ 7,172,625
Building improvements	2,932,600	2,773,748
Equipment	900,936	898,436
Land improvements	700,997	637,621
Vehicles	518,414	459,318
Furnishings	261,545	261,545
Land	37,791	37,791
Livestock	15,500	15,500
	<u>12,540,408</u>	<u>12,256,584</u>
Less - Accumulated depreciation	<u>9,561,944</u>	<u>9,232,370</u>
	<u>\$ 2,978,464</u>	<u>\$ 3,024,214</u>

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

	<u>2020</u>	<u>2019</u>
Land improvements	\$ 63,376	\$ 114,963
Building improvements	158,852	48,990
Vehicles	59,096	30,000
Furnishings and equipment	<u>2,500</u>	<u>3,500</u>
	<u>\$ 283,824</u>	<u>\$ 197,453</u>

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6. Notes payable:

The following are the details of notes payable as of June 30:

	<u>2020</u>	<u>2019</u>
Paycheck Protection Program loan payable to People's United Bank, with interest only accruing until November 2020 at 1.00%. The loan is then payable in monthly installments of \$48,559, including interest at 1.00% maturing April 2022. This loan is forgivable by the federal government if the proceeds are used for eligible payroll and operating expenses. It is believed by management that they have met the criteria for the loan forgiveness and will not need to make any monthly payments.	\$ <u>813,600</u>	\$ <u>-</u>

Maturities of notes payable are as follows:

2021	\$ 360,094
2022	<u>453,506</u>
	\$ <u>813,600</u>

7. 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, 2020 and 2019.

8. Charitable gift annuities:

Kurn Hattin has established a Charitable Gift Annuity Program. Kurn Hattin entered into agreements totaling \$30,000 in 2020 and \$50,000 in 2019. The contributions to Kurn Hattin were recorded net of the present value of the estimated future annuity payments of \$17,076 in 2020 and \$26,612 in 2019, based on the donors' life expectancy and a 4.5% discount rate.

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9. Beneficial interest in assets held by others:

Kurn Hattin is a beneficiary of perpetual trusts administered by independent organizations. Under the terms of the trusts, Kurn Hattin has irrevocable rights to receive portions of the income earned on the trust assets in perpetuity. Distributions of income earned on the trusts are classified as income without donor restrictions and income with donor restrictions. Kurn Hattin has no influence over investment decisions or distributions from the trusts.

Distributions of \$594,158 and \$727,410 were received from trustee income without donor restrictions for the years ended June 30, 2020 and 2019, respectively. Kurn Hattin's beneficial interest in the perpetual trusts, at fair value, totaled approximately \$14,427,461 for the year ended June 30, 2020 (\$13,776,361 in 2019).

Distributions of \$25,619 and \$27,314 were received from trustee income with donor restrictions for the years ended June 30, 2020 and 2019, respectively. Kurn Hattin's beneficial interest in the perpetual trust, at fair value, totaled approximately \$578,875 for the year ended June 30, 2020 (\$623,291 in 2019).

10. Operating lease:

Kurn Hattin entered into an operation lease for a new vehicle beginning September 2018. The lease payments are \$340 per month, through September 2021. There is an option to purchase the vehicle at the end of its lease for \$15,421. The value of the vehicle is \$23,700 per the lease agreement.

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.

Kurn Hattin entered into an operating lease for a new vehicle beginning August 2019. The lease payments are \$335 per month, through October 2022. There is an option to purchase the vehicle at the end of the lease for \$13,338. The value of the vehicle is \$27,117 per the lease agreement.

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

2020-2021	\$ 14,004
2021-2022	7,500
2022-2023	<u>1,340</u>
	\$ <u><u>22,844</u></u>

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11. 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.

12. Board designated net assets:

The board of directors has designated \$21,407,755 and \$24,436,881 as of June 30, 2020 and 2019, 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.

13. Donor restricted net assets:

Kurn Hattin holds net assets with donor restrictions for the years ended June 30, 2020 and 2019. Net assets with donor restrictions are available for the following purposes at June 30:

	<u>2020</u>	<u>2019</u>
<u>Permanently restricted:</u>		
Endowment funds	\$ 21,419,110	\$ 21,361,185
<u>Temporarily restricted:</u>		
Special purpose funds	364,440	339,597
Beneficial interest in trusts	<u>15,006,336</u>	<u>14,399,652</u>
Total	\$ <u>36,789,886</u>	\$ <u>36,100,434</u>

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14. Uncertainty regarding the impact of COVID-19:

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. The coronavirus outbreak has severely restricted the level of economic activity around the world. In response to this coronavirus outbreak, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forgo their time outside of their homes. Temporary closures of businesses and schools had been ordered and numerous other businesses have temporarily closed voluntarily or restricted access to their premises. A significant portion of Kurn Hattin's business is derived from providing homes and educational facilities for children from families affected by tragedy, and social or economic hardship during the school year and through summer. As a result of government imposition, Kurn Hattin, along with other schools in the area, had to close during the last few months of the June 30, 2020 fiscal year end. The way Kurn Hattin will operate in the coming months has been significantly impacted as well, as schools begin to reopen. In addition, COVID-19 may impact the amount of funds available to Kurn Hattin from family tuition payments, government assistance, and donations due to the overall impact on the economy. As a result, the coronavirus outbreak may have a material adverse impact on Kurn Hattin's financial position, operations, and cash flows. Given the uncertainty regarding the spread of the coronavirus, the related financial impact cannot be reasonably predicted or estimated at this time.

15. Prior period adjustment:

During the fiscal year ended June 30, 2020 management performed an analysis of the trust income received on an annual basis. As a result of this analysis, management determined that the income was being paid from perpetual trusts and that Kurn Hattin had an irrevocable right to receive a certain percentage of the annual income from these trusts. In accordance with accounting principles generally accepted in the United States of America, management estimated the fair market value of their beneficial interests in these trusts and recorded this amount on the Statement of Financial Position. In addition, the change in the fair market value of the beneficial interest during the year was reported on the Statement of Activities. Management reported this change as a prior period adjustment and restated the financial statements as of and for the fiscal year ended June 30, 2019 as follows:

	<u>Original</u>	<u>Change</u>	<u>Restated</u>
June 30, 2019 adjustments:			
Beneficial interest in trusts	\$ -	\$ 14,399,652	\$ 14,399,652
Change in value of beneficial interest in trusts	-	208,827	208,827
Net assets with donor restriction	21,700,782	14,399,652	36,100,434
Net income (loss)	(195,672)	208,827	13,155

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16. Subsequent events:

In preparing these financial statements, Kurn Hattin has evaluated events and transactions for potential recognition or disclosure through September 30, 2020, the date the financial statements were available to be issued.

Subsequent to the fiscal year ended June 30, 2020, allegations were made regarding the conduct of certain individuals no longer employed by Kurn Hattin. As of the date of this report there is no pending litigation, however there is the threat of civil litigation. The amount or probable outcome of any threatened litigation cannot be estimated at this time.

No additional subsequent events were noted that would require disclosure in Kurn Hattin's financial statements as of this date.

17. 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.