

NEW ENGLAND KURN HATTIN HOMES

FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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, 2021 and 2020 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, 2021 and 2020, 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 20, 2021

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Cash	\$ 273,138	\$ 211,446
Accounts receivable	10,765	-
Prepaid expenses	15,143	17,573
Investments	52,875,957	43,805,070
Land, buildings and equipment, net of accumulated depreciation	3,236,090	2,978,464
Beneficial interest in trusts	<u>17,748,510</u>	<u>15,006,336</u>
Total assets	\$ <u>74,159,603</u>	\$ <u>62,018,889</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 237,092	\$ 123,194
Refundable advances	859,860	813,600
Present value of annuities	188,725	209,105
Other liabilities	<u>5,500</u>	<u>6,680</u>
Total liabilities	<u>1,291,177</u>	<u>1,152,579</u>
NET ASSETS:		
Without donor restrictions	33,300,191	24,076,424
With donor restrictions	<u>39,568,235</u>	<u>36,789,886</u>
Total net assets	<u>72,868,426</u>	<u>60,866,310</u>
Total liabilities and net assets	\$ <u>74,159,603</u>	\$ <u>62,018,889</u>

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

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021			2020		
	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	\$ 38,062	\$ -	\$ 38,062	\$ 93,575	\$ -	\$ 93,575
Bequests and contributions	2,341,596	107,633	2,449,229	978,679	168,871	1,147,550
Income from other trusts	639,342	24,580	663,922	594,158	25,619	619,777
Grants	143,272	-	143,272	-	-	-
Charitable gift annuities	6,181	-	6,181	17,973	-	17,973
School lunch and fruits & vegetables programs	90,522	-	90,522	99,915	-	99,915
Other	21,757	976	22,733	26,397	4,363	30,760
Endowment funds appropriated for expenditure	<u>2,648,075</u>	<u>-</u>	<u>2,648,075</u>	<u>3,149,008</u>	<u>178,905</u>	<u>3,327,913</u>
Revenues, gains and other support before reclassifications	5,928,807	133,189	6,061,996	4,959,705	377,758	5,337,463
Net assets released from restrictions:						
Satisfaction of purpose restrictions	<u>148,424</u>	<u>(148,424)</u>	<u>-</u>	<u>178,905</u>	<u>(178,905)</u>	<u>-</u>
Total revenues, gains, other support, and reclassifications	<u>6,077,231</u>	<u>(15,235)</u>	<u>6,061,996</u>	<u>5,138,610</u>	<u>198,853</u>	<u>5,337,463</u>
EXPENSES:						
Residential and food service	1,621,324	-	1,621,324	1,560,677	-	1,560,677
Education	1,069,774	-	1,069,774	968,035	-	968,035
Farm	60,298	-	60,298	65,438	-	65,438
Facilities, repairs and general	1,059,348	-	1,059,348	1,012,073	-	1,012,073
Health services	233,338	-	233,338	128,393	-	128,393
Counseling	155,942	-	155,942	298,130	-	298,130
Program services and family outreach	318,423	-	318,423	328,504	-	328,504
Development and public relations	442,643	-	442,643	439,974	-	439,974
Special purpose	104,791	-	104,791	107,082	-	107,082
Administrative services	<u>559,520</u>	<u>-</u>	<u>559,520</u>	<u>595,669</u>	<u>-</u>	<u>595,669</u>
Total expenses before depreciation	<u>5,625,401</u>	<u>-</u>	<u>5,625,401</u>	<u>5,503,975</u>	<u>-</u>	<u>5,503,975</u>
Income from operations before depreciation	451,830	(15,235)	436,595	(365,365)	198,853	(166,512)
Depreciation	<u>321,904</u>	<u>-</u>	<u>321,904</u>	<u>329,574</u>	<u>-</u>	<u>329,574</u>
Change in net assets from operating activities	<u>129,926</u>	<u>(15,235)</u>	<u>114,691</u>	<u>(694,939)</u>	<u>198,853</u>	<u>(496,086)</u>
<u>NON-OPERATING ACTIVITIES</u>						
Payroll protection grant	813,600	-	813,600	-	-	-
Extraordinary expenses	(493,083)	-	(493,083)	-	-	-
Realized and unrealized gains (losses) on investments	10,545,887	-	10,545,887	(860,722)	-	(860,722)
Income from investments, net	568,816	51,410	620,226	705,707	62,820	768,527
Allocation of unrestricted bequests to investments	-	-	-	215,000	-	215,000
Change in value of beneficial interest in trusts	-	2,742,174	2,742,174	-	606,684	606,684
Change in value of charitable gift annuities	306,696	-	306,696	22,122	-	22,122
Endowment funds appropriated for expenditure	<u>(2,648,075)</u>	<u>-</u>	<u>(2,648,075)</u>	<u>(3,149,008)</u>	<u>(178,905)</u>	<u>(3,327,913)</u>
Change in net assets from non-operating activities	<u>9,093,841</u>	<u>2,793,584</u>	<u>11,887,425</u>	<u>(3,066,901)</u>	<u>490,599</u>	<u>(2,576,302)</u>
CHANGES IN NET ASSETS	9,223,767	2,778,349	12,002,116	(3,761,840)	689,452	(3,072,388)
NET ASSETS, beginning 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>
NET ASSETS, end of year	\$ <u>33,300,191</u>	\$ <u>39,568,235</u>	\$ <u>72,868,426</u>	\$ <u>24,076,424</u>	\$ <u>36,789,886</u>	\$ <u>60,866,310</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, 2021 AND 2020

	2021				2020			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 2,747,409	\$ 253,663	\$ 336,202	\$ 3,337,274	\$ 2,696,299	\$ 258,017	\$ 322,943	\$ 3,277,259
Benefits	898,910	79,258	105,106	1,083,274	832,900	76,415	97,443	1,006,758
Communications	33,094	11,488	56,772	101,354	28,568	9,618	50,060	88,246
Supplies	286,396	6,298	5,126	297,820	208,698	8,062	10,347	227,107
Professional services	7,989	71,810	37,661	117,460	10,456	112,613	57,250	180,319
Banking and insurance	4,544	117,267	4,321	126,132	5,030	95,882	4,981	105,893
Trade services	127,641	2,369	3,352	133,362	117,940	2,167	4,601	124,708
Travel	26,200	5,541	4,474	36,215	39,471	12,623	16,172	68,266
Utilities	201,833	3,466	4,852	210,151	198,561	3,409	4,773	206,743
Equipment	24,404	4,639	528	29,571	22,282	7,034	768	30,084
Activities	150,601	589	1,598	152,788	178,927	6,525	3,140	188,592
Depreciation	309,164	5,308	7,432	321,904	316,530	5,435	7,609	329,574
Total expenses	\$ <u>4,818,185</u>	\$ <u>561,696</u>	\$ <u>567,424</u>	\$ <u>5,947,305</u>	\$ <u>4,655,662</u>	\$ <u>597,800</u>	\$ <u>580,087</u>	\$ <u>5,833,549</u>

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from:		
Program services	\$ 140,552	\$ 236,041
Bequests and contributions	2,408,688	1,307,048
Investment income	617,859	765,604
Trust income	663,922	619,777
Grants	956,872	-
Charitable gift annuities	(14,199)	21,503
Cash paid to employees and suppliers	<u>(5,143,476)</u>	<u>(4,729,440)</u>
Net cash flows from operating activities	<u>(369,782)</u>	<u>(1,779,467)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land, buildings and equipment	(579,530)	(283,824)
Purchase of investments	(8,243,252)	(8,644,373)
Sale of investments	<u>9,211,348</u>	<u>10,739,213</u>
Net cash flows from investing activities	<u>388,566</u>	<u>1,811,016</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted contributions and investment income	<u>42,908</u>	<u>58,425</u>
Net cash flows from financing activities	<u>42,908</u>	<u>58,425</u>
CHANGE IN CASH	61,692	89,974
CASH, beginning of year	<u>211,446</u>	<u>121,472</u>
CASH, end of year	\$ <u>273,138</u>	\$ <u>211,446</u>

NEW ENGLAND KURN HATTIN HOMES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ <u>12,002,116</u>	\$ <u>(3,072,388)</u>
Adjustment to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation	321,904	329,574
Realized and unrealized (gain) loss on investments	(10,545,887)	860,722
Change in value of beneficial interest in trusts	(2,742,174)	(606,684)
Change in value of charitable gift annuities	(306,696)	(22,122)
(Increase) decrease in the following assets:		
Accounts receivable	(10,765)	11,791
Prepaid expenses	2,430	5,220
Increase (decrease) in the following liabilities:		
Accounts payable and accrued expenses	113,898	(45,125)
Refundable advances	859,860	813,600
Present value of annuities	(20,380)	3,530
Other liabilities	(1,180)	840
Restricted contributions and investment income	<u>(42,908)</u>	<u>(58,425)</u>
Total adjustments	<u>(12,371,898)</u>	<u>1,292,921</u>
Net cash flows from operating activities	\$ <u><u>(369,782)</u></u>	\$ <u><u>(1,779,467)</u></u>

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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 and 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, 2021 AND 2020

Contributions and grant revenues – Contributions, including promises to give, are considered conditional or unconditional, depending on the nature and existence of any donor or grantor conditions. A contribution or promise to give contains a donor or grantor condition when both of the following are present: (1) An explicit identification of a barrier, that is more than trivial, that must be overcome before the revenue can be earned and recognized (2) An implicit right of return of assets transferred or a right of release of a donor or grantor's obligation to transfer assets promised, if the condition is not met. Conditional contributions are recognized when the barrier(s) to entitlement are overcome. Unconditional contributions are recognized as revenue when received.

Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award. Grant awards that are contributions are evaluated for conditions and recognized as revenue when conditions in the award are satisfied. Unconditional awards are recognized as revenue when the award is received. Amounts received in which conditions have not been met are reported as a refundable advance liability. Grant awards that are exchange transactions are those in which the resource provider or grantor receives a commensurate value in exchange for goods or services transferred. There were no grants or awards that were considered exchange transactions during the years ended June 30, 2021 and 2020.

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 \$24,967 and \$31,202 as of June 30, 2021 and 2020, 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:

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

	<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, 2021 and 2020, Kurn Hattin contributed 5% of cash compensation. The employees contributed 5% of cash compensation for each of the years ended June 30, 2021 and 2020. Pension expense was \$83,206 and \$82,514 for the years ended June 30, 2021 and 2020, 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-12 and MA Form PC) remain subject to examination by major tax jurisdictions for the standard three-year statute of limitations.

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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.

Accounting pronouncements to be adopted in future periods – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 establishes a comprehensive new lease accounting model. The new standard clarifies the definitions of a lease, requires a dual approach to lease classification similar to current lease classifications, and causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than twelve months. In June 2020, the FASB issued a proposed ASU that would defer the effective date for ASU 2016-02 to annual and interim periods beginning after December 15, 2021 and 2022, respectively. The Kurn Hattin is currently evaluating the period in which it intends to adopt the new standard. The new standard originally required a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of the initial application. In July 2018, the FASB issued ASU No. 2018-11 *Leases (Topic 842)* which provided another transition method in addition to the existing transition method by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Kurn Hattin has not yet determined the effects, if any, that the adoptions of ASU 2016-02 and ASU 2018-11 may have on its financial position, results of operations, cash flows, or disclosures.

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 273,138	\$ 211,446
Accounts receivable	10,765	-
Investments	52,875,957	43,805,070
Beneficial interest in trusts	<u>17,748,510</u>	<u>15,006,336</u>
Total financial assets available within one year	70,908,370	59,022,852
Less:		
Amounts unavailable for general expenditures		
within one year, due to:		
Restricted by donors with purpose restrictions	<u>(39,568,235)</u>	<u>(36,789,886)</u>
	<u>\$ 31,340,135</u>	<u>\$ 22,232,966</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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>Quoted prices in active markets for identical assets (Level I):</u>		
Investments:		
Money market funds and other cash equivalents	\$ 2,041,579	\$ 4,893,212
Fixed income	248,440	152,020
Corporate equities	794,090	717,229
Mutual funds of:		
Domestic equities	19,060,718	13,462,906
International equities	12,808,597	10,811,549
Alternative investments	6,206,900	4,808,957
Fixed income securities	<u>11,715,633</u>	<u>8,959,197</u>
	<u>\$ 52,875,957</u>	<u>\$ 43,805,070</u>

Significant unobservable inputs (Level 3):

Beneficial interest in trusts	\$ <u>17,748,510</u>	\$ <u>15,006,336</u>
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Investment income (loss) consists of the following:

Interest and dividends, net of investment fees of \$100,642 in 2021 and \$104,161 in 2020	\$ 620,226	\$ 768,527
Unrealized gain	5,752,365	(3,663,601)
Realized gains	<u>4,793,522</u>	<u>2,802,879</u>
	<u>\$ 11,166,113</u>	<u>\$ (92,195)</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, 2021 AND 2020

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
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The endowment net asset composition by type of fund as of June 30, 2021 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	\$ 29,862,343	\$ -	\$ -	\$ 29,862,343
Donor restricted endowment funds	-	-	21,462,018	21,462,018
Total	\$ <u>29,862,343</u>	\$ <u>-</u>	\$ <u>21,462,018</u>	\$ <u>51,324,361</u>

Changes in endowment net assets for the year ended June 30, 2021 are as follows:

Endowment net assets, beginning of year	\$ 21,407,755	\$ -	\$ 21,419,110	\$ 42,826,865
Investment return:				
Investment income, net of fees	569,814	49,043	2,367	621,224
Change in market value	10,483,806	-	-	10,483,806
Contributions	-	-	40,541	40,541
Appropriation of endowment net asset for expenditures	(2,599,032)	(49,043)	-	(2,648,075)
Endowment net assets, end of year	\$ <u>29,862,343</u>	\$ <u>-</u>	\$ <u>21,462,018</u>	\$ <u>51,324,361</u>

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>

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
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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 assets for expenditures	<u>(3,089,111)</u>	<u>(59,897)</u>	<u>-</u>	<u>(3,149,008)</u>
Endowment net assets, end of year	\$ <u>21,407,755</u>	\$ <u>-</u>	\$ <u>21,419,110</u>	\$ <u>42,826,865</u>

Total investments consist of:

	<u>2021</u>	<u>2020</u>
Board designated funds	\$ 29,862,343	\$ 21,407,755
Permanently restricted	<u>21,462,018</u>	<u>21,419,110</u>
Subtotal	51,324,361	42,826,865
Unrestricted	<u>1,501,195</u>	<u>978,205</u>
Total	\$ <u>52,825,556</u>	\$ <u>43,805,070</u>

NEW ENGLAND KURN HATTIN HOMES
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5. Land, buildings and equipment:

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

	<u>2021</u>	<u>2020</u>
Buildings	\$ 7,172,625	\$ 7,172,625
Building improvements	3,298,184	2,932,600
Equipment	1,005,110	900,936
Land improvements	810,768	700,997
Vehicles	518,414	518,414
Furnishings	261,545	261,545
Land	37,791	37,791
Livestock	15,500	15,500
	<u>13,119,937</u>	<u>12,540,408</u>
Less - Accumulated depreciation	<u>9,883,847</u>	<u>9,561,944</u>
	<u>\$ 3,236,090</u>	<u>\$ 2,978,464</u>

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

	<u>2021</u>	<u>2020</u>
Building improvements	\$ 365,584	\$ 158,852
Land improvements	109,771	63,376
Furnishings and equipment	104,175	2,500
Vehicles	<u>-</u>	<u>59,096</u>
	<u>\$ 579,530</u>	<u>\$ 283,824</u>

6. Other liabilities:

Kurn Hattin acts as a self-insurer for Vermont unemployment compensation. In the opinion of management, adequate provision has been made for liabilities existing as of June 30, 2021 and 2020.

NEW ENGLAND KURN HATTIN HOMES
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7. Charitable gift annuities:

Kurn Hattin has established a Charitable Gift Annuity Program. Kurn Hattin entered into agreements totaling \$0 in 2021 and \$30,000 in 2020. The contributions to Kurn Hattin were recorded net of the present value of the estimated future annuity payments of \$0 in 2021 and \$17,076 in 2020, based on the donors' life expectancy and a 4.5% discount rate.

8. 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 \$639,342 and \$594,158 were received from trustee income without donor restrictions for the years ended June 30, 2021 and 2020, respectively. Kurn Hattin's beneficial interest in the perpetual trusts, at fair value, totaled approximately \$16,977,511 for the year ended June 30, 2021 (\$14,427,461 in 2020).

Distributions of \$24,580 and \$25,619 were received from trustee income with donor restrictions for the years ended June 30, 2021 and 2020, respectively. Kurn Hattin's beneficial interest in the perpetual trust, at fair value, totaled approximately \$770,999 for the year ended June 30, 2021 (\$578,875 in 2020).

9. 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.

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Kurn Hattin entered into an operating lease for a new vehicle beginning April 2021. The lease payments are \$422 per month, through April 2024. There is an option to purchase the vehicle at the end of the lease for \$22,145. The value of the vehicle is \$32,318 per the lease agreement.

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

2021-2022	\$ 7,500
2022-2023	6,404
2023-2024	<u>4,220</u>
	\$ <u><u>18,124</u></u>

10. Measure of operations:

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

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

11. Board designated net assets:

The board of directors has designated \$29,862,343 and \$21,407,755 as of June 30, 2021 and 2020, 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.

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
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12. Donor restricted net assets:

Kurn Hattin holds net assets with donor restrictions for the years ended June 30, 2021 and 2020. Net assets with donor restrictions are available for the following purposes at June 30:

	<u>2021</u>	<u>2020</u>
<u>Permanently restricted:</u>		
Endowment funds	\$ 21,462,018	\$ 21,419,110
<u>Temporarily restricted:</u>		
Special purpose funds	357,707	364,440
Beneficial interest in trusts	<u>17,748,510</u>	<u>15,006,336</u>
Total	\$ <u>39,568,235</u>	\$ <u>36,789,886</u>

13. CARES Act grant:

In April 2020, Kurn Hattin was the recipient of a forgivable loan, under the Paycheck Protection Program, administered by the US Small Business Administration as a result of legislation passed to assist businesses in navigating the Coronavirus pandemic. The total amount of the award was \$813,600, and it was to be used for eligible payroll and operating expenses. Should the conditions of the award not be substantially met, all or a portion of the award would need to be paid back with 1.00% interest. At June 30, 2020 it had not been determined if all the conditions of this award were substantially met, therefore, the proceeds of this award were included under the refundable advance liability of the Statement of Financial Position as of June 30, 2020. As of June 30, 2021 it had been determined by the bank that the conditions of this award were substantially met and the full amount of \$813,600 was forgiven. The proceeds from the loan forgiveness are included under payroll protection grant on the Statement of Activities for the year ended June 30, 2021.

In January 2021, Kurn Hattin was the recipient of a forgivable loan, under the Paycheck Protection Program, administered by the US Small Business Administration as a result of legislation passed to assist businesses in navigating the Coronavirus pandemic. The total amount of the award was \$859,860, and it was to be used for eligible payroll and operating expenses. Should the conditions of the award not be substantially met, all or a portion of the award would need to be paid back with 1.00% interest. It had not been determined if all the conditions of this award were substantially met as of June 30, 2021, therefore, the proceeds from this award are included under the refundable advance liability on the Statement of Financial Position for the year ended June 30, 2021. Subsequent to the fiscal year ended June 30, 2021, and prior to the audit report date, the full amount of the award was forgiven (Note 16).

NEW ENGLAND KURN HATTIN HOMES
NOTES TO FINANCIAL STATEMENTS
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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. 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. Legal contingency:

During the fiscal years ended June 30, 2021 and 2020, multiple allegations were made regarding the conduct of certain individuals no longer employed by Kurn Hattin, spanning from the 1950's to the 2010's. As of the date of this report, these matters are still pre-suit and there is no pending litigation, however civil litigation is likely. The amount or probable outcome of any threatened litigation cannot be estimated at this time.

16. Subsequent events:

In preparing these financial statements, Kurn Hattin has evaluated events and transactions for potential recognition or disclosure through September 20, 2021, the date the financial statements were available to be issued.

At July 30, 2021 it was determined that the conditions of the Paycheck Protection Program, award received in January 2021, were substantially met and the full amount of the \$859,860 award was forgiven by the bank. This will be recognized as revenue on the June 30, 2022 Statement of Activities.

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.