



GT REILLY
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CPAs and Advisors

Audited Financial Statements

St. Mary's High School, Inc.
Lynn, Massachusetts

June 30, 2020

St. Mary's High School, Inc. - Lynn, Massachusetts

Audited Financial Statements

June 30, 2020

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Independent Auditors' Report

Board of Trustees
St. Mary's High School, Inc.
Lynn, Massachusetts

We have audited the accompanying financial statements of St. Mary's High School, Inc., which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets, 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 of 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 risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the School'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 School'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 St. Mary's High School, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

G.T. Reilly & Company

Milton, Massachusetts
November 12, 2020

St. Mary's High School, Inc. - Lynn, Massachusetts

Statements of Financial Position

June 30

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 565,582	\$ 69,245
Accounts receivable, less allowance for doubtful accounts of \$135,863 in 2020 and \$79,922 in 2019	10,670	7,820
Promises to give, restricted, net (Note 4)	-	200,000
Prepaid expenses and other assets	15,470	12,468
TOTAL CURRENT ASSETS	<u>591,722</u>	<u>289,533</u>
FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS (Note 5)	<u>17,060,652</u>	<u>8,354,925</u>
OTHER ASSETS		
Cash, restricted funds	6,979	6,927
Interest in net assets of the Catholic Community Fund (Note 3)	1,424,296	1,464,600
Interest in net assets of St. Mary's High School Foundation (Note 3)	5,662,336	9,257,203
	<u>7,093,611</u>	<u>10,728,730</u>
	<u>\$ 24,745,985</u>	<u>\$19,373,188</u>
<u>Liabilities and Net Assets</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 477,464	\$ 506,386
Accrued construction costs (Note 5)	86,694	501,267
Security deposit payable	15,000	15,000
Due to St. Mary's High School Foundation, Inc. (Note 9)	202,143	162,733
Due to Sacred Heart Parish (Note 9)	28,500	-
Deferred revenues	356,675	295,988
TOTAL CURRENT LIABILITIES	<u>1,166,476</u>	<u>1,481,374</u>
SBA PAYCHECK PROTECTION PROGRAM LOAN, forgivable (Note 10)	<u>1,420,183</u>	<u>-</u>
TOTAL LIABILITIES	<u>2,586,659</u>	<u>1,481,374</u>
NET ASSETS		
Without donor restrictions	14,247,283	6,741,706
With donor restrictions (Notes 7 & 8)	7,912,043	11,150,108
	<u>22,159,326</u>	<u>17,891,814</u>
	<u>\$ 24,745,985</u>	<u>\$19,373,188</u>

St. Mary's High School, Inc. - Lynn, Massachusetts

Statements of Activities and Changes in Net Assets

For the Years Ended June 30

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support						
Tuition and fees, net	\$ 4,823,331	\$ -	\$ 4,823,331	\$ 4,418,802	\$ -	\$ 4,418,802
Other programs	194,845	-	194,845	218,327	-	218,327
Contributions:						
Contributed facilities (Note 9)	1,260,000	-	1,260,000	638,275	-	638,275
Other	1,527,078	1,698,689	3,225,767	881,760	887,832	1,769,592
Interest income	323	-	323	224	-	224
Interest in change in net assets of the Catholic Community Fund (Note 3)	-	16,483	16,483	-	35,940	35,940
Interest in change in net assets of St. Mary's High School Foundation, Inc. (Note 3)	9,466	5,414,794	5,424,260	308,755	8,803,231	9,111,986
Fundraising and special event	270,625	-	270,625	106,482	-	106,482
Less costs of direct benefits to donors	(44,556)	-	(44,556)	(81,086)	-	(81,086)
Rental income	29,260	-	29,260	29,260	-	29,260
Net assets released from restrictions (Note 7)	10,368,031	(10,368,031)	-	6,623,101	(6,623,101)	-
Total Revenues, Gains & Other Support	18,438,403	(3,238,065)	15,200,338	13,143,900	3,103,902	16,247,802
Expenses						
Program	8,346,864	-	8,346,864	6,135,868	-	6,135,868
General and administrative	2,065,208	-	2,065,208	2,023,235	-	2,023,235
Fundraising	520,754	-	520,754	409,171	-	409,171
Total Expenses	10,932,826	-	10,932,826	8,568,274	-	8,568,274
Change in Net Assets	7,505,577	(3,238,065)	4,267,512	4,575,626	3,103,902	7,679,528
Net Assets at Beginning of Year	6,741,706	11,150,108	19,169,801	2,166,080	8,046,206	10,212,286
Net Assets at End of Year	\$ 14,247,283	\$ 7,912,043	\$ 23,437,313	\$ 6,741,706	\$ 11,150,108	\$ 17,891,814

St. Mary's High School, Inc. - Lynn, Massachusetts

Statement of Functional Expenses

For the Year Ended June 30, 2020

	Program Services			Total Program Services	General & Administrative	Fundraising	Total
	Instructional	Athletics	Auxiliary & Other Activities				
Compensation	\$ 3,740,170	\$ 341,447	\$ 311,222	\$ 4,392,839	\$ 1,185,788	\$ 290,004	\$ 5,868,631
Employee benefits	490,493	14,738	46,073	551,304	122,695	9,329	683,328
Payroll taxes	275,095	22,814	23,583	321,492	78,124	21,941	421,557
Total Personnel Expenses	<u>4,505,758</u>	<u>378,999</u>	<u>380,878</u>	<u>5,265,635</u>	<u>1,386,607</u>	<u>321,274</u>	<u>6,973,516</u>
Professional development	10,705	-	300	11,005	6,695	-	17,700
Outside services	78,826	7,145	7,145	93,116	173,295	4,466	270,877
Lunch program	-	-	281,139	281,139	-	-	281,139
Travel and entertainment	12,315	3,794	144	16,253	10,438	-	26,691
Technology	124,610	12,086	12,236	148,932	45,355	31,688	225,975
Marketing	102,573	13,025	13,025	128,623	26,050	8,141	162,814
Office equipment	31,204	3,183	3,183	37,570	13,492	1,989	53,051
Supplies	190,800	3,278	3,278	197,356	23,805	2,976	224,137
Athletic supplies and expenses	-	259,013	-	259,013	-	-	259,013
Transportation	(970)	93,281	-	92,311	610	-	92,921
Contributed rent	793,800	100,800	100,800	995,400	201,600	63,000	1,260,000
Utilities	111,501	14,159	14,159	139,819	28,318	8,849	176,986
Insurance	82,047	10,419	10,419	102,885	20,837	6,512	130,234
Repair and maintenance	137,993	17,523	17,523	173,039	35,046	10,952	219,037
Other fundraising expenses	-	-	-	-	-	28,285	28,285
College scholarships	21,000	-	-	21,000	-	-	21,000
Other expenses	126,890	9,215	3,406	139,511	72,864	26,311	238,686
Bad debt expense	144,539	-	-	144,539	-	-	144,539
Depreciation	79,522	10,098	10,098	99,718	20,196	6,311	126,225
TOTAL EXPENSES	<u><u>\$ 6,553,113</u></u>	<u><u>\$ 936,018</u></u>	<u><u>\$ 857,733</u></u>	<u><u>\$ 8,346,864</u></u>	<u><u>\$ 2,065,208</u></u>	<u><u>\$ 520,754</u></u>	<u><u>\$ 10,932,826</u></u>

St. Mary's High School, Inc. - Lynn, Massachusetts

Statement of Functional Expenses

For the Year Ended June 30, 2019

	Program Services			Total Program Services	General & Administrative	Fundraising	Total
	Instructional	Athletics	Auxiliary & Other Activities				
Compensation	\$ 2,668,989	\$ 212,982	\$ 310,832	\$ 3,192,803	\$ 1,154,221	\$ 225,522	\$ 4,572,546
Employee benefits	391,676	20,330	46,073	458,079	83,622	9,467	551,168
Payroll taxes	194,591	14,647	23,555	232,793	86,603	17,277	336,673
Total Personnel Expenses	3,255,256	247,959	380,460	3,883,675	1,324,446	252,266	5,460,387
Professional development	13,380	-	-	13,380	999	-	14,379
Outside services	50,198	6,374	6,374	62,946	265,004	3,984	331,934
Lunch program	-	-	191,089	191,089	-	-	191,089
Travel and entertainment	12,502	2,306	-	14,808	18,515	-	33,323
Technology	107,456	13,369	13,219	134,044	38,597	31,666	204,307
Marketing	146,158	18,560	18,560	183,278	37,120	11,600	231,998
Office equipment	22,454	2,851	2,851	28,156	18,476	1,782	48,414
Supplies	119,188	5,014	5,014	129,216	32,132	5,677	167,025
Athletic supplies and expenses	-	234,956	-	234,956	-	-	234,956
Transportation	3,565	111,120	-	114,685	39,368	-	154,053
Contributed rent	402,113	51,062	51,062	504,237	102,124	31,914	638,275
Utilities	145,380	18,461	18,461	182,302	36,922	11,538	230,762
Insurance	66,514	8,446	8,446	83,406	16,892	5,279	105,577
Repair and maintenance	78,274	9,940	9,940	98,154	19,879	6,212	124,245
Other fundraising expenses	-	-	-	-	-	31,581	31,581
College scholarships	18,500	-	-	18,500	-	-	18,500
Other expenses	84,502	15,916	-	100,418	54,655	10,014	165,087
Bad debt expense	69,222	-	-	69,222	-	-	69,222
Depreciation	71,290	9,053	9,053	89,396	18,106	5,658	113,160
TOTAL EXPENSES	\$ 4,665,952	\$ 755,387	\$ 714,529	6,135,868	2,023,235	409,171	\$ 8,568,274

St. Mary's High School, Inc. - Lynn, Massachusetts

Statements of Cash Flows

For the Years Ended June 30

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 4,267,512	\$ 7,679,528
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	126,226	113,161
Interest in the change in net assets of the Catholic Community Fund	(16,483)	(35,940)
Interest in the change in net assets of St. Mary's High School Foundation, Inc.	(5,424,260)	(9,121,971)
Distributions of interest in net assets of the Catholic Community Fund	56,787	57,650
Distributions of interest in net assets of St. Mary's High School Foundation, Inc.	9,019,125	5,939,967
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,850)	2,296
Promises to give, restricted	200,000	(14,266)
Other assets	(3,002)	657
Accounts payable and accrued expenses	(530,189)	(37,348)
Due to / from related organizations	67,910	111,882
Deferred revenues	60,687	49,890
	<u>7,821,463</u>	<u>4,745,506</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to furniture, equipment and leasehold improvements	<u>(8,745,257)</u>	<u>(4,977,988)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES		
SBA Paycheck Protection Program Loan, forgivable	<u>1,420,183</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	496,389	(232,482)
CASH AND RESTRICTED CASH:		
AT BEGINNING OF YEAR (As restated - Note 2)	<u>76,172</u>	<u>308,654</u>
AT END OF YEAR (As restated in 2019 - Note 2)	<u>\$ 572,561</u>	<u>\$ 76,172</u>
Reconciliation of total cash and restricted cash to amounts shown in the statements of financial position:		
Cash	\$ 565,582	\$ 69,245
Restricted cash	6,979	6,927
	<u>\$ 572,561</u>	<u>\$ 76,172</u>
Supplemental Cash Flow Information		
Noncash investing activities:		
Costs of construction in process in accounts payable	<u>\$ 86,694</u>	<u>\$ 501,267</u>

St. Mary's High School, Inc. – Lynn, Massachusetts

Notes to Financial Statements

June 30, 2020

Note 1 – Nature of Organization

St. Mary's High School, Inc. of Lynn, Massachusetts (the School) is a private Catholic high school. The School's mission is to provide a strong academic foundation which promotes Christian faith and morals and provides a deeper understanding of Catholic religious tradition. The School derives its revenue and support from student tuition, donations, auxiliary activities and other related operating activities. Revenues are also generated from other programs such as athletics, school lunches and the like.

In October of 2018, the High School and the Roman Catholic Archdiocese of Boston (RCAB), acting on behalf of Sacred Heart Parish in Lynn, entered into a memorandum of understanding whereby the High School took sponsorship of, and management responsibilities for, Sacred Heart Elementary School ("Sacred Heart") which was previously operated by Sacred Heart Parish. Under this agreement, effective with the academic year 2019-2020 (fiscal 2020), Sacred Heart is operated by and as a component of the School.

Under the memorandum, the High School was not responsible for any existing or contingent liabilities of Sacred Heart, and all existing financial assets of Sacred Heart, including those held by Sacred Heart Parish, were remitted to the High School to the extent that they were derived from or dedicated for the operation of Sacred Heart, including scholarship and endowment funds.

As a result of this memorandum of understanding with the RCAB, the accompanying financial statements of the School for the year ended June 30, 2020 include the activities of Sacred Heart.

Note 2 – Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation – The School prepares its financial statements under the accrual method of accounting and in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). As a not-for-profit corporation, the School presents in its statement of financial position and changes in net assets two classes of net assets based on the existence or absence of donor-imposed restrictions as stated below.

Accounting Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue, support and expenses. Actual results may differ from those estimates.

Net Assets Without Donor Restrictions – These are net assets available for use in general operations and not subject to donor restrictions. At its discretion, the Board of Trustees may designate net assets without restrictions for specific purposes.

Net Assets With Donor Restrictions – These net assets are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met with the passage of time, the occurrence of events or the use of the funds as specified by the donor. Other donor-imposed restrictions may be perpetual in nature where the donor stipulates that the funds be maintained in perpetuity, such as endowments.

Note 2 – Significant Accounting Policies (Cont.)

Donor-restricted revenues, support and gains are recorded as "net assets with donor restrictions" when received or pledged. When a temporary donor-imposed restriction expires, either by use of the funds for the specified purpose or by the expiration of a time restriction, related amounts of "net assets with donor restrictions" are reclassified to "net assets without donor restrictions" and reported in the statement of activities as "net assets released from restrictions".

Contributions made with donor-imposed restrictions to maintain the principal in perpetuity, while allowing the use of income generated therefrom, are also classified as "net assets with donor restrictions". Income derived from the investment of these perpetual net assets is reported as an increase in "net assets without donor restrictions" or "net assets with donor restrictions", depending on the terms of the donor instrument. Unrealized gains or losses on perpetual net assets are reported as increases or decreases in "net assets with donor restrictions" unless the donor explicitly states otherwise.

See Note 7 regarding restrictions on net assets.

Contributions – In June of 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2018-08, "*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*". The ASU is intended to assist entities in evaluating whether transactions should be accounted for and reported as contributions or as exchange transactions, and in determining whether a contribution is conditional or unconditional.

The ASU clarifies that a contribution represents a nonreciprocal transaction where the grantor or donor does not receive a benefit of commensurate value in return for the assets or resources provided to the recipient. In an exchange transaction, the resource provider receives some thing or benefit of commensurate value in return for the resources provided. Exchange transactions include instances where a transfer of assets represents a payment from a third-party payer on behalf of an existing exchange transaction between the recipient and an identified customer receiving the benefit. However, where the benefit or potential benefit is received by the public or segments thereof, and the resource provider (such as a foundation, government agency, corporation or other entity) only receives indirect or incidental benefit that is not of commensurate value, the transaction is treated as a contribution for accounting purposes.

Distinguishing between contributions and exchange transactions determines the appropriate accounting and reporting for a transaction. Transactions determined to be contributions are reported as revenue or support with or without donor restrictions as described above, Basis of Accounting and Financial Statement Presentation.

The School adopted the principles of the ASU effective July 1, 2019 on a modified prospective basis. Management made a determination that the School's existing accounting policies and methods substantially comply with the ASU. Therefore, there were no changes to the School's accounting methods, and the adoption of ASU 2018-08 had no effect on the School's financial statements as of and for the year ended June 30, 2020.

Conditional Grants and Contributions – Conditional grants and contributions are not recognized as revenue or support until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. The School has no conditional grants or contributions at June 30, 2020 or 2019.

Promises to Give – Contributions, including unconditional promises to give to the School, are recognized as support in the period made. Promises to give that are, in effect, "unconditional promises to give" are recorded at the present value of future cash flows. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Promises to give to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contributed support in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible promises to give may be provided based upon management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution and nature of fundraising activity. As of June 30, 2020 and 2019, there was no such allowance as one was not considered necessary by management (see Note 4).

Note 2 – Significant Accounting Policies (Cont.)

Cash and Cash Equivalents – For the purpose of classification in the statement of financial position, cash and cash equivalents includes amounts on-hand and in bank accounts, including time-deposits with original maturities of 90 days or less. Restricted cash, presented separately, represents cash that has been earmarked for scholarships and financial aid by donors.

Statement of Cash Flows –In 2020, the School adopted ASU 2016-18, “Statement of Cash Flows – Restricted Cash”, which requires all restricted cash and equivalents to be included in the total of cash and cash equivalents in the statements of cash flows. In prior years, the School excluded its restricted cash from this total. The 2019 statement of cash flows has been retrospectively restated to conform to this new reporting policy, resulting in an increase of \$6,927 to the total of cash as previously reported in that statement at June 30, 2019.

Accounts Receivable – Accounts receivable for tuition and other charges are stated net of an allowance for doubtful accounts, when considered necessary by management, which would be reported on the face of the School's statement of financial position. The allowance is established via a provision for bad debts charged to operations. On a periodic basis, management evaluates its accounts receivable and establishes or adjusts its allowance to an amount that it believes will be adequate to absorb possible losses on accounts that may become uncollectible, based on evaluations of the collectability of individual accounts, the School's history of prior loss experience and on current economic conditions. Accounts are written off and charged against the allowance when management believes that the collectability of the specific account is unlikely.

Accounting for Assets Held by Others – Generally accepted accounting principles require the School to recognize as an asset its interest in the net assets of other related organizations who hold funds that have been donated for the benefit of the School. Additionally, the statement requires the School to adjust the interest for its share of the change in the related organization’s net assets. Distributions to the School from these organizations are recorded as a reduction in the School’s recorded interest. The School is a beneficiary of two separate foundations, the Catholic Community Fund and St. Mary’s High School Foundation, Inc. Both of these foundations are considered related parties. (See Notes 3 and 9)

Furniture, Equipment and Leasehold Improvements – Furniture, equipment and leasehold improvements are stated at cost less accumulated provisions for depreciation (see Note 5). Maintenance and repairs are expensed as incurred, whereas major purchases are capitalized.

Depreciation is provided over the estimated useful lives of the assets by using straight-line methods. The estimated useful lives used in the computation are as follows:

<u>Asset</u>	<u>Estimated Useful Lives in Years</u>
Furniture and equipment	5 years
Leasehold improvements	39 years

Deferred Revenues – Deferred revenues consist of tuition and fee deposits and advance tuition payments.

Revenue Recognition – Effective July 1, 2019, the School adopted FASB Accounting Standards Update (ASU) 2014-09, “Revenue from Contracts with Customers”, and all subsequent amendments to the ASU (collectively, Accounting Standards Codification (ASC) 606). The new standards are based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers, in an amount that reflects the consideration to which the entity expects to be entitled, in exchange for those goods or services. Under the new standard, revenue recognition is determined through the following steps:

1. Identification of the contract
2. Identification of the performance obligations in the contract
3. Determination of the transaction price
4. Allocation of the transaction price to the performance obligations in the contract
5. Recognition of revenue at a point in time (when), or over time (as), a performance obligation is satisfied

Note 2 – Significant Accounting Policies (Cont.)

The School has determined that there were no significant changes necessary to its existing revenue recognition policies and methods upon adoption of ASC 606. As a result, there was no effect on the statement of activities or on the change in net assets for the year ended June 30, 2020 from the adoption of this standard. Similarly, under the permitted full retrospective method of adoption, it was also determined that the new standard had no effect on the School's statement of activities or on the change in net assets as previously reported for the year ended June 30, 2019. To date, the School has not had to significantly change its revenue recognition or make any significant accounting adjustments as a result of adopting this standard.

The School recognizes revenue from student tuition and fees during the fiscal year in which the related services are provided to students. Contracts with the students coincide with the School's fiscal year. The performance obligation of delivering educational services is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course of the academic year. Gross tuition and fees reflect the School's normal tuition rates for all students. Tuition revenues are presented in the statement of activities and changes in net assets net of discounts and scholarships given on the basis of financial need and/or achievement. A contract liability is recorded as deferred revenue representing tuition and seat deposits received in the current fiscal year that are applicable to future fiscal years.

A summary of net tuition revenue and fees is as follows:

	<u>2020</u>	<u>2019</u>
Gross tuition and fees	\$ 8,513,123	\$ 6,941,284
Less:		
Discounts	242,006	140,909
Funded financial aid	224,096	139,375
Financial aid provided through operations	1,506,672	925,039
Funded academic scholarships awarded	881,588	560,409
Other scholarships awarded through operations	835,430	756,750
Net tuition revenue and fees	<u>\$ 4,823,331</u>	<u>\$ 4,418,802</u>

Other program revenues are generated from other activities related to the School's operations, such as the School cafeteria and athletics as well as certain student activities including boosters, student council and national honor society. Revenues from most of these activities are recognized at the time of sale, or when an event takes place or at the time when other performance obligations are satisfied.

Contributed Facilities – The School pays annual rent of \$1.00 to the RCAB for each of two facilities located in Lynn, Massachusetts. The estimated current rental value of the facilities is reported as rent expense and a corresponding amount is reported as support in the statement of activities (see Note 9).

Functional Allocation of Expenses – The statements of activities and changes in net assets reports a summary of the School's expenses by function, either program or supporting functions. The statement of functional expenses presents the natural classification of expenses by function. Certain expenses are charged directly to the programs to which they relate or to supporting functions. Other expenses require allocation to programs or supporting functions, which is made on a reasonable basis that is consistently applied in the accompanying financial statements. The expenses that are generally allocated include salaries and wages, payroll taxes and benefits, which are allocated on the basis of estimated efforts, and occupancy related costs, which are allocated on a square footage basis.

Note 2 – Significant Accounting Policies (Cont.)

Tax-Exempt Status – The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to income taxation.

Evaluation of Subsequent Events – In accordance with generally accepted accounting principles, management has evaluated subsequent events involving the School for potential recognition or disclosure in the accompanying financial statements. Subsequent events are events or transactions that occurred after June 30, 2020 through November 12, 2020, the date the accompanying financial statements were available to be issued.

Note 3 – Interest in Foundations

The School is the beneficiary of donations collected on its behalf by two related organizations, the Catholic Community Fund and the St. Mary's High School Foundation, Inc. As discussed in Note 2, "Accounting for Assets Held by Others", the School has recorded as assets its interests in the foundations' net assets as follows at June 30:

	<u>2020</u>	<u>2019</u>
Catholic Community Fund	\$ 1,424,296	\$ 1,464,600
St. Mary's High School Foundation, Inc.	<u>5,662,336</u>	<u>9,257,203</u>
	<u>\$ 7,086,632</u>	<u>\$10,721,803</u>

During the reporting years, the School's interests in the net assets of the foundations increased as follows:

	<u>2020</u>	<u>2019</u>
Catholic Community Fund	\$ 16,483	\$ 35,940
St. Mary's High School Foundation, Inc.	<u>5,424,260</u>	<u>9,111,986</u>
	<u>\$ 5,440,743</u>	<u>\$ 9,147,926</u>

Distributions received from the foundations were as follows:

	<u>2020</u>	<u>2019</u>
Catholic Community Fund	\$ 56,787	\$ 57,650
St. Mary's High School Foundation, Inc.	<u>9,019,125</u>	<u>5,939,967</u>
	<u>\$ 9,075,912</u>	<u>\$ 5,997,617</u>

The Articles of Organization of the Foundation state that the purpose of the Foundation is to assist in and facilitate the renovation and improvement of the High School's buildings and generally support the overall mission of the High School. The net assets of the Foundation as of June 30 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,639,634	\$ 6,655,197
Cash, restricted	5,618	41,408
Investments, at fair value	1,940,318	1,902,521
Due from St. Mary's High School	202,143	162,733
Promises to give, net	884,848	508,346
Accounts payable and accrued expenses	<u>(10,225)</u>	<u>(13,002)</u>
	<u>\$ 5,662,336</u>	<u>\$ 9,257,203</u>

Note 4 – Promises to Give, Restricted

At June 30, 2019, promises to give to the School over future periods consisted of \$200,000 restricted for scholarships, which were paid during the year ended June 30, 2020. There were no promises to give to the School as of June 30, 2020.

For the year ended June 30, 2019, 50% of the promises to give represented pledges made by one member of the Board of Trustees.

Note 5 – Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 1,640,272	\$ 1,511,197
Building improvements	1,585,902	1,582,729
Leasehold improvements	754,617	654,562
Construction in process	15,139,319	6,539,668
	<u>19,120,110</u>	<u>10,288,156</u>
Less accumulated provisions for depreciation	<u>(2,059,458)</u>	<u>(1,933,231)</u>
	<u>\$ 17,060,652</u>	<u>\$ 8,354,925</u>

Depreciation expense totaled \$126,225 and \$113,160 for the years ended June 30, 2020 and 2019, respectively.

Construction in Process – At June 30, 2020 and 2019, construction in process represents costs incurred to date on the construction of the Gateway Building, which was completed in the fall of 2020 at a total cost of approximately \$19 million. Construction costs to date have been funded by distributions from the net assets of St. Mary's Foundation. As discussed in Note 9, the School also has a \$2 million construction line of credit, agreement with the RCAB, which was utilized subsequent to the year-end to fund constructions costs. The School also obtained a \$4 million loan in October of 2020, for the purposes of paying off the \$2 million line of credit and funding the remaining \$2 million of constructions costs.

Note 6 – Financial Instruments and Concentrations of Credit Risk

The School's financial instruments that potentially subject it to concentrations of credit risk consist of cash, accounts receivable, promises to give to the School and interests in the net assets of two foundations.

The School maintains its cash accounts and equivalents in high quality financial institutions. At times, the amounts on deposit at any institution may exceed insured limits. At June 30, 2020, there were deposits of \$332,000 in excess of FDIC insured limits based on bank balances.

The School also has approximately \$7,000 on deposit with the RCAB at June 30, 2020. These funds are uninsured and pooled together with other related organizations' funds in the RCAB's revolving loan fund.

The School's accounts receivable reflect amounts due from its students for tuition and special activity fees.

In addition, the School has significant interests in the net assets of two foundations approximating \$1,424,000 and \$5,662,000 at June 30, 2020 (see Note 3).

Note 7 – Net Assets with Donor Restrictions

The following is a summary of net assets with donor restrictions at June 30:

	<u>2020</u>	<u>2019</u>
Temporary in nature	\$ 6,355,575	\$ 9,593,640
Perpetual in nature	1,556,468	1,556,468
	<u>\$ 7,912,043</u>	<u>\$ 11,150,108</u>

Note 7 – Net Assets with Donor Restrictions (Cont.)

Net assets with donor restrictions which are temporary in nature include amounts that are restricted for the following purposes and programs at June 30:

	<u>2020</u>	<u>2019</u>
Interest in restricted net assets of the Catholic Community Fund	\$ 424,296	\$ 464,600
Scholarships and financial aid	920,115	533,545
Rugby	20,000	-
Interest in restricted net assets of St. Mary's High School Foundation, Inc.:		
Scholarships and financial aid to students of the High School	717,298	717,297
Accumulated income from endowments	24,292	12,799
Capital campaign for the High School (Note 5)	3,982,102	7,601,765
College scholarships for students of the High School	267,472	263,634
	<u>\$ 6,355,575</u>	<u>\$ 9,593,640</u>

Net assets with donor restrictions that are perpetual in nature consist of the following endowment funds, which are required to be maintained in perpetuity, at June 30:

	<u>2020</u>	<u>2019</u>
Interest in restricted net assets of the Catholic Community Fund	\$ 1,000,000	\$ 1,000,000
Interest in restricted net assets of St. Mary's High School Foundation, Inc.	556,468	556,468
	<u>\$ 1,556,468</u>	<u>\$ 1,556,468</u>

Net assets were released from donor restrictions by incurring qualified costs and expenses, or by the occurrence of other events satisfying the restricted purposes as follows for the year ended June 30:

	<u>2020</u>	<u>2019</u>
Student scholarships and financial assistance	\$ 1,259,971	\$ 747,134
Improvements to Sacred Heart	63,935	
Crew	25,000	-
Building Futures Campaign:		
Scholarships and financial assistance	419,475	491,024
Gateway building	8,599,650	5,384,943
	<u>\$ 10,368,031</u>	<u>\$ 6,623,101</u>

Note 8 – Endowments

The School's net assets that are perpetual in nature consist of endowment funds established to support scholarships to students of St. Mary's High School, which were raised and are held by the Catholic Community Fund and St. Mary's High School Foundation, Inc. (see Note 3). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The School has historically viewed the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

As a result of this interpretation, amounts classified as net assets with donor restrictions consist of the original value of gifts donated to permanent endowment, and accumulations to donor restricted endowments in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This is regarded as the "historic dollar value" of an endowment fund. Also included in net assets with donor restrictions is the accumulated appreciation on the donor restricted endowment funds which are available for expenditure in a manner consistent with donor intentions and the standard prudence prescribed by UPMIFA.

Note 8 – Endowments (Cont.)

Funds with Deficiencies – From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the “historic dollar value”. Deficiencies of this nature are reported by a charge to net assets with donor restrictions. Deficiencies may result from unfavorable market fluctuations that occurred. There were no such deficiencies as of June 30, 2020 and 2019.

Endowment Investment Policy – The School has adopted an investment philosophy that is followed by the St. Mary’s High School Foundation, Inc. which, combined with the spending rate, attempts to provide a predictable stream of returns thereby making funds available to programs that are supported by its endowment, while at the same time seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the School or the Foundation must hold in perpetuity or for donor-specified periods.

Under this Investment Policy and the School’s spending rate, both of which are approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives – To satisfy long-term rate-of-return objectives, the School and the Foundation rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The School is the beneficiary of St. Mary’s High School Foundation and a beneficiary of the Catholic Community Fund, both of which have invested their endowment asset portfolios in the Common Investment Fund, a mutual fund established by the Roman Catholic Archbishop of Boston, a Corporation Sole, which in-turn invests in the Collective Investment Partnership. The Investment Committee of Corporation Sole is responsible for selecting the investment managers of the Collective Investment Partnership.

The Investment Committee’s investment rationale is to include an array of different strategy and investment managers for the Collective Investment Partnership’s portfolio to reduce overall volatility while providing investment returns above industry benchmarks.

Endowment Net Assets – Endowment net asset composition by type of fund as of June 30, 2020 and 2019 is as follows:

	Donor-Restricted		
	Temporary in Nature	Perpetual in Nature	Total
<u>For the year ended June 30, 2020:</u>			
Endowment net assets at beginning of year	\$ 477,399	\$ 1,556,468	\$ 2,033,867
Contributions	-	-	-
Interest in net assets of the Catholic Community Fund	16,483	-	16,483
Interest in net assets of St. Mary's High School Foundation	11,493	-	11,493
Appropriation of endowment assets for expenditure	(56,787)	-	(56,787)
Endowment net assets at end of year	<u>\$ 448,588</u>	<u>\$ 1,556,468</u>	<u>2,005,056</u>
<u>For the year ended June 30, 2019:</u>			
Endowment net assets at beginning of year	\$ 499,527	\$ 1,277,987	\$ 1,777,514
Interest in net assets of the Catholic Community Fund	35,940	278,481	314,421
Interest in net assets of St. Mary's High School Foundation	12,082	-	12,082
Appropriation of endowment assets for expenditure	(70,150)	-	(70,150)
Endowment net assets at end of year	<u>\$ 477,399</u>	<u>\$ 1,556,468</u>	<u>\$ 2,033,867</u>

Note 9 – Related Party Transactions

Insurance – During the years ended June 30, 2020 and 2019, the School was charged \$933,060 and \$753,639, respectively, for health, life, disability, workers' compensation and property insurance administered by the Roman Catholic Archdiocese of Boston ("RCAB") (an entity related by common board members).

Lease Agreement and Contributed Facilities – The School leases land and a building from the RCAB. Effective August 1, 2006 the School entered into a lease agreement for a four-year period ending July 1, 2010, requiring annual lease payments of \$1.00. The School has yet to sign a new lease agreement and is currently a tenant-at-will. Additionally, beginning in 2020 the RCAB also leases the Sacred Heart school building to the High School on a triple-net basis for \$1.00 per year for an initial term of 25 years, with three, five-year options to extend on the same terms.

For both of these lease agreements, all maintenance, capital improvements and expenditures are the responsibility of the High School. The estimated current rental value of the facilities approximated \$1,260,000 and \$638,275 for the years ended June 30, 2020 and 2019, respectively. The estimated value of the rental is recorded as both support and expense in the accompanying statements of activities.

Financing Arrangements – During 2019, the School entered into two new line of credit agreements with the RCAB. The School obtained a \$1,000,000 revolving line of credit agreement for working capital purposes. Borrowings bear interest at 3.75%. The School may borrow under this line of credit through July 15, 2021, and the agreement matures on July 31, 2021. There were no outstanding borrowings under this agreement at June 30, 2020.

The School also obtained a \$2,000,000 revolving line of credit agreement with the RCAB to be used exclusively for the construction of the Gateway building. Borrowings bear interest at 3.75%. There are no outstanding borrowings at June 30, 2020 under this line of credit agreement. However, subsequent to the date of these financial statements the School borrowed under this line to assist in funding additional construction costs on the Gateway Building (see Note 5).

In October of 2020, the School obtained a \$4 million loan from the RCAB for the purpose of repaying the borrowings under the \$2 million construction line of credit, and to provide \$2 million of funding for the completion of the Gateway Building. Under the agreement, beginning in November of 2020, monthly principal and interest payments of \$29,089 will be due through October of 2035. The note bears an interest rate of 3.75% and prepayments may be made without penalty. There are also certain financial covenants that must be met each year by the School.

Other Related Party Transactions – During the course of the year the School provides services to St. Mary's High School Foundation, Inc. at no charge to the Foundation. Management estimates the value of these services at approximately \$73,000 and \$66,000 for the years ended June 30, 2020 and 2019.

Amounts due to St. Mary's High School Foundation, Inc. were \$202,143 and \$162,733 at June 30, 2020 and 2019, respectively.

Amounts due to Sacred Heart parish were \$28,500 at June 30, 2020. Under the agreement made with Sacred Heart parish, monthly payments of \$1,500 are due to the Parish through January of 2022.

The School also received approximately \$8,000 in direct financial support from St. Mary's Parish for the years ended June 30, 2019. There was no such support provided for the year ended June 30, 2020.

As discussed in Note 3, "Interest in Foundations", the School is a beneficiary of the Catholic Community Fund and St. Mary's High School Foundation, Inc. The School is related through common Board membership to St. Mary's High School Foundation, Inc.

Note 10 – SBA Paycheck Protection Program Loan

In April of 2020, the School applied for and received a \$1,420,183 Paycheck Protection Program (PPP) loan from its primary lender, through the Small Business Association, as authorized by the U.S. Government's stimulus package in response to the economic fallout of the COVID-19 pandemic, the CARES Act. The School will be eligible for a partial or complete loan forgiveness if it meets certain criteria related to maintaining employment and salary levels and it uses the loan funds for payroll costs, mortgage interest, and utilities over a specified period from the time the loan was obtained. Should any portion of the loan not be forgiven it will become a two-year term loan at 1% per year, with interest on any unforgiven portion of the loan deferred for the first six months of the loan.

Management anticipates that the School will meet the criteria and receive a full forgiveness of the loan in the next fiscal year. However, there can be no guarantee at this time that this will occur or in what amount. The full amount of the loan has been recorded and presented as debt in the accompanying statement of financial position at June 30, 2020 until such time as some, or all, of the amount is repaid or forgiven by the SBA and the School is legally released from the debt instrument.

Note 11 – Employee Pension Plan

The School participates in a 401(k) plan maintained by the RCAB. The School contributes a matching contribution subject to formulas defined in the plan document. Each eligible employee may defer up to 100% of compensation subject to limits on the maximum amount allowed by law. Matching contributions related to the 401(k) defined contribution plan approximated \$120,000 and \$92,000 for the years ended June 30, 2020 and 2019, respectively.

Note 12 – Liquidity and Availability of Resources

The School's financial assets available within one year of June 30 for general expenditures are as follows:

	<u>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 565,582	\$ 69,245
Accounts receivable, net	10,670	7,820
Promises to give, restricted (Note 4)	-	200,000
Cash, restricted	6,979	6,927
Interest in the net assets of Catholic Community Fund	1,424,296	1,464,600
Interest in the net assets of St. Mary's High School Foundation, Inc.	<u>5,662,336</u>	<u>9,257,203</u>
Total financial assets	7,669,863	11,005,795
Less: Net assets with donor restrictions (Note 7)	<u>(7,912,043)</u>	<u>(11,150,108)</u>
Deficiency in financial assets	(242,180)	(144,313)
Plus: Other liquidity resources		
RCAB line of credit available for working capital	<u>1,000,000</u>	<u>1,000,000</u>
Financial assets and liquidity resources available for general expenditure within one year	<u>\$ 757,820</u>	<u>\$ 855,687</u>

The School has a policy to structure its financial assets and other liquidity resources to be available, and liquid as obligations come due. Management anticipates receiving sufficient revenue and support through tuition, grants, and contributions over the next twelve months to cover general expenditures over that same period. Management also anticipates receiving distributions from the Foundation to fund financial aid and scholarships consistent with previous years. As discussed in Note 5, the completion of the Gateway Building was funded through additional borrowings from the RCAB (see Note 9, "Related Party Transactions – Financing Arrangements").

Note 12 – Liquidity and Availability of Resources

In addition, in 2019 the School obtained a \$1,000,000 revolving line of credit from the RCAB (noted above) that can be used for working capital purposes and, therefore, can be available for future general expenditures.

Note 13 – Uncertainties Surrounding Coronavirus Pandemic

During the third quarter of the School's 2020 fiscal year, the novel coronavirus grew to become a pandemic of a contagious respiratory disease affecting the human population. This health crisis and related reactive mandates by governments around the world have adversely affected global economies, including here in the United States. In addition to the health risks and the livelihood of people in general, the situation continues to pose potentially serious risks to commerce including material supply and product demand, foreign trade, and employment, among other things.

In March, as in other states, the Governor of Massachusetts issued an emergency "stay at home" order, forcing the closure of "non-essential" businesses, schools, and other organizations, and resulting in record levels of unemployment. In June, most states, including Massachusetts, implemented a phased-in reopening of workplaces.

The School's closure had no significant effect on its revenues for the year. In September of 2020, before the issuance of these financial statements, the School reopened for the next academic year with an increase in enrollment and tuition revenues. However, the School did invest approximately \$350,000 in COVID-19 related re-opening costs between July and September of 2020.

The success of reopening plans, the spread or resurgence of the virus, and the duration of the economic disruptions nationally, internationally, and locally, is still uncertain. Likewise, it is uncertain at this time what adverse effects this may have, if any, on the School's future enrollment and tuition revenue, on the gifts and donations to the School, and therefore on its future operating results and financial position.