

**ST. ANN'S HOME, INC.**

Financial Statements

Year ended June 30, 2021

**ST. ANN'S HOME, INC.**

Financial Statements

Year ended June 30, 2021

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
St. Ann's Home, Inc.  
Methuen, Massachusetts

### **Report on the Financial Statements**

We have audited the accompanying financial statements of St. Ann's Home, Inc. (a Massachusetts nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 financial statements. The procedures selected depend on the auditor's 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.

## INDEPENDENT AUDITOR'S REPORT

(continued)

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Summarized Comparative Information

We have previously audited the Organization's 2020 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 7, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Leonard, Mulherin & Greene, P.C.*

LEONARD, MULHERIN & GREENE, P.C.  
Braintree, Massachusetts

November 8, 2021

**ST. ANN'S HOME, INC.****Statement of Financial Position**

June 30, 2021

*(with comparative totals for 2020)*

	2021	2020
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 13,867,830	\$ 10,676,540
Accounts receivable, net of allowance for doubtful accounts	2,776,043	3,491,443
Investments, current portion	4,759,481	4,601,962
Prepaid expenses	57,834	29,927
<b>Total current assets</b>	<b>21,461,188</b>	<b>18,799,872</b>
<b>PROPERTY, PLANT AND EQUIPMENT,</b> net of accumulated depreciation	<b>16,053,123</b>	<b>16,422,776</b>
<b>OTHER ASSETS</b>		
Investments, net of current portion	2,969,793	2,124,717
<b>Total assets</b>	<b>\$ 40,484,104</b>	<b>\$ 37,347,365</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 380,897	\$ 308,775
Accrued expenses	1,997,190	1,796,550
Deferred revenue	128,726	177,542
Custodial funds held in trust	45,361	64,020
Capital lease obligation, current portion	24,672	23,530
Current portion of long-term debt	239,748	330,508
<b>Total current liabilities</b>	<b>2,816,594</b>	<b>2,700,925</b>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, net of current portion and unamortized deferred loan costs	6,085,091	7,610,744
Capital lease obligation, net of current portion	43,810	68,482
Other long-term liability	177,540	177,540
Liability under interest rate swap agreement	374,692	551,671
<b>Total liabilities</b>	<b>9,497,727</b>	<b>11,109,362</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Without donor restrictions	30,496,751	25,890,758
With donor restrictions	489,626	347,245
<b>Total net assets</b>	<b>30,986,377</b>	<b>26,238,003</b>
<b>Total liabilities and net assets</b>	<b>\$ 40,484,104</b>	<b>\$ 37,347,365</b>

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

**ST. ANN'S HOME, INC.**

## Statement of Activities

Year ended June 30, 2021

*(with comparative totals for 2020)*

	2021		2020	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>REVENUE, SUPPORT AND GAINS</b>				
Program service fees	\$ 32,728,072	\$ -	\$ 32,728,072	\$ 31,209,093
Grants	1,155,950	-	1,155,950	236,285
Contributions	102,373	107,094	209,467	210,094
Investment income, net	738,786	89,051	827,837	12,031
United Way of Massachusetts Bay	10,120	-	10,120	11,000
Other income	445,228	-	445,228	402,611
Net assets released from restrictions	53,764	(53,764)	-	-
<b>Total revenue, support and gains</b>	<b>35,234,293</b>	<b>142,381</b>	<b>35,376,674</b>	<b>32,081,114</b>
<b>EXPENSES</b>				
<b>Program Services</b>				
Residential	23,556,701	-	23,556,701	22,550,218
Day	4,114,567	-	4,114,567	3,429,841
Outreach	905,930	-	905,930	870,888
<b>Total program services</b>	<b>28,577,198</b>	<b>-</b>	<b>28,577,198</b>	<b>26,850,947</b>
<b>Supporting Services</b>				
Management and General	2,092,355	-	2,092,355	1,957,055
Development	135,726	-	135,726	126,735
<b>Total supporting services</b>	<b>2,228,081</b>	<b>-</b>	<b>2,228,081</b>	<b>2,083,790</b>
<b>Total expenses</b>	<b>30,805,279</b>	<b>-</b>	<b>30,805,279</b>	<b>28,934,737</b>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<b>4,429,014</b>	<b>142,381</b>	<b>4,571,395</b>	<b>3,146,377</b>
<b>OTHER CHANGES</b>				
Loss on disposal of property, plant, and equipment	-	-	-	(5,868)
Gain (loss) on interest rate swap agreement	176,979	-	176,979	(186,959)
<b>CHANGE IN NET ASSETS</b>	<b>4,605,993</b>	<b>142,381</b>	<b>4,748,374</b>	<b>2,953,550</b>
<b>NET ASSETS, beginning of year</b>	<b>25,890,758</b>	<b>347,245</b>	<b>26,238,003</b>	<b>23,284,453</b>
<b>NET ASSETS, end of year</b>	<b>\$ 30,496,751</b>	<b>\$ 489,626</b>	<b>\$ 30,986,377</b>	<b>\$ 26,238,003</b>

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

**ST. ANN'S HOME, INC.**

Statement of Functional Expenses  
 Year ended June 30, 2021  
 (with comparative totals for 2020)

	2021					
	Employee Compensation and Related	Occupancy	Program/Operating Expenses	Other Administrative	Depreciation	Total
Residential	\$ 19,679,778	\$ 1,344,207	\$ 1,402,671	\$ 270,883	\$ 859,162	\$ 23,556,701
Day	3,269,365	278,044	270,641	92,896	203,621	4,114,567
Outreach	827,118	14,082	11,262	41,496	11,972	905,930
<b>Total Program Services</b>	<b>23,776,261</b>	<b>1,636,333</b>	<b>1,684,574</b>	<b>405,275</b>	<b>1,074,755</b>	<b>28,577,198</b>
Management and General	1,273,273	35,444	26,740	727,447	29,451	2,092,355
Development	121,418	869	-	12,714	725	135,726
Total Supporting Services	1,394,691	36,313	26,740	740,161	30,176	2,228,081
<b>Total expenses - 2021</b>	<b>\$ 25,170,952</b>	<b>\$ 1,672,646</b>	<b>\$ 1,711,314</b>	<b>\$ 1,145,436</b>	<b>\$ 1,104,931</b>	<b>\$ 30,805,279</b>
Total expenses - 2020	\$ 23,694,220	\$ 1,609,603	\$ 1,591,939	\$ 956,244	\$ 1,082,731	\$ 28,934,737

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

**ST. ANN'S HOME, INC.****Statement of Cash Flows**

Year ended June 30, 2021

*(with comparative totals for 2020)*

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 4,748,374	\$ 2,953,550
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	1,104,931	1,082,731
Amortization of deferred loan costs	20,223	9,409
Net realized and unrealized (gains) losses on investments	(749,200)	117,979
(Gain) loss on interest rate swap agreement	(176,979)	186,959
Loss on disposal of property, plant and equipment	-	5,868
(Increase) decrease in asset accounts		
Accounts receivable	715,400	(970,704)
Prepaid expenses	(27,907)	18,445
Increase (decrease) in liability accounts		
Accounts payable	72,122	(142,198)
Accrued expenses	200,640	341,731
Deferred revenue	(48,816)	30,541
Custodial funds held in trust	(18,659)	23,922
<b>Net cash provided by (used in) operating activities</b>	<b>5,840,129</b>	<b>3,658,233</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(735,278)	(390,959)
Purchase of investments	(1,506,209)	(1,051,510)
Proceeds from sale of investments	1,252,814	496,035
<b>Net cash provided by (used in) investing activities</b>	<b>(988,673)</b>	<b>(946,434)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(1,636,636)	(311,330)
Principal payments on capital lease obligation	(23,530)	(6,935)
<b>Net cash provided by (used in) financing activities</b>	<b>(1,660,166)</b>	<b>(318,265)</b>
Net increase (decrease) in cash, cash equivalents, and restricted cash	3,191,290	2,393,534
<b>Cash, cash equivalents, and restricted cash, beginning of year</b>	<b>10,676,540</b>	<b>8,283,006</b>
<b>Cash, cash equivalents, and restricted cash, end of year</b>	<b>\$ 13,867,830</b>	<b>\$ 10,676,540</b>
<b>SUPPLEMENTARY DISCLOSURE</b>		
Cash paid for interest	\$ 283,570	\$ 313,196

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



## **ST. ANN'S HOME, INC.**

Notes to Financial Statements  
June 30, 2021

### **1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Nature of Activities***

St. Ann's Home, Inc. (the "Organization" or "St. Ann's") is a private, nonprofit organization, whose sole corporate member is Catholic Social Services, Inc., which is a nonprofit corporation under the auspices of the Roman Catholic Archbishop of Boston, A Corporation Sole ("RCAB"). The Organization operates a residential treatment center and special education school for emotionally disturbed children, community-based group homes, and other significant community-oriented programs. St. Ann's primarily serves communities in the Greater Lawrence area and maintains its main campus in Methuen, MA.

#### ***Basis of Accounting***

The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

#### ***Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### ***Cash, Cash Equivalents and Restricted Cash***

Cash, cash equivalents and restricted cash include operating cash accounts, money market funds, custodial funds held in trust, and highly liquid debt instruments with a maturity of three months or less that are not held in the Organization's investment portfolio.

#### ***Accounts Receivable***

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2021 and 2020, the Organization had recorded an allowance for doubtful accounts of \$40,000.

#### ***Investments***

In accordance with GAAP, investments in equity securities with readily determinable fair values and all investments in debt securities are reported at market value in the Statement of Financial Position. Realized and unrealized gains and losses are included in the change in net assets on the Statement of Activities.

#### ***Property, Plant, Equipment and Depreciation***

Property, plant and equipment are recorded at cost if purchased or at estimated fair market value if donated. Expenditures for major renewals and improvements are capitalized and maintenance and repairs are expensed as incurred.

## ST. ANN'S HOME, INC.

Notes to Financial Statements  
June 30, 2021

### 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### ***Property, Plant, Equipment and Depreciation (continued)***

Depreciation of property, plant and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

	Lives in Years
Buildings	11-27.5
Building improvements	20
Motor vehicles	3-5
Furniture and equipment	3-10

#### ***Custodial Funds Held in Trust***

The Organization acts as a fiduciary with respect to certain personal funds it receives on behalf of individuals. Since the funds are not the property of the Organization, they are reported in the Statement of Financial Position as an asset with an offsetting liability. The funds held under this arrangement at June 30, 2021 and 2020 totaled \$45,361 and \$64,020, respectively.

#### ***Deferred Loan Costs***

In accordance with GAAP, the Organization presents deferred loan costs related to a recognized debt obligation as a direct reduction of the carrying amount of the related debt on the Statement of Financial Position. Additionally, amortization of the debt issuance costs is reported as interest expense.

#### ***Accounting for Derivative Instruments and Hedging Activities***

Under GAAP, the Organization is required to measure every derivative instrument (including certain derivative instruments embedded in other contracts) at fair value and record them on the Statement of Financial Position as either an asset or a liability. Changes in the fair value of derivative instruments are included in the Change in Net Assets on the Statement of Activities.

The Organization has entered into an interest rate swap agreement to reduce the impact and risk associated with the variable rate in its debt agreement (see Note 9). The interest rate swap agreement, which is a derivative instrument, is a contract to exchange a variable rate for a fixed rate of interest payments over the life of the agreement.

Fair values of interest rate derivatives are based on pricing models using prevailing market information as of June 30, 2021 and have been computed by the bank holding the interest rate swap agreement (see Note 9).

#### ***Net Assets***

Net assets, revenue, support, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Consist of net assets available for use in general operations that are not subject to donor-imposed restrictions. As of June 30, 2021, the Board of Trustees had designated certain net assets without donor restrictions totaling \$2,639,641 for long-term investment.

*Net Assets With Donor Restrictions* – Consist of net assets that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or the expending of the net assets for particular purposes as specified by the donor.

**ST. ANN'S HOME, INC.**

Notes to Financial Statements  
June 30, 2021

**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Net Assets (continued)***

*Net Assets With Donor Restrictions (continued)* – Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that the principal is to be maintained in perpetuity (donor-restricted endowment) and only the income from such net assets may be expended as specified by the donor or in accordance with the applicable Massachusetts law. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released to net assets without donor restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, 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.

Net assets with donor restrictions are restricted for the following purposes at June 30, 2021:

## Endowment:

Subject to Organization's spending policy and appropriation Investments (including original donor gifts of \$48,020 to be maintained in perpetuity)	<b>\$330,152</b>
<b>Total endowment</b>	<b>330,152</b>

## Subject to expenditure for specified purposes:

Program activities / Acquisition of property & equipment	<b>159,474</b>
<b>Total subject to expenditure for specified purposes</b>	<b>159,474</b>

<b>Total net assets with donor restrictions</b>	<b>\$489,626</b>
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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or occurrence of the passage of time or other events specified by the donors as follows during the year ended June 30, 2021:

## Satisfaction of purpose restrictions:

Program activities	<b>\$43,524</b>
Acquisition of property & equipment	<b>10,240</b>
<b>Total net assets released from restrictions</b>	<b>\$53,764</b>

***Revenue Recognition and Surplus Revenue Retention***

Clients of the Organization are supported by government agencies within Massachusetts, out-of-state government agencies and private payors. Therefore, the Organization is subject to the regulations and rate formulas of the Commonwealth of Massachusetts Executive Office for Administration and Finance Operational Services Division ("OSD"). Revenue is recorded at the Organization's rate of reimbursement as certified by OSD. Program service fees are recognized during the year in which the related services are provided to clients. Program service fees received in advance of the delivery of services are recorded as deferred revenue.

Under the applicable Commonwealth of Massachusetts regulation, the Organization may not retain an annual surplus in excess of 20% of its Commonwealth of Massachusetts program service fees. A surplus in excess of the annual 20% limit is subject to recoupment or may be used to reduce future Commonwealth of Massachusetts program service fees by the Commonwealth of Massachusetts.

## **ST. ANN'S HOME, INC.**

Notes to Financial Statements  
June 30, 2021

### **1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### ***Revenue Recognition and Surplus Revenue Retention (continued)***

During the year ended June 30, 2021, the Organization did not have an annual surplus related to its Commonwealth of Massachusetts program service fees in excess of the 20% limit allowed under the applicable regulation. Non-Commonwealth of Massachusetts revenues are not subject to the regulation but may be subject to other regulatory or contractual limitations.

#### ***Contributions***

Contributions are recognized at the earlier of when received or when a donor declares an unconditional promise to give cash or other assets to the Organization. Conditional promises to give, that is, those with a measurable performance or other barriers to be overcome before the Organization is entitled to the assets transferred or promised, and a right of return or release, are not recognized as contributions revenue until the conditions have been substantially met or waived.

#### ***Donated Materials and Services***

Donated materials are recorded at the fair market value on the date the materials are unconditionally promised to the Organization. Donated services are recorded at fair market value on the date the services are provided if the services create or enhance nonfinancial assets or the services are provided by persons possessing certain skills that would typically need to be purchased if not provided by donation.

#### ***Advertising***

The Organization expenses advertising costs as incurred. Advertising expense totaled \$6,901 and \$911 for the years ended June 30, 2021 and 2020, respectively.

#### ***Functional Allocation of Expenses***

The costs of programs and supporting services activities have been summarized on a functional basis in the Statement of Activities. The Statement of Functional Expenses presents the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include employee compensation and related (consisting of salaries, payroll taxes and benefits), occupancy, various other program and administrative costs, and depreciation. These expenses have been allocated on the basis of estimated time and effort, square footage as well as other reasonable allocation methods.

#### ***Tax Status***

The Organization qualifies under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal and state income taxes.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2018.

## ST. ANN'S HOME, INC.

Notes to Financial Statements  
June 30, 2021

### 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Comparative Financial Information**

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

#### **Subsequent Events**

The Organization evaluated events that occurred after June 30, 2021, the date of the Statement of Financial Position, but before the date the financial statements were available to be issued, November 8, 2021, for potential recognition or disclosure in the financial statements. Except as described in Note 8, the Organization did not identify any subsequent events that had a material effect on the accompanying financial statements.

### 2 - LIQUIDITY AND AVAILABILITY

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of its programs as well as the conduct of services undertaken to support those activities to be general expenditures.

At June 30, 2021, financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Statement of Financial Position date consist of the following:

Cash and cash equivalents (net of donor-restricted contributions of \$159,474 and custodial funds of \$45,361)	<b>\$13,662,995</b>
Accounts receivable, net of allowance for doubtful accounts	<b>2,776,043</b>
Investments (current portion) without donor restrictions	<b>4,759,481</b>
<b>Total financial assets available within one year</b>	<b>\$21,198,519</b>

In addition, at June 30, 2021, the Organization held long-term investments consisting of Board-designated endowment investments totaling \$2,639,641. Although the Organization does not intend to spend from these investments, other than amounts appropriated for general expenditure as part of its annual budget approval process, those investments can be made available for general expenditure if necessary.

Additionally, the Organization also has a line of credit (see Note 6) that allows for additional borrowings of up to \$1,000,000 for working capital purposes. There were no amounts drawn under this arrangement at June 30, 2021.

### 3- FAIR VALUE MEASUREMENTS AND INVESTMENTS

The Organization applies the provisions of GAAP for fair value measurements of financial assets and financial liabilities, and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. These provisions define fair value as the price that would be received in selling an asset or paid in transferring a liability in an orderly transaction between market participants at the measurement date.

**3– FAIR VALUE MEASUREMENTS AND INVESTMENTS (continued)**

The provisions also establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), a lower priority to significant other observable inputs (Level 2 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under these provisions are described below:

**Basis of Fair Value Measurement**

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Exchange-traded funds and equity securities are valued at quoted market prices, which represent the fair market value of shares held by the Organization at year end.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. In addition, consideration is given to discounted cash flow analysis on expected cash flows, the period to maturity as well as observable Floating Rate Indices.

Fair value of the liability under interest rate swap agreement is based on pricing models using prevailing market information as of the determination date and has been computed by the financial institution holding the interest rate swap contract.

The fair value of the certificate of deposit equals the total deposit, plus interest credited.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value of RCAB Revolving Loan Fund and Certificate of Deposit investments equal the total deposits, plus interest credited, less any withdrawals.

The asset or liability's measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**ST. ANN'S HOME, INC.**

Notes to Financial Statements  
June 30, 2021

**3- FAIR VALUE MEASUREMENTS AND INVESTMENTS (continued)**

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables present assets and liabilities that are measured at fair value on a recurring basis at June 30, 2021 and 2020:

	Total 2021	Level 1	Level 2	Level 3
<b>Assets:</b>				
Equities	\$2,729,184	\$2,729,184	\$ -	\$ -
Exchange-traded funds	211,275	211,275	-	-
Money market funds	29,334	29,334	-	-
Certificate of deposit	257,354	-	257,354	-
RCAB Revolving Loan Fund	4,502,127	-	-	4,502,127
	<b>\$7,729,274</b>	<b>\$2,969,793</b>	<b>\$ 257,354</b>	<b>\$4,502,127</b>

<b>Liabilities:</b>				
Liability under interest rate swap agreement	\$ 374,692	\$ -	\$ 374,692	\$ -

	Total 2020	Level 1	Level 2	Level 3
<b>Assets:</b>				
Equities	\$1,597,440	\$1,597,440	\$ -	\$ -
Exchange-traded funds	128,968	128,968	-	-
Money market funds	398,309	398,309	-	-
Certificate of deposit	256,392	-	256,392	-
RCAB Revolving Loan Fund	2,227,691	-	-	2,227,691
RCAB Certificate of Deposit	2,117,879	-	-	2,117,879
	<b>\$6,726,679</b>	<b>\$2,124,717</b>	<b>\$256,392</b>	<b>\$4,345,570</b>

<b>Liabilities:</b>				
Liability under interest rate swap agreement	\$ 551,671	\$ -	\$ 551,671	\$ -

The following summarizes the Organization's Level 3 reconciliation for the RCAB Revolving Loan Fund and RCAB Certificate of Deposit for the years ended June 30, 2021 and 2020:

	2021	2020
Beginning balance	\$4,345,570	\$3,920,799
Purchases	100,000	362,937
Interest	56,557	61,834
Ending balance	<b>\$4,502,127</b>	<b>\$4,345,570</b>

## ST. ANN'S HOME, INC.

### Notes to Financial Statements

June 30, 2021

#### 4 – ENDOWMENT FUNDS

The Organization follows the provisions of GAAP regarding the net asset classification of funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act. These provisions provide guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to enacted versions of the *Uniform Prudent Management of Institutional Funds Act of 2006* ("UPMIFA") and also require disclosures about an organization's donor-restricted and board-designated endowment funds.

##### ***Interpretation of Relevant Law Regarding Net Asset Classification and Appropriation***

Based on the Massachusetts Uniform Prudent Management of Institutional Funds Act ("MA UPMIFA"), management has interpreted relevant Massachusetts law as requiring the preservation of the fair value of the original gift as of the gift date ("historical dollar value") of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by Massachusetts law. The Organization considers the following factors, in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. the duration and preservation of the endowment fund;
2. the purposes of the Organization and the donor-restricted endowment fund;
3. general economic conditions;
4. the possible effect of inflation or deflation;
5. the expected total return from income and the appreciation of investments;
6. other resources of the Organization; and
7. the investment policy of the Organization.

##### ***Funds with Deficiencies***

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by Massachusetts law (underwater endowments). The Organization has interpreted Massachusetts law to permit spending from underwater endowments in accordance with prudent measures required under the law. In accordance with GAAP, deficiencies of this nature are to be reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2021.

##### ***Return Objectives and Risk Parameters***

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and activities supported by its endowment, while also maintaining the purchasing power of those endowment assets over the long-term. Under this approach, the endowment assets are invested in a manner that is intended to produce results that equal or exceed relevant benchmarks while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.



**ST. ANN'S HOME, INC.**

Notes to Financial Statements  
June 30, 2021

**4 – ENDOWMENT FUNDS (continued)****Strategies Employed for Achieving Objectives**

To satisfy its objectives, the Organization relies 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 Organization targets a diversified asset allocation strategy with a mix of equity-based and fixed-income investments to achieve its long-term return objectives within the guidelines of its investment policy and prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

In an attempt to grow its endowment, the Organization has temporarily established a policy of not appropriating for distribution any of its endowment funds (including those endowments deemed to be underwater, if any). In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation.

The Organization expects the current deferral of spending of its endowment funds to increase the value of its endowment funds such that the funds can provide a more predictable stream of income to the Organization, consistent with its objective of maintaining the purchasing power of the endowment assets as well as providing additional real growth through investment return.

The Organization's endowment by net asset class consisted of the following at June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$2,639,641	\$ -	\$2,639,641
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	48,020	48,020
Accumulated investment gains	-	282,132	282,132
<b>Total</b>	<b>\$2,639,641</b>	<b>\$330,152</b>	<b>\$2,969,793</b>

The following is a reconciliation of the beginning and ending balance of the Organization's endowment in total and by net asset class for the year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment, beginning of year	\$1,883,616	\$241,101	\$2,124,717
Investment return:			
Investment income	32,543	4,165	36,708
Net realized and unrealized gains	664,185	85,015	749,200
Total investment return	696,728	89,180	785,908
Contributions	60,308	-	60,308
Fees	(1,011)	(129)	(1,140)
<b>Endowment, end of year</b>	<b>\$2,639,641</b>	<b>\$330,152</b>	<b>\$2,969,793</b>

**ST. ANN'S HOME, INC.**

Notes to Financial Statements  
June 30, 2021

**5 – PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consisted of the following at June 30:

	2021	2020
Buildings	\$21,632,207	\$21,363,328
Land	1,365,949	1,186,697
Building improvements	5,430,870	5,227,989
Motor vehicles	463,597	434,519
Furniture and equipment	1,398,022	1,347,834
Construction-in-progress	5,000	-
	<b>30,295,645</b>	<b>29,560,367</b>
Less accumulated depreciation	<b>14,242,522</b>	<b>13,137,591</b>
	<b>\$16,053,123</b>	<b>\$16,422,776</b>

Depreciation expense totaled \$1,104,931 and \$1,082,731 for the years ended June 30, 2021 and 2020, respectively.

**6 – LINE OF CREDIT**

The Organization has a revolving line of credit agreement ("Revolving Line") with a bank. The Revolving Line allows the Organization to borrow up to \$1,000,000, payable on demand with interest at the bank's prime rate (3.25% at June 30, 2021 and 2020). The Revolving Line is secured by all assets of the Organization. No amounts were borrowed under the Revolving Line during the years ended June 30, 2021 and 2020.

**7 – CAPITAL LEASE OBLIGATION**

The Organization is party to a lease agreement for certain equipment that expires in February 2024. The lease meets the criteria of a capital lease and, accordingly, has been recorded as such.

The following is a summary of leased assets included in property, plant and equipment at June 30, 2021:

Property, plant and equipment	<b>\$98,947</b>
Less accumulated depreciation	<b>(30,465)</b>
	<b>\$68,482</b>

Future minimum lease payments required under the capital lease and present values for the years ending June 30 are as follows:

2022	<b>\$27,392</b>
2023	<b>27,392</b>
2024	<b>18,262</b>
Total minimum lease payments	<b>73,046</b>
Less amounts considered interest	<b>(4,564)</b>
Present value of minimum lease payments	<b>\$68,482</b>

## ST. ANN'S HOME, INC.

Notes to Financial Statements  
June 30, 2021

### 7 – CAPITAL LEASE OBLIGATION (continued)

The present value of minimum lease payments is recorded in the Statement of Financial Position as follows:

Capital lease obligation, current portion	<b>\$24,672</b>
Capital lease obligation, less current portion	<b>43,810</b>
<b>Present value of minimum lease payments</b>	<b>\$68,482</b>

Interest expense incurred on the above capital lease totaled \$3,863 and \$2,196 for the years ended June 30, 2021 and 2020, respectively.

### 8 – LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2021 and 2020:

#### ***Mass Development***

On March 8, 2007, the Organization entered into a loan and trust agreement (the "Agreement") with the Massachusetts Development Finance Agency ("Mass Development") and TD Bank, N.A. ("TD Bank"), to borrow the proceeds of a 30-year revenue bond totaling \$8,500,000 with interest at a variable rate.

The loan proceeds were used to retire existing debt of approximately \$1,300,000 and establish a construction fund to finance the construction of the Organization's adolescent center. Monthly principal payments commenced on January 8, 2008 and will continue until the bond's maturity date in March 2037. Monthly principal payments averaged \$18,725 for the year ended June 30, 2021. Interest is payable monthly at a variable rate (1.61% and 1.67% at June 30, 2021 and 2020, respectively) based on the London Interbank Offered Rate ("LIBOR").

The Agreement is secured by certain real and personal property of the Organization. As part of the Agreement, the Organization must comply with various financial and other covenants.

#### ***Construction Note Payable***

During the year ended June 30, 2015, the Organization borrowed \$1,800,000 under a promissory note payable with TD Bank for the purpose of funding certain construction costs. The note payable bore interest at a rate of 3.85% until May 2021 when the loan was paid off.

Interest paid on the construction note payable totaled \$48,901 and \$57,418 during the years ended June 30, 2021 and 2020, respectively.

At June 30, 2021 and 2020, the Mass Development and Construction notes payable were as follows:

	<b>2021</b>	<b>2020</b>
Mass Development Finance Agency Revenue Bond	<b>\$6,352,276</b>	\$6,576,976
Construction note payable	-	1,411,936
	<b>6,352,276</b>	7,988,912
Less current portion	<b>(239,748)</b>	(330,508)
Less unamortized deferred loan costs	<b>(27,437)</b>	(47,660)
<b>Long-term portion</b>	<b>\$6,085,091</b>	\$7,610,744

## ST. ANN'S HOME, INC.

Notes to Financial Statements  
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### 8 – LONG-TERM DEBT (continued)

Estimated principal maturities of long-term debt are as follows for the years ending June 30:

2022	\$ 239,748
2023	255,804
2024	272,934
2025	291,210
2026	310,710
Thereafter	4,981,870
	<hr/> <b>\$6,352,276</b>

As of June 30, 2021 and 2020, the Organization had incurred deferred loan costs totaling \$106,315 and \$149,702, respectively, in connection with its various loan agreements. The unamortized balance of these deferred costs, which are being amortized using the effective interest rate method over the terms of the related loans, totaled \$27,437 and \$47,660 as of June 30, 2021 and 2020, respectively. The amortization of these costs totaled \$20,223 and \$9,409 for the years ended June 30, 2021 and 2020, respectively.

In September 2021, the Organization made an additional principal payment against the Mass Development bond payable totaling \$1,063,527. This principal payment enabled the entire outstanding balance of the bond payable to be subjected to the interest rate swap agreement described in Note 9, effectively fixing the interest rate at 3.98% for the term of the swap agreement. This payment was not considered when determining estimated future principal maturities described above.

### 9 – INTEREST RATE SWAP AGREEMENT

The Organization's loan from TD Bank currently bears interest at a variable rate based on the LIBOR rate. The Organization executed an interest rate swap agreement (the "Swap") with a bank counter party on 80% of the outstanding loan balance to manage the variability of the cash flows attributable to interest payments on the note payable and does not use the Swap for speculative purposes. The purpose of the Swap was to effectively convert a portion of the variable interest rate on the loan to a fixed rate of 3.98% on approximately 80% of the outstanding loan amount for a period of ten years through June 2025.

Interest expense for the years ended June 30, 2021 and 2020 totaled \$230,806 and \$253,582, respectively, representing an effective interest rate of 3.57% and 3.80% on the entire loan payable for the years ended June 30, 2021 and 2020, respectively.

Under the provisions of GAAP, an interest rate swap agreement is considered a hedging activity and the Organization is required to recognize a gain and related asset or a loss and related liability as a result of the hedging activity.

During the years ended June 30, 2021 and 2020, the Organization recognized a gain of \$176,979 and a loss of \$186,959, respectively, which have been reported in the Statement of Activities. At June 30, 2021 and 2020, the Organization has reported a liability in connection with the Swap in the amount of \$374,692 and \$551,671, respectively, which have been reported on the Statement of Financial Position.

If the Organization does not terminate the agreement prematurely, the liability at June 30, 2021 would be recognized as a gain by the expiration of the terms of the agreement. As of June 30, 2021, the Organization does not intend to prematurely terminate the agreement.

## **ST. ANN'S HOME, INC.**

### **Notes to Financial Statements**

June 30, 2021

#### **10 – RETIREMENT PLAN**

The Organization maintains a defined contribution retirement plan (the "Plan") for the benefit of its employees. Participants are eligible to make voluntary contributions on a tax-deferred basis after completing one year of service that includes at least 650 hours and having attained the age of 18. Participants are eligible to receive employer profit-sharing contributions after completing two years of service that includes at least 650 hours in each year and having attained the age of 18. Per diem and temporary employees are not eligible to participate in the Plan. For the years ended June 30, 2021 and 2020, the Organization contributed to the Plan at a rate of 5% of eligible wages. The Organization's contributions to the Plan, including administrative costs, totaled \$752,738 and \$707,704 for the years ended June 30, 2021 and 2020, respectively.

#### **11 – CELL TOWER RENTAL**

The Organization has entered into agreements with two wireless communication providers to install wireless cell tower devices on the Organization's property for the operation of a wireless communications site. As part of the agreements, the providers pay monthly rent to the Organization, which increase on an annual basis. The agreements expire in December 2023 and November 2024, with renewal options at the lessee's discretion.

Expected future payments under these agreements are as follows for the years ending June 30:

2022	<b>\$ 55,882</b>
2023	<b>56,905</b>
2024	<b>47,069</b>
2025	<b>12,178</b>
	<hr/> <b>\$172,034</b> <hr/>

The Organization received \$56,805 and \$53,925 of rental income under these agreements during the years ended June 30, 2021 and 2020, respectively.

#### **12 – OPERATING LEASES**

The Organization leases office equipment under various operating leases expiring through April 2023. Rent expense totaled \$15,692 and \$22,345 for the years ended June 30, 2021 and 2020, respectively.

Future minimum payments under non-cancelable operating leases are as follows for years ending June 30:

2022	<b>\$1,056</b>
2023	<b>880</b>
	<hr/> <b>\$1,936</b> <hr/>

## ST. ANN'S HOME, INC.

Notes to Financial Statements  
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### 13 – INTEREST EXPENSE

Interest expense consisted of the following for the years ended June 30, 2021 and 2020:

	2021	2020
TD Bank tax-exempt bond (inclusive of swap agreement)	\$230,806	\$253,582
TD Bank construction note payable	48,901	57,418
Capital lease obligation	3,863	2,196
Amortization of deferred loan costs	20,223	9,409
	<b>\$303,793</b>	<b>\$322,605</b>

### 14 – LEGAL MATTERS

The Organization is involved in certain legal matters arising in the normal course of business. Although the ultimate outcome of these matters is uncertain at June 30, 2021, management believes that the matters will not have a materially adverse effect on the financial position of the Organization, as any risk of an unfavorable outcomes are covered by the Organization's insurance coverage through the RCAB. Accordingly, no provision or liability has been made in the accompanying financial statements for these matters.

### 15 – RELATED PARTY ACTIVITY

#### *Relationship with The Roman Catholic Archbishop of Boston, A Corporation Sole and Catholic Social Services, Inc.*

The Organization's sole corporate member is Catholic Social Services, Inc. ("CSS"), which operates under the auspices of the Roman Catholic Archbishop of Boston, A Corporation Sole ("RCAB").

The Organization purchases its workers' compensation, auto, property and liability insurance through the RCAB. Insurance expense for these policies were the following for the years ended June 30, 2021 and 2020:

	2021	2020
Comprehensive & General Liability	\$ 69,678	\$ 70,737
Automobile	56,750	51,386
Property Insurance	102,150	82,226
Director's & Officer's Liability	11,996	10,431
Workers Compensation	157,860	130,624
	<b>\$398,434</b>	<b>\$345,404</b>

As discussed in Note 3, the Organization has deposited funds for investment purposes with the RCAB. The Organization's balance in the RCAB's revolving loan fund totaled \$4,502,127 and \$2,227,691 at June 30, 2021 and 2020, respectively. Additionally, the Organization had a certificate of deposit maintained by the RCAB totaling \$2,117,879 at June 30, 2020. The Organization transferred the balance of the certificate of deposit to the RCAB revolving loan fund during the year ended June 30, 2021.

## **ST. ANN'S HOME, INC.**

Notes to Financial Statements  
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### **16 – COMMITMENTS AND CONTINGENCIES**

#### ***Contingencies***

On March 13, 2020, a national emergency was declared in the United States as a result of the COVID-19 pandemic. This ongoing public health crisis has had a significant and wide-ranging effect on the United States and local economies. Although management continues to actively assess and respond to the pandemic and related government orders for public health and safety, the longer-term impact of the pandemic on the Organization's operations and financial position cannot be reasonably determined at this time.

#### ***Funding Sources***

In accordance with the terms of its contracts with the Commonwealth of Massachusetts, the records of the Organization are subject to audit. Therefore, the Organization is contingently liable for any disallowed costs.

A substantial portion of the Organization's program service fees and receivables are received from Commonwealth of Massachusetts government agencies, cities and towns, and other government funding sources.

#### ***Concentration of Credit Risk***

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. The Organization believes it is not exposed to any significant credit risk relative to cash and cash equivalents.

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported on the Statement of Financial Position.

### **17 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

During the year ended June 30, 2020, the Organization acquired equipment totaling \$98,947 under a capital lease agreement.