ST. ANN'S HOME, INC.

FINANCIAL REPORT

JUNE 30, 2006

SHAHEEN, PALLONE & ASSOCIATES

A PROFESSIONAL CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

861 TURNPIKE STREET, NORTH ANDOVER, MA 01845
(978) 686-7200 FAX (978) 686-4314

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
St. Ann's Home, Inc.
Methuen, MA 01844

We have audited the accompanying statement of financial position of St. Ann's Home, Inc. (a nonprofit organization) as of June 30, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Ann's Home, Inc. as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Shaheen, Pallone & Associates, P.C.

Shaheen, Pallone & Associates, P.C.

September 13, 2006

ST. ANN'S HOME, INC.

Statement of Financial Position

June 30, 2006

ASSETS

Cash and cash equivalents	$ 6,136,608
Investments	496,196
Accounts receivable	843,562
Unconditional promises to give, net	133,926
Prepaid expenses	51,460
Property and Equipment, net	7,625,332
Total Assets	$ 15,287,084

LIABILITIES AND NET ASSETS

Note payable	$ 2,200,000
Accounts payable and accrued expenses	713,141
Long-term debt	1,290,974
Total Liabilities	4,204,115
Net Assets:	
Unrestricted	10,096,939
Temporarily restricted	791,719
Permenantly restricted	194,311
Total Net Assets	11,082,969
Total Liabilities and Net Assets	$ 15,287,084

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

ST. ANN'S HOME, INC.

Statement of Activities

For the Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Program service fees	$ 13,860,384	$ -	$ -	$ 13,860,384
Grants	308,540	-	-	308,540
Contributions and bequests	97,478	30,197	-	127,675
In-kind contributions	3,471,500	-	-	3,471,500
Allocated by United Way of Merrimack Valley, Inc.	60,000	-	-	60,000
Interest income	98,878	24,671	-	123,549
Investment income	-	-	17,237	17,237
Total revenues and other support	17,896,780	54,868	17,237	17,968,885
Net realized and unrealized gain on investments	-	-	55,611	55,611
Total revenues, gains and other support	17,896,780	54,868	72,848	18,024,496
Expenses				
Program services	13,073,479	-	-	13,073,479
Management and general	1,249,826	-	-	1,249,826
Total expenses	14,323,305	-	-	14,323,305
Change in net assets	3,573,475	54,868	72,848	3,701,191
Net Assets - beginning of year	6,523,464	736,851	121,463	7,381,778
Net Assets - end of year	$ 10,096,939	$ 791,719	$ 194,311	$ 11,082,969

ST. ANN'S HOME, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2006

	Residential	Day	Outreach	Total Program Services	Management and General	Total
Employee compensation and related expenses	$ 8,274,591	$ 1,782,559	$ 491,267	$ 10,548,417	$ 647,840	$ 11,196,257
Occupancy	682,323	236,274	12,632	931,229	35,047	966,276
Other program operating expenses	855,305	164,036	24,351	1,043,692	182,839	1,226,531
Administrative expenses	61,966	60,924	7,244	130,134	361,382	491,516
Depreciation and amortization	305,546	102,005	12,456	420,007	22,718	442,725
	$ 10,179,731	$ 2,345,798	$ 547,950	$ 13,073,479	$ 1,249,826	$ 14,323,305

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

ST. ANN'S HOME, INC.

Statement of Cash Flows

For the Year Ended June 30, 2006

Cash Flow From Operating Activities	
Change in net assets	$ 3,701,191
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation	442,725
In-kind contributions	(3,471,500)
Net realized and unrealized gain on investments	(55,611)
Change in:	
Accounts receivable	447,367
Unconditional promises to give	97,515
Prepaid expenses	21,606
Accounts payable and accrued expenses	282,168
Total adjustments	(2,235,730)
Net cash provided by operating activities	1,465,461
Cash flow from investing activities:	
Purchase of investments	(389,902)
Proceeds from sales of investments	391,762
Purchases of property and equipment	(2,144,413)
Net cash used in investing activities	(2,142,553)
Cash Flows from financing activities:	
Proceeds from demand note	2,200,000
Principal payments on long-term debt	(59,019)
Net cash provided by financing activities	2,140,981
Net increase in cash and cash equivalents	1,463,889
Cash and cash equivalents, beginning of year	4,672,719
Cash and cash equivalents, end of year	$ 6,136,608
Supplemental Disclosure of Cash Flow Information:	
Cash paid during year for taxes	$ -
Cash paid during year for interest	$ 80,444

Supplemental Disclosure for Noncash Transactions:

The Organization acquired property of $3,471,500 in 2006 as an in-kind contribution

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization
St. Ann's Home, Inc. (the Organization) is a non-profit organization operating under the auspices of Catholic Social Services, Inc. The Organization operates a residential treatment center for emotionally disturbed children, community-based group homes, and other significant community oriented programs.

Basis of Presentation
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Support and Revenue
St. Ann's Home, Inc. receives the majority of its funding in the form of grants and/or contracts from federal, state, and local agencies. St. Ann's Home, Inc. recognizes contract revenue based on unit rates as provided under the contracts. Revenue recognition depends on the contract.

The Organization also receives client fees, reimbursements and contributions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

Use of Estimates
The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Tax Status
The Organization is a non-profit organization exempt from income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Unconditional Promises to Give

Unconditional promises to give are recorded as revenues measured at the net present value of the estimated future cash flows using a discount rate of 4%. Conditional promises to give are recognized when the conditions which they depend are substantially met.

Accounts Receivable

No allowance for uncollectible accounts has been provided at June 30, 2006 as management is of the opinion that all amounts are collectible.

Property and Equipment

Property and equipment is stated at cost or fair market value, if donated. The Organization follows the practice of capitalizing, at cost, all expenditures for fixed assets in excess of $5,000. Depreciation is calculated using the straight-line method over the useful lives of the property, which vary from five (3) to twenty seven and a half (27.5) years. Cost of routine repairs and maintenance are expensed while costs of significant improvements and betterments are capitalized.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. When required, the Organization maintains cash in separate accounts in accordance with grant agreements.

Advertising

Advertising costs, which totaled $2,774 for year ended June 30, 2006, are expensed as incurred.

In-Kind Contributions

The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks to assist the Organization with achievement of its mission. No amounts have been reflected in the financial statements for these non-specialized donated services.

NOTE 2 CONCENTRATION OF CREDIT RISK

The Organization maintains temporary cash investments, which, at times, may exceed Federal Deposit Insurance Corporation (FDIC) limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

The accounts receivable balance at June 30, 2006 includes amounts due from two funding sources each of whom account for more than 10% of the balance. These funding sources in the aggregate account for approximately 76% of the total accounts receivable balance at that date.

NOTE 3 UNCONDITIONAL PROMISES TO GIVE

During the fiscal year 2004, the Organization began a capital campaign. The total project costs is estimated at $9.5 million of which an estimated $3 million will be raised through the capital campaign and the remaining amount will be funded through tax exempt bonds and the Organization's cash reserves. All funds generated from this campaign will be used to assist the children of the Organization by constructing a new Adolescent Center. Promises to give have been restricted to this capital campaign.

NOTE 3 UNCONDITIONAL PROMISES TO GIVE (Cont'd.)

Unconditional promises to give at June 30, 2006, are summarized as follows:

Unconditional promises expected to be collected in:

Less than one year	$ 33,167
One to five years	112,097
	145,264
Less unamortized discount (4% rate)	(8,605)
	136,659
Less allowance for uncollectible pledges	(2,733)
Unconditional promises to give - net	$ 133,926

NOTE 4 INVESTMENTS

The market value and cost of investments were as follows at June 30, 2006:

	Cost	Market
Marketable equity securities	$ 392,087	$ 496,196

NOTE 5 PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2006 is as follows:

Land	$ 750,000
Buildings and improvements	9,289,127
Equipment and furnishings	418,126
Motor vehicles	214,038
Total	10,671,291
Less: accumulated depreciation	3,045,959
Property and equipment, net	$ 7,625,332

Depreciation expense for the year ended June 30, 2006 was $442,725.

NOTE 6 NOTE PAYABLE AND LINE OF CREDIT

During the year ended June 30, 2006 the Organization borrowed $2,200,000 from a bank under a short-term note due on February 24, 2007. The note which bears interest payable monthly at a rate of 6% per annum is collateralized by a certificate of deposit.

The Organization maintains a revolving bank line of credit with a maximum borrowing amount of $500,000 which bears interest at the Prime Rate as published in the Wall Street Journal (8.25% at June 30, 2006). The loan is secured by substantially all assets of the Organization. There was no outstanding balance due on the line of credit.

NOTE 7 LONG TERM DEBT

The Organization has a HEFA bond, with a variable interest rate (4.03% at June 30, 2006), payable in annual principal installments, with interest computed and paid monthly through March 2022. The note is guaranteed by an Irrevocable Letter of Credit dated June 5, 2002. The amount of the Letter of Credit is $1,555,624 with an initial term of five (5) years. This Irrevocable Letter of Credit is guaranteed by a Confirming Letter of Credit dated June 5, 2002, by a bank in the amount of $1,555,624, expiring June 5, 2007. The balance due on the HEFA bond as of June 30, 2006 was $1,290,974.

Maturities of long-term debt as of June 30, 2006 are as follows:

Year Ended June 30,	Amount
2007	$ 60,000
2008	60,000
2009	65,000
2010	65,000
2011	70,000
Thereafter	970,974
	$ 1,290,974

NOTE 8 RESTRICTIONS ON NET ASSETS

Unrestricted

Unrestricted net assets consist of program service fees, contributions and grants that are not restricted by service recipients, donors or grantors. The Board of Trustees has also earmarked a portion of the unrestricted net assets as board-designated to be invested in both the endowment and building funds to provide income for an unspecified time. For the year ended June 30, 2006 $340,251 was designated. The total unrestricted net assets at June 30, 2006 were $10,096,939.

Temporarily Restricted Net Assets

At June 30, 2006 the balance of temporarily restricted net assets totaling $791,719 consisted of contributions which have been restricted to fund construction of a new adolescent center and for renovations of the property purchased from the Roman Catholic Archbishop of Boston in February 2006.

Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment funds that are subject to restrictions for both principal and interest. The total of permanently restricted net assets at June 30, 2006 was $194,311.

NOTE 9 PENSION PLAN

The Organization has a defined contribution pension plan covering all employees with two or more years of service. For the years ended June 30, 2006, the Organization contributed to the plan at a rate of 5% of eligible wages. The Organization's contribution to the plan, including administrative costs, for the year ended June 30, 2006 was $453,510.

The Organization also has a defined contribution plan pursuant to Section 401(k) of the Internal Revenue Code. Eligible employees may contribute compensation subject to limitation established by the Internal Revenue Code.

NOTE 10 RELATED PARTY TRANSACTIONS

The Organization rented office space in Methuen, Massachusetts from the Roman Catholic Archbishop of Boston under a tenant at will arrangement through February 2006. Rent expense for the year ended June 30, 2006 was $15,333.

The Organization purchased the building at 100A Haverhill Street, Methuen, MA from the Roman Catholic Archbishop of Boston in February 2006 at a price which was below fair market value. The difference between the fair market value and the purchase price has been recorded in the financial statements as an in-kind donation in the amount of $3,471,500.

The Organization also purchases its workers' compensation, auto, property and liability insurance through the Roman Catholic Archdiocese of Boston. Insurance expense for these policies for the years ended June 30, 2006 was $110,251.

The Organization is operating under the auspices of Catholic Social Services, Inc. which provides management services to the Organization. Expenses related to those services for the year ended June 30, 2006 was $15,666.

The Organization incurred printing services from a company with which a member of its Board of Trustees is affiliated. The amount of these expenses for the year ended June 30, 2006 was $16,370.

NOTE 11 SURPLUS REVENUE RETENTION

In accordance with St. Ann's Home, Inc.'s contracts with the one of its principal funding sources, the Commonwealth of Massachusetts, the Organization is allowed to retain a portion of its excess support and revenue over expenses in a fiscal year (the "surplus"). The Organization may retain as its surplus up to 5% of total revenue from the Commonwealth during any fiscal year. In addition, the Organization may retain a cumulative amount of its surplus over a period of years not to exceed 20% of the prior year's total support and revenue from the Commonwealth.