
Angela Hospice Home Care, Inc.

(a not-for-profit corporation)

Financial Report

June 30, 2023

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Independent Auditor's Report

To the Board of Directors
Angela Hospice Home Care, Inc.

Opinion

We have audited the financial statements of Angela Hospice Home Care, Inc. (the "Organization"), which comprise the balance sheet as of June 30, 2023 and 2022 and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Board of Directors
Angela Hospice Home Care, Inc.

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audits procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Plante & Moran, PLLC

October 19, 2023

Balance Sheet

June 30, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,671,270	\$ 4,418,239
Investments (Note 5)	10,781,898	10,205,757
Patient accounts receivable - Net (Note 3)	1,901,219	1,830,534
Contributions and grants receivable	73,649	73,837
Inventory	30,363	32,156
Prepaid expenses	110,157	73,032
Total current assets	17,568,556	16,633,555
Assets Limited as to Use (Note 5)	3,323,717	2,743,453
Property and Equipment - Net (Note 4)	14,112,665	14,462,373
Other Assets	24,751	7,836
Total assets	\$ 35,029,689	\$ 33,847,217
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 1,138,652	\$ 1,050,082
Current portion of note payable - Related party (Note 7)	250,844	243,439
Accrued liabilities - Accrued compensation and related liabilities	737,014	690,228
Total current liabilities	2,126,510	1,983,749
Note Payable - Related party (Note 7)	258,441	509,285
Other Long-term Liabilities	15,945	-
Total liabilities	2,400,896	2,493,034
Net Assets		
Without donor restrictions	29,283,776	28,588,353
With donor restrictions (Notes 8 and 9)	3,345,017	2,765,830
Total net assets	32,628,793	31,354,183
Total liabilities and net assets	\$ 35,029,689	\$ 33,847,217

Statement of Operations

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenue		
Net service revenue (Note 3)	\$ 21,966,803	\$ 21,826,089
Fundraising revenue	268,893	284,466
Memorials	1,734,477	1,130,309
Grants	56,923	104,547
Contributions - COVID funding (Note 12)	-	567,020
Other revenue	142,449	243,500
Investment income	353,642	134,853
Net assets released from restrictions used in operations	<u>31,957</u>	<u>337,355</u>
Total operating revenue	24,555,144	24,628,139
Expenses		
Salaries and wages	11,814,711	12,122,403
Employee benefits and payroll taxes	3,822,977	3,677,303
Direct patient care	5,798,459	5,390,819
Plant operations and equipment rental	905,479	832,055
General and administrative expense	990,538	1,100,793
Depreciation	678,562	668,705
Interest	19,253	26,438
Bad debt expense	72,000	195,000
Fundraising expense	<u>69,103</u>	<u>56,551</u>
Total expenses	<u>24,171,082</u>	<u>24,070,067</u>
Operating Income	384,062	558,072
Other Income (Expense) - Realized and unrealized gain (loss) on sale of investments	<u>311,361</u>	<u>(1,072,170)</u>
Increase (Decrease) in Net Assets without Donor Restrictions	<u><u>\$ 695,423</u></u>	<u><u>\$ (514,098)</u></u>

Statement of Changes in Net Assets

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Increase (Decrease) in Net Assets without Donor Restrictions	\$ 695,423	\$ (514,098)
Net Assets with Donor Restrictions		
Restricted contributions	30,880	18,500
Restricted investment income	150,023	55,728
Net realized and unrealized gains (losses) on investments	430,241	(799,762)
Net assets released from restrictions	<u>(31,957)</u>	<u>(337,355)</u>
Increase (decrease) in net assets with donor restrictions	<u>579,187</u>	<u>(1,062,889)</u>
Increase (Decrease) in Net Assets	1,274,610	(1,576,987)
Net Assets - Beginning of year	<u>31,354,183</u>	<u>32,931,170</u>
Net Assets - End of year	<u><u>\$ 32,628,793</u></u>	<u><u>\$ 31,354,183</u></u>

Statement of Cash Flows

Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 1,274,610	\$ (1,576,987)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents from operating activities:		
Depreciation expense	678,562	668,705
Net realized and unrealized (gains) losses on investments	(741,602)	1,871,932
Bad debt expense	72,000	195,000
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Patient accounts receivable	(142,685)	368,440
Contributions and grants receivable	188	46,015
Prepaid expenses and other assets	(54,040)	144,373
Accounts payable	88,570	171,741
Accrued compensation and related liabilities	46,786	(20,676)
Inventory	1,793	4,529
Other liabilities	15,945	-
	1,240,127	1,873,072
Cash Flows from Investing Activities		
Purchase of property and equipment	(328,854)	(287,840)
Purchases of investments	(424,944)	(3,332,672)
Proceeds from sale of investments	10,141	10,000
	(743,657)	(3,610,512)
Cash Flows Used in Financing Activities - Principal payment on long-term debt - Related party	(243,439)	(236,254)
Net Increase (Decrease) in Cash and Cash Equivalents	253,031	(1,973,694)
Cash and Cash Equivalents - Beginning of year	4,418,239	6,391,933
Cash and Cash Equivalents - End of year	\$ 4,671,270	\$ 4,418,239
Supplemental Cash Flow Information - Cash paid for interest	\$ 19,253	\$ 26,438

June 30, 2023 and 2022

Note 1 - Nature of Business

Angela Hospice Home Care, Inc. (the "Organization"), a not-for-profit corporation, provides inpatient and home hospice services primarily to patients in southeastern Michigan. The Organization is sponsored by the Congregation of the Sisters of St. Felix of Cantalice (the "Felician Sisters"). The sole corporate member is Felician Services, Inc.

Angela Hospice Home Care, Inc. is dedicated to providing comprehensive, compassionate, and Christ-like care to adults and children in the communities it serves.

Note 2 - Significant Accounting Policies

Cash and Cash Equivalents

Cash balances held in the bank exceed the federal depository insurance limit. The Organization's cash is insured only up to the federal depository insurance limit of \$250,000.

Certain amounts classified within investments on the balance sheet are invested in cash equivalents. The Organization considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Patient Accounts Receivable

Accounts receivable due from patients, insurance companies, and governmental agencies are based on net charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Organization's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period in which they are determined to be uncollectible.

Contributions and Grants Receivable

The Organization's contributions and grants receivable balance is composed of promises to give and grants, all of which are expected to be received within one year. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The Organization has not recorded a provision for doubtful accounts since it is the opinion of management that those receivables are collectible in full.

Investments

Investments are recorded at fair market value. See Note 5 for additional information. Investment income, including realized and unrealized gains and losses, is included in the change in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Assets Limited as to Use

Assets limited as to use represent balances relating to restricted endowment funds. See Note 5 for additional information.

Inventory

Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at the lower of cost or net realizable value.

Property and Equipment

Property and equipment are recorded at cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

June 30, 2023 and 2022

Note 2 - Significant Accounting Policies (Continued)

Classification of Net Assets

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

Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions

Net assets with donor restrictions - Net assets subject to donor- or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources must be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue 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.

Retirement Plan

The Organization maintains a defined contribution plan covering all employees age 21 or over with at least one year of service. The Organization matched 10 percent of the employee deferrals for each of the years ended June 30, 2023 and 2022. The Organization contributed \$66,387 and \$66,791 during 2023 and 2022, respectively.

Net Service Revenue

Net service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for services provided. These amounts are due from patients or third-party payors and include variable consideration for retroactive revenue adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided by the Organization.

The majority of the Organization's services represent a bundle of services that are not capable of being distinct and, as such, are treated as a single performance obligation satisfied over time as services are rendered. The Organization has concluded that each day that a patient receives services represents a separate contract and performance obligation based on the fact that patients have unilateral rights to terminate the contract after each day with no penalty or compensation due.

The Organization determines the transaction price based on contractually agreed-upon amounts or rates and implicit price concessions.

A summary of the payment arrangements with major third-party payors follows:

- Medicare - Services rendered to Medicare program beneficiaries are paid at prospectively determined rates.
- Medicaid - Services rendered to Medicaid program beneficiaries are paid at per diem rates on either a prospective or retrospective basis, as determined by the State of Michigan.
- Insurance - Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined daily rates.

Note 2 - Significant Accounting Policies (Continued)

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid, Medicare, and insurance companies. Adjustments that result from this final review and approval are insignificant and are recognized in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation. Noncompliance with such laws and regulations may result in significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

Variable consideration also exists in the form of settlements with third-party payors as a result of retroactive adjustments due to audits, reviews, or investigations. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Organization's historical settlement activity. The Organization has not applied a constraint to the transaction price for settlement estimates, as the Organization has determined that it is not probable that a significant reversal in the amount of the cumulative revenue recognized would occur in the future.

If actual amounts of consideration ultimately received differ from the Organization's estimates, the Organization adjusts these estimates, which would affect revenue in the period such variance becomes known. Adjustments arising from a change in the transaction price were not significant in 2022 or 2021.

The Organization makes an initial and ongoing evaluation of a patient's creditworthiness or obtains third-party verification of payment coverage and, as such, considers the credit risks it assumes and any billed amounts not expected to be collected from patients or third parties for services rendered to represent bad debt expense.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Organization has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

The Organization has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Organization's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less.

Fundraising Revenue, Memorials, Grants, and Contributions

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promises are received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either without donor restrictions or with donor restrictions support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires - that is, when a stipulated time restriction ends or purpose restriction is accomplished - net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the year in which they are recognized are reported as contributions without donor restrictions in the accompanying financial statements.

Note 2 - Significant Accounting Policies (Continued)

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports the expiration of donor restrictions when the assets are placed in service.

Grant revenue received for grants is considered a nonexchange transaction and is recognized as the conditions of the grants have been met. Grant funding received in advance of conditions being met is recorded as deferred revenue.

Increase (Decrease) in Net Assets without Donor Restrictions

The statement of operations includes increase (decrease) in net assets without donor restrictions, which is considered the performance indicator. Changes in net assets without donor restrictions, which are excluded from increase (decrease) in net assets without donor restrictions, consistent with industry practice, include net assets released from restrictions for capital purposes.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in Note 10. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Costs have been allocated between the various program and support services based on estimates determined by management. Costs have been allocated between program and support services on a direct basis except for occupancy and IT-related expenses. Occupancy-related expenses, which include primarily depreciation expense, are allocated based on an estimate of square footage occupied by each function. IT-related expenses, which include primarily IT-related salaries and wages and employee benefits, are allocated based on the number of computers used by each function. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Charity Care

The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation that applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The Organization estimates that it provided approximately \$295,000 and \$408,000 of services to patients and members of the community during 2023 and 2022, respectively.

Income Taxes

The Internal Revenue Service has ruled that the Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and, accordingly, no tax provision is reflected in the financial statements.

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets, including the Organization's accounts receivable, by requiring the Organization to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. Credit losses are recognized through the recording of an allowance rather than as a write-down of the carrying value. The new guidance will be effective for the Organization's year ending June 30, 2024. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The Organization is currently evaluating the impact this standard will have on the financial statements.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 19, 2023, which is the date the financial statements were available to be issued.

Note 3 - Patient Accounts Receivable and Net Service Revenue

The details of patient accounts receivable are set forth below:

	2023	2022
Patient accounts receivable	\$ 2,097,023	\$ 2,001,994
Less allowance for uncollectible accounts	195,804	171,460
Net patient accounts receivable	\$ 1,901,219	\$ 1,830,534

Net patient accounts receivable at July 1, 2021 totaled \$2,393,974.

The Organization grants credit without collateral to patients, most of whom are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	2023	2022
Medicare	64 %	68 %
Medicaid	8	5
Insurance and other	25	24
Private pay	3	3
Total	100 %	100 %

Notes to Financial Statements

June 30, 2023 and 2022

Note 3 - Patient Accounts Receivable and Net Service Revenue (Continued)

The Organization disaggregates revenue from contracts with customers by payor types. The Organization has determined that the disaggregation into these categories achieves the disclosure objective to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

The composition of net service revenue by primary payor for the years ended June 30 is as follows:

	2023	2022
Medicare	\$ 16,009,150	\$ 16,137,344
Medicaid	1,510,126	1,410,318
Insurance and other	3,405,037	3,133,025
Private pay	1,042,490	1,145,402
Total	<u>\$ 21,966,803</u>	<u>\$ 21,826,089</u>

Note 4 - Property and Equipment

Property and equipment are summarized as follows:

	2023	2022	Depreciable Life - Years
Land	\$ 2,944,500	\$ 2,944,500	
Buildings	17,449,889	17,449,889	15-40
Building improvements	1,956,934	1,780,613	5-40
Furniture and fixtures	1,752,724	1,721,052	3-15
Computer equipment and software	947,346	826,485	3-7
Total cost	25,051,393	24,722,539	
Accumulated depreciation	<u>10,938,728</u>	<u>10,260,166</u>	
Net property and equipment	<u>\$ 14,112,665</u>	<u>\$ 14,462,373</u>	

Note 5 - Investments and Assets Limited as to Use

Investments and assets limited as to use consist of the following at June 30, 2023:

	Investments	Assets Limited as to Use
Cash and cash equivalents	\$ 739,403	\$ -
Mutual funds - Equity	5,296,174	2,417,090
Mutual funds - Fixed income	4,746,321	906,627
Total	<u>\$ 10,781,898</u>	<u>\$ 3,323,717</u>

Investments and assets limited as to use consist of the following at June 30, 2022:

	Investments	Assets Limited as to Use
Cash and cash equivalents	\$ 564,270	\$ -
Mutual funds - Equity	4,083,660	1,641,440
Mutual funds - Fixed income	5,557,827	1,102,013
Total	<u>\$ 10,205,757</u>	<u>\$ 2,743,453</u>

Note 5 - Investments and Assets Limited as to Use (Continued)

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

All investments and assets limited as to use held in mutual funds are classified as Level 1.

Note 6 - Bank Line of Credit

The Organization has executed a master revolving note agreement with a financial institution, which provides for a line of credit with a maximum borrowing capacity of \$500,000. There were no outstanding balances on the line of credit at June 30, 2023 or 2022. Under the terms of the new master revolving note agreement, the line of credit accrues interest on outstanding balances at a variable rate of interest equal to the prime rate plus 0.5 percent (effectively 8.75 percent as of June 30, 2023). The line of credit expires on December 1, 2023. The master revolving note is collateralized by all personal property held by the Organization, including accounts receivable, inventory, investments, equipment, and fixtures.

Note 7 - Note Payable - Related Party

Long-term debt at June 30 is as follows:

	<u>2023</u>	<u>2022</u>
Note payable to Felician Sisters of North America Endowment Trust, a party related to the Organization's sponsor through common governance, for construction of the expanded facility. The note bears interest at a fixed rate of 3 percent, with monthly principal and interest totaling \$21,891 through the date of maturity in June 2025. The note is unsecured	\$ 509,285	\$ 752,724
Less current portion	<u>250,844</u>	<u>243,439</u>
Long-term portion	<u>\$ 258,441</u>	<u>\$ 509,285</u>

Notes to Financial Statements

June 30, 2023 and 2022

Note 7 - Note Payable - Related Party (Continued)

Minimum principal payments at June 30 are as follows:

Years Ending	Amount
2024	\$ 250,844
2025	258,441
Total	<u>\$ 509,285</u>

Note 8 - Net Assets

Net assets with donor restrictions as of June 30 consisted of the following:

	2023	2022
Subject to expenditures for a specified purpose - M. George Education donation	\$ 21,300	\$ 22,377
Restricted in perpetuity:		
Endowment fund - Program	1,481,959	1,481,959
Endowment - Telehospice	<u>2,000,000</u>	<u>2,000,000</u>
Total restricted in perpetuity	3,481,959	3,481,959
Subject to the Organization's spending policy and appropriation - Accumulated losses - Endowment	<u>(158,242)</u>	<u>(738,506)</u>
Total	<u>\$ 3,345,017</u>	<u>\$ 2,765,830</u>

Note 9 - Donor-restricted and Board-designated Endowments

The Organization's endowment includes donor-restricted endowment funds. 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 Organization is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of the Organization had interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Organization and the donor-restricted endowment fund
- General economic conditions

Notes to Financial Statements

June 30, 2023 and 2022

Note 9 - Donor-restricted and Board-designated Endowments (Continued)

- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Endowment Net Asset Composition by Type of Fund as of June 30, 2023			
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ -	\$ 3,481,959	\$ 3,481,959
Accumulated investment losses	-	(158,242)	(158,242)
Total	\$ -	\$ 3,323,717	\$ 3,323,717
Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2023			
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ -	\$ 2,743,453	\$ 2,743,453
Investment return:			
Investment income	-	150,023	150,023
Net appreciation (realized and unrealized)	-	430,241	430,241
Total investment return	-	580,264	580,264
Endowment net assets - End of year	\$ -	\$ 3,323,717	\$ 3,323,717
Endowment Net Asset Composition by Type of Fund as of June 30, 2022			
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ -	\$ 3,481,959	\$ 3,481,959
Accumulated investment losses	-	(738,506)	(738,506)
Total	\$ -	\$ 2,743,453	\$ 2,743,453

Notes to Financial Statements

June 30, 2023 and 2022

Note 9 - Donor-restricted and Board-designated Endowments (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ -	\$ 3,801,383	\$ 3,801,383
Investment return:			
Investment income	-	55,728	55,728
Net depreciation (realized and unrealized)	-	(799,762)	(799,762)
Total investment return	-	(744,034)	(744,034)
Appropriation of endowment assets for expenditure	-	(313,896)	(313,896)
Endowment net assets - End of year	\$ -	\$ 2,743,453	\$ 2,743,453

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature exist in the Program and Telehospice Endowment Funds, which together have an original gift value of \$3,481,959. The fair value of these endowment funds totaled \$3,323,717 and \$2,743,453 as of June 30, 2023 and 2022, respectively. These deficiencies were a result of unfavorable financial market fluctuations.

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 supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to achieve a return of 5 percent, net of inflation and investment expenses. The secondary investment objective is to earn a total return, net of expenses, at least equal to the portfolio's composite benchmark, as defined in its investment policy statement. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return 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 that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating 3 to 5 percent for distribution each year. The amount of the spending rate will be determined annually at budget time. The board of directors must authorize the use of any additional draw from the portfolio above the established 3 to 5 percent spending rate. In establishing this policy, the Organization considered the long-term expected return on its endowment. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Notes to Financial Statements

June 30, 2023 and 2022

Note 10 - Functional Expenses

The Organization provides inpatient and home hospice services primarily to patients in southeastern Michigan. Expenses related to providing these services for the year ended June 30, 2023 are as follows:

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 9,225,228	\$ 2,291,454	\$ 298,029	\$ 11,814,711
Employee benefit and payroll taxes	2,853,233	863,261	106,483	3,822,977
Direct patient care	5,798,459	-	-	5,798,459
Depreciation	648,531	20,765	9,266	678,562
Equipment rental	54,238	21,652	-	75,890
Bad debt expense	72,000	-	-	72,000
Interest expense	19,253	-	-	19,253
Legal and accounting	-	146,694	-	146,694
Miscellaneous	26,067	501,856	77,292	605,215
Plant operations	747,691	31,172	50,726	829,589
Postage and printing	-	-	43,972	43,972
Supplies	134,020	59,786	48,777	242,583
Advertising	4,016	1,882	15,279	21,177
Total	\$ 19,582,736	\$ 3,938,522	\$ 649,824	\$ 24,171,082

Expenses related to providing these services for the year ended June 30, 2022 are as follows:

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 9,372,281	\$ 2,431,758	\$ 318,364	\$ 12,122,403
Employee benefit and payroll taxes	2,708,034	879,580	89,689	3,677,303
Direct patient care	5,390,819	-	-	5,390,819
Depreciation	639,300	20,332	9,073	668,705
Equipment rental	47,232	22,325	-	69,557
Bad debt expense	195,000	-	-	195,000
Interest expense	26,438	-	-	26,438
Legal and accounting	-	161,724	-	161,724
Miscellaneous	42,082	566,025	64,025	672,132
Plant operations	683,890	28,884	49,724	762,498
Postage and printing	-	-	66,689	66,689
Supplies	133,022	65,012	38,668	236,702
Advertising	17,397	2,700	-	20,097
Total	\$ 19,255,495	\$ 4,178,340	\$ 636,232	\$ 24,070,067

Note 11 - Liquidity and Availability of Resources

The Organization has \$17,428,036 and \$16,528,367 of financial assets available within one year of June 30, 2023 and 2022 to meet cash needs for general expenditure consisting of cash of \$4,671,270 and \$4,418,239, short-term investments of \$10,781,898 and \$10,205,757, patient accounts receivable of \$1,901,219 and \$1,830,534, and contributions and grants receivable of \$73,649 and \$73,837, respectively. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The patient accounts receivable and contributions receivable are subject to implied time restrictions but are expected to be collected within one year.

June 30, 2023 and 2022

Note 11 - Liquidity and Availability of Resources (Continued)

The Organization has a goal to maintain financial assets on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$3,850,000 and \$3,775,000 for the years ended June 30, 2023 and 2022, respectively. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Organization invests cash in excess of daily requirements in various liquid and short-term investments.

Note 12 - COVID Funding

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020 and authorizes \$100 billion to be administered through grants and other mechanisms to hospitals, public entities, not-for-profit entities, and Medicare- and Medicaid-enrolled suppliers and institutional providers. The purpose of these funds is to reimburse providers for lost revenue attributable to the coronavirus disease pandemic, such as forgone revenue from canceled procedures, and to provide support for related health care expenses, such as constructing temporary structures or emergency operation centers; retrofitting facilities; purchasing medical supplies and equipment, including personal protective equipment and testing supplies; and increasing workforce. These CARES Act funds were distributed to qualifying health care entities through various general and targeted distributions between 2020 and 2022. There was also an additional \$8.5 billion in funds appropriated under the American Rescue Plan (ARP) Act of 2021, which began being distributed in December 2021 to eligible health care providers.

Provider Relief Fund and ARP Rural Payments

During the years ended June 30, 2023 and 2022, the Organization received payments of \$0 and \$567,020, respectively, as part of general and targeted distributions of the CARES Act Provider Relief Fund and American Rescue Plan Rural Payments. These payments are not subject to repayment, provided the Organization is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for health care-related expenses or lost revenue attributed to COVID-19. Based on an analysis of compliance and reporting requirements of the Provider Relief Fund and American Rescue Plan programs and the impact of the pandemic on the Organization's operating results through June 30, 2023, the Organization believes there is reasonable assurance the applicable terms and conditions required to retain the funds are met as of June 30, 2023 and 2022. Therefore, the Organization has recognized \$0 and \$567,020 as contributions - COVID funding on the statement of operations for the years ended June 30, 2023 and 2022, respectively.

HHS' requirements for the uses of these CARES Act program payments are subject to change and are open to interpretation and clarification; therefore, there may be changes in the amounts recognized as contributions - COVID funding during the years ended June 30, 2023 and 2022. If the Organization is unable to attest to or comply with future terms and conditions, the ability to retain some or all of the distributions received may be impacted. Any changes in amounts recognized as a result of new guidance, interpretation, or clarification will be recognized in the period in which the change occurred.