

**HOLY ANGELS, INC.
(PARENT ORGANIZATION ONLY)**

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2022 and 2021

And Report of Independent Auditor

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)
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Report of Independent Auditor

To the Board of Directors
Holy Angels, Inc.
Belmont, North Carolina

Opinion

We have audited the accompanying financial statements of Holy Angels, Inc. (the "Organization") which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Holy Angels, Inc. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other 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.

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.

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 available to be issued.

Auditor's Responsibility

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 an audit conducted in accordance with generally accepted auditing standards 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, including omissions, 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.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- 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 audit 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 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 audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the statements of financial position of Holy Angels, Inc. and Subsidiaries as of June 30, 2022 and 2021, and the related statements of activities and cash flows for the years then ended (none of which are presented herein), and we expressed an unmodified opinion on those financial statements. Such financial statements are the general purpose financial statements of Holy Angels, Inc. and Subsidiaries and the financial statements of the parent company presented herein are not a valid substitute for those financial statements.

Cherry Bekaert LLP

Charlotte, North Carolina
November 11, 2022

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 7,948,629	\$ 4,044,990
Resident and other receivables, net	1,032,445	329,627
Related party lease receivable	1,882,293	-
Government grant receivables	-	233,130
Supplies inventory	115,046	180,727
Resident trust asset	46,363	75,144
Prepaid expenses and other current assets	111,033	109,620
Total Current Assets	11,135,809	4,973,238
Property and equipment, net	1,792,053	1,859,201
Total Assets	\$ 12,927,862	\$ 6,832,439
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 357,807	\$ 279,095
Accrued expenses and other liabilities	527,948	697,155
Resident trust liability	44,673	75,754
Deferred grant revenue	4,982,400	-
Deferred revenue other	44,884	-
Total Current Liabilities	5,957,712	1,052,004
Net Assets:		
Without Donor Restrictions	5,087,857	5,780,435
With Donor Restrictions:		
Subject to passage of time	1,882,293	-
Total Net Assets	6,970,150	5,780,435
Total Liabilities and Net Assets	\$ 12,927,862	\$ 6,832,439

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

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)
STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Revenue, Gains, and Other Support Without Donor Restrictions:		
Net patient service revenue	\$ 6,419,544	\$ 6,221,869
Retail food and gift sales	666,990	414,715
Government grants	364,234	3,272,867
Catering and dietary revenue from related parties	223,618	135,057
Related party contributions	-	51,966
Other revenue	142,075	206,893
Net assets released from restrictions	47,571	-
Total Revenue, Gains, and Support Without Donor Restrictions	<u>7,864,032</u>	<u>10,303,367</u>
Expenses:		
Salaries and wages	5,718,373	5,297,927
Fringe benefits	1,005,821	960,202
Supplies	861,967	641,101
Occupancy	334,323	320,392
Repairs and maintenance	300,130	195,421
Depreciation	358,774	342,138
Contractual services	690,019	832,601
Other expenses	395,464	379,222
Corporate administrative expense reimbursement	(1,517,893)	(1,514,706)
Total Expenses	<u>8,146,978</u>	<u>7,454,298</u>
Change in net assets without donor restrictions prior to transfers	(282,946)	2,849,069
Net transfers of net assets without donor restrictions from affiliates	<u>(409,632)</u>	<u>2,020,907</u>
Change in net assets without donor restrictions	<u>(692,578)</u>	<u>4,869,976</u>
Revenue, Gains, and Other Support With Donor Restrictions:		
Related party contributions	1,929,864	-
Net assets released from restriction	<u>(47,571)</u>	<u>-</u>
Change in net assets with donor restrictions	<u>1,882,293</u>	<u>-</u>
Total Change in Net Assets	<u>1,189,715</u>	<u>4,869,976</u>
Net assets, beginning of year	<u>5,780,435</u>	<u>910,459</u>
Net assets, end of year	<u>\$ 6,970,150</u>	<u>\$ 5,780,435</u>

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

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	Program Services				Total Program Services	Management and General	Total
	Residential Center	Outreach Services	Educational	Other Programs			
Salaries and wages	\$ 2,168,673	\$ 1,463,548	\$ 202,949	\$ 153,126	\$ 3,988,296	\$ 1,730,077	\$ 5,718,373
Fringe benefits	347,268	274,032	36,241	23,506	681,047	324,774	1,005,821
Supplies	382,659	351,644	1,188	75,473	810,964	51,003	861,967
Occupancy	150,392	160,251	-	3,407	314,050	20,273	334,323
Repairs and maintenance	30,204	118,408	-	1,935	150,547	149,583	300,130
Depreciation	168,783	122,066	-	8,395	299,244	59,530	358,774
Contractual services	216,786	100,504	31,267	5,544	354,101	335,918	690,019
Other expenses	100,611	138,359	3,441	11,028	253,439	142,025	395,464
Corporate administration expense reimbursement	(677,668)	(501,321)	(52,588)	(286,316)	(1,517,893)	-	(1,517,893)
	<u>\$ 2,887,708</u>	<u>\$ 2,227,491</u>	<u>\$ 222,498</u>	<u>\$ (3,902)</u>	<u>\$ 5,333,795</u>	<u>\$ 2,813,183</u>	<u>\$ 8,146,978</u>

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

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

	Program Services				Total Program Services	Management and General	Total
	Residential Center	Outreach Services	Educational	Other Programs			
Salaries and wages	\$ 2,183,062	\$ 938,910	\$ 175,190	\$ 389,300	\$ 3,686,462	\$ 1,611,465	\$ 5,297,927
Fringe benefits	357,490	167,434	29,212	59,776	613,912	346,290	960,202
Supplies	308,539	262,361	4,317	31,287	606,504	34,597	641,101
Occupancy	132,326	162,825	-	4,104	299,255	21,137	320,392
Repairs and maintenance	18,138	91,657	-	1,396	111,191	84,230	195,421
Depreciation	160,262	105,643	-	14,067	279,972	62,166	342,138
Contractual services	182,597	90,426	32,065	4,469	309,557	523,044	832,601
Other expenses	141,875	92,534	3,636	22,230	260,275	118,947	379,222
Corporate administration expense reimbursement	(751,371)	(407,055)	(52,862)	(303,418)	(1,514,706)	-	(1,514,706)
	<u>\$ 2,732,918</u>	<u>\$ 1,504,735</u>	<u>\$ 191,558</u>	<u>\$ 223,211</u>	<u>\$ 4,652,422</u>	<u>\$ 2,801,876</u>	<u>\$ 7,454,298</u>

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

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets without donor restrictions	\$ 1,189,715	\$ 4,869,976
Adjustments to reconcile change in net assets without donor restrictions to net cash flows from operating activities:		
Depreciation	358,774	342,138
Change in operating assets and liabilities:		
Resident and other receivables	(469,688)	(390,289)
Related party receivable	(1,882,293)	-
Supplies inventory	65,681	(46,356)
Resident trust asset	28,781	(44,663)
Prepaid expenses and other current assets	(1,413)	122,204
Accounts payable	78,712	(152)
Accrued expenses	(169,207)	(19,404)
Resident trust liability	(31,081)	42,248
Deferred grant revenue	4,982,400	-
Deferred revenue other	44,884	-
Deferred revenue from Small Business Administration Paycheck Protection Program	-	(1,699,000)
Net cash flows from operating activities	<u>4,195,265</u>	<u>3,176,702</u>
Cash flows from investing activities:		
Purchases of property and equipment	(291,626)	(363,431)
Net cash flows from investing activities	<u>(291,626)</u>	<u>(363,431)</u>
Net change in cash and cash equivalents	3,903,639	2,813,271
Cash and cash equivalents, beginning of year	<u>4,044,990</u>	<u>1,231,719</u>
Cash and cash equivalents, end of year	<u>\$ 7,948,629</u>	<u>\$ 4,044,990</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ -</u>	<u>\$ 13,875</u>

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

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 1—Organization and summary of significant accounting policies

Organization – Holy Angels, Inc. (the “Organization”) was incorporated on February 26, 1968 as a North Carolina nonprofit corporation. The Organization offers comprehensive care to individuals, primarily children with developmental disabilities. The primary service area of the Organization is located in and surrounding the counties of Gaston and Mecklenburg, North Carolina.

During the year ended June 30, 2021, the Organization formed Holy Angels Enterprises, LLC and HA-Hope Properties, LLC. Holy Angels Enterprises, LLC was formed to hold the retail food and gift sales of Spruced Goose Station, Cherubs Café, Cherubs Market, and the Bliss Gallery. HA-Hope Properties, LLC was formed to hold land donated to the Organization. Because these entities are wholly owned by the Organization, all financial activity is included in the financial statements of the Organization, and any intercompany balances or transactions are eliminated.

In addition, the Organization has two subsidiaries, Holy Angels Services, Inc. (“Services”) and Holy Angels Foundation, Inc. (the “Foundation”). The financial information for these subsidiaries is not included in these financial statements.

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Net assets and revenues, expenses, 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 – Net assets that are not subject to donor-imposed restrictions and are currently available for use in the day-to-day operations of the Organization and those resources invested in property and equipment. From time to time, the Board of Directors may designate certain amounts to be utilized or invested to meet specific objectives of the Organization.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets with donor restrictions based on explicit donor stipulation or by law, or if no such restrictions exists, as net assets without donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as released from net assets with donor restrictions to net assets without donor restrictions.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make certain 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.

Cash and Cash Equivalents – The Organization considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 1—Organization and summary of significant accounting policies (continued)

The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. At June 30, 2022, the Organization had \$2,573,811 on deposit in excess of the insured limits.

Resident and Other Receivables, Net – Resident and other receivables are stated net of an allowance for doubtful accounts. Management's determination of the allowance for doubtful accounts is based on an evaluation of the receivable, past experience, current economic conditions, and other risks inherent in the receivables portfolio. Management established an allowance for doubtful accounts as of June 30, 2022 and 2021 for resident receivables of \$5,827.

Consistent with its mission to provide accessible care to physically and/or mentally challenged individuals residing within the surrounding counties of Gaston and Mecklenburg, North Carolina, credit is granted to qualifying individuals, some of which are covered under third party reimbursement agreements. As a result, the Organization's ability to collect these receivables is directly affected by economic conditions in this area and the areas to which the third party agreements are originated. As of June 30, 2022 and 2021, a majority of resident receivables were due from Partners Behavioral Health Management and other managed care organizations.

Supplies Inventory – Supplies inventory consist primarily of food and supplies and is stated at the lower of cost or net realizable value.

Property and Equipment, Net – Property and equipment are stated at cost net of accumulated depreciation. Donated property and equipment is stated at fair value on the date of donation. Depreciation on property and equipment is computed on the straight-line method over the useful lives of 10 to 50 years for buildings and improvements and 3 to 7 years for furniture, fixtures, and equipment. The costs of major improvements are capitalized while the costs of maintenance and repairs, which do not improve or extend the useful life of the respective asset, are expensed currently. The cost and accumulated depreciation of property and equipment are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the change in net assets of the Organization. Long-lived assets held and used by the Organization are reviewed for impairment whenever changes in circumstances indicate that the carrying value of an asset may not be recoverable.

Revenue, Gains, and Other Support – Net patient service revenue is recorded when patient services are performed at the estimated net realizable amounts from patients, third party payors, and others for services rendered. Differences between established billing rates and actual reimbursements are recorded as contractual adjustments to reduce patient service revenue. Final determinations of amounts due are subject to review by funding agencies. Changes resulting from final determinations are reflected as a change in estimate in the year of determination.

An additional portion of the Organization's revenues, gains, and other support is obtained through grants administered by various state and local agencies. The majority of these grants are considered purchased services grants, whereby the Organization provides goods or services to specifically identified recipients on behalf of the grantor. Grant revenue is recognized either on a pro rata basis over the terms of the grant or to the extent of expenses incurred. The method of revenue recognition is determined based on the terms of the grant.

Income Taxes – The Organization is exempt from federal income tax and applicable state statutes under the provisions of Section 501(c)(3) of the Internal Revenue Code. U.S. GAAP requires the Organization to evaluate tax positions taken and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Organization has analyzed the tax positions and has concluded that as of June 30, 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to audit by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 1—Organization and summary of significant accounting policies (continued)

Functional Allocation of Expenses – The Organization allocates certain expenses, principally salaries and wages and related benefits, supplies, and facility costs, to program and management and general based on management's estimates of the respective service's personnel requirements, supplies and materials usage, and space and equipment utilization. Such allocations are determined by management on an equitable basis using primarily the time spent and resources used by personnel that perform the services. Direct identifiable costs are charged to programs and support services.

Government Grants – During the year ended June 30, 2021, the Organization received federal grants in connection with relief efforts related to the novel strain of coronavirus ("COVID-19") pandemic. The Organization was deemed eligible for \$1,278,229 from the Employee Retention Credit ("ERC"). The Organization also recorded the receipt of the Paycheck Protection Program ("PPP") loan deferred for the year ended June 30, 2020 as revenue for the year ended June 30, 2021. Each of these are included in government grants on the accompanying statement of activities. The ERC of \$233,130 is also reflected within the government grants receivable on the statement of financial position as of June 30, 2021.

During the year ended June 30, 2022, the Organization was awarded a State Capital and Infrastructure Funds ("SCIF") grant for the construction of three new group homes with Intermediate Care Facility for Individual with Intellectual Disabilities ("ICF/IID") beds operating the new homes. The grant is considered a conditional contribution under Accounting Standards Codification ("ASC") 958-605, *Not-for-Profit Entities-Revenue Recognition* as the agreement specifies conditions that represent barriers that must be overcome. Accordingly, grant revenue will be recognized when the grant is used to pay for costs associated with the construction of the group homes. During the year ended June 30, 2022, the Organization received \$5,000,000 and deferred the recognition of \$4,982,400 because the conditions for overcoming the barriers for those funds have not been met.

Recently Issued Accounting Pronouncements Adopted – In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires presentation of contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. It also requires a disclosure of disaggregated contributions of nonfinancial assets by category that depicts the type of contributed nonfinancial assets. This distinction will increase transparency of contributions recognized. This standard will be effective for fiscal years beginning after June 15, 2021. There was no material impact on the Organization's financial statements upon adoption of the new standard.

Recently Issued Accounting Pronouncements Not Yet Adopted – In February 2016, FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statements of activities. This standard will be effective for the Organization's year ending June 30, 2023. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 2—Liquidity and availability of resources

The table below represents financial assets available for general expenditures within one year at June 30:

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	\$ 7,948,629	\$ 4,044,990
Resident and other receivables, net	1,032,445	329,627
Total financial assets	<u>8,981,074</u>	<u>4,374,617</u>
Less amounts not available to be used for general expenditures within one year:		
Deferred grant revenue	4,982,400	-
Financial assets not available to be used within one year	<u>4,982,400</u>	<u>-</u>
Financial assets available to meet general expenditures within one year	<u>\$ 3,998,674</u>	<u>\$ 4,374,617</u>

The Organization considers general expenditures to include program expenses, supporting services, and any other commitments or liabilities to be paid in the subsequent year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Cash in excess of daily requirements is transferred to the Foundation, an affiliate of the Organization, and invested in short-term investments and money market funds.

Note 3—Property and equipment, net

Net property and equipment as of June 30, 2022 and 2021 are as follows:

	2022	2021
Property and equipment used in operations:		
Land and land improvements	\$ 413,842	\$ 413,842
Buildings and building improvements	4,693,255	4,469,747
Furniture and equipment	5,032,275	4,879,104
Construction in progress	17,600	102,651
Total	10,156,972	9,865,344
Less accumulated depreciation	<u>(8,364,919)</u>	<u>(8,006,143)</u>
Property and equipment, net	<u>\$ 1,792,053</u>	<u>\$ 1,859,201</u>

Depreciation expense amounted to \$358,774 and \$342,138 for the years ended June 30, 2022 and 2021, respectively.

Note 4—Line of credit

The Organization has a \$2,500,000 line of credit agreement with a financial institution. The line of credit accrues interest at a rate of one-month LIBOR (or any subsequent benchmark) plus 1.5% (2.5% and 1.60% as of June 30, 2022 and 2021, respectively) and matures on March 14, 2023. As of June 30, 2022 and 2021, there were no draws on the line of credit.

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 5—Small Business Administration Paycheck Protection Program

The Organization received a PPP loan in the amount of \$1,699,000 during the year ended June 30, 2020. The PPP loan is granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). PPP loans are considered conditional contributions under ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. The loan must be repaid if the Organization did not overcome certain barriers within the CARES Act. The barriers under the program include the requirement to maintain employee headcount, spend up to 60% of the loan proceeds on certain payroll and employee benefits, and restricts other loan proceeds to be used for other qualifying expenses such as mortgage interest, rent, and utilities. For the year ended June 30, 2021, the Organization determined that it had met all barriers for full loan forgiveness and recorded the revenue of \$1,699,000 included in government grant revenue on the statement of activities.

Note 6—Related party transactions

During the year ended June 30, 2022, the Organization entered into various transactions with its subsidiaries, Services and the Foundation. Net transfers of net assets from the Foundation were \$409,632 and \$2,020,907 for the years ended June 30, 2022 and 2021, respectively. During the years ended June 30, 2022 and 2021, the Organization charged Services and the Foundation for corporate administrative expenses in the aggregate of \$1,517,866 and \$1,514,706, respectively. The Board of Directors of Holy Angels, Inc., as of June 30, 2022, approved a transfer of net assets, whereby all receivables from affiliated organizations would be eliminated at year-end.

From time to time, the Organization provides dietary and catering to Services in conjunction with their shared mission. During the years ended June 30, 2022 and 2021, the Organization recognized revenue of \$192,739 and \$135,057, respectively, which is included in the statements of activities as catering and dietary revenue from related parties.

The Sisters of Mercy of the Americas, South Central Community (the "South Central Community") provides staffing and personnel services to the Organization. Expenses recognized for services provided by representatives of the South Central Community totaled \$35,801 and \$62,424 for the years ended June 30, 2022 and 2021, respectively, and are recorded in salaries and wages and fringe benefits.

During the year ended June 30, 2022, the South Central Community promised to extend the use of ground lease to the Organization for a fixed term of fifteen years with the option of three successive extensions of five years each. The lease agreement calls for no payments in exchange for the use of the grounds. The contribution is considered an unconditional contribution under ASC 958-605, *Not-for-Profit Entities-Revenue Recognition* as there is no right of return or right of release of the promised use of the land and there are no barriers within the lease agreement that would need to be overcome for the continued use of the land throughout the lease term. Accordingly, the Organization reported a contribution revenue and a lease receivable for the future use of the property over the term of the lease including the three successive extensions. Each subsequent year, the Organization will recognize rent expense and a reduction to the contribution receivable and a release of net assets with donor restriction for the annual value of the use of the property.

Note 7—Contributed nonfinancial assets

As discussed in Note 6, during the year ended June 30, 2022, the Organization received a multiyear unconditional promise the use of ground lease. The fair market value of this ground lease totals \$1,929,864 based on the annual payments described in the lease agreement of \$47,571 which escalates by the percentage increase in the Consumer Price index on each anniversary of the effective date. In valuing the market value of the lease, the Organization estimated the fair value on the basis of the size of the property and recent comparable leases in the area.

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 8—Defined contribution pension plan

The Organization has a contributory retirement annuity plan covering substantially all of its employees. The Organization, at its discretion, contributes up to 5% of employees' gross salary. Employees can contribute within a limit based on age and salary. Contributions to the plan for the years ended June 30, 2022 and 2021 amounted to \$125,366 and \$109,340, respectively.

Note 9—Commitments and contingencies

In the ordinary course of business, the Organization may become a party to malpractice litigation. Currently, the Organization is not involved in any pending litigation; however, incidents occurring through June 30, 2022, including previous years, may result in the assertion of claims. Management believes these claims, if asserted, would be settled within the limits of insurance coverage. As of June 30, 2022, the Organization's professional liability insurance coverage per occurrence was \$1,000,000, with coverage in the aggregate limited to \$3,000,000. In addition, the Organization has an umbrella policy with coverage in the aggregate limited to \$5,000,000.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient's services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of fines and penalties, as well as repayments for patient services billed.

Note 10—Operating leases

The Organization has operating lease agreements with unrelated parties with payments ranging from \$823 to \$3,776 per month. As of June 30, 2022, the approximate future rental commitments are as follows:

Years Ending June 30,

2023	\$	82,732
2024		79,969
2025		43,381
2026		22,475
	\$	<u>228,557</u>

Total rent expense to unrelated parties for the years ended June 30, 2022 and 2021 amounted to \$79,619 and \$76,991, respectively.

During the year ended June 30, 2021, \$23,422 in lease payments were abated by a lessor due to the COVID-19 pandemic. These payments have been recognized as in-kind revenue and expense for the year ended June 30, 2021 and is included in other revenue and occupancy expenses, respectively, in the statements of activities.

Note 11—Subsequent events

The Organization has evaluated subsequent events through November 11, 2022, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.