

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

**FINANCIAL STATEMENTS**

*As of and for the Years Ended June 30, 2023 and 2022*

*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, 2023 and 2022, 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, 2023 and 2022, 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 Matters**

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, 2023 and 2022, 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 7, 2023

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

*JUNE 30, 2023 AND 2022*

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 4,210,890	\$ 7,948,629
Resident and other receivables, net	782,715	1,032,445
Supplies inventory	173,050	115,046
Resident trust asset	38,521	46,363
Prepaid expenses and other current assets	132,866	111,033
Total Current Assets	<u>5,338,042</u>	<u>9,253,516</u>
Operating lease right-of-use assets	270,974	-
Related party land lease receivable	1,833,771	1,882,293
Property and equipment, net	1,661,955	1,792,053
<b>Total Assets</b>	<u>\$ 9,104,742</u>	<u>\$ 12,927,862</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 350,249	\$ 357,807
Accrued expenses and other liabilities	540,326	527,948
Resident trust liability	34,750	44,673
Deferred grant revenue	-	4,982,400
Deferred revenue other	-	44,884
Operating lease liability - short term	114,530	-
Total Current Liabilities	<u>1,039,855</u>	<u>5,957,712</u>
Operating lease liability - long term	160,355	-
<b>Total Liabilities</b>	<u>1,200,210</u>	<u>5,957,712</u>
Net Assets:		
Without Donor Restrictions	6,070,761	5,087,857
With Donor Restrictions:		
Subject to passage of time	1,833,771	1,882,293
Total Net Assets	<u>7,904,532</u>	<u>6,970,150</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 9,104,742</u>	<u>\$ 12,927,862</u>

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, 2023 AND 2022

	<b>2023</b>	<b>2022</b>
Revenue, Gains, and Other Support Without Donor Restrictions:		
Net patient service revenue	\$ 7,031,378	\$ 6,419,544
Retail food and gift sales	770,712	666,990
Government grants	381,115	364,234
Catering and dietary revenue from related parties	253,412	223,618
Other revenue	72,189	142,075
Net assets released from restrictions	48,522	47,571
	<u>8,557,328</u>	<u>7,864,032</u>
Total Revenue, Gains, and Support Without Donor Restrictions	<u>8,557,328</u>	<u>7,864,032</u>
Expenses:		
Salaries and wages	5,675,736	5,718,373
Fringe benefits	1,000,380	1,005,821
Supplies	822,214	861,967
Occupancy	370,788	334,323
Repairs and maintenance	292,178	300,130
Depreciation	338,702	358,774
Contractual services	716,152	690,019
Other expenses	419,578	395,464
Corporate administrative expense reimbursement	(1,596,172)	(1,517,893)
	<u>8,039,556</u>	<u>8,146,978</u>
Total Expenses	<u>8,039,556</u>	<u>8,146,978</u>
Change in net assets without donor restrictions prior to transfers	517,772	(282,946)
Net transfers of net assets without donor restrictions from affiliates	465,132	(409,632)
	<u>982,904</u>	<u>(692,578)</u>
Change in net assets without donor restrictions	<u>982,904</u>	<u>(692,578)</u>
Revenue, Gains, and Other Support With Donor Restrictions:		
Related party contributions	-	1,929,864
Net assets released from restriction	(48,522)	(47,571)
	<u>(48,522)</u>	<u>(47,571)</u>
Change in net assets with donor restrictions	<u>(48,522)</u>	<u>1,882,293</u>
Total Change in Net Assets	<u>934,382</u>	<u>1,189,715</u>
Net assets, beginning of year	<u>6,970,150</u>	<u>5,780,435</u>
Net assets, end of year	<u>\$ 7,904,532</u>	<u>\$ 6,970,150</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, 2023

	Program Services				Total Program Services	Management and General	Total
	Residential Center	Outreach Services	Educational	Other Programs			
Salaries and wages	\$ 2,066,522	\$ 1,425,298	\$ 237,969	\$ 178,360	\$ 3,908,149	\$ 1,767,587	\$ 5,675,736
Fringe benefits	328,308	276,505	51,031	28,701	684,545	315,835	1,000,380
Supplies	341,776	402,132	4,131	35,312	783,351	38,863	822,214
Occupancy	160,302	167,273	-	26,160	353,735	17,053	370,788
Repairs and maintenance	26,113	92,665	-	1,979	120,757	171,421	292,178
Depreciation	165,575	129,786	-	8,545	303,906	34,796	338,702
Contractual services	225,632	82,821	35,965	4,862	349,280	366,872	716,152
Other expenses	106,155	128,274	6,071	14,791	255,291	164,287	419,578
Corporate administration expense reimbursement	(648,802)	(514,436)	(63,555)	(369,379)	(1,596,172)	-	(1,596,172)
	<u>\$ 2,771,581</u>	<u>\$ 2,190,318</u>	<u>\$ 271,612</u>	<u>\$ (70,669)</u>	<u>\$ 5,162,842</u>	<u>\$ 2,876,714</u>	<u>\$ 8,039,556</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)**  
**STATEMENTS OF CASH FLOWS**

YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<b>Cash flows from operating activities:</b>		
Change in net assets without donor restrictions	\$ 934,382	\$ 1,189,715
Adjustments to reconcile change in net assets without donor restrictions to net cash flows from operating activities:		
Depreciation	338,702	358,774
Noncash lease expense	3,911	-
Change in operating assets and liabilities:		
Resident and other receivables	249,730	(469,688)
Related party land lease receivable	48,522	(1,882,293)
Supplies inventory	(58,004)	65,681
Resident trust asset	7,842	28,781
Prepaid expenses and other current assets	(21,833)	(1,413)
Accounts payable	(7,558)	78,712
Accrued expenses and other liabilities	12,378	(169,207)
Resident trust liability	(9,923)	(31,081)
Deferred grant revenue	(4,982,400)	4,982,400
Deferred revenue other	(44,884)	44,884
Net cash flows from operating activities	<u>(3,529,135)</u>	<u>4,195,265</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(208,604)	(291,626)
Net cash flows from investing activities	<u>(208,604)</u>	<u>(291,626)</u>
Net change in cash and cash equivalents	(3,737,739)	3,903,639
Cash and cash equivalents, beginning of year	7,948,629	4,044,990
Cash and cash equivalents, end of year	<u>\$ 4,210,890</u>	<u>\$ 7,948,629</u>
<b>Supplemental disclosure of cash flow information:</b>		
Right-of-use assets obtained in exchange for new operating lease liabilities	<u>\$ 377,173</u>	<u>\$ -</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, 2023 AND 2022

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### 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, 2023 AND 2022

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**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, 2023, 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, 2023 and 2022 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, 2023 and 2022, 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, 2023, 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, 2023 AND 2022

**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.

*Accounting Pronouncements Adopted* – In February 2016, the Financial Accounting Standards Board 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.

The Organization adopted this ASU, effective July 1, 2022, using the modified retrospective approach. As a result of adopting these ASU, the Organization recorded right-of-use (“ROU”) assets and lease liabilities of approximately \$380,000. Adoption of the new standard did not materially impact the Organization’s statement of activities and had no impact on cash flows.

**Note 2—Liquidity and availability of resources**

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

	<b>2023</b>	<b>2022</b>
Financial assets at year-end:		
Cash and cash equivalents	\$ 4,210,890	\$ 7,948,629
Resident and other receivables, net	782,715	1,032,445
Total financial assets	<u>4,993,605</u>	<u>8,981,074</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	-	4,982,400
Financial assets available to meet general expenditures within one year	<u>\$ 4,993,605</u>	<u>\$ 3,998,674</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.

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

*JUNE 30, 2023 AND 2022*

**Note 3—Property and equipment, net**

Net property and equipment as of June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Property and equipment used in operations:		
Land and land improvements	\$ 413,842	\$ 413,842
Buildings and building improvements	4,720,218	4,693,255
Furniture and equipment	5,207,151	5,032,275
Construction in progress	24,365	17,600
Total	<u>10,365,576</u>	<u>10,156,972</u>
Less accumulated depreciation	<u>(8,703,621)</u>	<u>(8,364,919)</u>
Property and equipment, net	<u>\$ 1,661,955</u>	<u>\$ 1,792,053</u>

Depreciation expense amounted to \$338,702 and \$358,774 for the years ended June 30, 2023 and 2022, 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 SOFR plus 1.5% (6.5% and 2.5% as of June 30, 2023 and 2022, respectively) and matures on March 14, 2025. As of June 30, 2023 and 2022, there were no draws on the line of credit.

**Note 5—Related party transactions**

During the year ended June 30, 2023, the Organization entered into various transactions with its subsidiaries, Services and the Foundation. Net transfers of net assets from the Foundation were \$465,177 and \$409,632 for the years ended June 30, 2023 and 2022, respectively. During the years ended June 30, 2023 and 2022, the Organization charged Services and the Foundation for corporate administrative expenses in the aggregate of \$1,596,172 and \$1,517,866, respectively. The Board of Directors of Holy Angels, Inc., as of June 30, 2023, 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, 2023 and 2022, the Organization recognized revenue of \$217,764 and \$192,739, 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 \$8,430 and \$35,801 for the years ended June 30, 2023 and 2022, respectively, and are recorded in salaries and wages and fringe benefits.

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

*JUNE 30, 2023 AND 2022*

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**Note 5—Related party transactions (continued)**

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 6—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.

**Note 7—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, 2023 and 2022 amounted to \$140,841 and \$125,366, respectively.

**Note 8—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, 2023, 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, 2023, 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.

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

*JUNE 30, 2023 AND 2022*

**Note 9—Leases**

The Organization leases office space and equipment. The Organization determines whether a contract contains a lease at inception by determining if the contract conveys the right of use of identified property, plant, or equipment for a period of time in exchange for consideration. The Organization has lease agreements with lease and non-lease components, which are generally accounted for separately with amounts allocated to the lease and non-lease components based on relative stand-alone prices.

ROU assets and lease liabilities are recognized at the commencement date based on the present value of the future minimum lease payments over the lease term. Renewal and termination clauses are factored into the determination of the lease term if it is reasonably certain that these options would be exercised. Lease assets are amortized over the lease term unless there is a transfer of title or purchase option reasonably certain of exercise, in which case the asset life is used. In order to determine the present value of lease payments, the Organization uses the risk-free discount rate to determine the present value of lease payments.

The Organization has elected the practical expedient not to recognize leases with terms of 12 months or less on the statement of financial position and instead recognize the lease payments on a straight-line basis over the term of the lease and variable lease payments in the period in which the obligation for the payments is incurred. Therefore, short-term lease expense for the period does not reflect ongoing short-term lease commitments. Lease expense for such short-term leases was not material for the year ended June 30, 2023.

The following is a schedule of future minimum lease payments:

**Years Ending June 30,**

2024	\$	120,624
2025		101,322
2026		61,047
2027		889
2028		889
Thereafter		<u>111</u>
Total undiscounted cash flows		284,882
Less present value discount		<u>(9,997)</u>
Total lease liabilities	\$	<u><u>274,885</u></u>

Required supplemental information relating to our leases for the year ended June 30, 2023 is as follows:

Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$	106,245
ROU assets obtained in exchange for new operating lease liabilities		377,173
Weighted-average remaining lease term in years for operating leases		2.44
Weighted-average discount rate for operating leases		2.83%

**Note 10—Subsequent events**

The Organization has evaluated subsequent events through November 7, 2023, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.