

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

**FINANCIAL STATEMENTS**

**June 30, 2024 and 2023**

*(With Independent Auditor's Reports Thereon)*



**DAVIDSON, HOLLAND, WHITESELL & CO., PLLC**





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Independent Auditor's Report

The Board of Directors  
Holy Angels, Inc.:

*Opinion*

We have audited the accompanying financial statements of Holy Angels, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the 2024 financial statements present fairly, in all material respects, the financial position of Holy Angels, Inc. as of June 30, 2024, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Basis for Opinion*

We conducted our audit 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 Holy Angels, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Prior Period Financial Statements*

The financial statements of Holy Angels, Inc. as of June 30, 2023, were audited by other auditors whose report dated November 7, 2023, expressed an unmodified opinion on those statements.

*Responsibilities of Management 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, 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 Holy Angels, Inc.'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 Responsibilities for the Audit 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 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 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 Holy Angels, Inc.'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 Holy Angels, Inc.'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.

### *Consolidated Financial Statements of Holy Angels, Inc. and Subsidiaries*

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of Holy Angels, Inc. and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2024, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the year then ended (none of which are presented herein), and we expressed an unmodified opinion on those financial statements. Such consolidated 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 consolidated financial statements.

*Davidson, Holland, Whitesell & Co., PLLC*

Hickory, North Carolina  
November 5, 2024



HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

Statements of Financial Position

June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 4,121,225	4,210,890
Resident and other receivables, net	998,713	782,715
Supplies inventory	169,111	173,050
Residents' cash	43,402	38,521
Prepaid expenses and other current assets	166,115	132,866
Total current assets	<u>5,498,566</u>	<u>5,338,042</u>
Property and equipment, net	<u>1,741,276</u>	<u>1,661,955</u>
Other assets:		
Related party land lease receivable	1,784,278	1,833,771
Operating lease right-of-use assets	413,000	270,974
Total other assets	<u>2,197,278</u>	<u>2,104,745</u>
	<u>\$ 9,437,120</u>	<u>9,104,742</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Current operating lease liabilities	\$ 145,831	114,530
Accounts payable	410,089	350,249
Accrued expenses and other liabilities	649,896	540,326
Residents' liability	43,402	34,750
Total current liabilities	<u>1,249,218</u>	<u>1,039,855</u>
Operating lease liabilities	<u>274,988</u>	<u>160,355</u>
Total liabilities	<u>1,524,206</u>	<u>1,200,210</u>
Net assets:		
Without donor restrictions	6,128,636	6,070,761
With donor restrictions	1,784,278	1,833,771
Total net assets	<u>7,912,914</u>	<u>7,904,532</u>
	<u>\$ 9,437,120</u>	<u>9,104,742</u>

See accompanying notes to financial statements.

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

**Statement of Activities and Change in Net Assets**

**Year Ended June 30, 2024**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, gains and other support:			
Net patient service revenue	\$ 7,433,875	-	7,433,875
Retail food and gift sales	779,207	-	779,207
Government grants	498,892	-	498,892
Day program and dietary revenue from related parties	247,084	-	247,084
Other revenue	156,739	-	156,739
Total revenue and gains	<u>9,115,797</u>	-	<u>9,115,797</u>
Net assets released from restrictions	49,493	(49,493)	-
Total revenue, gains and other support	<u>9,165,290</u>	<u>(49,493)</u>	<u>9,115,797</u>
Expenses:			
Program expenses:			
Residential center	2,997,766	-	2,997,766
Outreach services	2,579,554	-	2,579,554
Educational	324,975	-	324,975
Other programs	6,814	-	6,814
Total program expenses	<u>5,909,109</u>	-	<u>5,909,109</u>
Supporting services:			
Management and general	2,992,427	-	2,992,427
Total expenses	<u>8,901,536</u>	-	<u>8,901,536</u>
Change in net assets prior to transfers	263,754	(49,493)	214,261
Net transfers of net assets to affiliates	<u>(205,879)</u>	-	<u>(205,879)</u>
Change in net assets	57,875	(49,493)	8,382
Net assets at beginning of year	<u>6,070,761</u>	<u>1,833,771</u>	<u>7,904,532</u>
Net assets at end of year	<u>\$ 6,128,636</u>	<u>1,784,278</u>	<u>7,912,914</u>

*See accompanying notes to financial statements.*

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

Statement of Activities and Change in Net Assets

Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, gains and other support:			
Net patient service revenue	\$ 7,031,378	-	7,031,378
Retail food and gift sales	770,712	-	770,712
Government grants	381,115	-	381,115
Day program and dietary revenue from related parties	217,764	-	217,764
Other revenue	<u>107,837</u>	<u>-</u>	<u>107,837</u>
Total revenue and gains	8,508,806	-	8,508,806
Net assets released from restrictions	<u>48,522</u>	<u>(48,522)</u>	<u>-</u>
Total revenue, gains and other support	<u>8,557,328</u>	<u>(48,522)</u>	<u>8,508,806</u>
Expenses:			
Program expenses:			
Residential center	2,774,677	-	2,774,677
Outreach services	2,201,828	-	2,201,828
Educational	271,797	-	271,797
Other programs	<u>(85,714)</u>	<u>-</u>	<u>(85,714)</u>
Total program expenses	5,162,588	-	5,162,588
Supporting services:			
Management and general	<u>2,876,968</u>	<u>-</u>	<u>2,876,968</u>
Total expenses	<u>8,039,556</u>	<u>-</u>	<u>8,039,556</u>
Change in net assets prior to transfers	517,772	(48,522)	469,250
Net transfers of net assets from affiliates	<u>465,132</u>	<u>-</u>	<u>465,132</u>
Change in net assets	982,904	(48,522)	934,382
Net assets at beginning of year	<u>5,087,857</u>	<u>1,882,293</u>	<u>6,970,150</u>
Net assets at end of year	<u>\$ 6,070,761</u>	<u>1,833,771</u>	<u>7,904,532</u>

See accompanying notes to financial statements.

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

Statement of Functional Expenses

Year Ended June 30, 2024

	Program Services					Management and General	Total
	Residential Center	Outreach Services	Educational	Other Programs	Total Program Services		
Salaries and wages	\$ 2,193,190	1,540,669	272,991	218,969	4,225,819	1,705,093	5,930,912
Fringe benefits	349,265	293,152	58,967	21,105	722,489	381,591	1,104,080
Supplies	420,620	416,325	5,282	44,934	887,161	64,796	951,957
Occupancy	166,261	239,539	-	7,268	413,068	23,915	436,983
Repairs and maintenance	106,114	92,610	-	1,754	200,478	172,583	373,061
Depreciation	153,493	122,411	-	3,197	279,101	53,398	332,499
Contractual services	143,237	281,376	53,331	9,794	487,738	460,377	948,115
Other expenses	129,345	164,812	6,360	18,993	319,510	130,674	450,184
Corporate administrative expense reimbursement	(663,759)	(571,340)	(71,956)	(319,200)	(1,626,255)	-	(1,626,255)
Total expenses	\$ 2,997,766	2,579,554	324,975	6,814	5,909,109	2,992,427	8,901,536

See accompanying notes to financial statements.

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

Statement of Functional Expenses

Year Ended June 30, 2023

	Residential Center	Program Services				Management and General	Total
		Outreach Services	Educational	Other Programs	Total Program Services		
Salaries and wages	\$ 2,078,662	1,413,306	237,969	178,212	3,908,149	1,767,587	5,675,736
Fringe benefits	330,774	273,572	51,031	24,854	680,231	320,148	1,000,379
Supplies	336,359	395,706	3,896	32,798	768,759	58,246	827,005
Occupancy	160,186	189,905	-	7,504	357,595	17,053	374,648
Repairs and maintenance	94,489	100,296	-	2,774	197,559	171,421	368,980
Depreciation	165,575	129,786	-	8,545	303,906	34,796	338,702
Contractual services	130,876	54,991	35,965	8,956	230,788	366,872	597,660
Other expenses	126,558	158,990	6,491	19,734	311,773	140,845	452,618
Corporate administrative expense reimbursement	(648,802)	(514,724)	(63,555)	(369,091)	(1,596,172)	-	(1,596,172)
Total expenses	\$ 2,774,677	2,201,828	271,797	(85,714)	5,162,588	2,876,968	8,039,556

See accompanying notes to financial statements.

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

Statements of Cash Flows

Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Change in net assets	\$ 8,382	934,382
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	332,499	338,702
Loss on sale of property and equipment	1,122	-
(Increase) decrease in resident and other receivables	(215,998)	249,730
Decrease in related party lease receivable	49,493	48,522
(Increase) decrease in supplies inventory	3,939	(58,004)
Increase in prepaid expenses and other current assets	(33,249)	(21,833)
Decrease in operating lease right-of-use assets	147,337	106,199
Decrease in operating lease liabilities	(143,429)	(102,288)
Increase (decrease) in accounts payable	59,840	(7,558)
Increase in accrued expenses and other liabilities	109,570	12,378
Decrease in deferred grant revenue	-	(4,982,400)
Decrease in deferred revenue other	-	(44,884)
Increase (decrease) in residents' liability	8,652	(9,923)
Net cash provided (used) by operating activities	<u>328,158</u>	<u>(3,536,977)</u>
Cash flows from investing activities:		
Proceeds from sale of property and equipment	4,908	-
Purchases of property and equipment	(417,850)	(208,604)
Net cash used by investing activities	<u>(412,942)</u>	<u>(208,604)</u>
Net decrease in cash and restricted cash	(84,784)	(3,745,581)
Cash and restricted cash at the beginning of the year	4,249,411	7,994,992
Cash and restricted cash at the end of the year	<u>\$ 4,164,627</u>	<u>4,249,411</u>

The following table provides a reconciliation of cash and restricted cash reported with the statements of financial position that sum to the total of the same such amounts shown in the statements of cash flows above:

Cash	\$ 4,121,225	4,210,890
Residents' cash	43,402	38,521
	<u>\$ 4,164,627</u>	<u>4,249,411</u>

Supplemental disclosure of cash flow information:

Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 289,363	377,173
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See accompanying notes to financial statements.

# HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

## Notes to Financial Statements

June 30, 2024 and 2023

### (1) Operations and Summary of Significant Accounting Policies

#### (a) Operations

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, Cotton Candy Factory, Market on Main, 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 are not included in these financial statements.

#### (b) Basis of Accounting

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”).

The Organization reports in accordance with FASB ASC 958-205, *Not-for-Profit Entities: Presentation of Financial Statements*. Under these provisions, net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

**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.

# HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

## Notes to Financial Statements, Continued

### (1) Operations and Summary of Significant Accounting Policies, Continued

#### (b) Basis of Accounting, Continued

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 restriction. 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 restriction exist, 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.

#### (c) Cash and Restricted Cash

For purposes of reporting cash flows, cash and restricted cash include cash on hand and residents' cash. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and restricted cash.

#### (d) Revenue and Accounts Receivable

On July 1, 2024, North Carolina transitioned its Medicaid Local Management Entity/Managed Care Organizations ("LME/MCOs") to Tailored Plan/Managed Care Organizations ("TP/MCOs"). This change aims to provide more specialized care for individuals with serious mental illness, substance use disorders, traumatic brain injuries, and intellectual/developmental disabilities. The Organization provides services to individuals under the North Carolina Medicaid Program with funding passing through LME/MCOs. Effective July 1, 2024, there are four TP/MCOs operating under the North Carolina 1115 Demonstration Waiver authority. Certain services previously available under the 1915(b)(c) waiver are not included in the new TPs, while many new and substitute services have been introduced under the 1115 waiver.

During 2024 and 2023, the Organization received a significant amount of its revenue, approximately 76% for 2024 and 77% for 2023, under contractual arrangements with LME/MCOs, now TPs. Revenue is recognized based on the date services are rendered, for services authorized by LME/MCOs, and delivered to pre-authorized individuals. Substantially all the Organization's revenue was derived from performance obligations satisfied at a point in time for 2024 and 2023.

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

Notes to Financial Statements, Continued

(1) Operations and Summary of Significant Accounting Policies, Continued

(d) Revenue and Accounts Receivable, Continued

Revenues are recognized as services are provided to individuals in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those services and a related receivable is recorded. Since the Organization has performed its obligation under the contract, it has unconditional rights to the consideration on contract assets and therefore classifies those amounts as accounts receivable. Management has determined they do not have any amounts that should be reflected separately as contract assets. The beginning and ending contract balances resulting from the Organization's revenue recognition were as follows:

	<u>Years Ended June 30,</u>		
	<u>2024</u>	<u>2023</u>	<u>2022</u>
Resident and other receivables	\$ 1,003,713	788,542	1,038,272

Management evaluates receivable balances periodically. Based upon these reviews, management will establish an allowance for credit losses or will write off specific amounts if deemed uncollectible. In this review, management considers historical losses, results of any ongoing collection efforts, and any other relevant information available. The allowance for credit losses decreased by \$827 during the year ended June 30, 2024, due to changes in management's expectations of collections of resident receivables. Changes in the allowance for credit losses during the years ended June 30, 2024 and 2023, were as follows:

	<u>2024</u>	<u>2023</u>
Balance, beginning of year	\$ 5,827	5,827
Credit loss expense	4,563	7,392
Write-offs	<u>(5,390)</u>	<u>(7,392)</u>
Balance, end of year	<u>\$ 5,000</u>	<u>5,827</u>

Credit risk for resident receivables is concentrated because substantially all the balances are receivable from the North Carolina Medicaid Program and an agency of the North Carolina Department of Health and Human Services.

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

Notes to Financial Statements, Continued

(1) **Operations and Summary of Significant Accounting Policies, Continued**

(d) **Revenue and Accounts Receivable, Continued**

Revenue received from LME/MCOs, now TPs and the State of North Carolina may be subject to post-payment review and retroactive adjustment by the payers. The Organization provides estimates for potential adjustments when it is likely that an assessment based on such adjustments will be made against the Organization. Adjustments that are significantly different from the applicable estimates are reflected as an increase or decrease in revenues in the year the adjustments are finalized. Management does not believe it is likely that adjustments will be made to revenue received during the years ended June 30, 2024 and 2023, and therefore no estimate for potential adjustments or assessments is necessary as of June 30, 2024 and 2023.

(e) **Supplies Inventory**

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

(f) **Property and Equipment**

Property and equipment is 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 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.

(g) **Leases**

At lease inception, the Organization determines whether an arrangement is or contains a lease. Operating leases are included in operating lease right-of-use (“ROU”) assets, current operating lease liabilities, and noncurrent lease liabilities in the financial statements. Finance leases are included in property and equipment, other current liabilities, and long-term liabilities in the financial statements.

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

Notes to Financial Statements, Continued

(1) Operations and Summary of Significant Accounting Policies, Continued

(g) Leases, Continued

ROU assets represent the Organization's right to use leased assets over the term of the lease. Lease liabilities represent the Organization's contractual obligation to make lease payments over the lease term.

For operating leases, ROU assets and lease liabilities are recognized at the commencement date. The lease liability is measured as the present value of the lease payments over the lease term. The Organization uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, the Organization uses its incremental borrowing rate or the risk-free rate at the commencement date of the lease to determine the present value of the lease payments. Operating ROU assets are calculated as the present value of the lease payments plus initial direct costs, plus any prepayments less any lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of any leasehold improvements, the value of renewal rates compared to market rates, and the presence of factors that would cause a significant economic penalty to the Organization if the option were not exercised. Lease expense is recognized on a straight-line basis over the lease term. The Organization has elected not to recognize an ROU asset and obligation for leases with an initial term of twelve months or less. The expense associated with short-term leases is included in lease expense in the statement of activities.

For finance leases, after lease commencement the lease liability is measured on an amortized cost basis and increased to reflect interest on the liability and decreased to reflect the lease payment made during the period. Interest on the lease liability is determined each period during the lease term as the amount that results in a constant period discount rate on the remaining balance of the liability. The ROU asset is subsequently measured at cost, less any accumulated amortization and any accumulated impairment losses. Amortization on the ROU asset is recognized over the period from the commencement date to the earlier of (1) the end of the useful life of the ROU asset, or (2) the end of the lease term unless the lease transfers ownership to the lessee or contains a purchase option that is reasonably certain to be exercised by the lessee, in which case the ROU asset is amortized to the end of the underlying asset's useful life.

To the extent a lease arrangement includes both lease and non-lease components, the components are accounted for as a single lease component.

# HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

## Notes to Financial Statements, Continued

### (1) Operations and Summary of Significant Accounting Policies, Continued

#### (h) Government Grants

A 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 term of the grant or to the extent of expenses incurred. The method of revenue recognition is determined based on the terms of the grant.

#### (i) Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and revenue and expenses during the periods reported. Estimates are used when accounting for the allowance for credit losses, depreciation and contingencies, among others. Actual results could differ from these estimates.

#### (j) Tax-exempt Status

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for Federal or state income taxes has been made in the accompanying financial statements. The Organization is not classified as a private foundation.

The Organization has implemented the accounting requirements associated with uncertainty in income taxes using the provisions of Financial Accounting Standards Board ("FASB") ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of June 30, 2024 and 2023, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements and recognized no such interest or penalties during the years ended June 30, 2024 and 2023.

#### (k) Advertising

Advertising costs are charged to operations when incurred. Advertising expense was \$44,051 and \$46,796 for 2024 and 2023, respectively.

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

### Notes to Financial Statements, Continued

#### (1) Operations and Summary of Significant Accounting Policies, Continued

##### (l) Functional Classification of Expenses

The Organization allocates certain expenses, principally salaries and wages and related benefits, supplies, and facility costs, to program and supporting services 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 program and support services.

##### (m) Reclassification of Comparative Financial Statements

Certain reclassifications have been made to the 2023 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

##### (n) Subsequent Events

The Organization has evaluated subsequent events through November 5, 2024, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

#### (2) Adoption of New Accounting Standards

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments – Credit Losses* (Topic 326). The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. The Organization adopted the requirements of the new standard effective July 1, 2023. Management has analyzed the provisions of the new standard and has concluded that no changes are necessary to conform with the new standard.

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

### Notes to Financial Statements, Continued

#### (3) Property and Equipment, Net

Net property and equipment as of June 30, 2024 and 2023, are as follows:

	<u>2024</u>	<u>2023</u>
Land and improvements	\$ 413,842	413,842
Building and improvements	4,750,848	4,720,218
Furniture and equipment	5,481,978	5,207,151
Construction in progress	<u>123,680</u>	<u>24,365</u>
	10,770,348	10,365,576
Less accumulated depreciation	<u>9,029,072</u>	<u>8,703,621</u>
Property and equipment, net	<u>\$ 1,741,276</u>	<u>1,661,955</u>

Depreciation expense amounted to \$332,499 and \$338,702 for the years ended June 30, 2024 and 2023, respectively.

#### (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% (6.8% and 6.5% as of June 30, 2024 and 2023, respectively) and matures in March 2025. As of June 30, 2024 and 2023, there were no draws on the line of credit.

#### (5) Related Party Transactions

During the year ended June 30, 2024, the Organization entered into various transactions with its subsidiaries, Services and the Foundation. Net transfers of net assets (to) from the Foundation were \$(205,879) and \$465,132 for the years ended June 30, 2024 and 2023, respectively. During the years ended June 30, 2024 and 2023, the Organization charged Services and the Foundation for corporate administrative expenses in the aggregate of \$1,626,255 and \$1,596,172, respectively. The Board of Directors of Holy Angels, Inc. approved a transfer of net assets as of June 30, 2024 and 2023, whereby all receivables from affiliated organizations would be eliminated at year-end.

The Organization provides certain day program and dietary services to Services in conjunction with their shared mission. During the years ended June 30, 2024 and 2023, the Organization recognized revenue of \$247,084 and \$217,764, respectively, which is included in the statements of activities as day program and dietary revenue from related parties.

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

### Notes to Financial Statements, Continued

#### **(5) Related Party Transactions, Continued**

The Sisters of Mercy of the Americas - South Central Community, an affiliated organization, provides staffing and personnel services to the Organization. Expenses recognized for services provided by representatives of the affiliate totaled \$27,133 and \$8,430 for the years ended June 30, 2024 and 2023, respectively, and are recorded in salaries and wages and fringe benefits.

During the year ended June 30, 2022, the Sisters of Mercy of the Americas - 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 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.

#### **(6) Contributed Nonfinancial Assets**

As discussed in Note 5, during the year ended June 30, 2022, the Organization received a multiyear unconditional promise for the use of a 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.

#### **(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, 2024 and 2023 amounted to \$137,347 and \$140,841, respectively.

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

**Notes to Financial Statements, Continued**

**(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, 2024, 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, 2024, 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.

**(9) Leases**

The Organization leases certain buildings and office equipment under operating lease agreements which expire through August 2029. Certain leases include renewal options that the Organization is reasonably certain to exercise, while others feature escalating payment terms, and some include both. All these factors have been incorporated into the calculation of operating lease right-of-use assets and liabilities. Monthly lease payments range from \$74 to \$4,435.

Operating lease expense for the years ended June 30, 2024 and 2023, were as follows:

	<u>2024</u>	<u>2023</u>
Operating lease cost	\$ 154,322	119,316
Short-term lease cost	<u>54,033</u>	<u>46,617</u>
Total lease cost	<u>\$ 208,355</u>	<u>165,933</u>

Other information related to leases as of and for the years ended June 30, 2024 and 2023, is summarized as follows:

	<u>2024</u>	<u>2023</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 150,093	106,245
Weighted average remaining lease term - operating	3.81 years	2.44 years
Weighted average discount rate - operating	1.51%	2.83%

HOLY ANGELS, INC. (PARENT ORGANIZATION ONLY)

Notes to Financial Statements, Continued

(9) Leases, Continued

The following is an analysis of the maturities of operating lease liabilities subsequent to June 30, 2024:

<u>Years Ending June 30,</u>	<u>Amount</u>
2025	\$ 150,444
2026	110,319
2027	51,640
2028	53,158
2029	53,945
Thereafter	<u>9,016</u>
	428,522
Less: Interest	<u>7,703</u>
	<u>\$ 420,819</u>

(10) Liquidity and Availability of Resources

The table below represents financial assets available for general expenditures within one year at June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Financial assets at year-end:		
Cash	\$ 4,121,225	4,210,890
Resident and other receivables, net	<u>998,713</u>	<u>782,715</u>
Total financial assets	<u>\$ 5,119,938</u>	<u>4,993,605</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.





