



HOLY FAMILY HOSPITAL
of Bethlehem Foundation

Delivering LIFE, PEACE, and HOPE in the HOLY LAND



A Primary Work of the Order of Malta

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

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DECEMBER 31, 2015 AND 2014**

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Independent Auditors' Report

To the Board of Directors
Holy Family Hospital of Bethlehem Foundation
Washington, D.C.

We have audited the accompanying financial statements of Holy Family Hospital of Bethlehem Foundation (the Foundation) which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Foundation's preparation and fair presentation of the financial statements 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 Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Holy Family Hospital of Bethlehem Foundation as of December 31, 2015 and 2014, 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.

Bethesda, Maryland
March 22, 2016

Councilor, Buchanan & Mitchell, P.C.
Certified Public Accountants



HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014**

	2015	2014
Assets		
Cash and Cash Equivalents	\$ 2,416,561	\$ 2,056,500
Investments	5,305,150	6,345,007
Accrued Interest Receivable	10,983	12,846
Pledges Receivable	31,400	54,213
Security Deposit and Prepaid Expenses	12,567	9,772
Furniture and Equipment - Net	-	890
Total Assets	\$ 7,776,661	\$ 8,479,228
Liabilities and Net Assets		
Liabilities		
Accounts Payable and Accrued Expenses	\$ 29,795	\$ 14,185
Hospital Pledge Payable	-	500,000
Total Liabilities	29,795	514,185
Net Assets		
Unrestricted		
Board Designated for Durable Equipment	900,000	1,000,000
Board Designated for Construction	1,500,000	1,500,000
Board Designated for Operating Reserves	3,000,000	3,000,000
Undesignated	150,712	517,991
Total Unrestricted	5,550,712	6,017,991
Temporarily Restricted	2,071,154	1,822,052
Permanently Restricted	125,000	125,000
Total Net Assets	7,746,866	7,965,043
Total Liabilities and Net Assets	\$ 7,776,661	\$ 8,479,228

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Unrestricted Net Assets		
Revenues and Support		
Grants and Contributions	\$ 864,463	\$ 582,882
Donated Services	21,862	28,754
Investment Income - Spending Policy	310,000	292,759
Investment Income (Loss)	(329,192)	(66,092)
Net Assets Released from Restrictions	210,357	484,643
Total Revenues and Support	1,077,490	1,322,946
Expenses		
Program Services		
Holy Family Hospital of Bethlehem	1,012,263	1,437,535
Communications	221,898	121,188
Total Program Services	1,234,161	1,558,723
Supporting Services		
Management and General	123,406	142,915
Fundraising	187,202	171,381
Total Supporting Services	310,608	314,296
Total Expenses	1,544,769	1,873,019
Change in Unrestricted Net Assets	(467,279)	(550,073)
Temporarily Restricted Net Assets		
Revenues and Support		
Grants and Contributions	459,287	2,255,325
Investment Income - Spending Policy	-	4,498
Investment Income	172	-
Net Assets Released from Restrictions	(210,357)	(484,643)
Change in Temporarily Restricted Net Assets	249,102	1,775,180
Change in Net Assets	(218,177)	1,225,107
Net Assets, Beginning of Year	7,965,043	6,739,936
Net Assets, End of Year	\$ 7,746,866	\$ 7,965,043

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Cash Flows from Operating Activities		
Change in Net Assets	\$ (218,177)	\$ 1,225,107
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Depreciation	890	643
Write-Off of Pledge Receivable	-	30,622
Unrealized (Gain) Loss on Investments	169,381	1,007,333
Realized (Gain) Loss on Investments	(1,120)	(1,024,604)
Donated Stock	-	(1,774,744)
Proceeds from Sale of Unrestricted Donated Stock	26,306	26,666
Changes in Assets and Liabilities		
Accrued Interest Receivable	1,863	(784)
Pledges Receivable	22,813	29,470
Security Deposit and Prepaid Expenses	(2,795)	9,698
Accounts Payable and Accrued Expenses	15,610	9,938
Hospital Pledge Payable	(500,000)	500,000
Net Cash Provided by (Used in) Operating Activities	(485,229)	39,345
Cash Flows from Investing Activities		
Purchases of Investments	(1,399,445)	(7,580,890)
Proceeds from Sales of Restricted Donated Investments	-	1,748,078
Proceeds from Sales of Investments	2,244,735	7,691,468
Net Cash Provided by Investing Activities	845,290	1,858,656
Net Increase in Cash and Cash Equivalents	360,061	1,898,001
Cash and Cash Equivalents, Beginning of Year	2,056,500	158,499
Cash and Cash Equivalents, End of Year	\$ 2,416,561	\$ 2,056,500

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

1. ORGANIZATION

Holy Family Hospital of Bethlehem Foundation (the Foundation) was incorporated as a non-profit organization in 1997 under the laws of Delaware. The Foundation was created by the three U.S. Associations of the Order of Malta to collect and distribute charitable funds. The Foundation is managed by a Board of Directors, all of whom are members of the Sovereign Military Order of Malta. The activities of the Foundation are funded primarily through private contributions.

The Foundation's major programs and supporting services include Holy Family Hospital of Bethlehem (the Hospital), Communications, Management and General, and Fundraising.

Holy Family Hospital of Bethlehem

The Foundation collects contributions to deliver life, peace, and hope in the Holy Land. To this end, the Foundation contributes each year by Board vote to support the operations of Holy Family Hospital in Bethlehem. The Hospital, under the direction of the Order of Malta, uses these funds to provide state-of-the-art maternal and child health care, modern birthing facilities, and a comprehensive neonatal intensive care unit, as well as various training programs, in an area of great poverty and political and economic turmoil.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting. Consequently, revenues are recognized when earned and expenses are recognized when obligations are incurred. Net assets and changes in net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets are classified and reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the general operations of the Foundation.
- Temporarily restricted net assets are specifically restricted by donors for various programs or future periods.
- Permanently restricted net assets represent funds in which the gift is to be held in perpetuity and only the investment earnings may be expended for the purposes designated by the donors. As of December 31, 2015 and 2014, all earnings, if any, on the permanently restricted net assets had been appropriated for expenditure.

The Foundation summarizes the costs of providing and managing its programs and supporting activities on a functional basis in the accompanying statements of activities. Accordingly, expenses are allocated among the benefiting program and supporting services based on specific identification or reasonable allocation methodologies.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

The Foundation considers all money market funds held outside of its managed investment brokerage accounts to be cash equivalents. At December 31, 2015 and 2014, \$2,039,754 and \$1,748,078, respectively, of money market funds were donor restricted.

Investments

Investments in debt securities, institutional mutual funds, and equity securities (including exchange traded funds or ETFs and American depositary shares or ADSs) are measured and reported at fair value. The fair values of debt securities, institutional mutual funds, and equity securities with readily determinable fair values are based on quotations obtained from national security exchanges.

Debt securities, institutional mutual funds, and equity securities (including exchange traded funds or ETFs and American depositary shares or ADSs) with fair values that are not readily determinable are carried at estimated fair values as provided by the investment managers. The Foundation's management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining their estimated fair values. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed. In 2015 and 2014, the estimated fair values represented approximately 18% and 16%, respectively, of total investments. Changes in fair value are reported as investment income (loss) in the accompanying statements of activities.

All investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position.

The Foundation's investment spending policy allows up to a 5% annual withdrawal based on the most recent three year rolling average of the investment portfolio's fair value to aid with general operations and making contributions to the Hospital.

Receivables

Receivables are recorded at net realizable value. Receivables that are past due are individually analyzed for collectability. When all collection efforts have been exhausted, the account is written off against an allowance account. Management adjusts the allowance account annually based upon its estimate of those receivables determined to be uncollectible.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Furniture and Equipment

Furniture and equipment purchases are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the respective assets, which range from three to seven years. Major additions and improvements are capitalized while replacements, maintenance and repairs that do not improve or extend the lives of the assets are expensed as incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is reflected in revenues and support or expenses in the accompanying statements of activities.

Revenue Recognition

The Foundation's primary source of revenue is contributions from individuals and foundations. The Foundation reports unconditional contributions and grants of cash and other assets as unrestricted and available for general operations, unless specifically restricted by the donor. If contributions and grants are received with donor stipulations that limit the use of the donated funds or assets to a particular purpose or to specific time periods, the Foundation reports the contributions and grants as temporarily restricted. When a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Unconditional contributions and grants that are expected to be collected in the future are recorded as pledges receivable when the promises are made. Unconditional pledge receivables that are expected to be collected within one year are reported at net realizable value. Unconditional pledge receivables that are expected to be collected beyond one year are reported at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the period over which the promises are to be received.

Donated Services

Donated services are recorded at fair value if the donated services create or enhance a nonfinancial asset or require specialized skills that the providers possess and that normally would have to be purchased. Donated services for the year ended December 31, 2015, included legal services of \$21,862 and for the year ended December 31, 2014, donated services included executive director and legal services of \$28,754, in the accompanying statements of activities.

Donated Assets

Donated stock and other noncash donations are recorded as contributions at their fair values at the dates of donation.

Contributions to the Hospital

Contributions are awarded annually and the expenses are recognized in the year in which the contributions are awarded.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to assumptions (unobservable inputs). The Foundation groups assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 - unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

As of December 31, 2015 and 2014, only the Foundation's investments, as described in Note 3, were measured at fair value on a recurring basis.

Concentrations of Credit Risk

The Foundation maintains its cash and cash equivalents with a commercial financial institution. The Foundation's cash and cash equivalents consist of commercial checking and savings accounts. These accounts were insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. As of December 31, 2015 and 2014, the accounts exceeded the insured limit by approximately \$423,800 and \$63,400, respectively. The Foundation monitors the creditworthiness of the institution and has not experienced any credit losses on its cash and cash equivalents, nor does it expect to experience any such losses.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

3. INVESTMENTS

The following table summarizes the Foundation's investments, which are the only assets or liabilities held by the Foundation measured at fair value on a recurring basis as of December 31, 2015:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Equity Securities			
ETF-Euro Pacific	\$ 410,453	\$ 410,453	\$ -
ETF-Russell 1000	852,544	852,544	-
Total Equity Securities	<u>1,262,997</u>	<u>1,262,997</u>	<u>-</u>
Debt Securities			
Corporate Bonds	786,198	-	786,198
U.S. Treasury Securities	439,263	439,263	-
U.S. Government Obligations	185,909	-	185,909
Total Debt Securities	<u>1,411,370</u>	<u>439,263</u>	<u>972,107</u>
Mutual Funds			
Small Cap	684,038	684,038	-
Russell 1000 Index	799,516	799,516	-
Euro Pacific	398,980	398,980	-
Institutional Domestic Bond	338,337	338,337	-
Institutional Domestic Real Asset	312,768	312,768	-
Total Mutual Funds	<u>2,533,639</u>	<u>2,533,639</u>	<u>-</u>
Cash and Money Market Funds	<u>97,144</u>	<u>97,144</u>	<u>-</u>
Total Investments	<u>\$ 5,305,150</u>	<u>\$ 4,333,043</u>	<u>\$ 972,107</u>

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

3. INVESTMENTS (CONTINUED)

The following table summarizes the Foundation's investments, which are the only assets or liabilities held by the Foundation measured at fair value on a recurring basis as of December 31, 2014:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Equity Securities			
ADS International	\$ 2,736	\$ 2,736	\$ -
ETF-Euro Pacific	850,543	850,543	-
ETF-Large Cap Growth	1,061,271	1,061,271	-
Total Equity Securities	<u>1,914,550</u>	<u>1,914,550</u>	<u>-</u>
Debt Securities			
Corporate Bonds	902,205	-	902,205
U.S. Treasury Securities	642,628	642,628	-
U.S. Government Obligations	140,883	-	140,883
Total Debt Securities	<u>1,685,716</u>	<u>642,628</u>	<u>1,043,088</u>
Mutual Funds			
Small Cap	878,996	878,996	-
Russell 1000 Index	1,059,660	1,059,660	-
Institutional Domestic Bond	363,247	363,247	-
Institutional Domestic Real Asset	357,025	357,025	-
Total Mutual Funds	<u>2,658,928</u>	<u>2,658,928</u>	<u>-</u>
Money Market Funds	85,813	85,813	-
Total Investments	<u>\$ 6,345,007</u>	<u>\$ 5,301,919</u>	<u>\$ 1,043,088</u>

The Foundation used the following methods and significant assumptions to estimate fair values for assets recorded at fair value:

Equity securities, ETFs, ADSs, U.S. Treasury securities, mutual funds, and money market funds - Valued using quoted prices in active markets.

Corporate bonds - Valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. A yield-based matrix system was used to arrive at an estimated market value (market valuation approach).

U.S. government obligations - Valued based on yields currently available for comparable securities of issuers with similar credit ratings.

The Foundation did not hold Level 3 financial instruments and had no transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during the years ended December 31, 2015 and 2014.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

3. INVESTMENTS (CONTINUED)

A summary of the return on investments, including the interest earned on cash and cash equivalents, is as follows for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Unrealized Gains (Losses), Net	\$ (169,381)	\$ (1,007,333)
Realized Gains, Net	1,120	1,024,604
Interest and Dividends	<u>149,241</u>	<u>213,894</u>
Total Investment Income (Loss)	<u>\$ (19,020)</u>	<u>\$ 231,165</u>

4. PLEDGES RECEIVABLE

As of December 31, 2015, pledges receivable represent contributions from individuals and corporate foundations. The pledges are due to be received as follows:

	<u>Pledges</u>	<u>Annual Giving Grants</u>	<u>Total</u>
Within One Year	\$ -	\$ 31,400	\$ 31,400
Total Pledges Receivable	<u>\$ -</u>	<u>\$ 31,400</u>	<u>\$ 31,400</u>

As of December 31, 2014, pledges receivable represent contributions from individuals and corporate foundations. The pledges are due to be received as follows:

	<u>Pledges</u>	<u>Annual Giving Grants</u>	<u>Total</u>
Within One Year	\$ 500	\$ 53,713	\$ 54,213
Total Pledges Receivable	<u>\$ 500</u>	<u>\$ 53,713</u>	<u>\$ 54,213</u>

5. TEMPORARILY RESTRICTED AND BOARD DESIGNATED NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the unexpended portion of restricted contributions received or commitments from donors for amounts not yet received. These contributions are restricted as of December 31 as follows:

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

5. TEMPORARILY RESTRICTED AND BOARD DESIGNATED NET ASSETS (CONTINUED)

Temporarily Restricted Net Assets (Continued)

	2015	2014
Hospital Construction	\$ 2,008,251	\$ 1,748,078
Hospital Doctors	31,503	19,761
Time Restrictions	31,400	54,213
Temporarily Restricted Net Assets	\$ 2,071,154	\$ 1,822,052

Net assets released from restrictions consist of expended restricted contributions for the donor-imposed purposes or receipts on commitments from donors. These net assets were released during the years ended December 31, 2015 and 2014, as follows:

	2015	2014
Hospital Operations	\$ 50,000	\$ 247,898
Hospital Equipment	92,887	200,149
Hospital Doctors	13,257	5,224
Satisfaction of Purpose Restrictions	156,144	453,271
Satisfaction of Time Restrictions	54,213	31,372
Net Assets Released from Restrictions	\$ 210,357	\$ 484,643

Board Designated Net Assets

During 2014, the Foundation's board approved designating unrestricted net assets for specific purposes involving Hospital operations. The board created three board designated net asset categories as follows:

Board Designated for Durable Equipment - \$1,000,000 of net assets designated for funding new and replacement equipment needs at the Hospital.

Board Designated for Construction - \$2,000,000 of net assets designated for funding new and refurbishment construction needs at the Hospital. During 2014, the board approved a pledge commitment of \$500,000 from these board designated construction net assets that has been recorded as Hospital pledge payable in the accompanying statements of financial position. During 2015, the board approved pledge was fulfilled by transferring the funds to the Hospital.

Board Designated for Operating Expenses - \$3,000,000 of net assets designated for funding three years of operating expenses, including normal disbursements to the Hospital.

6. ENDOWMENT FUNDS

Permanently restricted net assets consist of a donor-restricted endowment fund, the income from which is to be used only for the general operations of the Hospital. As required by U.S. GAAP, net assets associated with donor-restricted funds are classified and reported based on the existence or absence of donor-imposed restrictions.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

6. ENDOWMENT FUNDS (CONTINUED)

Interpretation of Relevant Law

The Foundation has interpreted the District of Columbia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund.
- The purposes of the Foundation and the endowment fund.
- General economic conditions.
- The possible effect of inflation or deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the Foundation.
- The investment policy of the Foundation.

Endowment Net Assets

The Foundation's endowment net assets are composed of donor-restricted funds that are required to be retained permanently, either by explicit donor stipulation or by UPMIFA. As of December 31, 2015 and 2014, the balance of the donor-restricted funds was \$125,000.

For the year ended December 31, 2015, the endowment fund had the following activity:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Fund, Beginning of Year	\$ -	\$ -	\$ 125,000	\$ 125,000
Investment Income (Loss)	(448)	-	-	(448)
Amounts Appropriated to Unrestricted Net Assets	-	-	-	-
Endowment Fund, End of Year	<u>\$ (448)</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 124,552</u>

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

6. ENDOWMENT FUNDS (CONTINUED)

Endowment Net Assets (Continued)

For the year ended December 31, 2014, the endowment fund had the following activity:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund, Beginning of Year	\$ -	\$ -	\$ 125,000	\$ 125,000
Investment Income	-	4,498	-	4,498
Amounts Appropriated for Expenditure	-	(4,498)	-	(4,498)
Endowment Fund, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 125,000</u>

Funds with Deficiencies

From time to time, the fair value associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of permanent duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$448 as of December 31, 2015. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the board of directors. There were no deficiencies as of December 31, 2014.

Return Objectives and Spending Policy

The Foundation strives to provide a predictable stream of investment return while seeking to maintain purchasing power of the endowment assets. The earnings on the donor-restricted endowment are for general operations of the Hospital. The Foundation's Board of Directors approves the spending of the earnings on the endowment fund on an annual basis when the Board approves the annual budget.

Strategies Employed for Achieving Objectives

The investment committee evaluates, selects, and monitors one or more investment managers to directly manage the Foundation's investment portfolio of assets within guidelines provided.

7. RELATED PARTIES

The Foundation was created by the three U.S. Associations of the Order of Malta to collect and distribute funds to the Hospital. The Sovereign Military Order of Malta American Association, the Sovereign Military Order of Malta Federal Association and the Sovereign Military Order of Malta Western Association are the members of the Foundation. The Sovereign Military Order of Malta Rome operates the Hospital, and the Hospital and the Foundation share two common board members.

During the year ended December 31, 2015, the Foundation received \$50,000 from the American Association, \$100,000 from the Federal Association and \$80,000 from the Western Association.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

7. RELATED PARTIES (CONTINUED)

During the year ended December 31, 2014, the Foundation received \$50,000 from the American Association, \$100,000 from the Federal Association and \$75,000 from the Western Association. As of December 31, 2014, there were approximately \$31,000 of outstanding receivables from related parties were considered uncollectible and written off.

During the years ended December 31, 2015 and 2014, the Foundation also made contributions to the Hospital of \$823,570 and \$857,706, respectively.

8. COMMITMENTS

Office Lease

On July 3, 2013, the Foundation entered into a non-cancelable office space lease agreement. The lease commenced on February 1, 2014, and originally expired on January 31, 2016, but was extended during 2015 to expire January 31, 2018. The terms of the lease agreement required a security deposit of \$8,790, which was included in security deposit and prepaid expenses in the accompanying statements of financial position as of December 31, 2015 and 2014. The base rent will adjust annually based on changes in the Consumer Price Index.

Future minimum lease payments under the lease are as follows:

<u>For the Years Ending December 31,</u>	
2016	\$ 35,523
2017	36,535
2018	3,052
Total	<u>\$ 75,110</u>

Rent expense totaled \$36,453 and \$34,510 for the years ended December 31, 2015 and 2014, respectively.

9. INCOME TAXES

Through the group exemption ruling of the United States Catholic Church and inclusion in *The Official Catholic Directory*, the Foundation is exempt under Section 501(c)(3) of the Internal Revenue Code from taxes on income other than net unrelated business income. For the years ended December 31, 2015 and 2014, no provision for income taxes was made, as the Foundation had no net unrelated business income.

The Foundation follows the authoritative guidance relating to accounting for uncertainty in income taxes included in Financial Accounting Standards Board Accounting Standards Codification Topic 740, Income Taxes. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Foundation performed an evaluation of uncertain tax positions for the years ended December 31, 2015 and 2014, and determined that there were no matters that would require

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9. INCOME TAXES (CONTINUED)

recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2015, the statute of limitations for tax years ending December 31, 2012, through December 31, 2014, remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the United States Catholic Church files tax returns.

It is the Foundation's policy to recognize interest and/or penalties related to uncertain tax positions, if any, as income tax expense. As of December 31, 2015 and 2014, the Foundation had no accruals for interest and/or penalties.

10. SUBSEQUENT EVENTS

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through March 22, 2016, the date the financial statements were available to be issued. There were no subsequent events that required recognition of, or disclosure in, the financial statements.