



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

DECEMBER 31, 2018 AND 2017

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**TABLE OF CONTENTS
DECEMBER 31, 2018 AND 2017**

	<u>Pages</u>
Independent Auditors' Report.....	3-4
Financial Statements	
Statements of Financial Position	5
Statements of Activities	6
Statement of Functional Expenses.....	7
Statements of Cash Flows	8
Notes to Financial Statements.....	9-21

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, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related statement of functional expenses for the year ended December 31, 2018, 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 entity'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 entity'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 the Foundation as of December 31, 2018 and 2017, 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.

To the Board of Directors
Holy Family Hospital of Bethlehem Foundation

Emphasis of Matter

As discussed in Note 3 of the financial statements, the Foundation adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Councilor, Buchanan + Mitchell, P.C.

Bethesda, Maryland
June 12, 2019

Certified Public Accountants

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and Cash Equivalents	\$ 1,103,387	\$ 1,237,705
Investments	6,995,303	5,962,770
Accrued Interest Receivable	20,005	15,819
Pledges Receivable	314,311	1,617,227
Security Deposit and Prepaid Expenses	<u>15,377</u>	<u>15,097</u>
Total Assets	<u>\$ 8,448,383</u>	<u>\$ 8,848,618</u>
Liabilities and Net Assets		
Liabilities		
Accounts Payable and Accrued Expenses	<u>\$ 437,343</u>	<u>\$ 7,613</u>
Total Liabilities	<u>437,343</u>	<u>7,613</u>
Net Assets		
Without Donor Restrictions		
Board Designated for Durable Equipment	200,000	200,000
Board Designated for Construction	1,500,000	1,500,000
Board Designated for Operating Reserves	3,000,000	3,000,000
Undesignated	<u>1,453,851</u>	<u>740,755</u>
Total Without Donor Restrictions	6,153,851	5,440,755
With Donor Restrictions	<u>1,857,189</u>	<u>3,400,250</u>
Total Net Assets	<u>8,011,040</u>	<u>8,841,005</u>
Total Liabilities and Net Assets	<u>\$ 8,448,383</u>	<u>\$ 8,848,618</u>

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
Net Assets Without Donor Restrictions		
Revenues and Support		
Grants and Contributions	\$ 1,288,584	\$ 1,172,503
Events and Merchandise Sales	82,889	35,025
Donated Services	1,791	1,984
Investment Income - Spending Policy	257,243	284,405
Investment Income	(508,673)	391,826
Net Assets Released from Restrictions	1,944,872	345,671
Total Revenues and Support	3,066,706	2,231,414
Expenses		
Program Services		
Holy Family Hospital of Bethlehem	1,811,266	1,841,095
Communications	195,709	199,307
Total Program Services	2,006,975	2,040,402
Supporting Services		
Management and General	177,971	139,904
Fundraising	168,664	215,738
Total Supporting Services	346,635	355,642
Total Expenses	2,353,610	2,396,044
Change in Net Assets Without Donor Restrictions	713,096	(164,630)
Net Assets With Donor Restrictions		
Revenues and Support		
Grants and Contributions	401,811	2,026,277
Investment Income - Spending Policy	-	14,569
Net Assets Released from Restrictions	(1,944,872)	(345,671)
Change in Net Assets With Donor Restrictions	(1,543,061)	1,695,175
Change in Net Assets	(829,965)	1,530,545
Net Assets, Beginning of Year	8,841,005	7,310,460
Net Assets, End of Year	\$ 8,011,040	\$ 8,841,005

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services			Supporting Services			Total
	Holy Family Hospital of Bethlehem	Communications	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Contributions to Holy Family Hospital of Bethlehem	\$ 1,761,810	\$ -	\$ 1,761,810	\$ -	\$ -	\$ -	\$ 1,761,810
Salaries, Payroll Taxes, and Benefits	20,323	65,156	85,479	82,420	59,050	141,470	226,949
Rent and Office Expenses	5,416	22,482	27,898	35,344	22,431	57,775	85,673
Postage and Printing	-	20,573	20,573	6,959	49,143	56,102	76,675
Professional Fees and Consultants	5,319	6,863	12,182	51,124	13,391	64,515	76,697
Travel and Events	18,398	80,635	99,033	2,124	24,649	26,773	125,806
	<u>\$ 1,811,266</u>	<u>\$ 195,709</u>	<u>\$ 2,006,975</u>	<u>\$ 177,971</u>	<u>\$ 168,664</u>	<u>\$ 346,635</u>	<u>\$ 2,353,610</u>

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
Cash Flows from Operating Activities		
Change in Net Assets	\$ (829,965)	\$ 1,530,545
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Unrealized Loss (Gain) on Investments	408,271	(524,091)
Realized Loss (Gain) on Investments	9,464	(25,737)
Proceeds from Sale of Unrestricted Donated Stock	-	17,167
Changes in Assets and Liabilities		
Accrued Interest Receivable	(4,186)	(1,952)
Pledges Receivable	1,302,916	(1,535,541)
Security Deposit and Prepaid Expenses	(280)	2,719
Accounts Payable and Accrued Expenses	429,730	257
Net Cash Provided by (Used in) Operating Activities	1,315,950	(536,633)
Cash Flows from Investing Activities		
Purchases of Investments	(4,312,936)	(3,546,209)
Proceeds from Sales of Investments	2,862,668	4,066,346
Net Cash (Used in) Provided by Investing Activities	(1,450,268)	520,137
Net Decrease in Cash and Cash Equivalents	(134,318)	(16,496)
Cash and Cash Equivalents, Beginning of Year	1,237,705	1,254,201
Cash and Cash Equivalents, End of Year	\$ 1,103,387	\$ 1,237,705

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

1. ORGANIZATION

The Holy Family Hospital of Bethlehem Foundation (the Foundation) was incorporated as a nonprofit 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 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 the 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 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:

- Net assets without donor restrictions represent the portion of expendable funds that are available for support of the general operations of the Foundation.
- Net assets with donor restrictions are comprised of (1) amounts restricted by donors for various programs or future periods and (2) 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. There were no earnings on gifts held in perpetuity as of December 31, 2018, and all earnings on these funds had been appropriated for expenditure as of December 31, 2017.

Functional Allocation of Expenses

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. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation, benefits, and general expenses, which are allocated on the basis of estimates of time and effort by employees.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses (Continued)

Program services, as presented in the statement of functional expenses, include the expenses directly related to the various projects of the Foundation to support the operations of the Holy Family Hospital in Bethlehem.

Supporting services include expenses indirectly related to the various projects and are of an administrative nature.

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, 2018 and 2017, \$448,090 and \$832,024, respectively, of cash and cash equivalents were donor restricted.

Investments

Investments in debt securities, certificates of deposit, 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 value of debt securities, certificates of deposit, institutional mutual funds, and equity securities with readily determinable fair values are based on quotations obtained from national security exchanges.

Debt securities, certificates of deposit, 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 value. 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 2018 and 2017, the estimated fair values represented approximately 15% and 17%, 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.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

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.

At December 31, 2018 and 2017, \$1,370,000 and \$826,000, respectively, of investments were donor restricted.

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.

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 revenue and support or expenses in the accompanying statements of activities. At December 31, 2018 and 2017, furniture and equipment are fully depreciated.

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 net assets without donor restrictions 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 net assets with donor restrictions. When a stipulated time restriction ends or purpose restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 their 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.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 involving legal services for the years ended December 31, 2018 and 2017, were \$1,791 and \$1,984, respectively, 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.

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, 2018 and 2017, 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, consisting of two commercial checking accounts with a commercial financial institution, which are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. As of December 31, 2018 and 2017, the accounts exceeded the insured limit by \$853,207 and \$580,638, respectively. The Foundation

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk (Continued)

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.

3. 2018 ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14 AND OTHER NEW ACCOUNTING PRONOUNCEMENTS

Current Year Adoption of Accounting Standards Update 2016-14

For the year ended December 31, 2018, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification and provides information about liquidity and availability of resources. The changes required by the update have been applied retrospectively to all periods presented. A key change under ASU 2016-14 is the terminology of net asset classes used in these financial statements. Amounts previously reported as temporarily restricted and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions. Additionally, ASU 2016-14 requires a presentation of expenses on a functional basis.

The update impacted the presentation of previously reported amounts for the year ended December 31, 2017, as follows:

	Without Donor Restrictions	With Donor Restrictions
Statement of Financial Position		
Unrestricted Net Assets	\$ 5,440,755	\$ -
Temporarily Restricted Net Assets	-	3,275,250
Permanently Restricted Net Assets	-	125,000
Total per ASU 2016-14	\$ 5,440,755	\$ 3,400,250
Statement of Activities		
Total Revenues and Support	\$ 2,244,487	\$ -
Less Investment Fees	(13,073)	-
Total per ASU 2016-14	\$ 2,231,414	\$ -
Change in Unrestricted Net Assets	\$ (164,630)	\$ -
Change in Temporarily Restricted Net Assets	\$ -	\$ 1,695,175

New Accounting Pronouncements for Years 2019 and Later

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

3. 2018 ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14 AND OTHER NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

New Accounting Pronouncements for Years 2019 and Later (Continued)

permits the use of either a full retrospective or retrospective with cumulative effect transition method. The ASU is required for annual reporting periods beginning after December 15, 2018, but may be early adopted. Management has not evaluated the impact of this ASU on its financial statements.

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The ASU provides additional guidance in (1) evaluating whether transactions should be accounted for as contributions (within the scope of ASC 958) or as exchange (reciprocal) transactions (subject to ASC 606); and (2) distinguishing between conditional and unconditional contributions. For adoption, the ASU permits the use of either a full retrospective or modified retrospective basis. The ASU is required for annual reporting periods beginning after December 15, 2018, but may be early adopted.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in (Topic 840), Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Earlier application is permitted. Management of the Foundation has not evaluated the impact of this ASU on its financial statements.

4. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of routine requirements in short-term investments, and to help manage unanticipated liquidity needs, the Foundation could draw on its investments.

The following reflects the Foundation's financial assets as of December 31, 2018, reduced by amounts not available for general operating expenditure within one year:

Total Assets	\$ 8,448,383
<i>Less Amounts Not Available for General Operating Expenditure</i>	
Cash and Investments with Donor Restrictions	(1,818,090)
Investments Designated for Endowment Fund	(125,000)
Accrued Interest Receivable	(20,005)
Pledges Receivable	(314,311)
Security Deposit and Prepaid Expenses	(15,377)
Total Financial Assets and Liquidity Resources Available within One Year	<u>\$ 6,155,600</u>

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

5. INVESTMENTS

The following table summarizes the Foundation's investments, which are the only assets held by the Foundation measured at fair value on a recurring basis as of December 31, 2018:

<u>December 31, 2018</u>	<u>Total Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>
Equity Securities			
ETF-International Index	\$ 430,563	\$ 430,563	\$ -
Total Equity Securities	<u>430,563</u>	<u>430,563</u>	<u>-</u>
Debt Securities			
Corporate Bonds	1,063,527	-	1,063,527
U.S. Treasury Securities	381,526	381,526	-
Total Debt Securities	<u>1,445,053</u>	<u>381,526</u>	<u>1,063,527</u>
Mutual Funds			
Euro Pacific	400,923	400,923	-
Small Cap	453,694	453,694	-
500 Index	1,183,994	1,183,994	-
Institutional Domestic Bond	294,524	294,524	-
Institutional Domestic Real Asset	317,110	317,110	-
Total Mutual Funds	<u>2,650,245</u>	<u>2,650,245</u>	<u>-</u>
Cash, Money Market Funds, and Certificates of Deposit	<u>2,469,442</u>	<u>2,469,442</u>	<u>-</u>
Total Investments	<u>\$ 6,995,303</u>	<u>\$ 5,931,776</u>	<u>\$ 1,063,527</u>

The following table summarizes the Foundation's investments, which are the only assets held by the Foundation measured at fair value on a recurring basis as of December 31, 2017:

<u>December 31, 2017</u>			
Equity Securities			
ETF-International Index	\$ 515,021	\$ 515,021	\$ -
Total Equity Securities	<u>515,021</u>	<u>515,021</u>	<u>-</u>
Debt Securities			
Corporate Bonds	986,582	-	986,582
U.S. Treasury Securities	446,786	446,786	-
Total Debt Securities	<u>1,433,368</u>	<u>446,786</u>	<u>986,582</u>
Mutual Funds			
Euro Pacific	529,758	529,758	-
Small Cap	553,429	553,429	-
500 Index	1,373,262	1,373,262	-
Institutional Domestic Bond	301,598	301,598	-
Institutional Domestic Real Asset	344,293	344,293	-
Total Mutual Funds	<u>3,102,340</u>	<u>3,102,340</u>	<u>-</u>
Cash, Money Market Funds, and Certificates of Deposit	<u>912,041</u>	<u>912,041</u>	<u>-</u>
Total Investments	<u>\$ 5,962,770</u>	<u>\$ 4,976,188</u>	<u>\$ 986,582</u>

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

5. INVESTMENTS (CONTINUED)

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

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

Corporate bonds and mortgage pools - 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, 2018 and 2017.

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Unrealized (Loss) Gains, Net	\$ (408,271)	\$ 524,091
Realized (Loss) Gains, Net	(9,464)	25,737
Interest and Dividends, Net of Fees	<u>166,305</u>	<u>140,972</u>
Total Investment Income	<u>\$ (251,430)</u>	<u>\$ 690,800</u>

Total investment income is reported in the accompanying statements of activities as follows for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Investment Income Without Donor Restrictions - Spending Policy	\$ 257,243	\$ 284,405
Investment Income Without Donor Restrictions, Net of Fees	(508,673)	391,826
Investment Income With Donor Restrictions - Spending Policy	-	<u>14,569</u>
Total Investment Income	<u>\$ (251,430)</u>	<u>\$ 690,800</u>

Fees to manage the investment portfolio totaling \$12,261 and \$13,074 for the years ended December 31, 2018 and 2017, respectively, were included in the Foundation's investment income in the accompanying statements of activities.

6. PLEDGES RECEIVABLE

As of December 31, 2018, pledges receivable represents 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	\$ 236,000	\$ 78,311	\$ 314,311
Total Pledges Receivable	<u>\$ 236,000</u>	<u>\$ 78,311</u>	<u>\$ 314,311</u>

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

6. PLEDGES RECEIVABLE (CONTINUED)

As of December 31, 2017, pledges receivable represent contributions from individuals and corporate foundations. The pledges are due to be received as follows:

	Pledges	Annual Giving Grants	Total
Within One Year	\$ 1,392,000	\$ 59,227	\$ 1,451,227
One to Five Years	166,000	-	166,000
Total Pledges Receivable	\$ 1,558,000	\$ 59,227	\$ 1,617,227

7. DONOR RESTRICTED AND BOARD DESIGNATED NET ASSETS

Net Assets With Donor Restrictions

Net assets with donor restrictions include the unexpended portion of restricted contributions received, commitments from donors for amounts not yet received, and a donor-restricted endowment fund. Net assets with donor restrictions as of December 31 consisted of the following:

	2018	2017
<i>Purpose and Time Restricted</i>		
Hospital Construction	\$ 1,392,078	\$ 1,626,078
Hospital Doctors	25,800	31,945
Time Restrictions - Construction	166,000	332,000
Time Restrictions	148,311	1,285,227
<i>Other Restricted</i>		
Perpetuity	125,000	125,000
Total Net Assets With Donor Restrictions	\$ 1,857,189	\$ 3,400,250

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 as follows:

	2018	2017
Hospital Operations	\$ 263,500	\$ 18,569
Hospital Equipment	75,000	188,050
Hospital Construction	400,000	50,000
Hospital Doctors	6,145	8,366
Satisfaction of Purpose Restrictions	744,645	264,985
Satisfaction of Time Restrictions	1,200,227	80,686
Net Assets Released from Restrictions	\$ 1,944,872	\$ 345,671

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

7. DONOR RESTRICTED AND BOARD DESIGNATED NET ASSETS (CONTINUED)

Board Designated

The Foundation's board approved designating unrestricted net assets for specific purposes involving Hospital Operations. The three board designated net asset categories are as follows:

Board Designated Durable Equipment - originally \$1,000,000 of unrestricted net assets designated for funding new and replacement equipment needs. There were no transfers for the year ending December 31, 2018. Amounts for equipment needs were transferred to the Hospital totaling \$400,000, \$300,000, and \$100,000 for the years ending December 31, 2017, 2016, and 2015, respectively.

Board Designated Construction - originally \$2,000,000 of net assets designated for funding new and refurbishment construction needs at the Hospital. The board approved a pledge commitment of \$500,000 from these board designated construction net assets and the board approved pledge was fulfilled by transferring the funds to the Hospital in 2015.

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

8. ENDOWMENT FUNDS

Net assets with donor restrictions include 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.

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 net assets with donor restrictions (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 also classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation and moved to net assets without donor restrictions 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 endowments 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.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

8. ENDOWMENT FUNDS (CONTINUED)

Interpretation of Relevant Law (Continued)

- The expected total return from income and the appreciation of investments.
- Other resources of the Foundation.
- The investment policy of the Foundation.

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, 2018 and 2017, the balance of the donor-restricted funds was \$125,000.

For the year ended December 31, 2018, the endowment fund had the following activity:

	Donor	With Donor Restrictions		Total
	Restrictions	Programs	Perpetuity	
Endowment Fund, Beginning of Year	\$ -	\$ -	\$ 125,000	\$ 125,000
Investment Income (Loss)	(4,723)	-	-	(4,723)
Amounts Appropriated for Expenditure	-	-	-	-
Endowment Fund, End of Year	<u>\$ (4,723)</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 120,277</u>

For the year ended December 31, 2017, the endowment fund had the following activity:

	Donor	With Donor Restrictions		Total
	Restrictions	Programs	Perpetuity	
Endowment Fund, Beginning of Year	\$ -	\$ -	\$ 125,000	\$ 125,000
Investment Income (Loss)	-	14,569	-	14,569
Amounts Appropriated for Expenditure	-	(14,569)	-	(14,569)
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 US GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$4,723 as of December 31, 2018. 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 such deficiencies as of December 31, 2017.

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.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

9. 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 Order of Malta American Association, the Sovereign Order of Malta Federal Association and the Sovereign Order of Malta Western Association are the members of the Foundation. The Sovereign Order of Malta Rome operates the Hospital, and the Hospital and the Foundation share two common board members.

During the year ended December 31, 2018, the Foundation received \$50,000 from the American Association, \$134,000 from the Federal Association, and \$100,000 from the Western Association.

During the year ended December 31, 2017, the Foundation received \$50,000 from the American Association, \$100,000 from the Federal Association, and \$90,000 from the Western Association.

During the years ended December 31, 2018 and 2017, the Foundation also made contributions to the Hospital of \$1,311,810 and \$1,497,670, respectively.

10. COMMITMENT

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, and extended during 2017 to expire January 31, 2021. The terms of the lease agreement require a security deposit of \$8,790, which was included in security deposits in the accompanying statements of financial position as of December 31, 2018 and 2017.

Future minimum lease payments under the lease are as follows:

For the Years Ending December 31,

2019	\$	37,636
2020		38,762
2021		3,238
Total	\$	<u>79,636</u>

Rent expense totaled \$36,541 and \$36,652 for the years ended December 31, 2018 and 2017, respectively.

11. 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, 2018 and 2017, no provision for income taxes was made, as the Foundation had no net unrelated business income.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

11. INCOME TAXES (CONTINUED)

The Foundation follows the authoritative guidance relating to accounting for uncertainty in income taxes included in Financial Accounting Standards Board Accounting Standard Codification Topic *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, 2018 and 2017, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2018, the statute of limitations for tax years ending December 31, 2015 through December 31, 2017, 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, 2018 and 2017, the Foundation had no accruals for interest and/or penalties.

12. SUBSEQUENT EVENTS

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 12, 2019, 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.