



HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

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DECEMBER 31, 2019 AND 2018**

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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, 2019 and 2018, and the related statements of activities, functional expenses, 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 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, 2019 and 2018, 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.

Councilor, Buchanan & Mitchell, P.C.

Bethesda, Maryland
April 17, 2020

Certified Public Accountants

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

	2019	2018
Assets		
Cash and Cash Equivalents	\$ 901,471	\$ 1,103,387
Investments	7,546,399	6,995,303
Accrued Interest Receivable	19,475	20,005
Pledges Receivable	275,962	314,311
Security Deposit and Prepaid Expenses	113,880	15,377
Total Assets	\$ 8,857,187	\$ 8,448,383
Liabilities and Net Assets		
Liabilities		
Accounts Payable and Accrued Expenses	\$ 15,192	\$ 437,343
Deferred Revenue	107,229	-
Total Liabilities	122,421	437,343
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	1,989,706	1,453,851
Total Without Donor Restrictions	6,689,706	6,153,851
With Donor Restrictions	2,045,060	1,857,189
Total Net Assets	8,734,766	8,011,040
Total Liabilities and Net Assets	\$ 8,857,187	\$ 8,448,383

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
Net Assets Without Donor Restrictions		
Revenues and Support		
Grants and Contributions	\$ 1,460,266	\$ 1,288,584
Events and Merchandise Sales	1,706	82,889
Donated Services	2,130	1,791
Investment Income - Spending Policy	244,962	257,243
Investment Income (Loss)	626,035	(508,673)
Net Assets Released from Restrictions	467,629	1,944,872
Total Revenues and Support	2,802,728	3,066,706
Expenses		
Program Services		
Support of Holy Family Hospital of Bethlehem	1,771,095	1,811,266
Communications	159,747	195,709
Total Program Services	1,930,842	2,006,975
Supporting Services		
Management and General	161,581	177,971
Fundraising	174,450	168,664
Total Supporting Services	336,031	346,635
Total Expenses	2,266,873	2,353,610
Change in Net Assets Without Donor Restrictions	535,855	713,096
Net Assets With Donor Restrictions		
Revenues and Support		
Grants and Contributions	638,428	401,811
Investment Income - Spending Policy	17,072	-
Net Assets Released from Restrictions	(467,629)	(1,944,872)
Change in Net Assets With Donor Restrictions	187,871	(1,543,061)
Change in Net Assets	723,726	(829,965)
Net Assets, Beginning of Year	8,011,040	8,841,005
Net Assets, End of Year	\$ 8,734,766	\$ 8,011,040

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Program Services			Supporting Services			Total
	Support of Holy Family Hospital of Bethlehem	Communications	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Contributions to Holy Family Hospital of Bethlehem	\$ 1,725,371	\$ -	\$ 1,725,371	\$ -	\$ -	\$ -	\$ 1,725,371
Salaries, Payroll Taxes, and Benefits	18,925	84,695	103,620	36,792	78,931	115,723	219,343
Rent and Office Expenses	3,964	21,870	25,834	20,532	28,696	49,228	75,062
Postage and Printing	-	27,506	27,506	8,841	31,096	39,937	67,443
Professional Fees and Consultants	5,947	120	6,067	92,143	-	92,143	98,210
Travel and Events	16,888	25,556	42,444	3,273	35,727	39,000	81,444
Total	\$ 1,771,095	\$ 159,747	\$ 1,930,842	\$ 161,581	\$ 174,450	\$ 336,031	\$ 2,266,873

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
	Support of 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
Total	\$ 1,811,266	\$ 195,709	\$ 2,006,975	\$ 177,971	\$ 168,664	\$ 346,635	\$ 2,353,610

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
Cash Flows from Operating Activities		
Change in Net Assets	\$ 723,726	\$ (829,965)
Adjustments to Reconcile Change in Net Assets to Net Cash (Used in) Provided by Operating Activities		
Write-Off of Pledge Receivable	7,500	-
Unrealized (Gain) Loss on Investments	(730,517)	408,271
Realized Loss on Investments	11,712	9,464
Proceeds from Sale of Unrestricted Donated Stock	(20,942)	-
Changes in Assets and Liabilities		
Accrued Interest Receivable	530	(4,186)
Pledges Receivable	30,849	1,302,916
Security Deposit and Prepaid Expenses	(98,503)	(280)
Accounts Payable and Accrued Expenses	(422,151)	429,730
Deferred Revenue	107,229	-
Net Cash (Used in) Provided by Operating Activities	(390,567)	1,315,950
Cash Flows from Investing Activities		
Purchases of Investments	(2,770,642)	(4,312,936)
Proceeds from Sales of Investments	2,959,293	2,862,668
Net Cash Provided by (Used in) Investing Activities	188,651	(1,450,268)
Net Decrease in Cash and Cash Equivalents	(201,916)	(134,318)
Cash and Cash Equivalents, Beginning of Year	1,103,387	1,237,705
Cash and Cash Equivalents, End of Year	\$ 901,471	\$ 1,103,387

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 support the Hospital in its mission 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 and capital expenditures (together, Hospital 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. As of December 31, 2019, all earnings on restricted net assets to be held in perpetuity had been appropriated for expenditure. There were no earnings on gifts held in perpetuity as of December 31, 2018.

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, which are consistently applied using estimates of time and effort by employees. The expenses that are allocated include salaries, benefits, and general expenses.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses (Continued)

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

Supporting services include expenses indirectly related to the various projects and are of an administrative and development 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, 2019 and 2018, \$25,879 and \$448,090, 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 2019 and 2018, the estimated fair values represented approximately 17% and 15%, 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 spending policy to aid with general operations and making of contributions to the Hospital, allows for an amount up to a 5% annual withdrawal based on the most recent three-year rolling average of the investment portfolio's fair value (investment spending policy).

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

At December 31, 2019 and 2018, \$1,636,000 and \$1,370,000 of investments were donor restricted, respectively.

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, 2019 and 2018, furniture and equipment are fully depreciated.

Deferred Revenues

Event revenues collected in advance are deferred and recognized as revenues over the applicable periods or in the periods in which the events occur.

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.

Contract revenue is reported as the amount of revenue expected to be entitled for the transfer of promised goods or services to customers.

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, 2019 AND 2018

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, 2019 and 2018, were \$2,130 and \$1,791, 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, 2019 and 2018, 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 a commercial checking account and a savings account, with a commercial financial institution, which are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. As of December 31, 2019 and 2018, the accounts exceeded the insured limit by \$651,300 and \$853,207, 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, 2019 AND 2018

3. ADOPTION OF ACCOUNTING STANDARDS AND OTHER NEW ACCOUNTING PRONOUNCEMENTS

Adoption of Accounting Standards Update 2016-14 for Year 2018

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.

Adoption of New Accounting Pronouncements for Year 2019

For the year ended December 31, 2019, the Foundation adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update requires 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. Adoption of this pronouncement had no significant impact on the Foundation's financial statements.

For the year ended December 31, 2019, the Foundation adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update 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.

Adoption of this pronouncement had no significant impact on the Foundation's financial statements.

New Accounting Pronouncements for Year 2021

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, 2020, 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.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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, 2019 and 2018, reduced by amounts not available for general operating expenditure within one year:

	2019	2018
Total Assets	\$ 8,857,187	\$ 8,448,383
<i>Less Amounts Not Available for General Operating Expenditure</i>		
Cash and Investments With Donor Restrictions	(1,644,098)	(1,818,090)
Investments Designated for Endowment Fund	(125,000)	(125,000)
Accrued Interest Receivable	(19,475)	(20,005)
Pledges Receivable (Due in One to Five Years)	(31,500)	(314,311)
Security Deposit and Prepaid Expenses	(113,880)	(15,377)
Total Financial Assets and Liquidity Resources Available within One Year	\$ 6,923,234	\$ 6,155,600

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, 2019:

	Total Fair Value	Level 1 Inputs	Level 2 Inputs
<u>December 31, 2019</u>			
Equity Securities			
ETF-International Index	\$ 449,277	\$ 449,277	\$ -
Total Equity Securities	449,277	449,277	-
Debt Securities			
Corporate Bonds	1,291,319	-	1,291,319
U.S. Treasury Securities	582,238	582,238	-
Total Debt Securities	1,873,557	582,238	1,291,319
Mutual Funds			
Euro Pacific	450,748	450,748	-
Small Cap	555,241	555,241	-
500 Index	1,471,339	1,471,339	-
Institutional Domestic Bond	325,521	325,521	-
Total Mutual Funds	2,802,849	2,802,849	-
Cash, Money Market Funds, and Certificates of Deposit			
of Deposit	2,420,716	2,420,716	-
Total Investments	\$ 7,546,399	\$ 6,255,080	\$ 1,291,319

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

5. INVESTMENTS (CONTINUED)

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 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, 2019 and 2018.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

5. 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, 2019 and 2018:

	2019	2018
Unrealized Gain (Loss), Net	\$ 730,517	\$ (408,271)
Realized Loss, Net	(11,712)	(9,464)
Interest and Dividends, Net of Fees	169,264	166,305
Total Investment Income (Loss)	\$ 888,069	\$ (251,430)

Total investment income is reported in the accompanying statements of activities as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Investment Income Without Donor Restrictions - Spending Policy	\$ 244,962	\$ 257,243
Investment Income Without Donor Restrictions, Net of Fees	626,035	(508,673)
Investment Income With Donor Restrictions - Spending Policy	17,072	-
Total Investment Income (Loss)	\$ 888,069	\$ (251,430)

Fees to manage the investment portfolio totaling \$12,263 and \$12,261 for the years ended December 31, 2019 and 2018, respectively, were included in the Foundation's investment income in the accompanying statements of activities.

6. PLEDGES RECEIVABLE

As of December 31, 2019, pledges receivable represents contributions from individuals and corporate foundations. The pledges are due to be received as follows:

	Pledges	Annual Giving Grants	Total
Within One Year	\$ 66,200	\$ 178,262	\$ 244,462
One to Five Years	31,500	-	31,500
Total Pledges Receivable	\$ 97,700	\$ 178,262	\$ 275,962

As of December 31, 2018, 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	\$ 236,000	\$ 78,311	\$ 314,311
Total Pledges Receivable	\$ 236,000	\$ 78,311	\$ 314,311

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

7. NET ASSETS WITH AND WITHOUT DONOR RESTRICTIONS

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:

	2019	2018
<i>Purpose and Time Restricted</i>		
Hospital Construction	\$ 1,618,298	\$ 1,392,078
Visiting Medical Professors Program	25,800	25,800
Time Restrictions	275,962	314,311
<i>Other Restricted</i>		
Perpetuity	125,000	125,000
Total Net Assets With Donor Restrictions	\$ 2,045,060	\$ 1,857,189

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:

	2019	2018
Hospital Operations	\$ 149,072	\$ 263,500
Hospital Equipment	-	75,000
Hospital Construction	190,245	400,000
Visiting Medical Professors Program	-	6,145
Satisfaction of Purpose Restrictions	339,317	744,645
Satisfaction of Time Restrictions	128,312	1,200,227
Net Assets Released from Restrictions	\$ 467,629	\$ 1,944,872

Net Assets Without Donor Restrictions

The Foundation's Board regularly approves designating net assets without donor restrictions for specific purposes involving Hospital Operations. The three-board designated net asset categories are as follows:

Board Designated Durable Equipment - The \$200,000 amount at December 31, 2019 represents the original \$1,000,000 designation that had been reduced by equipment needs that were transferred to the Hospital totaling \$800,000 during the years 2015 through 2017.

Board Designated Construction - The \$1,500,000 amount at December 31, 2019 represents the original \$2,000,000 designation that had been reduced by a Board approved pledge commitment of \$500,000 that was fulfilled by transferring the funds to the Hospital in 2015.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

7. NET ASSETS WITH AND WITHOUT DONOR RESTRICTIONS (CONTINUED)

Net Assets Without Donor Restrictions (Continued)

Board Designated Operating Expenses - \$3,000,000 of net assets without donor restrictions designated for funding three years of Foundation operating expenses, including normal disbursements to the Hospital.

The Foundation's undesignated net assets without donor restrictions totaled \$1,989,706 and \$1,453,851 as of December 31, 2019 and 2018, respectively. Undesignated net assets without donor restrictions increase or decrease based on financial results reported in the statements of activities for net assets without donor restrictions. Therefore, undesignated net assets without donor restrictions are generally available for fulfilling the Foundation's program and supporting services that include, but are not limited to, the designated items described above.

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

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**NOTES TO FINANCIAL STATEMENTS
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8. ENDOWMENT FUNDS (CONTINUED)

Interpretation of Relevant Law (Continued)

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, 2019 and 2018, the balance of the donor-restricted funds was \$125,000.

For the year ended December 31, 2019, the endowment fund had the following activity:

	Without Donor	With Donor Restrictions		Total
	Restrictions	Programs	Perpetuity	
Endowment Fund, Beginning of Year	\$ (4,723)	\$ -	\$ 125,000	\$ 120,277
Investment Income (Loss)	4,723	17,072	-	21,795
Amounts Appropriated for Expenditure	-	(17,072)	-	(17,072)
Endowment Fund, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 125,000</u>

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

	Without 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>

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. There were no such deficiencies as of December 31, 2019. As of December 31, 2018, total deficiencies were \$4,723. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

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, 2019 AND 2018

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, 2019, 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, 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 years ended December 31, 2019 and 2018, the Foundation also made contributions to the Hospital of \$1,403,126 and \$1,311,810, respectively.

10. 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, 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, 2019 and 2018.

Future minimum lease payments under the lease are as follows:

For the Years Ending December 31,

2020	\$ 38,762
2021	<u>3,238</u>
Total	<u>\$ 42,000</u>

Rent expense totaled \$37,454 and \$36,541 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, 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 Standard Codification Topic *Income Taxes*. These provisions provide consistent guidance for the accounting

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

11. INCOME TAXES (CONTINUED)

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, 2019 and 2018, 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, 2019, the statute of limitations for tax years ending December 31, 2016 through December 31, 2018, 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, 2019 and 2018, the Foundation had no accruals for interest and/or penalties.

12. SUBSEQUENT EVENTS

The spread of COVID-19 (coronavirus disease) has had a disruptive impact on the daily life and operations of individuals, businesses, and nonprofit organizations around the world. There is uncertainty about financial and economic impacts in all sectors of the economy. The financial markets have experienced significant volatility, and this may continue for an extended period of time, resulting in the reasonable possibility that changes in risks would materially affect investment balances and the amount reported in the financial statements. Consistent with its normal practices and procedures, the Foundation continues reviewing its ongoing operations, future events, cash management, fundraising strategies, etc., in an attempt to mitigate any adverse financial impact. Actions may include rescheduling certain events and other possibilities. While management continues working to provide the best outcomes, it cannot currently assess the likelihood of being able to successfully mitigate adverse financial impacts to the Foundation, if any.

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through April 17, 2020, 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.