



HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

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Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of Holy Family Hospital of Bethlehem Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Holy Family Hospital of Bethlehem Foundation as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Holy Family Hospital of Bethlehem Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 3 of the financial statements, Holy Family Hospital of Bethlehem Foundation adopted Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Holy Family Hospital of Bethlehem Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Holy Family Hospital of Bethlehem Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Holy Family Hospital of Bethlehem Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control related matters that we identified during the audits.

Councilor, Buchanan + Mitchell, P.C.

Bethesda, Maryland
April 10, 2023

Certified Public Accountants

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 1,361,557	\$ 1,126,715
Investments	7,282,614	8,140,089
Accrued Interest Receivable	18,101	18,246
Pledges Receivable	1,202,555	383,333
Security Deposit and Prepaid Expenses	<u>13,833</u>	<u>13,201</u>
Total Current Assets	9,878,660	9,681,584
Right-of-Use Operating Lease Asset	<u>34,947</u>	<u>-</u>
Total Assets	<u><u>\$ 9,913,607</u></u>	<u><u>\$ 9,681,584</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 12,205	\$ 7,722
Deferred Rent Liability	-	6,450
Deferred Revenue	10,000	20,075
Current Portion of Operating Lease Liability	<u>35,611</u>	<u>-</u>
Total Current Liabilities	57,816	34,247
Operating Lease Liability, Net of Current Portion	<u>3,025</u>	<u>-</u>
Total Liabilities	<u>60,841</u>	<u>34,247</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>2,043,877</u>	<u>2,739,395</u>
Total Without Donor Restrictions	6,743,877	7,439,395
With Donor Restrictions	<u>3,108,889</u>	<u>2,207,942</u>
Total Net Assets	<u>9,852,766</u>	<u>9,647,337</u>
Total Liabilities and Net Assets	<u><u>\$ 9,913,607</u></u>	<u><u>\$ 9,681,584</u></u>

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Net Assets Without Donor Restrictions		
Revenues and Support		
Grants and Contributions	\$ 2,240,069	\$ 2,264,072
Events and Merchandise Sales	99,773	-
Investment Income - Spending Policy	274,464	253,813
Investment (Loss) Income	(860,207)	257,115
Net Assets Released from Restrictions	<u>580,581</u>	<u>1,179,878</u>
Total Revenues and Support	<u>2,334,680</u>	<u>3,954,878</u>
Expenses		
Program Services		
Support of Holy Family Hospital of Bethlehem	2,242,906	3,202,570
Communications	<u>298,051</u>	<u>180,733</u>
Total Program Services	<u>2,540,957</u>	<u>3,383,303</u>
Supporting Services		
Management and General	193,450	177,612
Fundraising	<u>295,791</u>	<u>185,510</u>
Total Supporting Services	<u>489,241</u>	<u>363,122</u>
Total Expenses	<u>3,030,198</u>	<u>3,746,425</u>
Change in Net Assets Without Donor Restrictions	<u>(695,518)</u>	<u>208,453</u>
Net Assets With Donor Restrictions		
Revenues and Support		
Grants and Contributions	1,496,555	1,051,414
Investment Income - Spending Policy	(15,027)	11,585
Net Assets Released from Restrictions	<u>(580,581)</u>	<u>(1,179,878)</u>
Change in Net Assets With Donor Restrictions	<u>900,947</u>	<u>(116,879)</u>
Change in Net Assets	205,429	91,574
Net Assets, Beginning of Year	<u>9,647,337</u>	<u>9,555,763</u>
Net Assets, End of Year	<u><u>\$ 9,852,766</u></u>	<u><u>\$ 9,647,337</u></u>

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Program Services			Supporting Services			
	Support of Holy Family Hospital of Bethlehem	Communications	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Contributions to Holy Family Hospital of Bethlehem	\$ 2,192,419	\$ -	\$ 2,192,419	\$ -	\$ -	\$ -	\$ 2,192,419
Salaries, Payroll Taxes, and Benefits	11,799	126,739	138,538	53,398	132,836	186,234	324,772
Operating Lease and Office Expenses	1,401	41,061	42,462	36,546	57,487	94,033	136,495
Postage and Printing	29	28,543	28,572	10,233	47,683	57,916	86,488
Professional Fees and Consultants	17,360	-	17,360	88,770	724	89,494	106,854
Travel and Events	19,898	101,708	121,606	4,503	57,061	61,564	183,170
Total	\$ 2,242,906	\$ 298,051	\$ 2,540,957	\$ 193,450	\$ 295,791	\$ 489,241	\$ 3,030,198

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Program Services			Supporting Services			
	Support of Holy Family Hospital of Bethlehem	Communications	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Contributions to Holy Family Hospital of Bethlehem	\$ 3,183,938	\$ -	\$ 3,183,938	\$ -	\$ -	\$ -	\$ 3,183,938
Salaries, Payroll Taxes, and Benefits	602	104,856	105,458	55,091	107,060	162,151	267,609
Rent and Office Expenses	95	24,662	24,757	21,826	36,073	57,899	82,656
Postage and Printing	-	37,100	37,100	7,974	30,388	38,362	75,462
Professional Fees and Consultants	7,095	3,000	10,095	90,014	5,169	95,183	105,278
Travel and Events	10,840	11,115	21,955	2,707	6,820	9,527	31,482
Total	\$ 3,202,570	\$ 180,733	\$ 3,383,303	\$ 177,612	\$ 185,510	\$ 363,122	\$ 3,746,425

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 205,429	\$ 91,574
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Unrealized Loss on Investments	735,970	541,114
Realized Loss (Gain) on Investments	14,361	(884,425)
Proceeds from Sale of Unrestricted Donated Stock	-	(89,643)
Operating Lease Expense	35,316	-
<u>Changes in Assets</u>		
Accrued Interest Receivable	145	(3,000)
Pledges Receivable	(819,222)	(247,642)
Security Deposit and Prepaid Expenses	(632)	422
<u>Changes in Liabilities</u>		
Accounts Payable and Accrued Expenses	4,483	(6,267)
Deferred Rent Liability	(6,450)	6,450
Deferred Revenue	(10,075)	(2,000)
Operating Lease Liability	(31,627)	-
Net Cash Provided by (Used in) Operating Activities	127,698	(593,417)
Cash Flows from Investing Activities		
Purchases of Investments	(2,189,998)	(4,067,404)
Proceeds from Sales of Investments	2,297,142	4,636,834
Net Cash Provided by Investing Activities	107,144	569,430
Net Increase (Decrease) in Cash and Cash Equivalents	234,842	(23,987)
Cash and Cash Equivalents, Beginning of Year	1,126,715	1,150,702
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,361,557</u></u>	<u><u>\$ 1,126,715</u></u>
Noncash Transactions from Investing Activities		
Establishment of Right-of-Use Operating Lease Asset	\$ 65,714	\$ -
Establishment of Operating Lease Liability	72,164	-

See accompanying Notes to Financial Statements.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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.

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, payroll taxes and benefits, and general expenses.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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. As of December 31, 2022 and 2021, \$300,212 and \$162,673, 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) considered Level 2 are valued based on readily available pricing sources for comparable investments. 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 2022 and 2021, the estimated fair values represented approximately 19% and 20%, 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, 2022 AND 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

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).

As of December 31, 2022 and 2021, \$1,496,150 and \$1,904,427, of investments were donor restricted, respectively.

Pledges Receivable

Pledges receivable are recorded at net realizable value. Pledges receivable 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.

Grants and unconditional contributions 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.

Furniture and Equipment

Furniture and equipment purchases are recorded at cost, include expenditures over \$3,000, 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. As of December 31, 2022 and 2021, furniture and equipment were 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 grants and contributions from individuals and foundations. The Foundation reports grants and unconditional contributions of cash and other assets as net assets without donor restrictions and available for general operations, unless specifically restricted by the donor. If grants and contributions 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 grants and contributions as net assets with donor restrictions. When a

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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 or exchange revenue, such as events and merchandise sales, is reported as the amount of revenue earned that is commensurate with the value of the transfer of promised goods or services to customers at the time the event occurs or merchandise is sold.

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. There were no donated services for the years ended December 31, 2022 and 2021.

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, 2022 and 2021, only the Foundation's investments, as described in Note 5, were measured at fair value on a recurring basis.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022 and 2021, the accounts exceeded the insured limit by \$1,111,800 and \$876,500, respectively. These amounts represent the annual cycle and timing of donations received near calendar year-end and held in anticipation of disbursements to the Hospital early in the subsequent calendar year. In addition, 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.

Right-of-Use Operating Asset and Operating Lease Liability

Right-of-use (ROU) assets and lease liabilities are initially measured at the present value of minimum lease payments using an interest rate that approximates the remaining term of the lease. Management considers the likelihood of exercising renewal or termination clauses (if any) in measuring the Foundation's ROU assets and lease liabilities. Lease costs are allocated over the remaining lease term on a straight-line basis. The Foundation considers leases with initial terms of twelve months or less, and no option to purchase the underlying asset, to be short-term leases. Accordingly, short-term lease costs are expensed over the remaining lease term, with no corresponding ROU asset or lease liability. In addition, the Foundation does not separate non-lease components from lease components (if any) when determining the payments for leases of office equipment.

3. ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-02

During the year ended December 31, 2022, the Foundation adopted the Financial Accounting Standards Board's (FASB) Accounting Standard Update (ASU) 2016-02, *Leases (Topic 842)*, which supersedes the leasing guidance in *Topic 840*. This guidance is intended to increase transparency and comparability among lessees by recognizing lease assets and lease liabilities on the statements of financial position and disclosing key information about leasing arrangements. Under the new guidance, lessees are required to recognize lease right-of-use (ROU) assets and lease liabilities on the statements of financial position for all leases with terms longer than twelve months. In addition, leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities.

Management has elected to apply all practical expedients available under the new guidance, which allows the Foundation to: (1) not reassess whether any expired or existing contracts previously assessed as not containing leases are, or contain, leases; (2) not reassess the lease classification for any expired or existing leases; and (3) not reassess initial direct costs for any existing leases. The Foundation also elected to apply the practical expedient to use hindsight in determining the lease term.

Management believes that the adoption of this ASU enhances the transparency and comparability of financial information among nonprofit entities. The change in accounting principle was applied on a modified retrospective basis to existing leases with the cumulative effect of transition recognized at the beginning of the period of adoption. The impact of the adoption resulted in recognition of ROU assets and lease liabilities totaling approximately \$34,900 and \$38,600, respectively, as of December 31, 2022. In addition, the presentation and disclosure of leasing arrangements has been enhanced.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

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, 2022 and 2021, reduced by amounts not available for general operating expenditure within one year:

	2022	2021
Total Assets	\$ 9,913,607	\$ 9,681,584
<i>Less Amounts Not Available for General Operating Expenditure</i>		
Cash and Investments With Donor Restrictions	(1,796,362)	(1,698,409)
Investments Designated for Endowment Fund	(109,973)	(125,000)
Accrued Interest Receivable	(18,101)	(18,246)
Pledges Receivable (Due in One to Five Years)	(30,000)	-
Security Deposit and Prepaid Expenses	(13,833)	(13,201)
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	<u>\$ 7,945,338</u>	<u>\$ 7,826,728</u>

For December 31, 2022 and 2021, see Note 7 for amounts designated by the Board.

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, 2022:

<u>December 31, 2022</u>	Total Fair Value	Level 1 Inputs	Level 2 Inputs
Equity Securities			
ETF-International Index	\$ 314,087	\$ 314,087	\$ -
Domestic Equities	<u>10,259</u>	<u>10,259</u>	-
Total Equity Securities	<u>324,346</u>	<u>324,346</u>	-
Debt Securities			
Corporate Bonds	1,398,080	-	1,398,080
U.S. Treasury Securities	<u>868,590</u>	<u>868,590</u>	-
Total Debt Securities	<u>2,266,670</u>	<u>868,590</u>	<u>1,398,080</u>
Mutual Funds			
Euro Pacific	309,591	309,591	-
Small Cap	436,346	436,346	-
500 Index	991,974	991,974	-
Institutional Domestic Bond	<u>322,830</u>	<u>322,830</u>	-
Total Mutual Funds	<u>2,060,741</u>	<u>2,060,741</u>	-
Cash, Money Market Funds, and Certificates of Deposit	<u>2,630,857</u>	<u>2,630,857</u>	-
Total Investments	<u>\$ 7,282,614</u>	<u>\$ 5,884,534</u>	<u>\$ 1,398,080</u>

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

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, 2021:

<u>December 31, 2021</u>	<u>Total Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>
Equity Securities			
ETF-International Index	\$ 376,484	\$ 376,484	\$ -
Total Equity Securities	376,484	376,484	-
Debt Securities			
Corporate Bonds	1,663,341	-	1,663,341
U.S. Treasury Securities	731,926	731,926	-
Total Debt Securities	2,395,267	731,926	1,663,341
Mutual Funds			
Euro Pacific	400,671	400,671	-
Small Cap	509,047	509,047	-
500 Index	1,208,644	1,208,644	-
Institutional Domestic Bond	361,029	361,029	-
Total Mutual Funds	2,479,391	2,479,391	-
Cash, Money Market Funds, and Certificates of Deposit	2,888,947	2,888,947	-
Total Investments	<u>\$ 8,140,089</u>	<u>\$ 6,476,748</u>	<u>\$ 1,663,341</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, 2022 and 2021.

Total investment (loss) income is reported in the accompanying statements of activities as follows for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Investment Income Without Donor Restrictions - Spending Policy	\$ 274,464	\$ 253,813
Investment (Loss) Income Without Donor Restrictions, Net of Fees	(860,207)	257,115
Investment (Loss) Income With Donor Restrictions - Spending Policy	(15,027)	11,585
Total Investment Return	<u>\$ (600,770)</u>	<u>\$ 522,513</u>

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

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5. INVESTMENTS (CONTINUED)

Fees to manage the investment portfolio totaling \$16,072 and \$15,078 for the years ended December 31, 2022 and 2021, respectively, were included in the Foundation's investment income in the accompanying statements of activities.

6. PLEDGES RECEIVABLE

As of December 31, 2022, 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	\$ 111,200	\$ 1,061,355	\$ 1,172,555
One to Five Years	30,000	-	30,000
Total Pledges Receivable	\$ 141,200	\$ 1,061,355	\$ 1,202,555

The calculated discount for long-term pledges receivable is not material and therefore not recorded.

As of December 31, 2021, pledges receivable represent contributions from individuals and corporate foundations. The pledges are due to be received within one year.

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:

	2022	2021
<i>Purpose and Time Restricted</i>		
Hospital Construction	\$ 1,770,561	\$ 1,598,562
Hospital Operations	-	74,047
Visiting Medical Professors Program	25,800	25,800
Time Restrictions - Construction	1,200	1,200
Time Restrictions - Other	1,201,355	383,333
<i>Other Restricted</i>		
Perpetuity	109,973	125,000
Total Net Assets With Donor Restrictions	\$ 3,108,889	\$ 2,207,942

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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

Net Assets With Donor Restrictions (Continued)

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:

	2022	2021
Hospital Operations	\$ 82,500	\$ 817,358
Hospital Equipment	64,747	226,560
Hospital Construction	40,000	2,669
Satisfaction of Purpose Restrictions	187,247	1,046,587
Satisfaction of Time Restrictions	393,334	133,291
Net Assets Released from Restrictions	\$ 580,581	\$ 1,179,878

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 as of December 31, 2022 and 2021, 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 as of December 31, 2022 and 2021, 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.

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 \$2,028,850 and \$3,042,910 as of December 31, 2022 and 2021, 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.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

8. 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 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 held for programs is 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.

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, 2022 and 2021, the balance of the donor-restricted funds was \$109,973 and \$125,000, respectively.

For the year ended December 31, 2022, the endowment fund had the following activity:

	Without Donor Restrictions	With Donor Restrictions		Total
		Programs	Perpetuity	
Endowment Fund, Beginning of Year	\$ -	\$ -	\$ 125,000	\$ 125,000
Investment Loss	-	(15,027)	-	(15,027)
Amounts Appropriated for Expenditure	-	-	-	-
Endowment Fund, End of Year	<u>\$ -</u>	<u>\$ (15,027)</u>	<u>\$ 125,000</u>	<u>\$ 109,973</u>

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

8. ENDOWMENT FUNDS (CONTINUED)

Interpretation of Relevant Law (Continued)

For the year ended December 31, 2021, the endowment fund had the following activity:

	Without Donor Restrictions	With Donor Restrictions		Total
		Programs	Perpetuity	
Endowment Fund, Beginning of Year	\$ -	\$ -	\$ 125,000	\$ 125,000
Investment Income	-	11,585	-	11,585
Amounts Appropriated for Expenditure	-	(11,585)	-	(11,585)
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. As of December 31, 2022, total deficiencies were \$15,027. These deficiencies result from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Board of Directors. There were no such deficiencies as of December 31, 2021.

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.

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 French Association operates the Hospital and is managed by an independent board. Holy Family Hospital of Bethlehem Foundation holds two positions with the Hospital Board.

During the year ended December 31, 2022, the Foundation received \$155,000 from the American Association, \$175,000 from the Federal Association, and \$200,000 from the Western Association.

During the year ended December 31, 2021, the Foundation received \$100,000 from the American Association, \$150,000 from the Federal Association, and \$200,000 from the Western Association.

During the years ended December 31, 2022 and 2021, the Foundation also made contributions to the Hospital of approximately \$2,000,000 and \$1,500,000, respectively.

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NOTES TO FINANCIAL STATEMENTS
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10. OPERATING LEASE

Operating Lease under Topic 842

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 twice for two years each, and during 2020 extended a third time to expire January 31, 2024. The terms of the lease agreement provide for a three-month rent abatement for February through April 2021. ASU 2016-02, *Leases (Topic 842)* was adopted effective January 1, 2022. The calculation of the related right-of-use asset and lease liability, which are presented in the statements of financial position as of December 31, 2022, uses a federal risk-free rate of 3.0%.

The lease requires a security deposit of \$8,790, which is refundable and therefore not included in the calculation for ASU 2016-02, and is included in the accompanying statements of financial position as of December 31, 2022 and 2021.

Maturity of the operating lease liability as of December 31, 2022, is as follows:

For the Years Ending December 31,

2023	\$ 36,193
2024	3,024
Total Undiscounted Minimum Lease Payments	39,217
Less Discount to Present Value	(581)
Total Operating Lease Liability	<u>\$ 38,636</u>

Operating leases supplementary qualitative information is as follows:

Supplementary Qualitative Operating Lease Information

Cash Paid for Amounts Included in the Measurement of Operating Lease Liabilities - Operating Cash Flows	\$ 35,148
Right-of-Use Assets Obtained in Exchange for Lease Obligations	72,164
Weighted-Average Remaining Lease Term	1.08 Years
Weighted-Average Discount Rate	3.00%

Total operating lease expense for the year ended December 31, 2022, was \$32,599.

Operating Lease under Topic 840

Under accounting principles generally accepted in the United States of America (GAAP), all rental payments, including fixed rent increases, are recognized on a straight-line basis over the term of the lease. Lease incentives are amortized over the life of the lease on a straight-line basis as an offset to rent expense. The difference between the GAAP rent expense and the required lease payments, as well as any unamortized lease incentives, are reflected as deferred rent and lease incentive in the accompanying statements of financial position as of December 31, 2021.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

10. OPERATING LEASE (CONTINUED)

Operating Lease under Topic 840 (Continued)

As previously disclosed in our 2021 audited financial statements and under the previous lease accounting, future minimum lease payments as of December 31, 2021, were as follows:

For the Years Ending December 31,

2022	\$ 35,148
2023	36,193
2024	3,024
Total	<u>\$ 74,365</u>

Rent expense totaled \$33,121 for the years ended December 31, 2021.

11. COMMITMENTS AND CONTINGENCIES

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 may continue for an extended period of time. In light of these circumstances, management continues to adapt to changed circumstances.

12. 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, 2022 and 2021, 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 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, 2022 and 2021, 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, 2022, the statute of limitations for tax years ending December 31, 2019 through December 31, 2021, 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, 2022 and 2021, the Foundation had no accruals for interest and/or penalties.

HOLY FAMILY HOSPITAL OF BETHLEHEM FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
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13. SUBSEQUENT EVENTS

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through April 10, 2023, 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.