



THE BETHLEHEM UNIVERSITY FOUNDATION, INC.

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

Year Ended August 31, 2016

THE BETHLEHEM UNIVERSITY FOUNDATION, INC.
Financial Statements

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INDEPENDENT AUDITORS' REPORT

**Board of Directors
The Bethlehem University Foundation, Inc.
Beltsville, Maryland**

We have audited the accompanying financial statements of The Bethlehem University Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statement of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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.

THE BETHLEHEM UNIVERSITY FOUNDATION, INC.

Independent Auditors' Report

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Bethlehem University Foundation, Inc. as of August 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

DeLeon & Stang

**DeLeon & Stang, CPAs
Gaithersburg, Maryland
December 5, 2016**

THE BETHLEHEM UNIVERSITY FOUNDATION, INC.
Statement of Financial Position
August 31, 2016

ASSETS

Cash and cash equivalents	\$ 288,437
Investments - Notes 3 and 4	22,088,849
Prepaid expenses	<u>21,102</u>
Total Assets	<u>\$ 22,398,388</u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$ 16,725
Deferred rent	<u>5,265</u>

Total Liabilities 21,990

Net assets:

Unrestricted	266,447
Temporarily restricted - Note 6	9,012,639
Permanently restricted - Note 7	<u>13,097,312</u>

Total net assets 22,376,398

Total Liabilities and Net Assets **\$ 22,398,388**

THE BETHLEHEM UNIVERSITY FOUNDATION, INC.
Statement of Activities
For the Year Ended August 31, 2016

<u>Revenue and support:</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions	\$ 660,987	\$ -	\$ 256,880	\$ 917,867
University designated support - Note 8	400,000	-	-	400,000
In-kind contributions	14,500	-	-	14,500
Investment income, net of investment fees of \$83,028	333	1,617,008	-	1,617,341
Special events, less direct expenses of \$15,912	18,428	-	-	18,428
Net assets released from restriction - Note 8	869,329	(869,329)	-	-
Total revenue and support	<u>1,963,577</u>	<u>747,679</u>	<u>256,880</u>	<u>2,968,136</u>
<u>Expenses:</u>				
Program services	1,653,989	-	-	1,653,989
Management and general	370,856	-	-	370,856
Total expenses	<u>2,024,845</u>	<u>-</u>	<u>-</u>	<u>2,024,845</u>
Change in net assets	(61,268)	747,679	256,880	943,291
Net assets, beginning of year	<u>327,715</u>	<u>8,264,960</u>	<u>12,840,432</u>	<u>21,433,107</u>
Net assets, end of year	<u>\$ 266,447</u>	<u>\$ 9,012,639</u>	<u>\$ 13,097,312</u>	<u>\$ 22,376,398</u>

See Accompanying Notes to the Financial Statements.

THE BETHLEHEM FOUNDATION, INC.
Statement of Functional Expenses
For the Year Ended August 31, 2016

	<u>Program</u> <u>Services</u>	<u>General and</u> <u>Administrative</u>	<u>Total</u>
Administrative costs allocated:			
Salaries	\$ 6,098	\$ 154,372	\$ 160,470
Benefits	-	34,383	34,383
Payroll taxes	446	11,296	11,742
Total administrative costs allocated	<u>6,544</u>	<u>200,051</u>	<u>206,595</u>
Advertising	229	-	229
Communications	-	1,240	1,240
Contract service fees	-	26,542	26,542
Dues	-	650	650
Endowment awards - Note 8	869,329	-	869,329
Hospitality	-	15,370	15,370
Legal	-	5,583	5,583
Licenses	-	8,528	8,528
Office supplies	-	2,211	2,211
Postage and delivery	-	8,373	8,373
Printing and reproduction	-	25,087	25,087
Professional development	-	3,746	3,746
Religious stipend	-	24,500	24,500
Rent	-	35,490	35,490
Travel	-	13,485	13,485
University support - Note 8	<u>777,887</u>	<u>-</u>	<u>777,887</u>
Total	<u>\$ 1,653,989</u>	<u>\$ 370,856</u>	<u>\$ 2,024,845</u>

See Accompanying Notes to the Financial Statements.

THE BETHLEHEM UNIVERSITY FOUNDATION, INC.
Statement of Cash Flows
For the Year Ended August 31, 2016

Cash Flows From Operating Activities:

Change in net assets	\$ 943,291
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Unrealized and realized gains on investments	(1,335,248)
Change in net assets:	
Prepaid expenses	(21,102)
Accrued salaries and vacation	11,233
Deferred rent	5,265
Net cash used in operating activities	(396,561)

Cash Flows From Investing Activities:

Purchases of investments and reinvested earnings	(941,811)
Proceeds from sales of investments	1,293,602
Net cash provided by investing activities	351,791

Net decrease in cash and cash equivalents for the year (44,770)

Cash and cash equivalents at, beginning of year 333,207

Cash and cash equivalents at, end of year \$ 288,437

THE BETHLEHEM UNIVERSITY FOUNDATION, INC.
Notes to the Financial Statements
August 31, 2016

NOTE 1 **ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

The Bethlehem University Foundation (the Foundation) was formed in 1998 as a New Jersey nonprofit corporation and operates solely for the support and promotion of Bethlehem University in Palestine. The Foundation is a separate entity from Bethlehem University (the University).

The Foundation was formed, according to the legal articles of incorporation, for the following purposes:

- To support and assist Bethlehem University in the Holy Land in its educational mission by providing supplemental funding and other assistance for all of its programs and services;
- To encourage renewed commitment to the University as a center of quality education and as the most effective educational instrument available to teach, to build community, and to provide service for the needs of the community and to seek and obtain funds or property in any form to be used for the benefit of the University;
- To provide a depository for gifts and bequests of all kinds and also to serve as a receptacle for receiving and managing these gifts that specify a certain purpose or program of the University as its beneficiary according to the established desire of the donor;
- To act as a trustee under any trust incidental to the purposes of the Corporation and to receive, hold, administer, and expend funds and property subject to such trust.

Accounting Method

The accompanying financial statements of the Foundation are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Foundation presents its financial statements in accordance with the disclosure and display requirements of the Financial Statements for Not-For-Profit Organizations topic of the FASB Accounting Standards Codification. As such, the financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

THE BETHLEHEM UNIVERSITY FOUNDATION, INC.

Notes to the Financial Statements (Continued)

August 31, 2016

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

For purposes of reporting on nonprofit organizations, net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board designated or appropriated amounts, are legally unrestricted and are reported as part of the unrestricted class.

Under these provisions, net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets resulting from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time, or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations.

Permanently Restricted Net Assets - Net assets from contributions subject to donor imposed stipulations, which are permanent in nature prohibiting expenditure of the assets pledged or donated. Typically, the income earned on invested balances of permanently restricted net assets is reported as part of unrestricted net assets unless the donor specifically limits the use of such income.

Cash and Cash Equivalents

For purposes of financial statement presentation, the Foundation considers all highly liquid debt instruments with initial maturities of ninety days or less to be cash equivalents. Cash and money market funds held by investment managers are included in investments.

Investments

The Foundation reports investments at fair value using quoted market prices when available. Interest and dividends are reported when earned. Net realized and unrealized gains and losses on investments include the gains and losses on investments bought and sold as well as held during the year.

THE BETHLEHEM UNIVERSITY FOUNDATION, INC.

Notes to the Financial Statements (Continued)

August 31, 2016

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Foundation complies with the Statement of Financial Accounting Standards Codification topic Fair Value Measurements. This defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

The three levels of the fair value hierarchy under this topic are described below:

Basis of Fair Value Measurement:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities

Level 2 - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable

The Foundation invests in common stock, mutual funds and exchange-traded funds which are stated at fair value based on quoted market prices at the date of the financial statements. Money market funds held as short term investments are carried at cost, which approximates fair value. Such investments are exposed to various risks such as market and credit fluctuation. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Contributions

Unconditional contributions and university-designated support received, including unconditional promises to give, are recorded as revenue in the year notification is received from the donor. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions and grants with donor-imposed restrictions are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when an expense is incurred that satisfies the donor-imposed restriction or the time restriction has passed.

THE BETHLEHEM UNIVERSITY FOUNDATION, INC.

Notes to the Financial Statements (Continued)

August 31, 2016

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind Contributions

Contributions in-kind are recorded as contributions at their estimated fair value at the time goods or services are provided and include a portion of the Executive Assistant's stipend. Volunteer services are not recognized as they do not meet the definition of in-kind contributions under accounting principles generally accepted in the United States of America.

Use of Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status

As a result of being operated in connection with the Roman Catholic Church in the United States, the Foundation is entitled to exemption from federal income tax under the provisions of section 501(c)(3), classified as an organization that is not a private foundation, and, therefore, is not required to file an annual federal income tax return. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. For the year ended August 31, 2016, the Foundation did not partake in any unrelated business activities.

Expense Allocations

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs benefited.

THE BETHLEHEM UNIVERSITY FOUNDATION, INC.

Notes to the Financial Statements (Continued)

August 31, 2016

NOTE 2 CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Foundation to concentrations of credit risk include cash deposits with commercial banks. The Foundation's cash management policies limit its exposure to concentrations of credit risk by maintaining cash accounts at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Cash deposits may, however, exceed the FDIC insurable limits at times throughout the year. Management does not consider this a significant concentration of credit risk.

NOTE 3 INVESTMENTS

As of August 31, 2016, the Foundation's investments at fair value consist of following:

Money market	\$ 106,091
Fixed income - corporate securities	6,443,473
Equity - exchange-traded trust and mutual funds	<u>15,539,285</u>
Total	<u>\$22,088,849</u>

For the year ended August 31, 2016, net investment income consisted of the following:

Interest and dividends	\$ 365,121
Realized and unrealized losses on investments, net	<u>1,335,248</u>
Subtotal	\$ 1,700,369
Less, investment fees	<u>83,028</u>
Total net investment income	<u>\$ 1,617,341</u>

NOTE 4 FAIR VALUE OF INVESTMENTS

The Foundation values its investments at fair value in accordance with a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as described in Note 1. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following is a description of the valuation methodology used for investments measured at fair value and their classification in the valuation hierarchy:

THE BETHLEHEM UNIVERSITY FOUNDATION, INC.

Notes to the Financial Statements (Continued)

August 31, 2016

NOTE 4 FAIR VALUE OF INVESTMENTS (Continued)

Fixed income - Corporate securities comprised of bonds listed on the national markets or exchanges which are valued at last sales price, or if there is no sale and the market is still considered active, at the last transaction price before year-end. Such securities are classified within Level 1 of the valuation hierarchy.

Equity funds - Comprised of exchange-traded trust and mutual funds where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include fixed income exchange-traded trust and mutual funds. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

There have been no changes in the methodologies used during the year ended August 31, 2016.

The following tables set forth by level within the fair value hierarchy the Foundation's investment assets at fair value. Investments are stated at fair value and consist of the following at August 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money market	\$ 106,091	\$ -	\$ -	\$ 106,091
Fixed income funds	6,443,473	-	-	6,443,473
Equity funds	<u>15,539,285</u>	<u>-</u>	<u>-</u>	<u>15,539,285</u>
Totals	<u>\$22,088,849</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$22,088,849</u>

NOTE 5 COMMITMENTS AND CONTINGENCIES

The Foundation has an operating lease for office space in Beltsville, Maryland. The lease commenced on June 1, 2015 and expires May 31, 2025. The lease provides for an annual base rent of \$30,000 plus annual increases of 3% each anniversary date. For the year ended August 31, 2016, rent expense totaled \$35,490.

THE BETHLEHEM UNIVERSITY FOUNDATION, INC.

Notes to the Financial Statements (Continued)

August 31, 2016

NOTE 5 COMMITMENTS AND CONTINGENCIES (Continued)

The following is a schedule of future minimum lease commitments as of August 31, 2016:

<u>Year</u>	<u>Amount</u>
2017	\$ 31,132
2018	32,066
2019	33,028
2020	34,019
2021	35,039
Thereafter	<u>140,909</u>
Total	<u>\$ 306,193</u>

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

For the year ended August 31, 2016, temporarily restricted net assets consisted of the following:

Accumulated earnings on endowment funds	<u>\$9,012,639</u>
Total temporarily restricted net assets	<u><u>\$9,012,639</u></u>

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENT FUNDS

As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

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

THE BETHLEHEM UNIVERSITY FOUNDATION, INC.

Notes to the Financial Statements (Continued)

August 31, 2016

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENT FUNDS

In accordance with the MD UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purpose of the donor restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of the investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Investment Return Objectives, Risk Parameters and Strategies: The Board of Directors shall recommend the expenditure of income and/or principal from the endowment or the accumulation of such income. The Board of Directors shall, as necessary, establish and revise standards for expenditures or accumulation. No expenditures from the income or principal of the endowment shall be made for any purpose (1) which is inconsistent with the purposes of the Foundation and the principles and policies established by it, (2) which, if made with respect to any special fund or other restricted contribution or transfer, is in conflict or fails to comply with the express conditions, limitations, or restrictions subject to which the contribution or transfer was made, received, and accepted, or (3) which will or may adversely affect or prejudice the tax-exempt status of the Foundation or the tax deductibility of any contribution to the Foundation.

It is the policy of the Foundation to transfer to operations no more than five percent of the average market value of the permanently restricted net assets on the last business day of the trailing three calendar years under the assumption that the annual distribution does not exceed a level that would erode the endowment net assets inflation-adjusted value over time.

Endowment net asset composition by type of fund as of August 31, 2016 is as follows:

	Unrestricted			Total Net
	Board	Temporarily	Permanently	Endowment
	<u>Designated</u>	<u>Restricted</u>	<u>Restricted</u>	<u>Assets</u>
Donor principal	\$ -	\$ -	\$ 13,097,312	\$ 13,097,312
Accumulated income	-	9,012,639	-	9,012,639
Total funds	<u>\$ -</u>	<u>\$ 9,012,639</u>	<u>\$ 13,097,312</u>	<u>\$ 22,109,951</u>

THE BETHLEHEM UNIVERSITY FOUNDATION, INC.**Notes to the Financial Statements (Continued)****August 31, 2016****NOTE 7 PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENT FUNDS**

Changes in the endowment net assets for the year ended August 31, 2016 are as follows:

	Unrestricted			
	Board	Temporarily	Permanently	
	<u>Designated</u>	<u>Restricted</u>	<u>Restricted</u>	<u>Total</u>
Endowment net assets,				
August 31, 2015	\$ -	\$ 8,264,960	\$ 12,840,432	\$ 21,105,392
Contributions	-	-	256,880	256,880
Interest and dividends	-	364,788	-	364,788
Net appreciation	-	1,335,248	-	1,335,248
Investment fees	-	(83,028)	-	(83,028)
Appropriated for				
expenditures	<u>-</u>	<u>(869,329)</u>	<u>-</u>	<u>(869,329)</u>
Endowment net assets,				
August 31, 2016	<u>\$ -</u>	<u>\$ 9,012,639</u>	<u>\$ 13,097,312</u>	<u>\$ 22,109,951</u>

NOTE 8 RELATED PARTY TRANSACTIONS

The Foundation has entered into a memorandum of understanding (MOU) with Bethlehem University (the University) to support and assist the University by providing supplemental funding or other assistance, encourage renewed commitment from previous contributors, provide and manage a repository for gifts and bequests, and to act as trustee under any trust incidental to the purposes of the Foundation to receive, hold, administer, and expend funds and property subject to such trust. The MOU requires the Foundation to remit all gifts and donations received wherein the University is the designated recipient and disburse grants to the University on endowed accounts annually in accordance with the Foundation's disbursement policies. For the year ended August 31, 2016, the Foundation received \$400,000 of contributions from the University and provided \$777,887 in support. For the year ended August 31, 2016, the Foundation granted \$869,329 to the University from the endowment funds in accordance with the distribution policies of each individual endowment.

NOTE 9 SUBSEQUENT EVENTS

The Foundation evaluated subsequent events for potential required disclosure through December 5, 2016, which is the date financial statements were available to be issued.