

SISTERS OF ST. JOSEPH HEALTHCARE FOUNDATION

Financial Statements

For the Year Ended

June 30, 2021

and

Independent Auditor's Report on Supplementary Information

Sisters of St. Joseph Healthcare Foundation

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Independent Auditor's Report on Supplementary Information

To the Board of Directors of
Sisters of St. Joseph Healthcare Foundation
Orange, California

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of Sisters of St. Joseph of Orange and Affiliates as of and for the year ended June 30, 2021 (not presented herein), and have issued an unmodified opinion thereon dated November 18, 2021. The financial statements of Sisters of St. Joseph Healthcare Foundation, an affiliate of Sisters of St. Joseph of Orange, as of June 30, 2021, and for the year then ended, are included in the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The scope of our auditing procedures was not designed to provide a basis for expressing an opinion about whether the separate financial statements of Sisters of St. Joseph Healthcare Foundation, on a stand-alone basis, are fairly presented in conformity with U.S. generally accepted accounting principles; accordingly, we do not express such an opinion on them. However, the financial statements of Sisters of St. Joseph Healthcare Foundation referred to above have been subjected to the auditing procedures applied in our audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial statements of Sisters of St. Joseph Healthcare Foundation are fairly stated, in all material respects, in relation to the consolidated financial statements of Sisters of St. Joseph of Orange and Affiliates as a whole.

HBLA Certified Public Accountants, Inc.

November 18, 2021

Sisters of St. Joseph Healthcare Foundation
Statement of Financial Position
June 30, 2021

Assets

Cash and equivalents	\$	319,583
Investments		52,732,847
Due from affiliates		<u>24,973</u>
Total assets	\$	<u><u>53,077,403</u></u>

Net assets

Net assets without donor restrictions	\$	-
Net assets with donor restrictions		<u>53,077,403</u>
Total net assets	\$	<u><u>53,077,403</u></u>

See accompanying notes to financial statements and independent auditor's report on supplementary information.

Sisters of St. Joseph Healthcare Foundation
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2021

Investment and donations income	\$ <u>246,210</u>
Expenses:	
Grants	2,699,276
General administration	<u>115,949</u>
Total expenses	<u>2,815,225</u>
Deficiency of income over expenses	(2,569,015)
Net realized and unrealized gains on investments	<u>12,404,692</u>
Increase in net assets	9,835,677
Net assets at beginning of year	<u>43,241,726</u>
Net assets at end of year	\$ <u><u>53,077,403</u></u>

See accompanying notes to financial statements and independent auditor's report on supplementary information.

Sisters of St. Joseph Healthcare Foundation
Statement of Cash Flows
For the Year Ended June 30, 2021

Cash flows from operating activities	
Increase in net assets	\$ 9,835,677
Adjustment to reconcile increase in net assets to net cash used by operating activities:	
Net realized and unrealized gains on investments	(12,404,692)
Reinvested dividends	(242,161)
Changes in operating assets and liabilities:	
Decrease in due from affiliates	<u>84,299</u>
Net cash used by operating activities	<u>(2,726,877)</u>
Cash flows from investing activities	
Proceeds from sales of investments	56,001,127
Purchases of investments	<u>(53,161,992)</u>
Net cash provided by investing activities	<u>2,839,135</u>
Net increase in cash and equivalents	112,258
Cash and equivalents, beginning of year	<u>207,325</u>
Cash and equivalents, end of year	<u><u>\$ 319,583</u></u>

See accompanying notes to financial statements and independent auditor's report on supplementary information.

Sisters of St. Joseph Healthcare Foundation
Notes to Financial Statements
June 30, 2021

1. Organization

Sisters of St. Joseph Healthcare Foundation (the Foundation) is a nonprofit public benefit corporation whose sole purpose is to administer funds to organizations that address the health care needs of the working and indigent poor in California. The sole corporate member of the Foundation is Sisters of St. Joseph of Orange (Sisters of St. Joseph).

Sisters of St. Joseph is a corporation under California Nonprofit Religious Corporation Law and has no members. Its purpose is to carry out the religious ministries of the Congregation of Sisters of St. Joseph of Orange (the Order). The Order is an order of the Roman Catholic Church that sponsors various health care, educational, and other charitable ministries.

The Foundation, along with the Sisters of St. Joseph and its other consolidated entities, is solely dedicated to carrying out the religious ministries of the Order and promoting the health, welfare, and physical and spiritual well-being of the persons served. They are devoted to furthering the union of all persons with God and with one another. Their common mission is to further the spiritual welfare of people and serve their temporal needs through ministry, education, and financial support.

2. Summary of Significant Accounting Policies

Net Asset Classification

The Foundation reports information regarding contributions received in its statement of financial position and statement of activities and changes in net assets according to two classes of net assets based upon the existence or absence of donor-imposed restrictions:

Net Assets without Donor Restrictions – Net assets without donor restrictions amounts are those currently available at the discretion of the Board for use in the Foundation's operations, not subject to donor-imposed restrictions. Such amounts include assets not subject to donor-imposed restrictions that have been designated by the Board for specific uses.

Net Assets with Donor Restrictions – Net assets with donor restrictions amounts are those that are stipulated by donors for specific operating purposes.

All contributions are considered without donor restrictions, unless specifically restricted by the donor or subject to other legal restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the financial statements.

Use of 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. Accordingly, actual results could differ from those estimates.

Cash and Equivalents

The Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. At June 30, 2021, and throughout the year, the Foundation maintained cash in excess of federally insured limits. To date, the Foundation has not experienced any losses related to uninsured balances.

Sisters of St. Joseph Healthcare Foundation
Notes to Financial Statements
June 30, 2021

2. Summary of Significant Accounting Policies (Continued)

Investments

Investments consist primarily of equity securities and mutual funds. The investments are stated at fair value in the accompanying statement of financial position. Investment income and dividends are reported as investment income unless the income or loss is restricted by donors or law. Investment income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Purchases and sales of securities are recorded on a trade-date basis. Realized and unrealized gains or losses are reported below the excess (deficiency) of income over expenses as a component of changes in net assets.

Income taxes

The Foundation is a tax-exempt organization pursuant to Internal Revenue Code Section 501(c)(3) and related California provisions; accordingly, no provision has been made for income taxes in the accompanying financial statements. The Foundation evaluates its tax provisions for any potential uncertain tax positions. The Foundation does not believe its financial statements include any uncertain tax positions which are not deemed more likely than not to be sustained if challenged. The Foundation is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2017 and 2016, respectively.

Concentrations of Credit Risk

Financial instruments that subject the Foundation to concentration of credit risk consist primarily of investments. All of the investments are managed within the guidelines established by the Board of Directors of Sisters of St. Joseph, which, as a matter of policy, limit the amounts to be invested in various types of securities.

Disclosures about Fair Value of Financial Instruments

The carrying values of cash and equivalents and amounts due from affiliates are reasonable estimates of fair value because of the relatively short period of time between origination of the instruments and their expected realization.

Subsequent Events

Management has evaluated subsequent events through November 18, 2021, the date the financial statements were available to be issued.

3. Investments

Investments are held in separate accounts and include investments funded by a prior year charitable contribution of approximately \$19.4 million from the Health Plan of America (HPA) pursuant to requirements by the California Division of Corporations regarding the conversion of HPA from a nonprofit corporation to a for-profit corporation and the subsequent sale of HPA.

These investments are restricted for the purpose of being disbursed to programs that promote the health, welfare, and physical well-being of the public in areas served by HPA. More specifically, these programs must be dedicated to assisting in the prevention of disease and the advancement of preventive medicine and to promoting and advancing the cure of sick and injured persons. These investments cannot be used to provide any benefit to HPA, Providence St. Joseph Health System, or its affiliated health care providers, or Catholic Healthcare West or its affiliated health care providers.

Sisters of St. Joseph Healthcare Foundation
Notes to Financial Statements
June 30, 2021

4. Fair Value Measurements

The Foundation applies the requirements of Financial Accounting Standards Board Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, for its investments. ASC 820 defines fair value, establishes a fair value hierarchy, and specifies that a valuation technique used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

The fair value hierarchy includes three tiers: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of June 30, 2021, the Foundation's investments were valued using the market approach, which includes prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

As required by ASC 820, investments are classified within the level of the lowest significant input considered in determining fair value. Investments classified within Level 3 whose fair value measurement considers several inputs may include Level 1 or Level 2 inputs as components of the overall fair value measurement. The following table sets forth information about the level within the fair value hierarchy at which the Foundation's investments are measured at June 30, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Cash and equivalents	\$ 554,456	\$ 554,456	\$ -
Mutual funds:			
Diversified funds	<u>52,178,391</u>	<u>-</u>	<u>52,178,391</u>
Total investments	<u>\$ 52,732,847</u>	<u>\$ 554,456</u>	<u>\$ 52,178,391</u>

The valuation levels are not necessarily an indication of the risk or liquidity associated with investing in those securities. The Organization invests in instruments that, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and the statement of activities and changes in net assets.

Sisters of St. Joseph Healthcare Foundation
Notes to Financial Statements
June 30, 2021

5. Functional Allocation of Expenses

Expenses are summarized and categorized based upon their functional classification as grants and donations, purchased services, and direct program operations. Specific expenses that are readily identifiable to a certain activity are charged directly to that function. The following table outlines the Foundation's functional expenses for the year ended June 30, 2021:

Grants and donations	\$	2,699,276
Purchased services		102,599
Direct program operations		<u>13,350</u>
	\$	<u><u>2,815,225</u></u>

6. Availability of Financial Assets and Liquidity

The Foundation's investments and cash and equivalents are limited to use for donor-restricted purposes, which are more fully described in Note 2. These financial assets are accordingly not considered to be available for use by the Foundation for general operating expenses. The Foundation is structured so that its expenditures, liabilities, and other obligations that come due meet the criteria of donor restrictions detailed in Note 2.

7. COVID-19

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The full impact of COVID-19 on the Foundation's finances is uncertain and will depend on the duration and depth of the pandemic.