HEALTHCARE CHAPLAINCY NETWORK, INC. AND AFFILIATES

New York, New York

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

For the Years Ended June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

Board of Directors
HealthCare Chaplaincy Network, Inc.
and Affiliates
New York, New York

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of HealthCare Chaplaincy Network, Inc. and Affiliates which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of HealthCare Chaplaincy Network, Inc. and Affiliates as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Melville, New York
February 1, 2017

Consolidated Statements of Financial Position

June 30,		**2016**		2015
Assets				
Cash and Cash Equivalents	**$**	**601,921**	$	753,492
Investments		**10,896,030**		14,000,208
Accounts Receivable, net		**295,203**		415,842
Pledges and Grants Receivable		**-**		10,000
Prepaid Expenses and Other Current Assets		**190,817**		306,673
Beneficial Interest in Charitable Remainder Trusts		**141,083**		156,891
Equipment, net		**496,389**		493,208
Total Assets	**$**	**12,621,443**	$	16,136,314
Liabilities and Net Assets				
Accounts Payable and Accrued Expenses	**$**	**451,280**	$	407,982
Deferred Revenue		**100,100**		13,400
Total Liabilities		**551,380**		421,382
Commitments and Contingencies				
Net Assets:				
Unrestricted		**6,496,980**		9,779,362
Board designated		**298,574**		335,544
Total Unrestricted		**6,795,554**		10,114,906
Temporarily Restricted		**987,873**		1,313,390
Permanently Restricted		**4,286,636**		4,286,636
Total Net Assets		**12,070,063**		15,714,932
Total Liabilities and Net Assets	**$**	**12,621,443**	$	16,136,314

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2016 (with comparative totals for the year ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	**2016 Total**	2015 Total
Support and Revenue:					
Contributions:					
Foundations and trusts	$ 281,947	$ -	$ -	**$ 281,947**	$ 327,025
Corporations	31,350	-	-	**31,350**	58,500
Religious organizations	3,000	-	-	**3,000**	6,500
Individuals/estates	78,193	-	-	**78,193**	179,088
Special event revenue	346,126	-	-	**346,126**	984,579
Less direct expenses of special event	(147,958)	-	-	**(147,958)**	(225,324)
Service revenue	1,577,714	-	-	**1,577,714**	1,824,389
Educational fees	178,161	-	-	**178,161**	247,251
Change in value of charitable remainder trusts	-	(15,808)	-	**(15,808)**	(12,898)
Contributed goods and services	76,825	-	-	**76,825**	30,003
Other income	397,282	-	-	**397,282**	317,006
Net assets released from restrictions	174,268	(174,268)	-	**-**	-
Total Support and Revenue	2,996,908	(190,076)	-	**2,806,832**	3,736,119
Expenses:					
Program services:					
Clinical services	2,575,153	-	-	**2,575,153**	2,983,423
Education	890,336	-	-	**890,336**	871,121
Research	388,150	-	-	**388,150**	491,218
Community education	570,101	-	-	**570,101**	948,017
Spiritual Care Association	293,667	-	-	**293,667**	-
Total program services	4,717,407	-	-	**4,717,407**	5,293,779
Supporting services:					
General and administrative	683,987	-	-	**683,987**	676,593
Advancement	496,129	-	-	**496,129**	693,821
Total supporting services	1,180,116	-	-	**1,180,116**	1,370,414
Total Expenses	5,897,523	-	-	**5,897,523**	6,664,193
Decrease in Net Assets from Operations	(2,900,615)	(190,076)	-	**(3,090,691)**	(2,928,074)
Investment (Loss) Income	(418,737)	(135,441)	-	**(554,178)**	55,828
Changes in Net Assets	(3,319,352)	(325,517)	-	**(3,644,869)**	(2,872,246)
Net Assets, beginning of year	10,114,906	1,313,390	4,286,636	**15,714,932**	18,587,178
Net Assets, end of year	$ 6,795,554	$ 987,873	$ 4,286,636	**$ 12,070,063**	$ 15,714,932

See notes to consolidated financial statements.

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Contributions:				
Foundations and trusts	$ 327,025	$ -	$ -	$ 327,025
Corporations	58,500	-	-	58,500
Religious organizations	6,500	-	-	6,500
Individuals/estates	179,088	-	-	179,088
Special event revenue	984,579	-	-	984,579
Less direct expenses of special event	(225,324)	-	-	(225,324)
Service revenue	1,824,389	-	-	1,824,389
Educational fees	247,251	-	-	247,251
Change in value of charitable remainder trusts	-	(12,898)	-	(12,898)
Contributed goods and services	30,003	-	-	30,003
Other income	317,006	-	-	317,006
Net assets released from restrictions	314,274	(314,274)	-	-
Total Support and Revenue	4,063,291	(327,172)	-	3,736,119
Expenses:				
Program services:				
Clinical services	2,983,423	-	-	2,983,423
Education	871,121	-	-	871,121
Research	491,218	-	-	491,218
Community education	948,017	-	-	948,017
Total program services	5,293,779	-	-	5,293,779
Supporting services:				
General and administrative	676,593	-	-	676,593
Advancement	693,821	-	-	693,821
Total supporting services	1,370,414	-	-	1,370,414
Total Expenses	6,664,193	-	-	6,664,193
Decrease in Net Assets from Operations	(2,600,902)	(327,172)	-	(2,928,074)
Investment Income	41,504	14,324	-	55,828
Changes in Net Assets	(2,559,398)	(312,848)	-	(2,872,246)
Net Assets, beginning of year	12,674,304	1,626,238	4,286,636	18,587,178
Net Assets, end of year	$ 10,114,906	$ 1,313,390	$ 4,286,636	$ 15,714,932

Consolidated Statement of Functional Expenses

Year Ended June 30, 2016 (with comparative totals for the year ended June 30, 2015)

	Program Services						Supporting Services				
	Clinical Services	Education	Research	Community Education	Spiritual Care Association	Total Program Services	General and Administrative	Advancement	Total Supporting Services	**2016 Total Expenses**	2015 Total Expenses
Salary	$ 1,658,630	$ 396,718	$ 233,338	$ 169,585	$ -	$ 2,458,271	$ 169,246	$ 279,356	$ 448,602	**$ 2,906,873**	$ 3,677,195
Pension Expense	27,903	2,119	-	3,433	-	33,455	23,692	2,078	25,770	**59,225**	91,143
Medical Insurance	132,232	10,043	-	16,268	-	158,543	112,275	9,850	122,125	**280,668**	325,718
Payroll Taxes	90,095	6,843	-	11,084	-	108,022	76,498	6,711	83,209	**191,231**	188,421
Disability/Workmen's Compensation	8,528	648	-	1,049	-	10,225	7,241	635	7,876	**18,101**	4,373
Other Staff Benefits	-	-	-	-	-	-	-	-	-	**-**	17,564
Recruiting and Moving Expenses	18,418	1,372	-	2,134	-	21,924	3,046	1,859	4,905	**26,829**	28,632
Travel	12,850	131,533	9,234	75	-	153,692	6,746	6,841	13,587	**167,279**	75,386
Professional Education	8,058	-	-	-	-	8,058	-	-	-	**8,058**	14,838
Dues	14,358	-	-	-	-	14,358	14,154	175	14,329	**28,687**	13,000
Other Printed Materials	2,540	55,112	-	53,328	51,069	162,049	5,132	1,300	6,432	**168,481**	84,823
Cultivation	-	-	-	-	-	-	-	-	-	**-**	30,174
Other Staff Support and Development	12,185	6,393	5,115	636	-	24,329	3,836	4,436	8,272	**32,601**	39,822
Library and Subscriptions	29	-	-	-	-	29	3,956	-	3,956	**3,985**	3,830
Telephone	18,023	2,019	-	3,141	-	23,183	4,483	2,736	7,219	**30,402**	29,503
Public/Board Meetings Patient Family	-	-	-	-	-	-	6,574	8,046	14,620	**14,620**	-
Mailing Costs	6,088	31,395	4,870	11,781	10,425	64,559	3,653	4,329	7,982	**72,541**	76,993
Other Communication Expenses	-	91,460	-	17,784	-	109,244	-	5,202	5,202	**114,446**	265,448
Other Professional Fees	139,030	101,803	135,593	203,613	231,394	811,433	31,586	98,060	129,646	**941,079**	866,592
Office Supplies	5,992	671	-	1,044	-	7,707	1,490	921	2,411	**10,118**	17,291
Information Systems	54,664	6,125	-	11,605	-	72,394	13,598	8,299	21,897	**94,291**	138,993
Rent	295,911	33,156	-	51,575	-	380,642	73,608	44,926	118,534	**499,176**	492,898
Insurance	38,496	4,313	-	6,710	-	49,519	9,576	5,844	15,420	**64,939**	66,872
Depreciation and Amortization	24,887	2,788	-	4,338	-	32,013	6,191	3,778	9,969	**41,982**	40,609
Building Maintenance and Repairs	601	67	-	105	-	773	149	91	240	**1,013**	851
Utilities	4,323	484	-	753	-	5,560	1,075	656	1,731	**7,291**	14,497
Contributed Services	-	-	-	-	-	-	76,825	-	76,825	**76,825**	30,003
Bad Debt Expense	-	-	-	-	-	-	-	-	-	**-**	14,749
Other Office Expenses	1,312	5,274	-	60	779	7,425	29,357	-	29,357	**36,782**	13,975
Total Expenses	$ 2,575,153	$ 890,336	$ 388,150	$ 570,101	$ 293,667	$ 4,717,407	$ 683,987	$ 496,129	$ 1,180,116	**$ 5,897,523**	$ 6,664,193

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2015

	Program Services					Supporting Services			
	Clinical Services	Education	Research	Community Education	Total Program Services	General and Administrative	Advancement	Total Supporting Services	**2015 Total Expenses**
Salary	$ 1,983,949	$ 501,933	$ 261,734	$ 242,110	$ 2,989,726	$ 196,301	$ 491,168	$ 687,469	**$ 3,677,195**
Pension Expense	41,064	4,332	-	6,001	51,397	32,437	7,309	39,746	**91,143**
Medical Insurance	146,754	15,480	-	21,446	183,680	115,919	26,119	142,038	**325,718**
Payroll Taxes	84,894	8,955	-	12,406	106,255	67,057	15,109	82,166	**188,421**
Disability/Workmen's Compensation	1,970	208	-	288	2,466	1,556	351	1,907	**4,373**
Other Staff Benefits	7,914	835	-	1,156	9,905	6,251	1,408	7,659	**17,564**
Recruiting and Moving Expenses	19,903	1,221	-	1,900	23,024	3,679	1,929	5,608	**28,632**
Travel	21,060	28,076	9,980	1,184	60,300	7,485	7,601	15,086	**75,386**
Professional Education	14,838	-	-	-	14,838	-	-	-	**14,838**
Dues	8,675	310	-	-	8,985	4,015	-	4,015	**13,000**
Other Staff Support and Development	16,722	7,615	5,272	1,205	30,814	3,954	5,054	9,008	**39,822**
Library and Subscriptions	-	-	31	-	31	3,799	-	3,799	**3,830**
Other Printed Materials	-	1,050	-	77,154	78,204	6,459	160	6,619	**84,823**
Telephone	17,550	1,672	-	2,601	21,823	5,038	2,642	7,680	**29,503**
Cultivation	-	-	-	-	-	16,452	13,722	30,174	**30,174**
Mailing Costs	5,770	13,143	4,389	45,947	69,249	3,264	4,480	7,744	**76,993**
Other Communication Expenses	6,598	130,290	-	127,395	264,283	238	927	1,165	**265,448**
Other Professional Fees	180,255	114,135	209,812	292,493	796,695	23,955	45,942	69,897	**866,592**
Office Supplies	9,569	2,028	-	1,470	13,067	2,771	1,453	4,224	**17,291**
Information Systems	49,319	4,739	-	58,098	112,156	14,279	12,558	26,837	**138,993**
Rent	292,190	28,076	-	43,675	363,941	84,596	44,361	128,957	**492,898**
Insurance	39,643	3,809	-	5,925	49,377	11,477	6,018	17,495	**66,872**
Depreciation and Amortization	24,073	2,313	-	3,598	29,984	6,970	3,655	10,625	**40,609**
Building Maintenance and Repairs	505	48	-	75	628	146	77	223	**851**
Utilities	8,593	826	-	1,285	10,704	2,488	1,305	3,793	**14,497**
Bad Debt Expense	-	-	-	-	-	14,749	-	14,749	**14,749**
Contributed Services	-	-	-	-	-	30,003	-	30,003	**30,003**
Other Office Expenses	1,615	27	-	605	2,247	11,255	473	11,728	**13,975**
Total Expenses	$ 2,983,423	$ 871,121	$ 491,218	$ 948,017	$ 5,293,779	$ 676,593	$ 693,821	$ 1,370,414	**$ 6,664,193**

Consolidated Statements of Cash Flows

Years Ended June 30,	**2016**	2015
Cash Flows from Operating Activities:		
Changes in net assets	**$ (3,644,869)**	$ (2,872,246)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization	**41,982**	40,609
Change in value of charitable remainder trusts	**15,808**	12,898
Realized and unrealized loss on investments	**792,863**	129,044
Provision for bad debts	**-**	14,749
Change in discount on pledges receivable	**-**	(2,014)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	**120,639**	7,108
Pledges and grants receivable	**10,000**	342,264
Prepaid expenses and other current assets	**115,856**	(86,863)
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	**43,298**	(258,811)
Deferred revenue	**86,700**	(26,735)
Total adjustments	**1,227,146**	172,249
Net Cash Used in Operating Activities	**(2,417,723)**	(2,699,997)
Cash Flows from Investing Activities:		
Purchase of equipment	**(45,163)**	(12,795)
Purchase of investments	**(2,059,552)**	(7,047,947)
Proceeds from sale of investments	**4,370,867**	8,863,075
Net Cash Provided by Investing Activities	**2,266,152**	1,802,333
Net Decrease in Cash and Cash Equivalents	**(151,571)**	(897,664)
Cash and Cash Equivalents, beginning of year	**753,492**	1,651,156
Cash and Cash Equivalents, end of year	**$ 601,921**	$ 753,492

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended June 30, 2016 and 2015

1. Description of Chaplaincy and Summary of Significant Accounting Policies

Nature of operations - HealthCare Chaplaincy Network, Inc. (the "Network"), is the sole member of HealthCare Chaplaincy, Inc., (the "Chaplaincy"), a center for health-related spiritual care, education and research in the field of professional Chaplaincy care and the Spiritual Care Association (the "SCA"), a multidisciplinary international professional membership association for spiritual care providers, collectively (the "Organization"). The National Center for Palliative Care Innovation, Inc., an entity previously held by the Organization was dissolved during 2016.

The Chaplaincy's certified chaplains and student chaplains collaborate on a multi-faith and multi-cultural basis as integral members of healthcare teams in a variety of clinical and community settings. In active partnership with health-promoting institutions, it provides leadership in making spiritual support a quality component of care in a changing healthcare milieu.

The Network was established to provide corporate support, governance and oversight to the Chaplaincy and the SCA.

The accompanying consolidated financial statements include the accounts of the Network, the Chaplaincy and the SCA.

Basis of presentation - The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting. All intercompany accounts have been eliminated.

Net assets - The net assets of the Organization are classified and reported as follows:

> ***Unrestricted -*** Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in achieving the primary objectives of the Organization.
>
> ***Temporarily restricted -*** Net assets that are subject to donor-imposed stipulations that will be met either by the actions of the Organization and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying consolidated statements of activities and changes in net assets as net assets released from restrictions.
>
> ***Permanently restricted -*** Net assets that are subject to donor-imposed stipulations that neither expire by the passage of time, nor can be fulfilled or removed by actions of the Organization. Generally, the donors of these funds permit the Organization to use all or part of the income earned on related investments, and the net capital appreciation thereon, for general or specific purposes. Permanently restricted net assets represent endowment funds.

Donor-imposed restrictions - The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Contributions which are donor restricted for the purpose of establishing endowment funds are recorded as additions to permanently restricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

The Organization reports gifts of land, buildings and equipment at their fair values at the date of the gift and as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Notes to Consolidated Financial Statements

Years Ended June 30, 2016 and 2015

Contributed services - Not-for-profit entities are required to record contributed services revenue if those services create or enhance nonfinancial assets or are provided by individuals who possess specialized skills that would typically need to be purchased, if not provided by donation. For the years ended June 30, 2016 and 2015, the Organization received contributed services of $76,825 and $30,003, respectively, which are included in both program and supporting services in the consolidated statements of activities and changes in net assets.

Cash and cash equivalents - The Organization considers all highly liquid investments with an original maturity of 90 days or less on the date of purchase to be cash equivalents, except amounts held by investment managers which are classified as investments. Cash equivalents are carried at fair market value which approximates cost.

Investments - Investments in equity securities and mutual funds with readily determinable fair values and all investments in debt securities are recorded at fair values. Investments subject to the provisions of Accounting Standards Update 2009-12, *"Investments in Certain Entities That Calculate Net Asset Value per Share"*, with no readily determinable fair values are recorded at net asset value per share as a practical expedient to estimating fair value.

Gains and losses on investments and related investment income have been reflected in the consolidated statements of activities and changes in net assets within investment income as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulation or by law.

Fair value - Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts. The Organization must determine whether its assets and liabilities recorded at fair value were based on Level 1 (valued based on quoted prices in an active market for identical assets), Level 2 (valued based on significant other observable inputs), or Level 3 (valued based on significant unobservable inputs) measurements within the fair value hierarchy.

Pledges and grants receivable - Unconditional promises to give are recorded at net realizable value. All unconditional promises, whether unrestricted or restricted (either permanently or temporarily restricted), are recognized and accrued as contribution revenue in the period the unconditional promise was received.

Pledges and grants to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any.

Allowance for doubtful accounts - Periodically, the receivable balances are reviewed and evaluated as to their collectability which is based upon management's judgment, including such factors as prior collection history and type of receivable. An allowance is then established based on these evaluations. A receivable balance is considered past due once it has not been received by its scheduled due date. The allowance for doubtful accounts was $15,000 at both June 30, 2016 and 2015.

Equipment and depreciation - Equipment is stated at cost except for donated assets, which are recorded at fair value at the time of donation. The Organization's capitalization policy is to capitalize all fixed asset purchases in excess of $2,500. Depreciation is provided using the straight-line method calculated over the estimated lives of the related assets and is calculated commencing with the month the asset is placed in service. The useful lives of the Organization's equipment range from 5 to 10 years.

Art is stated at cost and is being held as a collection; therefore, it is not being depreciated.

Notes to Consolidated Financial Statements

Years Ended June 30, 2016 and 2015

Income taxes - The Network and the Chaplaincy qualify as tax-exempt, not-for-profit organizations under Section 501(c)(3) of the Internal Revenue Code ("IRC"). The SCA qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(6) of the IRC. The Network is a non-profit corporation under the laws of Delaware. The Chaplaincy and the SCA are non-profit corporations under the laws of New York State. Accordingly, no provision for federal or state income taxes is required.

Uncertain tax positions - Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax provisions that require adjustment to the consolidated financial statements to comply with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification No. 740.

Use of estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Functional allocation of expenses - The costs of providing the program and other activities has been summarized on a functional basis in the consolidated statements of activities and changes in net assets and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Evaluation of subsequent events - Management has evaluated subsequent events through February 1, 2017, the date the financial statements are available for issuance, for inclusion or disclosure in the financial statements.

Recent accounting standards - In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *"Revenue from Contracts with Customers (Topic 606)"*. The core principle of ASU 2014-09 requires recognition of revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration for what an organization expects it will receive in association with this exchange. ASU 2014-09 is effective for non-public entities for fiscal years beginning after December 15, 2018. The Organization is assessing the impact this standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *"Leases (Topic 842)"*. The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for non-public entities for fiscal years beginning after December 15, 2019. The Organization is assessing the impact this standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities"*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Organization is assessing the impact this standard will have on its consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended June 30, 2016 and 2015

2. Investments

Investment composition and classification of investments within the fair value hierarchy was as follows:

June 30, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	**$ 7,028,825**	**$ -**	**$ -**	**$ 7,028,825**
Fixed Income	**1,904,660**	**-**	**-**	**1,904,660**
Mutual Funds	**1,202,276**	**-**	**-**	**1,202,276**
Subtotal	**$ 10,135,761**	**$ -**	**$ -**	**10,135,761**
Cash and Cash Equivalents				**760,269**
Total Investments				**$ 10,896,030**

June 30, 2015	Level 1	Level 2	Level 3	Total
Equities	$ 8,613,367	$ -	$ -	$ 8,613,367
Fixed Income	2,933,552	-	-	2,933,552
Mutual Funds	1,362,088	-	-	1,362,088
Hedge Funds	-	-	134,169	134,169
	$ 12,909,007	$ -	$ 134,169	13,043,176
Cash and Cash Equivalents				957,032
Total Investments				$ 14,000,208

Year Ended June 30, 2016	**Unrestricted**	**Temporarily Restricted**	**Total**
Interest and Dividend Income	**$ 273,222**	**$ 99,300**	**$ 372,522**
Investment Loss (including fees of $133,837)	**(691,959)**	**(234,741)**	**(926,700)**
Net Return on Investments	**$ (418,737)**	**$ (135,441)**	**$ (554,178)**

Year Ended June 30, 2015	Unrestricted	Temporarily Restricted	Total
Interest and Dividend Income	$ 202,150	$ 69,767	$ 271,917
Investment Loss (including fees of $87,045)	(160,646)	(55,443)	(216,089)
Net Return on Investments	$ 41,504	$ 14,324	$ 55,828

The reconciliation of Level 3 assets is as follows for the year ended June 30, 2015:

Beginning Balance	$ 1,359,933
Redemptions and Withdrawals for Investment Manager Transition	(1,243,571)
Net Change in Unrealized Appreciation from Assets Still Held at the Reporting Date	11,849
Net Change in Unrealized/Realized Appreciation from Assets Sold During the Reporting Period	5,958
Ending Balance	$ 134,169

At June 30, 2015, the Organization had an investment in hedge funds (the "Funds") that had no readily determinable fair value. The Funds were recorded at net asset value, which represented fair value, and were based on the values provided by the general partner and/or board of directors of those Funds. The Funds' investment strategies were to invest principally in portfolios of long/short equities, limited partnerships, distressed debt, and fixed income securities. The Funds used index options and other hedging devices to manage risk and when appropriate, will use leverage in making investments. At June 30, 2015, the Funds did not have any unfunded commitments and had a net asset value of $134,169, which represents a 10% hold back of funds after the Organization liquidated these Funds. The hold back was received on July 1, 2015.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in market conditions in the near term would materially affect the amounts reported in the accompanying consolidated financial statements.

3. Beneficial Interest in Charitable Remainder Trusts

The Organization has been named as the beneficiary in several irrevocable charitable remainder trusts which have been recorded at estimated net present value in the accompanying consolidated statements of financial position.

4. Equipment, Net

Equipment, net, consists of the following:

June 30,	**2016**	2015
Artwork	**$ 384,675**	$ 384,675
Furniture, Fixtures and Equipment	**230,487**	230,487
Leasehold Improvements	**45,163**	-
	660,325	615,162
Less Accumulated Depreciation	**163,936**	121,954
	$ 496,389	$ 493,208

5. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

June 30,	**2016**	2015
Purpose Restrictions:		
Education	**$ 350,146**	$ 772,892
Research	**18,812**	57,789
Pastoral care	**290,105**	285,656
	659,063	1,116,337
Time Restrictions:		
General support	**187,727**	40,162
Other	**141,083**	156,891
	$ 987,873	$ 1,313,390

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes as stipulated by the donors or release of time restrictions, as follows:

June 30,		**2016**		2015
Purpose Restrictions	**$**	**174,268**	$	208,038
Time Restrictions		**-**		106,236
	$	**174,268**	$	314,274

6. Donor Restricted Endowment and Permanently Restricted Net Assets

The Organization has donor restricted endowment funds, the corpus of which is permanently restricted. The following applies to the donor restricted endowment and permanently restricted net assets:

Interpretation of relevant law - The spending of endowment funds by a not-for-profit corporation in the State of New York is governed by the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). The Organization has interpreted NYPMIFA as allowing the Organization to appropriate for expenditure or accumulate earnings as the Organization determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor restricted assets until appropriated for expenditure by the Organization. Net assets associated with permanent endowments are classified as permanently restricted at historical value.

Investment and spending policies - The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Organization must hold in perpetuity.

In accordance with NYPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the endowment funds.
- The purposes of the Organization and the donor restricted endowment funds.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation/depreciation of investments.
- Other resources of the Organization.
- Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment funds, giving due consideration to the effect that such alternatives may have on the Organization.
- The investment policy of the Organization.

Notes to Consolidated Financial Statements

Years Ended June 30, 2016 and 2015

The composition of endowment net assets at June 30, 2016 and 2015 and change in composition of endowments for the years ended June 30, 2016 and 2015 is as follows:

Year Ended June 30, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor Restricted Endowment Net Assets, beginning of year	**$ (588,501)**	**$ 1,258,397**	**$ 4,286,636**
Investment Return:			
Investment income	**-**	**160,430**	**-**
Net depreciation	**-**	**(340,783)**	**-**
Investment Fees	**-**	**(58,308)**	**-**
Transfers	**(131,021)**	**131,021**	**-**
Appropriated	**-**	**(303,967)**	**-**
Donor Restricted Endowment Net Assets, end of year	**$ (719,522)**	**$ 846,790**	**$ 4,286,636**

Year Ended June 30, 2015	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor Restricted Endowment Net Assets, beginning of year	$ (332,030)	$ 1,302,926	$ 4,286,636
Investment Return:			
Investment income	-	108,504	-
Net depreciation	-	(51,493)	-
Investment Fees	-	(34,734)	-
Transfers	(256,471)	256,471	-
Appropriated	-	(323,547)	-
Donor Restricted Endowment Net Assets, end of year	$ (588,501)	$ 1,258,127	$ 4,286,636

To the extent that the fair value of donor restricted endowment assets have decreased below the value of the corpus, the Organization has made a temporary transfer to restore the donor endowment asset value to the corpus.

7. Board Designated Endowment

During the year ended June 30, 2012, the Network's board designated the bequest of the estate of a donor and the associated income to be used to support the broad educational mission of the Organization.

The change in board designated net assets for the years ended June 30, 2016 and 2015 was as follows:

Years Ended June 30,	**2016 Unrestricted**	2015 Unrestricted
Board Designated Net Assets, beginning of year	**$ 335,544**	$ 350,924
Investment Return:		
Investment (loss) income	**(2,343)**	11,547
Net depreciation	**(10,144)**	(3,290)
Investment Fees	**(4,277)**	(2,219)
Appropriated	**(20,206)**	(21,418)
Board Designated Net Assets, end of year	**$ 298,574**	$ 335,544

Notes to Consolidated Financial Statements

Years Ended June 30, 2016 and 2015

8. Commitments and Contingencies

Leases - The Organization entered into a 62 month lease for certain space at 65 Broadway (the "Broadway lease") in August 2013 with a commencement date of September 26, 2013. The Broadway lease expires on November 26, 2018. Rental expense under this lease approximated $499,000 and $493,000 for the years ended June 30, 2016 and 2015, respectively.

Future minimum lease payments under this lease are:

Years Ending June 30,		
2017	$	573,000
2018		590,000
2019		251,000
	$	1,414,000

The Organization entered into a 34 month lease agreement with a sub lessor for certain space at 65 Broadway (the "Broadway sublease") in January 2016. The Broadway sublease expires November 2018. Rental income approximated $73,000 and $80,800 for the years ended June 30, 2016 and 2015, respectively.

Future sublease income under this lease is:

Years Ending June 30,		
2017	$	170,000
2018		175,000
2019		74,000
	$	419,000

Litigation - The Organization is subject to lawsuits and claims with respect to matters arising in the normal course of business. The Organization defends its position on all actions.

9. Retirement Plan

The Organization has adopted a contributory, defined contribution retirement plan. The Organization has the discretion to contribute 4% of salary for eligible employees, and match employee contributions up to an additional 2% of salary. The Organization made discretionary contributions of 4% of salary for eligible employees during each of the years ended June 30, 2016 and 2015, resulting in total employer contributions of approximately $59,000 and $91,000, respectively. There was no match of employee contributions during the years ended June 30, 2016 and 2015.

10. Concentrations

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and investments. From time to time, the cash balances exceed the Federal Depository Insurance Coverage limit. The Organization places its temporary cash investments with various financial institutions.

Service revenue is concentrated to limited number of participating facilities. The Organization had contracts with four facilities and one facility, respectively, that each represented greater than 10% each of revenues for the years ended June 30, 2016 and 2015, respectively.