

**HEALTHCARE CHAPLAINCY  
NETWORK, INC.**

New York, New York

**CONSOLIDATED FINANCIAL STATEMENTS**

Including Independent Auditors' Report

For the Years Ended June 30, 2014 and 2013

# HEALTHCARE CHAPLAINCY NETWORK, INC.

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## **Consolidated Financial Statements**



*formerly*  
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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of HealthCare Chaplaincy Network, Inc. (the "Organization") which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the 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 the HealthCare Chaplaincy Network, Inc. as of June 30, 2014 and 2013, 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.

*Baker Tilly Virchow Krause, LLP*

Melville, New York  
March 11, 2015



# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Consolidated Statements of Financial Position

<i>June 30,</i>	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 1,651,156	\$ 1,295,475
Investments	15,944,380	11,760,645
Accounts Receivable	422,950	362,029
Pledges and Grants Receivable, net	364,999	60,820
Prepaid Expenses and Other Current Assets	219,810	51,636
Beneficial Interest in Charitable Remainder Trusts	169,789	145,608
Equipment, net	521,022	416,151
Assets Held for Sale	-	3,160,411
Total Assets	<u>\$ 19,294,106</u>	<u>\$ 17,252,775</u>
<b>Liabilities and Net Assets</b>		
Accounts Payable and Accrued Expenses	\$ 666,793	\$ 1,292,173
Deferred Revenue	40,135	-
Total Liabilities	<u>706,928</u>	<u>1,292,173</u>
Commitments and Contingencies		
Net Assets:		
Unrestricted	12,323,380	9,775,668
Board designated	350,924	358,409
Total unrestricted	<u>12,674,304</u>	<u>10,134,077</u>
Temporarily Restricted	1,626,238	1,565,193
Permanently Restricted	4,286,636	4,261,332
Total Net Assets	<u>18,587,178</u>	<u>15,960,602</u>
Total Liabilities and Net Assets	<u>\$ 19,294,106</u>	<u>\$ 17,252,775</u>

# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Consolidated Statement of Activities and Changes in Net Assets

*Year Ended June 30, 2014 (with comparative totals for the year ended June 30, 2013)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
<b>Operating Support and Revenue:</b>					
Contributions:					
Foundations and trusts	\$ 1,210,543	\$ 61,300	\$ -	\$ 1,271,843	\$ 1,951,473
Corporations	1,100	-	-	1,100	11,250
Religious organizations	500	2,800	-	3,300	5,450
Individuals/estates	337,918	110,485	25,304	473,707	424,178
Special event revenue	672,123	-	-	672,123	683,274
Less direct expenses of special event	(123,334)	-	-	(123,334)	(117,540)
Service revenue	1,872,848	-	-	1,872,848	2,065,781
Educational fees	439,790	-	-	439,790	500,859
Change in value of charitable remainder trusts	-	24,181	-	24,181	14,483
Contributed goods and services	157,033	-	-	157,033	379,001
Other income	113,967	-	-	113,967	38,217
Net assets released from restrictions	370,437	(370,437)	-	-	-
<b>Total Support and Revenue</b>	<b>5,052,925</b>	<b>(171,671)</b>	<b>25,304</b>	<b>4,906,558</b>	<b>5,956,426</b>
<b>Expenses:</b>					
Program services:					
Clinical services	2,702,324	-	-	2,702,324	2,796,212
Education	1,433,929	-	-	1,433,929	1,582,233
Research	1,249,095	-	-	1,249,095	1,922,845
Community education	426,975	-	-	426,975	343,856
<b>Total program services</b>	<b>5,812,323</b>	<b>-</b>	<b>-</b>	<b>5,812,323</b>	<b>6,645,146</b>
Supporting services:					
General and administrative	938,868	-	-	938,868	1,003,614
Advancement	814,404	-	-	814,404	771,496
<b>Total supporting services</b>	<b>1,753,272</b>	<b>-</b>	<b>-</b>	<b>1,753,272</b>	<b>1,775,111</b>
<b>Total Expenses</b>	<b>7,565,595</b>	<b>-</b>	<b>-</b>	<b>7,565,595</b>	<b>8,420,257</b>
(Decrease) Increase in Net Assets from Operations	(2,512,670)	(171,671)	25,304	(2,659,037)	(2,463,831)
Investment Income	1,025,463	232,716	-	1,258,179	1,447,270
Changes in Net Assets, before impairment loss, pre-development costs and gain on sale of building	(1,487,207)	61,045	25,304	(1,400,858)	(1,016,561)
Impairment Loss (Note 5)	-	-	-	-	(4,200,064)
Pre-Development Costs (Note 5)	(731,930)	-	-	(731,930)	(1,921,799)
Gain on Sale of Building (Note 5)	4,759,364	-	-	4,759,364	-
<b>Total Changes in Net Assets</b>	<b>2,540,227</b>	<b>61,045</b>	<b>25,304</b>	<b>2,626,576</b>	<b>(7,138,424)</b>
Net Assets, beginning of year	10,134,077	1,565,193	4,261,332	15,960,602	23,099,026
<b>Net Assets, end of year</b>	<b>\$ 12,674,304</b>	<b>\$ 1,626,238</b>	<b>\$ 4,286,636</b>	<b>\$ 18,587,178</b>	<b>\$ 15,960,602</b>

# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Support and Revenue:				
Contributions:				
Foundations and trusts	\$ 1,796,973	\$ 154,500	\$ -	\$ 1,951,473
Corporations	11,250	-	-	11,250
Religious organizations	700	4,500	250	5,450
Individuals/estates	410,979	1,239	11,960	424,178
Special event revenue	683,274	-	-	683,274
Less direct expenses of special event	(117,540)	-	-	(117,540)
Service revenue	2,065,781	-	-	2,065,781
Educational fees	500,859	-	-	500,859
Change in value of charitable remainder trusts	-	14,483	-	14,483
Contributed goods and services	379,001	-	-	379,001
Other income	38,217	-	-	38,217
Net assets released from restrictions	547,394	(547,394)	-	-
Total Support and Revenue	6,316,888	(372,672)	12,210	5,956,426
Expenses:				
Program services:				
Clinical services	2,796,212	-	-	2,796,212
Education	1,582,233	-	-	1,582,233
Research	1,922,845	-	-	1,922,845
Community education	343,856	-	-	343,856
Total program services	6,645,146	-	-	6,645,146
Supporting services:				
General and administrative	1,003,614	-	-	1,003,614
Advancement	771,496	-	-	771,496
Total supporting services	1,775,111	-	-	1,775,111
Total Expenses	8,420,257	-	-	8,420,257
(Decrease) Increase in Net Assets				
from Operations	(2,103,369)	(372,672)	12,210	(2,463,831)
Investment Income	1,085,784	361,486	-	1,447,270
Changes in Net Assets, before impairment				
loss and pre-development costs	(1,017,585)	(11,186)	12,210	(1,016,561)
Impairment Loss (Note 5)	(4,200,064)	-	-	(4,200,064)
Pre-Development Costs (Note 5)	(1,921,799)	-	-	(1,921,799)
Total Changes in Net Assets	(7,139,448)	(11,186)	12,210	(7,138,424)
Net Assets, beginning of year	17,273,525	1,576,379	4,249,122	23,099,026
Net Assets, end of year	\$ 10,134,077	\$ 1,565,193	\$ 4,261,332	\$ 15,960,602

# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Consolidated Statement of Functional Expenses

Year Ended June 30, 2014 (with comparative totals for the year ended June 30, 2013)

	Program Services				Supporting Services			2014 Total Expenses	2013 Total Expenses
	Clinical Services	Education	Research	Community Education	Total Program Services	General and Administrative	Advancement Services		
Salary	\$ 1,744,570	\$ 938,580	\$ 473,572	\$ 63,608	\$ 3,220,330	\$ 193,530	\$ 523,756	\$ 3,937,616	\$ 4,208,903
Pension Expense	35,416	17,512	5,368	1,584	59,880	32,133	8,224	100,237	98,564
Medical Insurance	133,290	65,908	20,202	5,962	225,362	120,934	30,953	377,249	515,238
Payroll Taxes	71,512	35,360	10,839	3,199	120,910	64,883	16,607	202,400	300,067
Disability/Workmen's Compensation	9,357	4,627	1,418	418	15,820	8,490	2,173	26,483	28,515
Other Staff Benefits	5,750	2,843	872	257	9,722	5,217	1,335	16,274	8,917
Recruiting and Moving Expenses	34,938	4,678	-	2,373	41,989	12,922	5,748	60,659	153,113
Travel	14,454	12,893	146,657	104	174,108	5,594	10,727	190,429	78,301
Professional Education	-	30,812	-	-	30,812	-	-	30,812	34,935
Dues	8,295	1,800	570	-	10,665	5,230	-	15,895	12,125
Other Staff Support and Development	22,016	21,400	5,335	4,626	53,377	4,001	6,980	64,358	14,846
Library and Subscriptions	31	-	12,824	287	13,142	1,681	2,685	17,508	12,375
Stipends	-	87,114	-	-	87,114	-	-	87,114	86,581
Other Program Materials and Support	1,324	6,906	10,569	-	18,799	-	-	18,799	4,999
Newsletter Community Outreach	-	360	-	-	360	-	-	360	24,519
Other Printed Materials	-	11,467	14,775	7,770	34,012	7,460	2,638	44,111	2,804
Telephone	17,297	2,136	482	1,430	21,345	6,363	2,644	30,352	25,659
Public/Board Meetings Patient Family	-	-	-	90	90	14,909	47,755	62,754	45,240
Mailing Costs	2,354	3,238	2,325	3,502	11,419	1,171	2,942	15,532	8,284
Other Communication Expenses	-	-	-	51,867	51,867	-	7,925	59,792	14,602
Honoraria	-	-	140,944	-	140,944	-	-	140,944	1,310,159
Other Professional Fees	138,393	143,937	338,478	245,996	866,804	47,737	56,525	971,066	378,562
Office Supplies	10,688	1,045	11,195	1,617	24,545	3,975	1,710	30,230	33,757
Information Systems	92,296	4,590	6,547	6,902	110,335	15,733	28,172	154,239	89,358
Rent	247,922	23,504	43,181	16,938	331,545	92,218	37,640	461,403	176,023
Insurance	34,163	3,239	-	2,334	39,736	12,707	5,187	57,630	53,396
Depreciation and Amortization	38,996	3,697	-	2,664	45,357	14,505	5,920	65,782	171,123
Minor Equipment	-	-	1,262	-	1,262	725	-	1,987	299
Building Maintenance and Repairs	20,521	1,947	-	1,402	23,870	7,633	3,528	35,031	76,690
Utilities	17,256	1,636	-	1,179	20,071	6,419	2,620	29,110	74,111
Bad Debt Expense	-	-	-	-	-	87,057	-	87,057	-
Contributed Services	-	-	-	-	-	156,897	-	156,897	370,000
Other Office Expenses	-	-	-	-	-	8,744	9	15,484	8,192
Total Expenses	\$ 2,702,324	\$ 1,433,929	\$ 1,249,095	\$ 426,975	\$ 5,812,323	\$ 938,868	\$ 814,404	\$ 7,565,595	\$ 8,420,257

See notes to consolidated financial statements.



# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Consolidated Statement of Functional Expenses

Year Ended June 30, 2013

	Program Services				Supporting Services			2013 Total Expenses
	Clinical Services	Education	Research	Community Education	Total Program Services	General and Administrative	Advancement	
Salary	\$ 1,936,763	\$ 956,195	\$ 347,671	\$ 208,369	\$ 3,448,997	\$ 207,552	\$ 552,353	\$ 4,208,903
Pension Expense	36,503	15,990	1,628	4,781	58,902	31,750	7,912	98,564
Medical Insurance	200,805	87,961	8,954	26,302	324,021	147,694	43,523	515,238
Payroll Taxes	111,130	48,680	4,955	14,556	179,321	96,659	24,087	300,067
Disability/Workmen's Compensation	10,561	4,626	471	1,383	17,041	9,185	2,289	28,515
Other Staff Benefits	(6,883)	(2,927)	(298)	(875)	(10,784)	21,149	(1,448)	19,701
Recruiting and Moving Expenses	75,557	41,136	5,000	10,473	132,166	2,244	18,702	153,113
Travel	9,436	17,299	45,082	1,115	72,932	2,536	2,833	78,301
Professional Education	-	34,935	-	-	34,935	-	-	34,935
Dues	5,000	4,595	480	-	10,075	2,050	-	12,125
Other Staff Support and Development	5,623	3,952	3,838	-	13,413	(54)	1,487	14,846
Library and Subscriptions	164	132	9,786	463	10,546	1,776	53	12,375
Stipends	-	86,581	-	-	86,581	-	-	86,581
Other Program Materials and Support	1,490	3,509	-	-	4,999	-	-	4,999
Newsletter Community Outreach	-	24,519	-	-	24,519	-	-	24,519
Other Printed Materials	-	1,050	-	-	1,050	71	1,683	2,804
Telephone	12,668	7,387	68	1,910	22,033	374	3,252	25,659
Public/Board Meetings Patient Family	-	-	-	-	-	37,924	7,317	45,240
Mailing Costs	2,500	1,810	1,238	89	5,636	864	1,784	8,284
Other Communication Expenses	-	-	-	13,483	13,483	-	1,119	14,602
Honoraria	-	-	1,310,159	-	1,310,159	-	-	1,310,159
Other Professional Fees	69,052	61,893	174,054	13,347	318,346	57,858	2,358	378,562
Office Supplies	15,509	8,363	726	4,850	29,447	458	3,852	33,757
Information Systems	28,711	17,198	9,033	4,715	59,657	853	28,847	89,358
Rent	89,903	48,734	-	12,462	151,099	2,670	22,253	176,023
Insurance	27,272	14,783	-	3,780	45,835	810	6,750	53,396
Depreciation and Amortization	86,410	48,781	-	11,978	147,168	2,567	21,389	171,123
Minor Equipment	-	-	-	-	-	299	-	299
Building Maintenance and Repairs	39,169	21,233	-	5,429	65,831	1,163	9,695	76,690
Utilities	37,852	20,519	-	5,247	63,618	1,124	9,369	74,111
Contributed Services	-	-	-	-	-	370,000	-	370,000
Other Office Expenses	-	-	-	-	-	4,036	38	8,192
Total Expenses	\$ 2,796,212	\$ 1,582,233	\$ 1,922,845	\$ 343,856	\$ 6,645,146	\$ 1,003,614	\$ 771,496	\$ 8,420,257

See notes to consolidated financial statements.

# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Consolidated Statements of Cash Flows

Years Ended June 30,	2014	2013
Cash Flows from Operating Activities:		
Changes in net assets	\$ 2,626,576	\$ (7,138,424)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Impairment loss	-	4,200,064
Depreciation and amortization	65,782	171,123
Change in value of charitable remainder trusts	(24,181)	(14,483)
Gain on sale of building	(4,759,364)	-
Realized and unrealized (gain) loss on investments	(1,178,163)	(1,248,176)
Provision for bad debts	87,057	-
Change in discount on pledges receivable	2,014	(1,239)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(60,921)	4,202
Pledges and grants receivable	(393,250)	120,000
Prepaid expenses and other current assets	(168,174)	17,559
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(625,380)	182,643
Deferred revenue	40,135	-
Total adjustments	(7,014,445)	3,431,693
Net Cash Used in Operating Activities	(4,387,869)	(3,706,731)
Cash Flows from Investing Activities:		
Purchase of equipment	(140,519)	(31,740)
Proceeds from sale of building	7,889,640	-
Purchase of investments	(21,219,803)	(466,453)
Decrease in restricted cash	-	62,227
Proceeds from sale of investments	18,214,232	4,038,946
Net Cash Provided by Investing Activities	4,743,550	3,602,980
Net Increase (Decrease) in Cash and Cash Equivalents	355,681	(103,751)
Cash and Cash Equivalents, beginning of year	1,295,475	1,399,226
Cash and Cash Equivalents, end of year	\$ 1,651,156	\$ 1,295,475

## Notes to Consolidated Financial Statements

Years Ended June 30, 2014 and 2013

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### 1. Description of Organization 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"), formerly known as The HealthCare Chaplaincy, Inc., a center for health-related spiritual care, education and research in the field of professional Chaplaincy care and the National Center for Palliative Care Innovation, Inc., (the "NCPCI"), formerly known as Wholeness of Life Center, Inc., an entity focused on creating palliative care facilities, collectively (the "Organization"). Each of these three entities are exempt under section 501(c)(3) of the Internal Revenue Code.

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 NCPCI.

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

**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 statement 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 statement 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, 2014 and 2013

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**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, 2014 and 2013, the Organization received contributed services of \$156,897 and \$370,000, respectively, which are included in both program and supporting services in the accompanying 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. Cash equivalents are carried at fair market value which approximates cost.

**Investments** - Investments in equity securities 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 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.

**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.

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



# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2014 and 2013

**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 financial statements to comply with the provisions of FASB Accounting Standards Codification No. 740. Generally, the Network, the Chaplaincy and NCPCI are no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for the years before 2011, which is the standard statute of limitations look-back period.

**Use of estimates** - The preparation of financial statements in conformity with 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 statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting services benefited.

**Evaluation of subsequent events** - Management has evaluated subsequent events through March 11, 2015, the date the financial statements are available for issuance, for inclusion or disclosure in the financial statements.

**Reclassifications** - Certain 2013 amounts have been reclassified to conform to the current year presentation.

## 2. Pledges and Grants Receivable

Pledges and grants receivable are comprised of unconditional promises to give and consist of the following:

June 30,	2014	2013
Unconditional Promises to Give	\$ 458,250	\$ 65,000
Less Discount on Pledges and Grants Receivable	(2,014)	-
Less Allowance for Doubtful Pledges and Grants Receivable	(91,237)	(4,180)
Net Unconditional Promises to Give	<u>\$ 364,999</u>	<u>\$ 60,820</u>
Amounts Due in:		
Less than one year	\$ 352,437	\$ 60,820
One to two years	931	-
Three to five years	11,631	-
	<u>\$ 364,999</u>	<u>\$ 60,820</u>

The discount rate used to calculate the net present value of the pledges and grants at June 30, 2014 was 0.93%.

# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2014 and 2013

### 3. Investments

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

<i>June 30, 2014</i>	Level 1	Level 2	Level 3	Total
Money Market	\$ 13,555,159	\$ -	\$ -	\$ 13,555,159
Hedge Funds	-	1,029,288	1,359,933	2,389,221
Total Investments	\$ 13,555,159	\$ 1,029,288	\$ 1,359,933	\$ 15,944,380

  

<i>June 30, 2013</i>	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 6,773,427	\$ -	\$ -	\$ 6,773,427
Hedge Funds	-	964,436	4,022,782	4,987,218
Total Investments	\$ 6,773,427	\$ 964,436	\$ 4,022,782	\$ 11,760,645

Investment income consists of the following:

<i>Year Ended June 30, 2014</i>	Unrestricted	Temporarily Restricted	Total
Interest and Dividend Income	\$ 111,086	\$ 25,817	\$ 136,903
Investment Income (net of fees of \$56,887)	914,377	206,899	1,121,276
Net Return on Investments	\$ 1,025,463	\$ 232,716	\$ 1,258,179

  

<i>Year Ended June 30, 2013</i>	Unrestricted	Temporarily Restricted	Total
Interest and Dividend Income	\$ 210,113	\$ 69,952	\$ 280,065
Investment Income (net of fees of \$80,971)	875,671	291,534	1,167,205
Net Return on Investments	\$ 1,085,784	\$ 361,486	\$ 1,447,270

The reconciliation of Level 3 assets was as follows:

<i>Years Ended June 30,</i>	2014	2013
Beginning Balance	\$ 4,022,782	\$ 3,638,718
Purchases	-	-
Redemptions and Withdrawals for Investment Manager Transition	(2,845,729)	384,064
Net Change in Unrealized Appreciation from Assets Still Held at the Reporting Date	72,837	-
Net Change in Unrealized/Realized Appreciation from Assets Sold During the Reporting Period	110,043	-
Ending Balance	\$ 1,359,933	\$ 4,022,782

The Organization invests in hedge funds (the "Funds") that have no readily determinable fair values. The Funds are recorded at net asset value, which represent fair value, and are based on the values provided by the general partner and/or board of directors of those Funds. The Funds' investment strategies are to invest principally in portfolios of long/short equities, limited partnerships, distressed debt, and fixed income securities. The Funds use index options and other hedging devices to manage risk and when appropriate, will use leverage in making investments. At June 30, 2014, the Funds did not have any unfunded commitments and had a net asset value of \$2,389,221. Each Fund was subject to redemption restrictions, which have been satisfied as of June 30, 2014. In July 2014, one Fund was fully liquidated at a value approximating \$1,029,300. As of February 2015, the other Fund was in the process of being liquidated. The Organization expects to receive the payout for such Fund in March 2015.

## Notes to Consolidated Financial Statements

*Years Ended June 30, 2014 and 2013*

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.

### 4. 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.

### 5. Equipment, Net

Equipment, net, consists of the following:

<i>June 30,</i>	2014	2013
Artwork	\$ 384,675	\$ 384,675
Furniture, Fixtures and Equipment	217,691	77,172
	<u>602,366</u>	<u>461,847</u>
Less Accumulated Depreciation	81,344	45,696
	<u>\$ 521,022</u>	<u>\$ 416,151</u>

The Organization had incurred costs for the initial stages of design and development of a facility to serve as an assisted living end-of-life care residence, medical offices and office space to house the Organization's offices (the "Project"). However, due to environmental factors of the economy, health care delivery, and government/agency regulations, the planned execution of the Project significantly changed since the original concept was envisioned in 2007. As a result, the Organization wrote off the previously capitalized pre-development costs at June 30, 2013 of approximately \$4,200,000. In addition, pre-development costs amounts incurred of approximately \$732,000 and \$1,900,000, respectively, were expensed during the years ended June 30, 2014 and 2013.

On June 19, 2013, the Organization entered into an agreement of purchase and sale for its 60th Street building and a majority of its associated furniture and fixtures. The net carrying value of the building, building improvements and furniture and fixtures associated with the building in the amount of \$3,160,411 was reflected in the accompanying consolidated statement of financial position as assets held for sale at June 30, 2013. The sale was completed on October 10, 2013 for a purchase price of \$8,250,000 and yielded a gain of approximately \$4,760,000, which is reflected in the accompanying consolidated statement of activities for the year ended June 30, 2014.

### 6. Temporarily Restricted Net Assets

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

<i>June 30,</i>	2014	2013
Purpose Restrictions:		
Scholarships and fellowships	\$ 541,228	\$ 541,228
Education	364,682	455,131
Pastoral care	327,877	324,518
	<u>1,233,787</u>	<u>1,320,877</u>
Purpose and Time Restrictions:		
Research and library	76,464	58,746
Time Restrictions	315,987	185,570
	<u>\$ 1,626,238</u>	<u>\$ 1,565,193</u>

## **Notes to Consolidated Financial Statements**

*Years Ended June 30, 2014 and 2013*

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:

<i>June 30,</i>	<b>2014</b>	<b>2013</b>
Purpose Restrictions	\$ 366,187	\$ 487,394
Time Restrictions	4,250	60,000
	<u>\$ 370,437</u>	<u>\$ 547,394</u>

### **7. 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.



# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Notes to Consolidated Financial Statements

*Years Ended June 30, 2014 and 2013*

The composition of endowment net assets at June 30, 2014 and change in composition of endowments for the years ended June 30, 2014 and 2013 was as follows:

<i>Year Ended June 30, 2014</i>	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor Restricted Endowment Net Assets, beginning of year	\$ (297,545)	\$ 1,387,382	\$ 4,261,332
Investment Return:			
Investment income	-	40,794	-
Net appreciation	-	348,428	-
Investment Fees	-	(21,439)	-
Transfers	(34,485)	34,485	-
Appropriated	-	(486,724)	-
Contributions	-	-	25,304
Donor Restricted Endowment Net Assets, end of year	<u>\$ (332,030)</u>	<u>\$ 1,302,926</u>	<u>\$ 4,286,636</u>
<i>Year Ended June 30, 2013</i>	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor Restricted Endowment Net Assets, beginning of year	\$ (325,200)	\$ 1,320,054	\$ 4,249,122
Investment Return:			
Investment income	-	111,024	-
Net appreciation	-	494,803	-
Investment Fees	-	(32,099)	-
Transfers	27,655	(27,655)	-
Appropriated	-	(478,745)	-
Contributions	-	-	12,210
Donor Restricted Endowment Net Assets, end of year	<u>\$ (297,545)</u>	<u>\$ 1,387,382</u>	<u>\$ 4,261,332</u>

To the extent that the market 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.

### 8. Board Designated Endowment

During the year ended June 30, 2012, the Network's Board of Trustees 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, 2014 and 2013 was as follows:

<i>Years Ended June 30,</i>	2014 Unrestricted	2013 Unrestricted
Board Designated Net Assets, beginning of year	\$ 358,409	\$ 352,498
Investment Return:		
Investment income	2,582	6,989
Net appreciation	22,054	31,148
Investment Fees	(1,357)	(2,022)
Appropriated	(30,764)	(30,204)
Board Designated Net Assets, end of year	<u>\$ 350,924</u>	<u>\$ 358,409</u>

## **Notes to Consolidated Financial Statements**

*Years Ended June 30, 2014 and 2013*

### **9. Commitments and Contingencies**

The Organization leased certain space on 62nd Street in New York City under an operating lease agreement which expired January 20, 2013. Rental expense approximated \$176,000 for the year ended June 30, 2013.

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 \$418,000 for the year ended June 30, 2014.

Future minimum lease payments under this lease are:

*Years Ending June 30,*

2015	\$ 540,000
2016	556,000
2017	573,000
2018	590,000
2019	251,000
	<u>\$ 2,510,000</u>

The Organization entered in an 18 month lease agreement with a sublessor for certain space at 65 Broadway (the "Broadway sublease") in February 2014 with a commencement date of March 21, 2014. The Broadway sublease expires on September 20, 2015. Rental income approximated \$20,100 for the year ended June 30, 2014.

Future minimum rental income under this lease are:

*Years Ending June 30,*

2015	\$ 81,000
2016	41,400
	<u>\$ 122,400</u>

**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.

### **10. 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% and 3% of salary for eligible employees during the years ended June 30, 2014 and 2013, respectively, resulting in total employer contributions of approximately \$100,000 and \$96,000, respectively. There was no match of employee contributions during the years ended June 30, 2014 and 2013.

**Notes to Consolidated Financial Statements**

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*Years Ended June 30, 2014 and 2013*

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**11. Concentrations**

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of 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.

Donations and grant revenue can be concentrated within a limited number of donors in any given year. This concentration of donors may impact the Organization's overall exposure to credit risk, either positively or negatively, in that its donors may be similarly affected by changes in economic or other conditions that could significantly affect revenue in a current year. The Organization had one donor that represented 10% and 19% of revenues for the years ended June 30, 2014 and 2013, respectively.

Service revenue is also concentrated to limited number of participating facilities. The Organization had contracts with four facilities that represented greater than 10% each of revenues for the years ended June 30, 2014 and 2013, respectively.