

**HealthCare Chaplaincy Network, Inc.
and Affiliates**

Consolidated Financial Statements

June 30, 2017 and 2016



BAKER TILLY

Candor. Insight. Results.

HealthCare Chaplaincy Network, Inc. and Affiliates

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Independent Auditors' Report

Board of Directors
HealthCare Chaplaincy Network, Inc. and Affiliates

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, 2017 and 2016, 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, 2017 and 2016, 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
May 15, 2018

HealthCare Chaplaincy Network, Inc. and Affiliates

Consolidated Statements of Financial Position

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 343,129	\$ 601,921
Investments	9,185,346	10,896,030
Accounts receivable, net	342,857	295,203
Prepaid expenses and other current assets	221,662	190,817
Beneficial interest in charitable remainder trusts	151,903	141,083
Equipment, net	455,059	496,389
	<u> </u>	<u> </u>
Total assets	<u>\$ 10,699,956</u>	<u>\$ 12,621,443</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 446,724	\$ 451,280
Deferred revenue	-	100,100
	<u> </u>	<u> </u>
Total liabilities	<u>446,724</u>	<u>551,380</u>
Commitments and Contingencies		
Net Assets		
Unrestricted	4,403,953	6,496,980
Board designated	322,802	298,574
	<u> </u>	<u> </u>
Total unrestricted	4,726,755	6,795,554
Temporarily restricted	1,239,841	987,873
Permanently restricted	4,286,636	4,286,636
	<u> </u>	<u> </u>
Total net assets	<u>10,253,232</u>	<u>12,070,063</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 10,699,956</u>	<u>\$ 12,621,443</u>

See notes to consolidated financial statements

HealthCare Chaplaincy Network, Inc. and Affiliates

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2017 (with comparative totals for the year ended June 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Support and Revenue					
Contributions					
Foundations and trusts	\$ 182,550	\$ -	\$ -	\$ 182,550	\$ 281,947
Corporations	28,151	-	-	28,151	31,350
Religious organizations	6,160	-	-	6,160	3,000
Individuals/estates	121,019	-	-	121,019	78,193
Special event revenue	366,385	-	-	366,385	346,126
Less direct expenses of special event	(151,913)	-	-	(151,913)	(147,958)
Service revenue	1,727,848	-	-	1,727,848	1,577,714
Educational fees	438,697	-	-	438,697	178,161
Annual conference income	107,156	-	-	107,156	126,574
Change in value of charitable remainder trusts	-	10,820	-	10,820	(15,808)
Contributed goods and services	54,919	-	-	54,919	76,825
Other income	326,299	-	-	326,299	270,708
Net assets released from restrictions	383,435	(383,435)	-	-	-
Total support and revenue	3,590,706	(372,615)	-	3,218,091	2,806,832
Expenses					
Program services					
Clinical services	2,873,756	-	-	2,873,756	2,629,778
Education	1,154,226	-	-	1,154,226	945,638
Research	388,611	-	-	388,611	432,237
Community education	508,441	-	-	508,441	570,308
Spiritual care association	293,624	-	-	293,624	293,667
Total program services	5,218,658	-	-	5,218,658	4,871,628
Supporting services					
General and administrative	488,085	-	-	488,085	496,258
Advancement	467,494	-	-	467,494	529,637
Total supporting services	955,579	-	-	955,579	1,025,895
Total expenses	6,174,237	-	-	6,174,237	5,897,523
Decrease in net assets from operations	(2,583,531)	(372,615)	-	(2,956,146)	(3,090,691)
Investment income (loss)	514,732	624,583	-	1,139,315	(554,178)
Changes in net assets	(2,068,799)	251,968	-	(1,816,831)	(3,644,869)
Net Assets, Beginning of Year	6,795,554	987,873	4,286,636	12,070,063	15,714,932
Net Assets, End of Year	\$ 4,726,755	\$ 1,239,841	\$ 4,286,636	\$ 10,253,232	\$ 12,070,063

See notes to consolidated financial statements

HealthCare Chaplaincy Network, Inc. and Affiliates

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Contributions				
Foundations and trusts	\$ 281,947	\$ -	\$ -	\$ 281,947
Corporations	31,350	-	-	31,350
Religious organizations	3,000	-	-	3,000
Individuals/estates	78,193	-	-	78,193
Special event revenue	346,126	-	-	346,126
Less direct expenses of special event	(147,958)	-	-	(147,958)
Service revenue	1,577,714	-	-	1,577,714
Educational fees	178,161	-	-	178,161
Annual conference income	126,574	-	-	126,574
Change in value of charitable remainder trusts	-	(15,808)	-	(15,808)
Contributed goods and services	76,825	-	-	76,825
Other income	270,708	-	-	270,708
Net assets released from restrictions	174,268	(174,268)	-	-
	<u>2,996,908</u>	<u>(190,076)</u>	<u>-</u>	<u>2,806,832</u>
Expenses				
Program services				
Clinical services	2,629,778	-	-	2,629,778
Education	945,638	-	-	945,638
Research	432,237	-	-	432,237
Community education	570,308	-	-	570,308
Spiritual care association	293,667	-	-	293,667
	<u>4,871,628</u>	<u>-</u>	<u>-</u>	<u>4,871,628</u>
Supporting services				
General and administrative	496,258	-	-	496,258
Advancement	529,637	-	-	529,637
	<u>1,025,895</u>	<u>-</u>	<u>-</u>	<u>1,025,895</u>
Total expenses	<u>5,897,523</u>	<u>-</u>	<u>-</u>	<u>5,897,523</u>
Decrease in net assets from operations	(2,900,615)	(190,076)	-	(3,090,691)
Investment loss	(418,737)	(135,441)	-	(554,178)
	<u>(3,319,352)</u>	<u>(325,517)</u>	<u>-</u>	<u>(3,644,869)</u>
Changes in net assets	(3,319,352)	(325,517)	-	(3,644,869)
Net Assets, Beginning of Year	<u>10,114,906</u>	<u>1,313,390</u>	<u>4,286,636</u>	<u>15,714,932</u>
Net Assets, End of Year	<u>\$ 6,795,554</u>	<u>\$ 987,873</u>	<u>\$ 4,286,636</u>	<u>\$ 12,070,063</u>

See notes to consolidated financial statements

HealthCare Chaplaincy Network, Inc. and Affiliates

Consolidated Statement of Functional Expenses

Year Ended June 30, 2017 (with comparative totals for the year ended June 30, 2016)

	Program Services					Supporting Services			2017 Total Expenses	2016 Total Expenses	
	Clinical Services	Education	Research	Community Education	Spiritual Care Association	Total Program Services	General and Administrative	Advancement			Total Supporting Services
Salary	\$ 1,758,198	\$ 370,186	\$ 214,695	\$ 120,481	\$ -	\$ 2,463,560	\$ 161,021	\$ 239,170	\$ 400,191	\$ 2,863,751	\$ 2,906,873
Pension expense	46,578	9,807	5,688	3,192	-	65,265	4,266	6,336	10,602	75,867	59,225
Medical insurance	196,519	41,377	23,997	13,466	-	275,359	17,998	26,733	44,731	320,090	280,668
Payroll taxes	100,352	21,129	12,254	6,877	-	140,612	9,191	13,651	22,841	163,453	191,231
Disability/workmen's compensation	2,739	577	334	188	-	3,838	251	373	623	4,461	18,101
Recruiting and moving expenses	18,204	948	-	1,054	-	20,206	2,747	1,468	4,215	24,421	26,829
Travel	13,161	281,307	8,048	16	2,088	304,620	6,036	6,087	12,123	316,742	167,279
Professional education	14,638	-	-	-	-	14,638	-	-	-	14,638	8,058
Dues	3,400	-	-	-	-	3,400	15,760	142	15,902	19,302	28,687
Other printed materials	-	47,276	-	73,832	13,654	134,762	5,426	-	5,426	140,188	168,481
Other staff support and development	9,833	4,885	2,423	786	-	17,927	1,817	1,817	3,634	21,561	32,601
Library and subscriptions	-	-	-	-	-	-	-	-	-	-	3,985
Telephone	18,979	1,784	-	1,982	-	22,745	5,168	2,761	7,928	30,673	30,402
Public/board meetings patient family	-	-	-	-	-	-	18,364	6,056	24,420	24,420	14,620
Mailing costs	9,314	32,086	7,446	25,272	-	74,118	5,585	7,903	13,488	87,606	72,541
Other communication expenses	852	172,151	-	25,686	-	198,689	-	4,437	4,437	203,126	114,446
Other professional fees	187,969	117,363	113,726	183,167	276,790	879,015	31,102	78,919	110,021	989,036	941,079
Office supplies	5,071	477	-	530	-	6,078	1,381	738	2,119	8,197	10,118
Information systems	72,440	6,809	-	8,419	-	87,668	19,725	10,537	30,262	117,930	94,291
Rent	317,236	29,819	-	33,132	-	380,187	86,383	46,144	132,527	512,714	499,176
Insurance	60,861	5,721	-	6,356	-	72,938	16,572	8,853	25,425	98,363	64,939
Depreciation and amortization	28,046	2,636	-	2,929	-	33,611	7,637	4,080	11,716	45,327	41,982
Building maintenance and repairs	2,057	193	-	215	-	2,465	560	299	859	3,324	1,013
Utilities	6,821	641	-	712	-	8,174	1,857	992	2,849	11,023	7,291
Contributed services	-	-	-	-	-	-	54,919	-	54,919	54,919	76,825
Other office expenses	378	6,919	-	149	1,091	8,537	14,320	-	14,320	22,857	36,782
Grant Awards	110	135	-	-	-	245	-	-	-	245	-
Total expenses	\$ 2,873,756	\$ 1,154,226	\$ 388,611	\$ 508,441	\$ 293,624	\$ 5,218,658	\$ 488,085	\$ 467,494	\$ 955,579	\$ 6,174,237	\$ 5,897,523

See notes to consolidated financial statements

HealthCare Chaplaincy Network, Inc. and Affiliates

Consolidated Statement of Functional Expenses

Year Ended June 30, 2016

	Program Services					Supporting Services			2016 Total Expenses	
	Clinical Services	Education	Research	Community Education	Spiritual Care Association	Total Program Services	General and Administrative	Advancement		Total Supporting Services
Salary	\$ 1,658,630	\$ 396,718	\$ 233,338	\$ 169,585	\$ -	\$ 2,458,271	\$ 169,246	\$ 279,356	\$ 448,602	\$ 2,906,873
Pension expense	33,793	8,083	4,754	3,455	-	50,085	3,448	5,692	9,140	59,225
Medical insurance	160,146	38,304	22,530	16,374	-	237,354	16,341	26,973	43,314	280,668
Payroll taxes	109,115	26,098	15,350	11,156	-	161,719	11,134	18,378	29,512	191,231
Disability/workmen's compensation	10,329	2,470	1,453	1,056	-	15,308	1,054	1,739	2,793	18,101
Recruiting and moving expenses	18,418	1,372	-	2,134	-	21,924	3,046	1,859	4,905	26,829
Travel	12,850	131,533	9,234	75	-	153,692	6,746	6,841	13,587	167,279
Professional education	8,058	-	-	-	-	8,058	-	-	-	8,058
Dues	14,358	-	-	-	-	14,358	14,154	175	14,329	28,687
Other printed materials	2,540	55,112	-	53,328	51,069	162,049	5,132	1,300	6,432	168,481
Other staff support and development	12,185	6,393	5,115	636	-	24,329	3,836	4,436	8,272	32,601
Library and subscriptions	29	-	-	-	-	29	3,956	-	3,956	3,985
Telephone	18,023	2,019	-	3,141	-	23,183	4,483	2,736	7,219	30,402
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
Other communication expenses	-	91,460	-	17,784	-	109,244	-	5,202	5,202	114,446
Other professional fees	139,030	101,803	135,593	203,613	231,394	811,433	31,586	98,060	129,646	941,079
Office supplies	5,992	671	-	1,044	-	7,707	1,490	921	2,411	10,118
Information systems	54,664	6,125	-	11,605	-	72,394	13,598	8,299	21,897	94,291
Rent	295,911	33,156	-	51,575	-	380,642	73,608	44,926	118,534	499,176
Insurance	38,496	4,313	-	6,710	-	49,519	9,576	5,844	15,420	64,939
Depreciation and amortization	24,887	2,788	-	4,338	-	32,013	6,191	3,778	9,969	41,982
Building maintenance and repairs	601	67	-	105	-	773	149	91	240	1,013
Utilities	4,323	484	-	753	-	5,560	1,075	656	1,731	7,291
Contributed services	-	-	-	-	-	-	76,825	-	76,825	76,825
Other office expenses	1,312	5,274	-	60	779	7,425	29,357	-	29,357	36,782
Total expenses	\$ 2,629,778	\$ 945,638	\$ 432,237	\$ 570,308	\$ 293,667	\$ 4,871,628	\$ 496,258	\$ 529,637	\$ 1,025,895	\$ 5,897,523

See notes to consolidated financial statements

HealthCare Chaplaincy Network, Inc. and Affiliates

Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ (1,816,831)	\$ (3,644,869)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization	45,328	41,982
Change in value of charitable remainder trusts	(10,820)	15,808
Realized and unrealized (gain) loss on investments	(985,319)	792,863
Changes in operating assets and liabilities:		
(Increase) decrease in assets		
Accounts receivable	(47,654)	120,639
Pledges and grants receivable	-	10,000
Prepaid expenses and other current assets	(30,845)	115,856
(Decrease) increase in liabilities		
Accounts payable and accrued expenses	(4,556)	43,298
Deferred revenue	(100,100)	86,700
Total adjustments	<u>(1,133,966)</u>	<u>1,227,146</u>
Net cash used in operating activities	<u>(2,950,797)</u>	<u>(2,417,723)</u>
Cash Flows from Investing Activities		
Purchase of equipment	(3,998)	(45,163)
Purchase of investments	(2,891,036)	(2,059,552)
Proceeds from sale of investments	5,587,039	4,370,867
Net cash provided by investing activities	<u>2,692,005</u>	<u>2,266,152</u>
Net decrease in cash and cash equivalents	(258,792)	(151,571)
Cash and Cash Equivalents, Beginning of Year	<u>601,921</u>	<u>753,492</u>
Cash and Cash Equivalents, End of Year	<u>\$ 343,129</u>	<u>\$ 601,921</u>

See notes to consolidated financial statements

HealthCare Chaplaincy Network, Inc. and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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.

Revenue Recognition

Income from membership dues are recognized in the period to which the dues apply. Income from fees and services are generally recognized when services are performed.

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.

HealthCare Chaplaincy Network, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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.

Revenue Recognition

The Organization receives substantially all of its revenue from educational fees and contributions. Revenue is recognized as earned when services are provided and contributions are received.

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, 2017 and 2016, the Organization received contributed services of \$54,919 and \$76,825, 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 value which approximates cost.

HealthCare Chaplaincy Network, Inc. and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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, 2017 and 2016.

Property and Equipment

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. Leasehold improvements are amortized over the life of the lease.

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

HealthCare Chaplaincy Network, Inc. and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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 consolidated 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 consolidated 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 May 15, 2018, the date the financial statements are available for issuance, for inclusion or disclosure in the consolidated financial statements.

Reclassifications

Certain 2016 amounts were reclassified to conform to the 2017 presentation.

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.

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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.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The main provision of this update is that in connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued (or at the date that the financial statements are available to be issued when applicable). The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Management has adopted ASU 2014-15 and has prepared a going concern assessment in line with guidance.

2. Investments

Investment composition and classification of investments within the fair value hierarchy was as follows at June 30:

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Equities	\$ 6,084,349	\$ -	\$ -	\$ 6,084,349
Fixed income	2,179,911	-	-	2,179,911
Subtotal	<u>\$ 8,264,260</u>	<u>\$ -</u>	<u>\$ -</u>	8,264,260
Cash and cash equivalents				<u>921,086</u>
Total investments				<u>\$ 9,185,346</u>

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	June 30, 2016			Total
	Level 1	Level 2	Level 3	
Equities	\$ 7,028,825	\$ -	\$ -	\$ 7,028,825
Fixed income	1,904,660	-	-	1,904,660
Mutual funds	1,202,276	-	-	1,202,276
Subtotal	<u>\$ 10,135,761</u>	<u>\$ -</u>	<u>\$ -</u>	10,135,761
Cash and cash equivalents				<u>760,269</u>
Total investments				<u>\$ 10,896,030</u>

	June 30, 2017		
	Unrestricted	Temporarily Restricted	Total
Interest and dividend income	\$ 172,470	\$ 88,580	\$ 261,050
Investment gain (including fees of \$107,054)	580,250	298,015	878,265
Net return on investments	<u>\$ 752,720</u>	<u>\$ 386,595</u>	<u>\$ 1,139,315</u>

	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 loss on investments	<u>\$ (418,737)</u>	<u>\$ (135,441)</u>	<u>\$ (554,178)</u>

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 accompany consolidated statements of financial position.

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4. Property and Equipment, Net

Property and equipment, net consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Artwork	\$ 384,675	\$ 384,675
Furniture, fixtures and equipment	230,487	230,487
Leasehold improvements	49,161	45,163
	<u>664,323</u>	<u>660,325</u>
Less accumulated depreciation and amortization	209,264	163,936
Total	<u>\$ 455,059</u>	<u>\$ 496,389</u>

5. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30:

	<u>2017</u>	<u>2016</u>
Purpose restrictions:		
Education	\$ 411,371	\$ 350,146
Research	27,637	18,812
Pastoral care	338,337	290,105
	<u>777,345</u>	<u>659,063</u>
Time restrictions:		
General support	310,593	187,727
Other	151,903	141,083
	<u>462,496</u>	<u>328,810</u>
	<u>\$ 1,239,841</u>	<u>\$ 987,873</u>

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:

	<u>2017</u>	<u>2016</u>
Purpose restrictions	\$ 187,007	\$ 174,268
Time restrictions	196,428	-
Total	<u>\$ 383,435</u>	<u>\$ 174,268</u>

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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.

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The composition of endowment net assets and change in composition of endowments for the years ended June 30 are as follows:

	June 30, 2017		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor restricted endowment net assets, beginning of year	\$ (719,522)	\$ 846,790	\$ 4,286,636
Investment return:			
Investment income	-	143,110	-
Net appreciation	-	540,162	-
Investment fees	-	(58,688)	-
Transfers	81,305	(81,305)	-
Appropriated	-	(302,130)	-
	<u> </u>	<u> </u>	<u> </u>
Donor restricted endowment net assets, end of year	<u>\$ (638,217)</u>	<u>\$ 1,087,938</u>	<u>\$ 4,286,636</u>
	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)	-
	<u> </u>	<u> </u>	<u> </u>
Donor restricted endowment net assets, end of year	<u>\$ (719,522)</u>	<u>\$ 846,790</u>	<u>\$ 4,286,636</u>

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.

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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 was as follows:

	<u>2017</u>	<u>2016</u>
Board designated net assets, beginning of year	\$ 298,574	\$ 335,544
Investment return:		
Investment income (loss)	11,997	(2,343)
Net appreciation (depreciation)	36,837	(10,144)
Investment fees	(4,002)	(4,277)
Appropriated	<u>(20,604)</u>	<u>(20,206)</u>
Board designated net assets, end of year	<u>\$ 322,802</u>	<u>\$ 298,574</u>

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 \$513,000 and \$499,000 for the years ended June 30, 2017 and 2016, respectively.

Future minimum lease payments under this lease are:

Years ending June 30:		
2018	\$ 590,000	
2019	<u>251,000</u>	
Total	<u>\$ 841,000</u>	

The Organization entered into a 34 month lease agreement with a sub lessor ("FIG") for certain space at 65 Broadway ("Sublease 1") in January 2016. The Organization entered into a 23 ½ month lease agreement with a sub lessor ("PSS") for certain space at 65 Broadway ("Sublease 2") on November 15, 2016. Rental income from both subleases approximated \$222,000 and \$73,000 for the years ended June 30, 2017 and 2016.

Future sublease income under the leases is:

Years ending June 30:		
2018	\$ 258,000	
2019	<u>109,000</u>	
Total	<u>\$ 367,000</u>	

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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, 2017 and 2016, resulting in total employer contributions of approximately \$76,000 and \$59,000, respectively. There was no match of employee contributions during the years ended June 30, 2017 and 2016.

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 a limited number of participating facilities. The Organization had contracts with two facilities and four facilities, respectively, that each represented greater than 10% of total revenues for the years ended June 30, 2017 and 2016.