

The HealthCare Chaplaincy, Inc.

Financial Statements
and
Auditor's Report

Six Months Ended June 30, 2008

The HealthCare Chaplaincy, Inc.

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Board of Trustees
The HealthCare Chaplaincy, Inc.

Independent Auditor's Report

We have audited the accompanying Consolidated Statement of Financial Position of The HealthCare Chaplaincy, Inc. as of June 30, 2008 and the related Consolidated Statements of Activities, Cash Flows and Functional Expenses and the Functional Expenses of the Wholeness of Life Center, Inc. for the period then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Chaplaincy's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The HealthCare Chaplaincy, Inc. as of June 30, 2008 and the changes in its net assets and its cash flows for the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Lambrides, Lamos, Moulthrop LLP

November 7, 2008

The HealthCare Chaplaincy, Inc.
Consolidated Statement of Financial Position
June 30, 2008

ASSETS

Cash and cash equivalents	\$ 234,004
Accrued income receivable	448,557
Pledges and grants receivable	2,233,337
Prepaid expenses and deposits	111,847
Investments	22,586,477
Land, buildings and equipment (net of accumulated depreciation of \$3,498,999)	<u>5,206,318</u>

Total assets \$ 30,820,540

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	<u>\$ 277,003</u>
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Total liabilities 277,003

Net Assets:

Unrestricted:

Net investment in land, buildings and equipment	5,206,318
Long-term investment	12,582,095
Undesignated	<u>1,516,258</u>

Total unrestricted net assets 19,304,671

Temporarily restricted 7,053,271

Permanently restricted 4,185,595

Total net assets 30,543,537

Total liabilities and net assets \$ 30,820,540

See notes to financial statements.

The HealthCare Chaplaincy, Inc.
Consolidated Statement of Activities
For the Six Months Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Support and revenue:				
Contributions:				
Foundations and trusts	\$ 19,025	\$ 25,000		\$ 44,025
Corporations	60			60
Religious organizations	4,000			4,000
Individuals/estates	1,267,121	125,000	\$ 61,060	1,453,181
Special events:				
Contributions	7,700			7,700
Direct costs	(15,561)			(15,561)
Total contributions and special events	<u>1,282,345</u>	<u>150,000</u>	<u>61,060</u>	<u>1,493,405</u>
Revenue:				
Service revenue	1,421,030			1,421,030
Educational fees	56,425			56,425
Miscellaneous income	79,344			79,344
Total revenue	<u>1,556,799</u>			<u>1,556,799</u>
Total support and revenue before net assets released from restrictions	2,839,144	150,000	61,060	3,050,204
Net assets released from restrictions				
Satisfaction of program restrictions	<u>627,899</u>	<u>(627,899)</u>		
Total support and revenue	<u>3,467,043</u>	<u>(477,899)</u>	<u>61,060</u>	<u>3,050,204</u>
Expenses:				
Program services:				
Patient/family care	1,097,033			1,097,033
Professional education	990,531			990,531
Research	375,571			375,571
Community outreach	826,205			826,205
Pastoral care consulting	60,629			60,629
Total program services	<u>3,349,969</u>			<u>3,349,969</u>
Supporting services:				
General and administrative	383,504			383,504
Fundraising	427,038			427,038
Total supporting services	<u>810,542</u>			<u>810,542</u>
Total program and supporting services	<u>4,160,511</u>			<u>4,160,511</u>
Change in net assets from operating activities	(693,468)	(477,899)	61,060	(1,110,307)
Other changes in net assets				
Startup expenses of affiliate	(273,820)			(273,820)
Fundraising expenses of affiliate	(96,000)			(96,000)
Investment income	(1,846,449)	(1,161,500)		(3,007,949)
Change in value of remainder trusts		<u>(57,304)</u>		<u>(57,304)</u>
Change in net assets	<u>(2,909,737)</u>	<u>(1,696,703)</u>	61,060	<u>(4,545,380)</u>
Net assets at beginning of period	<u>22,214,408</u>	<u>8,749,974</u>	<u>4,124,535</u>	<u>35,088,917</u>
Net assets at end of period	<u>\$ 19,304,671</u>	<u>\$ 7,053,271</u>	<u>\$ 4,185,595</u>	<u>\$ 30,543,537</u>

See notes to financial statements.

The HealthCare Chaplaincy, Inc.
Consolidated Statement of Cash Flows
For the Six Months Ended June 30, 2008

Change in net assets	\$(4,545,380)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	162,175
Stock gifts	(5,637)
Unrealized loss on investments	4,343,181
Realized gain on investments	(1,112,275)
(Increase) decrease:	
Accrued income receivable	(53,969)
Pledges and grants receivable	444,304
Value of remainder trusts	57,304
Prepaid expenses	(15,872)
Increase (decrease):	
Accounts payable	<u>36,144</u>
Cash used by operating activities	<u>(690,025)</u>
Cash flows from investing activities:	
Proceeds from sales of investments	7,551,341
Purchase of investments	(7,321,200)
Acquisition of fixed assets	<u>(59,725)</u>
Cash provided by investing activities	<u>170,416</u>
Net decrease in cash	(519,609)
Cash and cash equivalents at beginning of period	<u>753,613</u>
Cash and cash equivalents at end of period	<u>\$ 234,004</u>

See notes to financial statements.

The HealthCare Chaplaincy, Inc.
Consolidated Statement of Functional Expenses
For the Six Months Ended June 30, 2008

	Program Services						Supporting Services			Totals
	Patient/ Family Care	Professional Education	Research	Community Outreach	Pastoral Care Consulting	Wholeness Of Life Startup Costs	Total Program Services	General & Admin.	Fund Raising	
Operating expenses:										
Staff salaries	\$ 886,164	\$ 565,379	\$ 182,313	\$ 427,201	\$ 50,840	\$ 2,111,897	\$ 211,237	\$ 234,675	\$ 2,557,809	
Salaries										
Staff benefits										
Pension expense	27,671	18,998	9,256	14,646	2,212	72,783	5,259	6,441	84,483	
Medical insurance	72,722	49,628	15,051	36,920	1,836	176,157	15,761	15,591	207,509	
Payroll taxes	11,377	20,720	13,695	17,912	1,146	64,850	12,398	11,288	88,536	
Disability/worker's compensation	3,334	7,291	3,713	7,397	39	21,774	4,182	3,774	29,730	
Other staff benefits	4,085	13,928	2,158	5,449	191	25,811	5,796	2,825	34,432	
Staff support and development										
Recruiting and moving expense	13,030		1,609	1,599	4,080	14,639	15,737	8,371	38,747	
Travel	1,722	1,892	295	1,599		9,588	667	1,540	11,795	
Professional education	18,104	6,444	3,398	1,516		29,462	160	1,562	31,184	
Dues and licenses		4,822	833	186		5,841			5,841	
Other staff support and development	3,863	7,290	535	78,316		90,004	168	151	90,323	
Library and subscriptions	(156)	82	7,290	1,087		8,303	96	101	8,500	
Program and materials and support										
Training supplies		675				675			675	
Stipends		110,561	27,500			138,061			138,061	
Scholarships and fellowships		24,645				24,645			24,645	
Other program materials and support	15,142	51,313	44,462	33,819		144,736	2,585	2,159	149,480	
Communications										
Newsletter: Community outreach	330	3,239	518	16,601	246	16,847	123	2,741	16,847	
Other printed materials	2,250	4,664	2,319	4,439		15,961	2,275	2,151	18,825	
Telephone/beepers	4,461	8,962	4,577	17,155		35,155	5,101	13,903	54,159	
Public/board meeting patient/family	96	373	120	333		922	1,533	471	2,926	
Mailing costs										
Professional fees										
Other professional fees	9,643	9,288	4,644	11,830		35,405	5,444	4,644	45,493	

(Continued)

See notes to financial statements.

The HealthCare Chaplaincy, Inc.
Consolidated Statement of Functional Expenses
For the Six Months Ended June 30, 2008

	Program Services					Supporting Services		Totals	
	Patient/ Family Care	Professional Education	Research	Community Outreach	Pastoral Care	Wholeness Of Life Startup Costs	Total Program Services		Healthcare General & Admin.
Operating expenses: (Continued)									
Office									
Office supplies, maintenance and repairs	583	8,437	797	1,055		10,872	2,775	1,113	14,760
Information systems	3,041	5,558	10,317	7,153		26,069	3,755	6,446	36,270
Rent	3,695	7,390	3,695	59,116		73,896	55,421	55,421	184,738
Insurance	1,974	4,992	2,596	5,500		15,062	3,610	2,763	21,435
Depreciation - furniture and equipment	1,174	8,026	2,501	12,143		23,844	6,584	6,414	36,842
Depreciation - building	4,105	23,766	18,268	28,603		74,742	15,031	35,560	125,333
Building maintenance and repairs	3,745	8,778	4,842	9,255	39	26,659	3,712	2,848	33,219
Utilities	4,853	13,347	8,252	15,066		41,518	4,068	4,068	49,654
Other office expense	25	43	17	34		119	26	17	162
Total operating expenses	<u>\$ 1,097,033</u>	<u>\$ 990,531</u>	<u>\$ 375,571</u>	<u>\$ 826,205</u>	<u>\$ 60,629</u>	<u>\$ 3,349,969</u>	<u>\$ 383,504</u>	<u>\$ 427,038</u>	<u>\$ 4,160,511</u>
Wholeness of Life Center, Inc. (affiliate)									
Staff Salaries									
Salaries							\$ 57,500		\$ 57,500
Staff benefits									
Medical insurance							2,039		2,039
Payroll taxes							1,783		1,783
Pension expense							2,760		2,760
Other staff benefits							67		67
Professional fees									
Other professional fees							209,265	96,000	305,265
Office									
Other office expenses							406		406
Total Wholeness of Life Center, Inc. Expenses							<u>\$ 273,820</u>	<u>\$ 96,000</u>	<u>\$ 369,820</u>

See notes to financial statements.

The HealthCare Chaplaincy, Inc.
Notes to the Financial Statements
June 30, 2008

1. Organization and Purpose:

The HealthCare Chaplaincy, Inc. (the Chaplaincy) is a center for health-related spiritual care, education and research in the professional field of pastoral care. Its 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 HealthCare Chaplaincy, Inc. is incorporated pursuant to the provisions of the Not-For-Profit Law of the State of New York. As a non-profit organization, it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state corporate income taxes.

2. Summary of Significant Accounting Policies:

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

a. Accrual Basis Financial Statements

The accompanying financial statements have been prepared on the accrual basis and conform to accounting principles generally accepted in the United States of America and in accordance with the principles of not-for-profit accounting.

b. Net Assets

The net assets of the Chaplaincy and changes therein are classified and reported as follows:

- Unrestricted net assets include all resources which are not subject to donor-imposed restrictions of a more specific nature than those which only obligate the organization to utilize funds in furtherance of its mission.
- Temporarily restricted net assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because certain actions are taken by the organization which fulfill the restrictions or because of the passage of time. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.
- Permanently restricted net assets are those that are subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be permanently retained. 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.

The HealthCare Chaplaincy, Inc.
Notes to the Financial Statements
June 30, 2008

2. Summary of Significant Accounting Policies: (Continued)

c. Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the pledges are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

d. Contributions

Contributions are recorded as revenue upon receipt of cash or unconditional promises to give (pledges). Contributions are considered available for unrestricted use unless specifically restricted by the donor. Contributions of property, buildings and equipment without donor stipulation concerning the use of such long-lived assets are reported as revenues of the unrestricted net assets. Contributions of cash or other assets to be used to acquire property, plant and equipment are reported as revenue of the temporarily restricted net assets; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

e. Cash and Cash Equivalents

Cash and cash equivalents include all unrestricted cash on hand and in banks. The Chaplaincy also considers all highly liquid unrestricted investments with a maturity of three months or less when purchased to be cash equivalents.

f. Investments

Investments in equity securities with readily determinable fair market values and all investments in debt securities are reported at fair market value, with gains and losses included in the consolidated statement of activities. Donated investments are reflected as contributions at their fair market values at date of receipt.

In addition, the Chaplaincy considers certain cash, money market, and highly liquid investments that are either temporarily or permanently restricted to be investments.

g. Land, Buildings and Equipment

Land, buildings and equipment are stated at cost, or, if donated, at the estimated fair market value at the date of donation. Depreciation is recorded using the straight-line method at various rates calculated to allocate the cost of the respective items over the estimated useful lives.

Estimated useful lives are as follows:

Buildings	40 years
Building improvements	15 - 20 years
Equipment	5 - 10 years

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

The HealthCare Chaplaincy, Inc.
Notes to the Financial Statements
June 30, 2008

2. Summary of Significant Accounting Policies: (Continued)

h. Expense Allocations

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to the using programs and supporting services on the basis of periodic time and expense studies. Promotional and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the organization.

i. 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from their estimates.

3. Change of Fiscal Year:

Pursuant to action by the board of directors the fiscal year of the corporation was changed from December 31 to June 30. Therefore, the Statement of Financial Activity, the Statement of Cash Flows and the Statement of Functional Expenses reflect only six months of activity. Because of the change of fiscal period, it is not practical to provide comparative numbers for a previous fiscal period.

4. Concentration of Risk:

The Chaplaincy's cash accounts and investments are located in various institutions. The amount on deposit in one institution on June 30, 2008 exceeded the \$100,000 federally insured limit by \$636,768.

5. Pledges and Grants Receivable:

Grants and pledges are expected to be received as follows:

	Grants	Pledges	Trusts	Total
In less than one year	\$ 665,000	\$ 371,922		\$ 1,036,922
In one to five years	<u>175,000</u>	<u> </u>		<u>175,000</u>
Subtotal	840,000	371,922		1,211,922
Less unamortized discount	(21,877)	(6,563)		(28,440)
Less allowance for uncollectible pledges	(34,500)	(70,339)		(104,839)
Remainder trusts	<u> </u>	<u> </u>	\$ 1,154,694	<u>1,154,694</u>
Net grants and pledges receivable	<u>\$ 783,623</u>	<u>\$ 295,020</u>	<u>\$ 1,154,694</u>	<u>\$ 2,233,337</u>

The HealthCare Chaplaincy, Inc.
Notes to the Financial Statements
June 30, 2008

6. Investments:

Investments are reported at market value as of June 30, 2008 and consist of:

	Market
Common stock	\$ 14,127,690
Mutual funds	5,042,884
US Treasuries	2,683,455
Money market funds	<u>732,448</u>
Total investments	<u>\$ 22,586,477</u>

Investment income is composed of the following:

Interest and dividends	\$ 311,606
Unrealized losses	(4,343,181)
Realized gains	1,112,275
Investment management and broker fees	<u>(88,649)</u>
Total investment income	<u>\$ (3,007,949)</u>

7. Land, Buildings and Equipment:

A summary of plant assets follows:

	Cost	Accumulated Depreciation	Net
Land	\$ 405,000		\$ 405,000
Artwork	375,865		375,865
Building	1,072,755	\$ 321,827	750,928
Building improvements	5,064,422	1,897,427	3,166,995
Furniture, fixtures and equipment	<u>1,787,275</u>	<u>1,279,745</u>	<u>507,530</u>
	<u>\$8,705,317</u>	<u>\$3,498,999</u>	<u>\$5,206,318</u>

Depreciation expense for the period was \$162,175.

The HealthCare Chaplaincy, Inc.
Notes to the Financial Statements
June 30, 2008

8. Operating Leases:

The Chaplaincy leases certain space on 62nd Street in New York City under an operating lease agreement. Rental expense of \$184,738 was incurred in the six month period ending June 30, 2008. The estimated minimum rental payments under this operating lease are as follows:

Fiscal Year 2009	\$ 377,597
Fiscal Year 2010	388,048
Fiscal Year 2011	<u>229,707</u>
	<u>\$ 995,352</u>

9. Temporarily Restricted Net Assets:

Restricted for:

Scholarships and fellowships	\$ 3,443,027
Professional education	785,594
Future periods	1,025,419
Library	193,582
Pastoral care	326,573
Wholeness of Life Center	81,575
Oral History	<u>42,807</u>
	5,898,577
Remainder trusts	<u>1,154,694</u>
	<u>\$ 7,053,271</u>

10. Gifts in Kind - Services:

The HealthCare Chaplaincy, Inc. received gifts in kind totaling \$49,845 toward the cost of the Wholeness of Life Center in 2008 that are reflected as contributions and expenditures in the accompanying financial statements. These services are valued based on the estimated cost of services that would otherwise have to have been purchased.

11. Pension Plan:

The HealthCare Chaplaincy, Inc. has adopted a contributory, defined contribution pension plan. The Chaplaincy contributes four percent of salary for eligible employees, and matches employee contributions up to an additional two percent of salary. Total expense for 2008 was \$87,243.

The HealthCare Chaplaincy, Inc.
Notes to the Financial Statements
June 30, 2008

12. Transactions with Affiliate:

As part of its commitment to establish a 100-unit end-of-life care residence, The Chaplaincy paid related expenses of \$369,820 on behalf of the Wholeness of Life Center, Inc. (the residence). As an affiliated enterprise, a number of current trustees and employees of The Chaplaincy comprise the founding governing board of this separately incorporated residence, giving The HealthCare Chaplaincy a majority voting interest. The board of trustees of The HealthCare Chaplaincy has further resolved to provide principal financial support for the residence. Therefore, the financial statements of the residence are consolidated with those of The Chaplaincy.

13. Wholeness of Life Center, Inc.:

The HealthCare Chaplaincy, Inc. is in the initial stages of designing and constructing a 100-unit enhanced assisted living end-of-life care residence where individuals during the last phase of life will be cared for in spirit, mind and body.

The residence will, at the same time, serve as a premier pastoral research and post-graduate education center where practitioners and students in the cognate allied health and palliative care disciplines will receive specialized training in and study the role of spirituality in the care of persons facing death.

It is expected that the residence will be operational at the beginning of 2012.

The residence will share physical space within a new Leadership in Energy and Environmental Design (LEED) platinum certification-eligible facility, which The Chaplaincy is preparing to build to house its expanding research, education and clinical service programs as well as its executive and administrative personnel. Additionally, the building is intended to provide space for an independent group medical practice, a multi-use shared community facility, and specialty New York City public high school to serve the needs of the city and beyond.