

**HEALTHCARE CHAPLAINCY  
NETWORK, INC.**

New York, New York

**CONSOLIDATED FINANCIAL STATEMENTS**

Including Independent Auditors' Report

For the Years Ended June 30, 2013 and 2012

# 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, 2013 and 2012, 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, 2013 and 2012, and the change 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  
April 23, 2014



# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Consolidated Statements of Financial Position

<i>June 30,</i>	2013	2012
<b>Assets</b>		
Cash and Cash Equivalents	\$ 1,295,475	\$ 1,399,226
Restricted Cash	-	62,227
Investments	11,760,645	14,084,962
Accounts Receivable	362,029	366,231
Pledges and Grants Receivable, net	60,820	179,581
Prepaid Expenses and Other Current Assets	51,636	69,195
Beneficial Interest in Charitable Remainder Trusts	145,608	131,125
Land, Building and Equipment, net	416,151	7,916,009
Assets Held for Sale	3,160,411	-
<b>Total Assets</b>	<b>\$ 17,252,775</b>	<b>\$ 24,208,556</b>
<b>Liabilities and Net Assets</b>		
Accounts Payable and Accrued Expenses	\$ 1,292,173	\$ 1,109,530
<b>Total Liabilities</b>	<b>1,292,173</b>	<b>1,109,530</b>
Commitments and Contingencies		
Net Assets:		
Unrestricted	9,775,668	16,921,027
Board designated	358,409	352,498
<b>Total unrestricted</b>	<b>10,134,077</b>	<b>17,273,525</b>
Temporarily Restricted	1,565,193	1,576,379
Permanently Restricted	4,261,332	4,249,122
<b>Total Net Assets</b>	<b>15,960,602</b>	<b>23,099,026</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 17,252,775</b>	<b>\$ 24,208,556</b>

# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Consolidated Statement of Activities and Changes in Net Assets

*Year Ended June 30, 2013 (with comparative totals for the year ended June 30, 2012)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
Operating Support and Revenue:					
Contributions:					
Foundations and trusts	\$ 1,796,973	\$ 154,500	\$ -	\$ 1,951,473	\$ 691,174
Corporations	11,250	-	-	11,250	5,850
Religious organizations	700	4,500	250	5,450	1,950
Individuals/estates	410,979	1,239	11,960	424,178	605,475
Special event revenue	683,274	-	-	683,274	1,027,666
Less direct expenses of special event	(117,540)	-	-	(117,540)	(176,395)
Service revenue	2,065,781	-	-	2,065,781	2,670,528
Educational fees	500,859	-	-	500,859	534,385
Investment income allocated for operations	2,197,784	302,321	-	2,500,105	1,384,535
Change in value of charitable remainder trust	-	14,483	-	14,483	(176)
Contributed goods and services	379,001	-	-	379,001	89,950
Other income	38,217	-	-	38,217	43,626
Net assets released from restrictions	547,394	(547,394)	-	-	-
<b>Total Support and Revenue</b>	<b>8,514,672</b>	<b>(70,351)</b>	<b>12,210</b>	<b>8,456,531</b>	<b>6,878,568</b>
Expenses:					
Program services:					
Clinical services	2,661,226	-	-	2,661,226	2,460,682
Education	1,124,077	-	-	1,124,077	1,525,755
Research	1,732,641	-	-	1,732,641	765,139
Community education	747,648	-	-	747,648	677,016
<b>Total program services</b>	<b>6,265,592</b>	<b>-</b>	<b>-</b>	<b>6,265,592</b>	<b>5,428,592</b>
Supporting services:					
General and administrative	1,435,561	-	-	1,435,561	1,252,627
Advancement	719,104	-	-	719,104	552,628
<b>Total supporting services</b>	<b>2,154,665</b>	<b>-</b>	<b>-</b>	<b>2,154,665</b>	<b>1,805,255</b>
<b>Total Expenses</b>	<b>8,420,257</b>	<b>-</b>	<b>-</b>	<b>8,420,257</b>	<b>7,233,847</b>
<b>Increase (Decrease) in Net Assets from Operations</b>	<b>94,415</b>	<b>(70,351)</b>	<b>12,210</b>	<b>36,274</b>	<b>(355,279)</b>
<b>Investment Results, net of allocation to operations</b>	<b>(1,112,000)</b>	<b>59,165</b>	<b>-</b>	<b>(1,052,835)</b>	<b>(1,612,182)</b>
<b>Changes in Net Assets, before impairment loss and pre-development costs</b>	<b>(1,017,585)</b>	<b>(11,186)</b>	<b>12,210</b>	<b>(1,016,561)</b>	<b>(1,967,461)</b>
Impairment Loss (Note 5)	(4,200,064)	-	-	(4,200,064)	-
Pre-development costs (Note 5)	(1,921,799)	-	-	(1,921,799)	-
<b>Total Changes in Net Assets</b>	<b>(7,139,448)</b>	<b>(11,186)</b>	<b>12,210</b>	<b>(7,138,424)</b>	<b>(1,967,461)</b>
<b>Net Assets, beginning of year</b>	<b>17,273,525</b>	<b>1,576,379</b>	<b>4,249,122</b>	<b>23,099,026</b>	<b>25,066,487</b>
<b>Net Assets, end of year</b>	<b>\$10,134,077</b>	<b>\$1,565,193</b>	<b>\$ 4,261,332</b>	<b>\$15,960,602</b>	<b>\$23,099,026</b>

# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Consolidated Statement of Activities and Changes in Net Assets

*Year Ended June 30, 2012*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Support and Revenue:				
Contributions:				
Foundations and trusts	\$ 412,774	\$ 278,400	\$ -	\$ 691,174
Corporations	5,850	-	-	5,850
Religious organizations	1,950	-	-	1,950
Individuals/estates	477,242	66,006	62,227	605,475
Special event revenue	1,027,666	-	-	1,027,666
Less direct expenses of special event (including contributed services and goods of \$7,950)	(176,395)	-	-	(176,395)
Service revenue	2,670,528	-	-	2,670,528
Educational fees	534,385	-	-	534,385
Investment income allocated for operations	1,094,647	289,888	-	1,384,535
Change in value of charitable remainder trusts	-	(176)	-	(176)
Contributed goods and services	89,950	-	-	89,950
Other income	43,626	-	-	43,626
Net assets released from restrictions	884,499	(884,499)	-	-
<b>Total Support and Revenue</b>	<b>7,066,722</b>	<b>(250,381)</b>	<b>62,227</b>	<b>6,878,568</b>
Expenses:				
Program services:				
Clinical services	2,460,682	-	-	2,460,682
Education	1,525,755	-	-	1,525,755
Research	765,139	-	-	765,139
Community education	677,016	-	-	677,016
<b>Total program services</b>	<b>5,428,592</b>	<b>-</b>	<b>-</b>	<b>5,428,592</b>
Supporting services:				
General and administrative	1,252,627	-	-	1,252,627
Advancement	552,628	-	-	552,628
<b>Total supporting services</b>	<b>1,805,255</b>	<b>-</b>	<b>-</b>	<b>1,805,255</b>
<b>Total Expenses</b>	<b>7,233,847</b>	<b>-</b>	<b>-</b>	<b>7,233,847</b>
Increase (Decrease) in Net Assets from Operations	(167,125)	(250,381)	62,227	(355,279)
Investment Results, net of allocation to operations	(1,270,013)	(342,169)	-	(1,612,182)
Changes in Net Assets	(1,437,138)	(592,550)	62,227	(1,967,461)
Net Assets, beginning of year	18,710,663	2,168,929	4,186,895	25,066,487
<b>Net Assets, end of year</b>	<b>\$ 17,273,525</b>	<b>\$ 1,576,379</b>	<b>\$ 4,249,122</b>	<b>\$ 23,099,026</b>

# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Consolidated Statement of Functional Expenses

Year Ended June 30, 2013 (with comparative totals for the year ended June 30, 2012)

	Program Services					Supporting Services			2013 Total Expenses	2012 Total Expenses
	Clinical Services	Education	Research	Community Education	Total Program Services	General and Administrative	Advancement	Total Supporting Services		
Salary	\$ 2,048,512	\$ 632,295	\$ 111,091	\$ 466,029	\$ 3,257,927	\$ 619,407	\$ 443,798	\$ 1,063,205	\$ 4,321,132	\$ 4,668,117
Pension Expense	43,673	15,341	2,416	10,109	71,539	15,073	9,401	24,474	96,013	106,459
Medical Insurance	240,247	84,389	13,292	55,611	393,539	82,915	51,716	134,631	528,170	518,435
Payroll Taxes	120,015	42,156	6,640	27,780	196,591	41,420	25,835	67,255	263,846	318,560
Disability/Workmen's Comp.	12,635	4,438	699	2,925	20,697	4,361	2,720	7,081	27,750	27,750
Other Staff Benefits	24,129	11,860	1,452	6,010	43,451	18,851	5,047	23,898	67,349	102,133
Recruiting and Moving Expenses	13,760	4,514	5,828	3,427	27,529	121,750	2,878	124,628	152,157	3,369
Travel	9,258	9,231	41,821	7,652	67,962	8,980	1,299	10,279	78,241	52,690
Professional Education	4,888	1,638	300	625	7,451	3,356	495	3,851	11,302	23,067
Dues	-	875	195	-	1,070	1,250	-	1,250	2,320	1,172
Other Staff Support and Development	1,579	319	94,745	12,984	109,627	(1,734)	1,046	(688)	108,939	153,686
Library and Subscriptions	5,770	4,012	10,071	463	20,316	2,750	53	2,803	23,119	26,548
Stipends	-	104,006	-	-	104,006	-	-	-	104,006	132,426
Other Program Materials and Support	2,181	36,548	-	15,205	53,934	19,275	-	19,275	73,209	46,399
Newsletter Community Outreach	-	249	-	37,033	37,282	-	-	-	37,282	68,273
Other Printed Materials	-	-	-	-	1,050	71	-	1,754	2,804	3,120
Telephone	1,854	4,658	615	3,131	10,258	10,708	4,692	15,400	25,668	44,351
Public/Board Meetings Patient Family	-	-	-	120	120	37,605	4,177	41,782	41,902	16,584
Mailing Costs	1,060	178	86	281	1,605	5,758	920	6,678	8,283	6,920
Other Communication Expenses	-	-	-	600	600	-	4,259	4,259	4,859	5,520
Grant Awards	-	-	1,310,159	-	1,310,159	-	-	-	1,310,159	-
Other Professional Fees	19,414	14,725	7,397	11,636	53,172	26,066	3,309	29,375	82,547	48,712
Office Supplies	2,264	5,529	1,396	5,837	15,026	13,115	5,616	18,731	33,757	30,609
Information Systems	3,228	8,556	10,026	6,644	28,454	19,452	30,018	49,470	77,924	49,614
Rent	12,689	32,211	3,904	18,220	67,024	76,461	32,537	108,998	176,022	296,831
Insurance	3,849	9,771	1,184	5,527	20,331	23,194	9,870	33,064	53,395	39,393
Depreciation and Amortization	12,196	30,960	3,753	19,452	66,361	73,490	31,272	104,762	171,123	170,354
Minor Equipment	846	2,147	260	1,214	4,467	5,096	2,169	7,265	11,732	16,480
Building Maintenance and Repairs	5,528	14,034	1,701	7,938	29,201	33,313	14,176	47,489	76,690	67,539
Utilities	5,343	13,562	1,644	7,671	28,220	32,193	13,699	45,892	74,112	92,099
Bad Debt Expense	-	-	-	-	-	-	-	-	-	2,000
Contributed Services	66,180	35,875	101,966	9,174	213,195	140,424	16,381	156,805	370,000	82,000
Other Office Expenses	128	-	-	3,300	3,428	961	38	999	4,427	12,637
<b>Total Expenses</b>	<b>\$ 2,661,226</b>	<b>\$ 1,124,077</b>	<b>\$ 1,732,641</b>	<b>\$ 747,648</b>	<b>\$ 6,265,592</b>	<b>\$ 1,435,561</b>	<b>\$ 719,104</b>	<b>\$ 2,154,665</b>	<b>\$ 8,420,257</b>	<b>\$ 7,233,847</b>



# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Consolidated Statement of Functional Expenses

Year Ended June 30, 2012

	Program Services				Supporting Services			Total Expenses	
	Clinical Services	Education	Research	Community Education	Total Program Services	General and Administrative	Advancement		Total Supporting Services
Salary	\$1,984,274	\$ 931,167	\$ 365,728	\$ 411,579	\$3,692,748	\$ 659,824	\$ 315,545	\$ 975,369	\$4,668,117
Pension Expense	45,186	21,851	8,504	9,732	85,273	13,945	7,241	21,186	106,459
Medical Insurance	220,048	106,411	41,412	47,392	415,263	67,910	35,262	103,172	518,435
Payroll Taxes	135,212	65,386	25,446	29,121	255,165	41,728	21,667	63,395	318,560
Disability/Workmen's Comp.	11,778	5,696	2,217	2,537	22,228	3,635	1,887	5,522	27,750
Other Staff Benefits	1,492	12,049	5,498	4,713	23,752	78,381	-	78,381	102,133
Recruiting and Moving Expenses	2,174	-	-	-	2,174	1,055	140	1,195	3,369
Travel	14,180	7,880	10,463	2,048	34,571	14,523	3,596	18,119	52,690
Professional Education	1,911	2,122	1,641	75	5,749	1,248	16,070	17,318	23,067
Dues	-	500	235	-	735	437	-	437	1,172
Other Staff Support and Development	159	1,337	128,370	12,372	142,238	2,140	9,308	11,448	153,686
Library and Subscriptions	5,600	2,321	9,003	520	17,444	1,457	7,647	9,104	26,548
Stipends	-	110,576	21,850	-	132,426	-	-	-	132,426
Other Program Materials and Support	2,128	31,799	-	7,000	40,927	3,645	1,827	5,472	46,399
Newsletter Community Outreach	-	43,355	-	24,918	68,273	-	-	-	68,273
Other Printed Materials	-	-	-	-	-	41	-	-	41
Telephone	1,781	9,600	6,561	8,116	26,058	18,185	108	3,120	44,351
Public/Board Meetings Patient Family	195	2,968	820	700	4,683	10,770	1,131	11,901	16,584
Mailing Costs	18	206	103	471	798	5,189	933	6,122	6,920
Other Communication Expenses	-	-	-	650	650	-	4,870	4,870	5,520
Other Professional Fees	3,729	9,193	11,626	7,609	32,157	16,555	-	16,555	48,712
Office Supplies	1,295	5,823	4,036	3,507	14,661	10,703	5,245	15,948	30,609
Information Systems	1,481	7,871	15,187	7,096	31,635	6,429	11,550	17,979	49,614
Rent	10,938	58,143	40,297	34,540	143,918	106,859	46,054	152,913	296,831
Insurance	1,452	7,716	5,348	4,584	19,100	14,181	6,112	20,293	39,393
Depreciation and Amortization	6,237	31,350	22,976	22,604	83,167	60,929	26,258	87,187	170,354
Minor Equipment	641	4,287	2,073	1,746	8,747	5,403	2,330	7,733	16,480
Building Maintenance and Repairs	2,489	13,229	9,169	7,859	32,746	24,314	10,479	34,793	67,539
Utilities	3,394	18,040	12,503	10,717	44,654	33,156	14,289	47,445	92,099
Bad Debt Expense	-	-	-	-	-	2,000	-	2,000	2,000
Contributed Services	2,800	14,879	12,312	8,839	38,830	43,170	-	43,170	82,000
Other Office Expenses	90	-	1,761	5,971	7,822	4,815	-	4,815	12,637
<b>Total Expenses</b>	<b>\$2,460,682</b>	<b>\$1,525,755</b>	<b>\$ 765,139</b>	<b>\$ 677,016</b>	<b>\$5,428,592</b>	<b>\$ 1,252,627</b>	<b>\$ 552,628</b>	<b>\$ 1,805,255</b>	<b>\$7,233,847</b>

See notes to consolidated financial statements.

# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Consolidated Statements of Cash Flows

<i>Years Ended June 30,</i>	2013	2012
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ (7,138,424)	\$ (1,967,461)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Impairment loss	4,200,064	-
Depreciation and amortization	171,123	170,354
Change in value of charitable remainder trusts	(14,483)	176
Realized and unrealized (gain) loss on investments	(1,248,176)	599,791
Donated stock	(38,946)	(36,977)
Change in discount on pledges receivable	(1,239)	(2,446)
Changes in operating assets and liabilities:		
Decrease in assets:		
Accounts receivable	4,202	18,198
Pledges and grants receivable	120,000	424,807
Prepaid expenses and other current assets	17,559	38,199
Increase in liabilities:		
Accounts payable and accrued expenses	182,643	821,096
Total adjustments	<u>3,392,747</u>	<u>2,033,198</u>
Net Cash (Used in) Provided by Operating Activities	<u>(3,745,677)</u>	<u>65,737</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of land, building and equipment	(31,740)	(1,015,746)
Purchase of investments	(427,507)	(847,280)
Decrease (increase) in restricted cash	62,227	(62,227)
Proceeds from sale of investments	4,038,946	2,592,416
Net Cash Provided by Investing Activities	<u>3,641,926</u>	<u>667,163</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(103,751)	732,900
Cash and Cash Equivalents, beginning of year	1,399,226	666,326
Cash and Cash Equivalents, end of year	<u>\$ 1,295,475</u>	<u>\$ 1,399,226</u>

## Notes to Consolidated Financial Statements

Years Ended June 30, 2013 and 2012

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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, 2013 and 2012*

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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, 2013 and 2012, the Organization received contributed services of \$370,000 and \$82,750, respectively, which are included in both program and supporting services in the accompanying consolidated statements of activities and changes in net assets. Additionally, the Organization received \$7,200 of contributed goods that were used as gifts for its Wholeness of Life special event dinner in 2012.

**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.

**Land, building and equipment, and depreciation** - Land, building and equipment are 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 land, building and equipment are as follows:

Buildings	40 years
Building Improvements	12 to 20 years
Equipment	5 to 10 years

**Notes to Consolidated Financial Statements**

*Years Ended June 30, 2013 and 2012*

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 NCPPI qualify as tax-exempt, not-for-profit organizations under Section 501(c)(3) of the Internal Revenue Code. The Network and NCPPI 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.

**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 NCPPI are no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for the years before 2009, 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 April 23, 2014, the date the financial statements are available for issuance, for inclusion or disclosure in the financial statements.

**2. Pledges and Grants Receivable**

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

<i>June 30,</i>	<b>2013</b>	2012
Unconditional Promises to Give before Discount	\$ 65,000	\$ 200,000
Less Discount on Pledges and Grants Receivable	-	(1,239)
Less Allowance for Doubtful Pledges and Grants Receivable	<u>(4,180)</u>	<u>(19,180)</u>
Net Unconditional Promises to Give	<u>\$ 60,820</u>	<u>\$ 179,581</u>
Amounts Due in:		
Less than one year	\$ 60,820	\$ 130,820
One to two years	-	48,761
	<u>\$ 60,820</u>	<u>\$ 179,581</u>

The discount rate used to calculate the net present value of the pledges and grants at June 30, 2012 was 2.54%.

# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2013 and 2012

### 3. Investments

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

<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	<u>\$ 6,773,427</u>	<u>\$ 964,436</u>	<u>\$ 4,022,782</u>	<u>\$ 11,760,645</u>

Investment income consists of the following:

<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	<u>1,085,784</u>	<u>361,486</u>	<u>1,447,270</u>
Investment Return Allocated for Operations: Spending at 6.0% of past 20 quarters' market value	901,691	302,321	1,204,012
Additional board authorized amounts	<u>1,296,093</u>	-	<u>1,296,093</u>
	<u>2,197,784</u>	<u>302,321</u>	<u>2,500,105</u>
Allocation for Operations Below (in Excess of) Net Return on Investments	<u>\$ (1,112,000)</u>	<u>\$ 59,165</u>	<u>\$ (1,052,835)</u>

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

<i>June 30, 2012</i>	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 9,482,139	\$ -	\$ -	\$ 9,482,139
Hedge Funds	-	964,105	3,638,718	4,602,823
Total Investments	<u>\$ 9,482,139</u>	<u>\$ 964,105</u>	<u>\$ 3,638,718</u>	<u>\$ 14,084,962</u>

Investment income consists of the following:

<i>Year Ended June 30, 2012</i>	Unrestricted	Temporarily Restricted	Total
Interest and Dividend Income	\$ 351,877	\$ 104,902	\$ 456,779
Investment Income (net of fees of \$84,635)	(527,243)	(157,183)	(684,426)
Net Return on Investments	<u>(175,366)</u>	<u>(52,281)</u>	<u>(227,647)</u>
Investment Return Allocated for Operations: Spending at 6.0% of past 20 quarters' market value	966,535	289,888	1,256,423
Additional board authorized amounts	<u>128,112</u>	-	<u>128,112</u>
	<u>1,094,647</u>	<u>289,888</u>	<u>1,384,535</u>
Allocation for Operations Below (in Excess of) Net Return on Investments	<u>\$ (1,270,013)</u>	<u>\$ (342,169)</u>	<u>\$ (1,612,182)</u>

# HEALTHCARE CHAPLAINCY NETWORK, INC.

## Notes to Consolidated Financial Statements

*Years Ended June 30, 2013 and 2012*

The reconciliation of Level 3 assets was as follows:

<i>Years Ended June 30,</i>	<b>2013</b>	<b>2012</b>
Beginning Balance	\$ 3,638,718	\$ 3,625,318
Purchases	-	-
Net Change in Unrealized Depreciation from Assets Still Held at the Reporting Date	<b>384,064</b>	13,400
Ending Balance	<b>\$ 4,022,782</b>	<b>\$ 3,638,718</b>

The Organization invests in three 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, 2013, the Funds did not have any unfunded commitments. Two of the hedge funds with a net asset value of \$4,022,782 as of June 30, 2013 had a redemption restriction, where redemption can only occur after an initial two year lock-up which expired in June 2013 and September 2013, respectively, with one of the funds providing for redemption on a semi-annual basis and the other allowing an annual redemption; both of the funds require written notice of at least 95 days. The third fund has restrictions allowing for redemptions on the first day of each calendar month with advance written notice of at least 15 days.

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. Land, Building and Equipment, Net

Land, building and equipment, net, consists of the following:

<i>June 30,</i>	<b>2013</b>	<b>2012</b>
Land	\$ -	\$ 405,000
Artwork	<b>384,675</b>	375,865
Building	-	1,072,755
Building Improvements	-	5,403,383
Furniture, Fixtures and Equipment	<b>77,172</b>	1,802,552
Construction in Progress	-	4,200,064
	<b>461,847</b>	13,259,619
Less Accumulated Depreciation	<b>45,696</b>	5,343,610
	<b>\$ 416,151</b>	<b>\$ 7,916,009</b>

**Notes to Consolidated Financial Statements**

*Years Ended June 30, 2013 and 2012*

The Organization has 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"). These pre-development costs had been capitalized and reflected as construction in progress as of June 30, 2012.

The environmental factors of the economy, health care delivery, and government/regulatory agencies have changed significantly since the original building concept was envisioned in 2007 and subsequently planned. As a result, the Organization has entered into an arrangement with a third-party developer to explore options for the South Street property where (a) the Organization would not develop the building on its own but in collaboration with the third-party developer so that the Organization can accomplish its intent to provide palliative care in an enhanced assisted living facility on this site in lower Manhattan, and (b) the third-party developer would exercise the option to purchase the property. At the same time, the Organization is exploring the acquisition of an existing building in Westchester County, New York and repurposing it to an enhanced assisted living residence.

As a result, the Organization wrote off the previously capitalized pre-development costs at June 30, 2012 in the amount of approximately \$4,200,000. In addition, pre-development costs amounts incurred during the year ended June 30, 2013 were expensed in the amount of approximately \$1,900,000. There are approximately \$1,200,000 of costs that have been incurred subsequent to June 30, 2013 for architectural, consulting, and purchase option extension payments which will be expensed during the year ending June 30, 2014.

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 sale was completed on October 10, 2013 for a purchase price of \$8,250,000 and yielded a gain of approximately \$4,770,000. The net carrying value of the building, building improvements and furniture and fixtures associated with the building in the amount of \$3,160,411 has been reflected in the accompanying consolidated statement of financial position as assets held for sale.

**6. Temporarily Restricted Net Assets**

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

<i>June 30,</i>	<b>2013</b>	<b>2012</b>
Purpose Restrictions:		
Scholarships and fellowships	\$ 541,228	\$ 541,228
Education	455,131	364,603
Pastoral care	324,518	311,553
Capital campaign	-	53,560
	<u>1,320,877</u>	<u>1,270,944</u>
Purpose and Time Restrictions:		
Research and library	<u>58,746</u>	75,587
Time Restrictions		
	<u>185,570</u>	229,848
	<u>\$ 1,565,193</u>	<u>\$ 1,576,379</u>



**Notes to Consolidated Financial Statements**

*Years Ended June 30, 2013 and 2012*

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>2013</b>	<b>2012</b>
Purpose Restrictions	\$ 487,394	\$ 783,249
Time Restrictions	60,000	101,250
	<b>\$ 547,394</b>	<b>\$ 884,499</b>

**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, 2013 and 2012*

The composition of endowment net assets at June 30, 2013 and change in composition of endowments for the years ended June 30, 2013 and 2012 was as follows:

<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>
<i>Year Ended June 30, 2012</i>	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor Restricted Endowment Net Assets, beginning of year	\$ (189,096)	\$ 1,708,704	\$ 4,186,895
Investment Return:			
Investment income	-	161,395	-
Net depreciation	-	(211,925)	-
Investment Fees	-	(29,904)	-
Transfers	(136,104)	136,104	-
Appropriated	-	(444,320)	-
Contributions	-	-	62,227
Donor Restricted Endowment Net Assets, end of year	<u>\$ (325,200)</u>	<u>\$ 1,320,054</u>	<u>\$ 4,249,122</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. As such, the change in board designated net assets for the years ended June 30, 2013 and 2012 was as follows:

<i>Years Ended June 30,</i>	2013 Unrestricted	2012 Unrestricted
Board Designated Net Assets, beginning of year	\$ 352,498	\$ -
Contributions	-	380,500
Investment Return:		
Investment income	6,989	10,377
Net appreciation (depreciation)	31,148	(13,626)
Investment Fees	(2,022)	(1,923)
Appropriated	(30,204)	(22,830)
Board Designated Net Assets, end of year	<u>\$ 358,409</u>	<u>\$ 352,498</u>

**Notes to Consolidated Financial Statements**

*Years Ended June 30, 2013 and 2012*

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**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 and \$297,000 for the years ended June 30, 2013 and 2012, respectively.

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. Future minimum lease payments under this lease are:

*Years Ending June 30,*

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2014	\$	220,000
2015		540,000
2016		556,000
2017		573,000
2018		590,000
Thereafter		251,000
		\$ 2,730,000

**Litigation** - The Organization is subject to lawsuits and claims with respect to matters arising in the normal course of business. The Organization defends its position on all actions. In the opinion of management, the ultimate liabilities, if any, from these lawsuits or claims, will not materially affect the financial position or results of operations of the Organization. Nevertheless, due to the uncertainty of the settlement process, management's view of the outcome may be modified in the future.

**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 3% of salary for eligible employees during the years ended June 30, 2013 and 2012, which amounted to approximately to \$96,000 and \$106,000, respectively. There was no match of employee contributions during the years ended June 30, 2013 and 2012.

**11. Concentration of Credit Risk**

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of investments and amounts due from affiliate. 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 19% of revenues for the year ended June 30, 2013.