

HEALTHCARE CHAPLAINCY INC. AND AFFILIATES
(a not-for-profit organization)

COMBINED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

HealthCare Chaplaincy Inc. and Affiliates
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June 30, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
HealthCare Chaplaincy Inc. and Affiliates

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Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of HealthCare Chaplaincy Inc. and Affiliates (a not-for-profit organization), which comprise the combined statements of financial position as of June 30, 2019 and 2018 and the related combined statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of HealthCare Chaplaincy Inc. and Affiliates as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Princeton, New Jersey
February 28, 2020



HealthCare Chaplaincy Inc. and Affiliates
Combined Statements of Financial Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash	\$ 15,965	\$ 200,647
Investments	6,698,055	8,018,652
Accounts receivable, net	376,346	532,879
Prepaid expenses and other current assets	40,862	123,856
Beneficial interest in charitable remainder trusts	134,321	141,083
Property and equipment, net	<u>397,242</u>	<u>406,500</u>
Total assets	\$ <u>7,662,791</u>	\$ <u>9,423,617</u>
Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses	\$ <u>180,423</u>	\$ <u>296,309</u>
Total liabilities	<u>180,423</u>	<u>296,309</u>
Net assets		
Without donor restrictions	3,026,412	4,699,589
With donor restrictions	<u>4,455,956</u>	<u>4,427,719</u>
Total net assets	<u>7,482,368</u>	<u>9,127,308</u>
Total liabilities and net assets	\$ <u>7,662,791</u>	\$ <u>9,423,617</u>

See notes to combined financial statements

HealthCare Chaplaincy Inc. and Affiliates
Combined Statement of Activities
Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, gains, and other support			
Contributions			
Foundations and trusts	\$ 289,000	\$ 35,000	\$ 324,000
Religious organizations	9,000	--	9,000
Individuals/estates	90,042	--	90,042
Special event revenue net of expenses of \$97,835	40,565	--	40,565
Service revenue	2,270,385	--	2,270,385
Educational fees	260,970	--	260,970
Annual conference income	88,439	--	88,439
Change in value of charitable remainder trusts	--	(6,763)	(6,763)
Contributed goods and services	6,000	--	6,000
Rental income	64,800	--	64,800
Investment income	494,403	--	494,403
Other income	166,449	--	166,449
	<u>3,780,053</u>	<u>28,237</u>	<u>3,808,290</u>
Net assets released from restrictions	--	--	--
Total revenue, gains and other support	<u>3,780,053</u>	<u>28,237</u>	<u>3,808,290</u>
Expenses			
Program services			
Clinical services	3,395,970	--	3,395,970
Education	526,175	--	526,175
Research	68,538	--	68,538
Community education	156,369	--	156,369
Spiritual Care Association	708,433	--	708,433
Total program services	<u>4,855,485</u>	<u>--</u>	<u>4,855,485</u>
Supporting services			
General and administrative	315,021	--	315,021
Advancement	282,724	--	282,724
Total supporting services	<u>597,745</u>	<u>--</u>	<u>597,745</u>
Total expenses	<u>5,453,230</u>	<u>--</u>	<u>5,453,230</u>
Change in net assets	(1,673,177)	28,237	(1,644,940)
Net assets – beginning of year	<u>4,699,589</u>	<u>4,427,719</u>	<u>9,127,308</u>
Net assets – end of year	<u>\$ 3,026,412</u>	<u>\$ 4,455,956</u>	<u>\$ 7,482,368</u>

See notes to combined financial statements

HealthCare Chaplaincy Inc. and Affiliates
Combined Statement of Activities
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains, and other support			
Contributions			
Foundations and trusts	\$ 297,625	\$ --	\$ 297,625
Corporations	10,800	--	10,800
Religious organizations	1,500	--	1,500
Individuals/estates	78,363	--	78,363
Special event revenue, net of expenses of \$95,722	54,355	--	54,355
Service revenue	2,621,533	--	2,621,533
Educational fees	406,949	--	406,949
Annual conference income	90,144	--	90,144
Change in value of charitable remainder trusts	--	(10,820)	(10,820)
Rental income	209,816	--	209,816
Investment income	783,306	--	783,306
Other income	168,086	--	168,086
	<u>4,722,477</u>	<u>(10,820)</u>	<u>4,711,657</u>
Net assets released from restrictions	--	--	--
Total revenue, gains and other support	<u>4,722,477</u>	<u>(10,820)</u>	<u>4,711,657</u>
Expenses			
Program services			
Clinical services	3,412,128	--	3,412,128
Education	901,272	--	901,272
Research	288,651	--	288,651
Community education	201,814	--	201,814
Spiritual Care Association	351,878	--	351,878
Total program services	<u>5,155,743</u>	<u>--</u>	<u>5,155,743</u>
Supporting services			
General and administrative	312,373	--	312,373
Advancement	369,465	--	369,465
Total supporting services	<u>681,838</u>	<u>--</u>	<u>681,838</u>
Total expenses	<u>5,837,581</u>	<u>--</u>	<u>5,837,581</u>
Change in net assets	(1,115,104)	(10,820)	(1,125,924)
Net assets – beginning of year	<u>5,814,693</u>	<u>4,438,539</u>	<u>10,253,232</u>
Net assets – end of year	<u>\$ 4,699,589</u>	<u>\$ 4,427,719</u>	<u>\$ 9,127,308</u>

See notes to combined financial statements

HealthCare Chaplaincy Inc. and Affiliates
Combined Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services					Supporting Services				
	Clinical Services	Education	Research	Community Education	Spiritual Care Association	Total Program Services	General and Administrative	Advancement	Total Supporting Services	Total Expenses
Salary	\$ 2,183,326	\$ 64,452	\$ 21,484	\$ 21,484	\$ 107,420	\$ 2,398,166	\$ 64,452	\$ 163,298	\$ 227,750	\$ 2,625,916
Professional fees	147,833	189,939	38,164	97,375	452,711	926,022	29,332	39,141	68,473	994,495
Medical insurance	364,046	10,747	3,582	3,582	17,911	399,868	10,747	27,228	37,975	437,843
Rent	224,909	--	--	--	--	224,909	58,877	11,775	70,652	295,561
Other communication expenses	--	203,606	--	6,391	2,857	212,854	3,025	3,100	6,125	218,979
Payroll taxes	127,007	3,749	1,250	1,250	6,249	139,505	3,749	9,499	13,248	152,753
Information systems	52,795	--	--	7,418	29,521	89,734	13,821	2,764	16,585	106,319
Insurance	75,484	--	--	--	--	75,484	19,760	3,952	23,712	99,196
Recruiting and moving expenses	73,089	--	--	--	--	73,089	18,996	3,799	22,795	95,884
Other printed materials	--	21,645	--	10,272	40,031	71,948	3,588	--	3,588	75,536
Travel	23,680	12,349	2,194	4,419	13,245	55,887	6,582	6,582	13,164	69,051
Pension expense	51,977	1,534	511	511	2,557	57,090	1,534	3,887	5,421	62,511
Other office expenses	491	302	--	696	3,224	4,713	53,211	--	53,211	57,924
Mailing costs	4,389	15,335	1,079	1,079	5,520	27,402	3,237	3,735	6,972	34,374
Depreciation and amortization	17,652	--	--	--	--	17,652	4,621	924	5,545	23,197
Bad debt expense	--	--	--	--	22,200	22,200	--	--	--	22,200
Telephone	15,206	--	--	--	--	15,206	3,981	796	4,777	19,983
Dues & subscriptions	10,180	--	--	--	3,000	13,180	3,104	146	3,250	16,430
Other staff support and development	8,653	1,899	274	1,892	1,987	14,705	823	823	1,646	16,351
Utilities	7,027	--	--	--	--	7,027	1,840	368	2,208	9,235
Public/board meetings	--	--	--	--	--	--	7,703	500	8,203	8,203
patient family	4,804	618	--	--	--	5,422	1,257	251	1,508	6,930
Office supplies	440	--	--	--	--	440	--	--	--	440
Grant awards	--	--	--	--	--	--	--	--	--	--
Building maintenance and repairs	2,982	--	--	--	--	2,982	781	156	937	3,919
Total expenses	\$ 3,395,970	\$ 526,175	\$ 68,538	\$ 156,369	\$ 708,433	\$ 4,855,485	\$ 315,021	\$ 282,724	\$ 597,745	\$ 5,453,230

See notes to combined financial statements

HealthCare Chaplaincy Inc. and Affiliates
Combined Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services					Supporting Services				
	Clinical Services	Education	Research	Community Education	Spiritual Care Association	Total Program Services	General and Administrative	Advancement	Total Supporting Services	Total Expenses
Salary	\$ 1,977,062	\$ 261,042	\$ 164,341	\$ 35,453	\$ --	\$ 2,437,898	\$ 123,256	\$ 202,109	\$ 325,365	\$ 2,763,263
Professional fees	348,079	193,090	76,594	114,583	309,256	1,041,602	32,981	33,929	66,910	1,108,512
Rent	413,090	18,868	--	12,090	--	444,048	50,388	48,900	99,288	543,336
Medical insurance	272,633	35,997	22,662	4,889	--	336,181	16,998	27,870	44,868	381,049
Other communication expenses	1,350	283,053	--	2,144	--	286,547	2,705	2,616	5,321	291,868
Payroll taxes	114,211	15,080	9,494	2,048	--	140,833	7,121	11,675	18,796	159,629
Other printed materials	--	40,256	--	19,981	28,359	88,596	261	5,696	5,957	94,553
Information systems	63,655	2,908	--	4,982	6,174	77,719	7,765	7,535	15,300	93,019
Insurance	60,355	2,392	(351)	1,814	--	64,210	7,614	7,213	14,827	79,037
Depreciation and amortization	36,920	1,686	--	1,081	--	39,687	4,503	4,370	8,873	48,560
Travel	9,796	18,477	7,574	6	1,872	37,725	4,543	5,033	9,576	47,301
Pension expense	29,280	3,866	2,434	525	--	36,105	1,825	2,993	4,818	40,923
Mailing costs	5,784	19,402	4,627	--	3,004	32,817	3,470	3,928	7,398	40,215
Bad debt expense	--	--	--	--	--	--	34,203	--	34,203	34,203
Telephone	19,204	877	--	562	--	20,643	2,343	2,273	4,616	25,259
Dues	17,450	--	--	--	150	17,600	1,138	--	1,138	18,738
Recruiting and moving expenses	12,799	371	--	237	--	13,407	990	960	1,950	15,357
Other staff support and development	9,674	1,897	1,276	325	--	13,172	957	957	1,914	15,086
Other office expenses	1,744	1,475	--	750	3,063	7,032	4,281	20	4,301	11,333
Utilities	7,617	348	--	223	--	8,188	929	902	1,831	10,019
Professional education	7,163	--	--	--	--	7,163	--	--	--	7,163
Office supplies	3,117	135	--	87	--	3,339	361	350	711	4,050
Public/board meetings patient family	--	--	--	--	--	--	3,601	--	3,601	3,601
Building maintenance and repairs	1,145	52	--	34	--	1,231	140	136	276	1,507
Total expenses	<u>\$ 3,412,128</u>	<u>\$ 901,272</u>	<u>\$ 288,651</u>	<u>\$ 201,814</u>	<u>\$ 351,878</u>	<u>\$ 5,155,743</u>	<u>\$ 312,373</u>	<u>\$ 369,465</u>	<u>\$ 681,838</u>	<u>\$ 5,837,581</u>

See notes to combined financial statements

HealthCare Chaplaincy Inc. and Affiliates
Combined Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$(1,644,940)	\$(1,125,924)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	23,197	48,560
Change in value of charitable remainder trusts	6,763	10,820
Realized and unrealized gain on investments	(365,130)	(646,449)
Changes in operating assets and liabilities:		
Accounts receivable	156,533	(190,022)
Prepaid expenses and other current assets	82,994	97,806
Accounts payable and accrued expenses	(115,886)	(150,415)
Net cash used in operating activities	(1,856,469)	(1,955,624)
Cash flows from investing activities		
Purchase of investments	(3,569,548)	(4,415,297)
Proceeds from sale of investments	<u>5,241,335</u>	<u>6,228,439</u>
Net cash provided by investing activities	<u>1,671,787</u>	<u>1,813,142</u>
 Change in cash	 (184,682)	 (142,482)
Cash at beginning of year	<u>200,647</u>	<u>343,129</u>
Cash at end of year	<u>\$ 15,965</u>	<u>\$ 200,647</u>

See notes to combined financial statements

HealthCare Chaplaincy Inc. and Affiliates
Notes to Combined Financial Statements
June 30, 2019 and 2018

Note 1 – Description of Chaplaincy and summary of significant accounting policies

Significant accounting policies followed by HealthCare Chaplaincy Inc. and Affiliates ("the Organization") in the preparation of the accompanying combined financial statements are summarized below:

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. Spiritual Care Association (the "SCA") is a multidisciplinary international professional membership association for spiritual care providers. These entities have common management and common board members and are referred to collectively as the "Organization."

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 Chaplaincy has assumed the operating activities of the Network and the Network was dissolved in July 2019.

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

Basis of presentation

The combined financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). All intercompany accounts have been eliminated.

Net assets

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

Net assets without donor restrictions

Net assets without donor restrictions include all net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Contributions with donor-imposed restrictions that are met during the same year as the contribution is received are included in net assets without donor restrictions.

Net assets with donor restrictions

Net assets with donor restrictions include donor-restricted contributions which are required to be held in perpetuity, with all or part of the income earned to be used for general or specific purposes. Other contributions are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

HealthCare Chaplaincy Inc. and Affiliates
Notes to Combined Financial Statements
June 30, 2019 and 2018

Note 1 – Description of Chaplaincy and summary of significant accounting policies (continued)

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 net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combined 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

Income from fees and services are recognized when services are performed. Income from membership dues are recognized at the inception of the membership period.

Contributed services

Not-for-profit entities are required to record contributed services revenue if those services create or enhance non-financial assets or are provided by individuals who possess specialized skills that would typically need to be purchased, if not provided by donation. For the year ended June 30, 2019 the Organization received contributed services of \$6,000 which are included in both program and supporting services in the combined statement of activities. For the year ended June 30, 2018, the Organization received no contributed services.

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. The Organization includes cash equivalents related to its permanent endowment in investments in the accompanying combined financial statements.

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.

HealthCare Chaplaincy Inc. and Affiliates
Notes to Combined Financial Statements
June 30, 2019 and 2018

Note 1 – Description of Chaplaincy and summary of significant accounting policies (continued)

Investments (continued)

Gains and losses on investments and related investment income have been reflected in the combined statements of activities and changes in net assets within investment income as increases or decreases in net assets without donor restrictions, unless their use is 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 with donor restrictions or without donor restrictions, 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.

Accounts receivable

Accounts receivable is stated at the amount management expects to collect from outstanding balances. The Organization generally requires no collateral from its clients. Balances are reviewed and evaluated as to their collectability which is based upon management's judgment, including factors such 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. For the years ended June 30, 2019 and 2018, the Organization had an allowance for doubtful accounts of \$52,200 and \$30,000, respectively.

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 useful 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.

Works of art and antique furniture is stated at cost and is being held as a collection; therefore, it is not being depreciated.

HealthCare Chaplaincy Inc. and Affiliates
Notes to Combined Financial Statements
June 30, 2019 and 2018

Note 1 – Description of Chaplaincy and summary of significant accounting policies (continued)

Income taxes

The Network and the Chaplaincy have been classified by the Internal Revenue Service as organizations described under Section 501(c)(3) and Spiritual Care Association has been classified by the Internal Revenue Service as an organization described under Section 501(c)(6) of the Internal Revenue Code ("the Code"). As such, the Organization is exempt from federal and state income taxes under section 501(a) of the Code.

ASC Topic 740 *Accounting for Uncertainty in Income Taxes* clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The guidance also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure.

The Organization's policy is to account for interest and penalties related to unrecognized tax benefits as a component of income tax expense.

Use of estimates

Management uses estimates and assumptions in preparing its combined financial statements in accordance with U.S. GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Functional allocation of expenses

The costs of providing programs and other activities are summarized in the combined statements of functional expenses. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Expenses which apply to more than one functional category have been allocated based on estimates made by management. Accordingly, certain costs have been allocated among the programs, fundraising, and general areas. Costs are allocated as follows:

- Personnel costs are allocated based on estimated time and effort between program services, management and general and fundraising.
- Rent and occupancy costs are allocated based on the percentage of space used for program services, management and general and fundraising.
- Other expenses, including programming and development are based on identification of specific costs, as well as a percentage of occupancy costs.

Reclassifications

Certain 2018 amounts were reclassified to conform to the 2019 presentation.

HealthCare Chaplaincy Inc. and Affiliates
Notes to Combined Financial Statements
June 30, 2019 and 2018

Note 2 – Adoption of new accounting pronouncement:

In 2019, the Organization adopted the provisions of ASU 2016-14, *Not-for-Profit Entities* (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities issued by the Financial Accounting Standards Board. The Organization has adjusted the presentation of its combined financial statements accordingly. The new standards change the following aspects of the Organization's combined financial statements:

- Temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- Expenses are reported in the combined statements of functional expenses by both their natural and functional classification.
- The financial statements include a new disclosure about liquidity and availability of financial assets (Note 11).

The Organization reviewed its classification of net assets in connection with the adoption of these standards and determined that certain net assets previously reported as temporarily restricted do not meet the criteria for donor restricted. The changes have the following effect on net assets at June 30, 2018 and 2017:

	<u>June 30, 2018</u>		<u>June 30, 2017</u>	
<u>Net assets class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted net assets	\$ 3,463,515	\$ --	\$ 4,726,755	\$ --
Temporarily restricted net assets	1,377,157	--	1,239,841	--
Permanently restricted net assets	4,286,636	--	4,286,636	--
Net assets without donor restrictions	--	4,699,589	--	5,814,693
Net assets with donor restrictions	--	4,427,719	--	4,438,539
	<u>\$ 9,127,308</u>	<u>\$ 9,127,308</u>	<u>\$ 10,253,232</u>	<u>\$ 10,253,232</u>

HealthCare Chaplaincy Inc. and Affiliates
Notes to Combined Financial Statements
June 30, 2019 and 2018

Note 3 – Investments and fair value measurements

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

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Equities	\$ 4,359,285	\$ --	\$ --	\$ 4,359,285
Fixed income	1,647,954	--	--	1,647,954
Subtotal	<u>\$ 6,007,239</u>	<u>\$ --</u>	<u>\$ --</u>	6,007,239
Cash and cash equivalents				690,816
Total investments				<u>\$ 6,698,055</u>

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Equities	\$ 5,293,745	\$ --	\$ --	\$ 5,293,745
Fixed income	1,959,565	--	--	1,959,565
Subtotal	<u>\$ 7,253,310</u>	<u>\$ --</u>	<u>\$ --</u>	7,253,310
Cash and cash equivalents				765,342
Total investments				<u>\$ 8,018,652</u>

Investment income consists of the following:

	June 30, 2019		
	Without donor restrictions	With donor restrictions	Total
Interest and dividend income	\$ 193,194	\$ --	\$ 193,194
Investment gain (loss)	365,130	--	365,130
Investment fees	(63,921)	--	(63,921)
Net return on investments	<u>\$ 494,403</u>	<u>\$ --</u>	<u>\$ 494,403</u>

	June 30, 2018		
	Without donor restrictions	With donor restrictions	Total
Interest and dividend income	\$ 213,040	\$ --	\$ 213,040
Investment gain (loss)	646,449	--	646,449
Investment fees	(76,183)	--	(76,183)
Net return on investments	<u>\$ 783,306</u>	<u>\$ --</u>	<u>\$ 783,306</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 combined financial statements.

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Note 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 accompany combined statements of financial position.

Note 5 – Property and equipment, net

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

	<u>2019</u>	<u>2018</u>
Collection items	\$ 384,675	\$ 384,675
Furniture, fixtures and equipment	29,719	230,487
Leasehold improvements	<u>4,200</u>	<u>49,161</u>
	418,594	664,323
Less accumulated depreciation and amortization	<u>21,352</u>	<u>257,823</u>
Total	<u>\$ 397,242</u>	<u>\$ 406,500</u>

Depreciation and amortization expenses were \$23,197 and \$48,560 for the years ended June 30, 2019 and 2018, respectively.

Note 6 – Net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes or periods at June 30:

	<u>2019</u>	<u>2018</u>
Permanent endowments with income to be used for the following purposes:		
Education	\$ 2,131,593	\$ 2,131,593
Research	289,400	289,400
Pastoral care	369,662	369,662
General support	1,495,980	1,495,980
Restricted for future periods:		
Development of training materials	35,000	--
Beneficiary value of charitable remainder trusts	<u>134,321</u>	<u>141,084</u>
	<u>\$ 4,455,956</u>	<u>\$ 4,427,719</u>

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Note 7 – Donor-restricted endowments

The Organization has donor-restricted endowment funds, the corpus of which is permanently restricted. The following applies to the donor-restricted endowments:

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 are classified as donor restricted and are recorded 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 are 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.

Endowment net assets are all permanently restricted, with income expended annually for the intended purposes. There were no changes in the composition of endowments for the years ended June 30, 2019 and 2018.

To the extent that the fair value of donor-restricted endowment assets decrease below the value of the corpus, the Organization makes a transfer to restore the donor endowment asset value to the corpus.

Note 8 – Lease commitments

The Organization entered into a 62 month lease for office space at 65 Broadway, New York, NY which expired in November 2018. Rental expense under this lease was \$221,063 and \$543,336 for the years ended June 30, 2019 and 2018, respectively. The Organization entered into lease agreements with two sublessors for space at 65 Broadway. Rental income from both subleases approximated \$64,800 and \$209,816 for the years ended June 30, 2019 and 2018, respectively.

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Note 8 – Lease commitments (continued)

In the year ended June 30, 2019, the Organization entered into a 124 month lease for office space at 505 Eighth Avenue, New York, NY which expires in April 2029. Rental expense under this lease was \$74,498 for the year ended June 30, 2019.

Future minimum lease payments under this lease are as follows:

Year ending June 30:	
2020	\$ 133,599
2021	136,939
2022	140,363
2023	143,872
2024	151,819
Thereafter	<u>811,032</u>
Total	<u>\$ 1,517,624</u>

Note 9 – Retirement plan

The Organization has adopted a contributory, defined contribution retirement plan. The Organization has the discretion to contribute 4% of eligible employee compensation, and match employee contributions up to an additional 2% of eligible employee compensation.

The Organization made discretionary contributions of 4% of eligible employee compensation during each of the years ended June 30, 2019 and 2018, resulting in total employer contributions of \$62,511 and \$40,923, respectively. There was no match of employee contributions during the years ended June 30, 2019 and 2018.

Note 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. The Organization has not experienced any losses and believes it is not exposed to any significant credit risk on such funds.

Service revenue is concentrated to a limited number of participating facilities. The Organization had contracts with four facilities that represented approximately 90% of service revenues and approximately 80% of service revenues for the years ended June 30, 2019 and 2018, respectively. Accounts receivable from these four facilities represented approximately 78% of accounts receivable for services at June 30, 2019. In the year ended June 30, 2018, revenues from two facilities represented greater than 10% of total revenues.

Note 11 – Liquidity and availability of financial assets

The Organization manages its liquid resources by focusing on investing excess cash in investments that maximize earnings potential balanced with the amount of risk the Organization's Investment Committee has decided can be tolerated. This policy is designed to ensure adequate financial assets are available to meet general expenditures, liabilities, and other obligations as they become due.

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Note 11 – Liquidity and availability of financial assets (continued)

The Organization prepares a detailed budget to ensure adequate resources to cover programs. The Organization focuses on monitoring collections of receivables and timing vendor payments to maximize the time they have access to the cash. The following reflects the Organization's financial assets available to be used for the fulfillment of payments within one year of June 30, 2019:

Cash, unrestricted	\$ 15,965
Investments	6,698,055
Accounts receivable, net	<u>376,346</u>
Total financial assets	7,090,366
Less those unavailable for general expenditures within one year, due to:	
Restricted endowment	(4,286,635)
Accounts receivable, net not due within one year	<u>(88,000)</u>
Total financial assets	<u>\$ 2,715,731</u>

SCA entered into an agreement with its continuing education provider for repayment of their share of initial set-up costs. Initial monthly payments under this arrangement will be \$500 beginning in January 2020. Accordingly, the Organization has recorded the balance owed at its net present value of approximately \$110,000, less an allowance for doubtful accounts of approximately \$22,000.

Note 12 – Subsequent events

Subsequent events were evaluated through February 28, 2020, which is the date the financial statements were available to be issued.