New York State Health Foundation

Financial Statements

December 31, 2011

O'CONNOR DAVIES

PKF

Independent Auditors' Report

Board of Directors
New York State Health Foundation

We have audited the accompanying statement of financial position of New York State Health Foundation (the "Foundation"), as of December 31, 2011 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2010 financial statements and, in our report dated June 3, 2011, we expressed an unqualified opinion on those financial statements.

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 Foundation'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 New York State Health Foundation as of December 31, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

O'Connor Davies, LLP

New York, New York
May 30, 2012

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New York State Health Foundation

Statement of Financial Position
December 31, 2011
(with comparative amounts at December 31, 2010)

	2011	2010
ASSETS		
Cash and cash equivalents	$ 2,700,427	$ 2,661,024
Accrued investment income	753,217	755,798
Program related investments	1,113,590	1,172,592
Grants receivable	-	190,000
Prepaid expenses	60,223	82,476
Prepaid federal excise tax	13,000	40,000
Investments	267,964,234	281,154,105
Deposits and other assets	54,842	54,842
Property and equipment, net	411,582	831,157
	$ 273,071,115	$ 286,941,994
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 296,961	$ 670,991
Grants payable	9,113,726	11,054,245
Federal excise tax payable	30,000	-
Deferred rent	551,689	405,072
Other liabilities	82,820	34,820
Deferred federal excise tax	340,000	274,512
Total Liabilities	10,415,196	12,439,640
Net Assets		
Unrestricted net assets	262,621,614	274,244,250
Temporarily restricted net assets	34,305	258,104
Total Net Assets	262,655,919	274,502,354
	$ 273,071,115	$ 286,941,994

See notes to financial statements

New York State Health Foundation

Statement of Activities
Year Ended December 31, 2011
(With summarized totals for the year ended December 31, 2010)

	2011			2010
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE AND SUPPORT				
Investment Income				
Interest and dividends	$ 4,238,476	$ -	$ 4,238,476	$ 4,357,423
Net realized gain from sale of investments	10,641,484	-	10,641,484	4,139,664
Less:				
Investment expense	997,414	-	997,414	770,808
Net Investment Income	13,882,546	-	13,882,546	7,726,279
Contributions	10,000	-	10,000	370,000
Rental Income	144,129	-	144,129	71,258
Net assets released from restrictions	223,799	(223,799)	-	-
Total Revenue and Support	14,260,474	(223,799)	14,036,675	8,167,537
EXPENSES				
Grants authorized, net of rescinded/refunded amounts of $679,020 and $660,135	10,144,064	-	10,144,064	9,076,374
Program support, planning and development	4,154,471	-	4,154,471	3,726,986
Total Program Services	14,298,535	-	14,298,535	12,803,360
Operations and governance	701,510	-	701,510	789,849
Total Expenses	15,000,045	-	15,000,045	13,593,209
Change in Net Assets before Federal Excise Taxes and Unrealized (Loss) Gain on Investments	(739,571)	(223,799)	(963,370)	(5,425,672)
Provision for Federal excise tax	(252,488)	-	(252,488)	(358,378)
Unrealized (loss) gain on investments	(10,630,577)	-	(10,630,577)	27,232,756
Change in Net Assets	(11,622,636)	(223,799)	(11,846,435)	21,448,706
NET ASSETS				
Beginning of year	274,244,250	258,104	274,502,354	253,053,648
End of year	$ 262,621,614	$ 34,305	$ 262,655,919	$ 274,502,354

See notes to financial statements

New York State Health Foundation

Statement of Cash Flows
Year ended December 31, 2011
(with comparative amounts for the year end December 31, 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (11,846,435)	$ 21,448,706
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	135,214	151,951
Realized gains from sale of investments	(10,641,484)	(4,139,664)
Unrealized loss (gain) on investments	10,630,577	(27,232,756)
Deferred federal excise (benefit) tax	65,488	273,378
Discount on grants payable	(55,466)	76,080
Changes in operating assets and liabilities		
Accrued investment income	2,581	(285,613)
Grants receivable	190,000	(190,000)
Prepaid expenses	22,253	132,627
Prepaid excise tax	27,000	(15,000)
Deposits and other assets	-	146,227
Accounts payable and accrued expenses	(85,266)	314,028
Grants payable	(1,885,053)	(3,115,475)
Federal excise tax payable	30,000	-
Deferred rent	146,617	371,903
Other liabilities	48,000	34,820
Net Cash From Operating Activities	(13,215,974)	(12,028,788)
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment of program related investments	59,002	16,000
Purchase of property and equipment	(4,403)	(569,785)
Proceeds from sale of investments	81,520,248	121,651,039
Purchase of investments	(68,319,470)	(114,223,077)
Net Cash From Investing Activities	13,255,377	6,874,177
Net Change in Cash and Cash Equivalents	39,403	(5,154,611)
CASH AND CASH EQUIVALENTS		
Beginning of year	2,661,024	7,815,635
End of year	$ 2,700,427	$ 2,661,024
SUPPLEMENTAL CASH FLOW INFORMATION		
Federal excise taxes paid	$ 130,000	$ 100,000

See notes to financial statements

1. Organization

New York State Health Foundation, formerly The New York Charitable Asset Foundation, (the "Foundation") is a New York not-for-profit corporation organized on October 25, 2002 under section 501(c)(3) of the Internal Revenue Code to pursue tax-exempt charitable purposes. The Foundation was formed as part of the conversion of Empire HealthChoice, Inc. (doing business as Empire Blue Cross & Blue Shield) to a for-profit corporation. Pursuant to the legislation authorizing the conversion, the Foundation received five percent of the stock of WellChoice, the holding company for Empire. The Foundation provides funding and grants for the health care-related needs of residents of the State of New York ("NYS"), including without limitation, (i) expansion of access to health care by extending health insurance coverage to NYS residents who cannot afford to purchase their own coverage or who have coverage that is inadequate to meet their needs, (ii) expansion and enhancement of access to health care by augmenting and creating health care programs that deliver services to populations that are unable to access health care or that improve public health, (iii) augmentation of its other program priorities by supporting programs that inform and educate NYS residents about public health issues and empower communities to address the issues by becoming more effective at identifying and articulating health care needs and implementing solutions, and (iv) conducting any and all lawful activities which may be useful in accomplishing the foregoing purposes.

Assets, liabilities and net assets of the New York State Health Foundation Trust (the "Trust"), a revocable trust, are included in the accompanying financial statements. The Foundation is the sole trustee and beneficiary of the Trust.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures 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.

Basis of Presentation

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Foundation's net assets and changes therein are classified as permanently restricted, temporarily restricted or unrestricted. The Foundation does not have any permanently restricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking and money market accounts. The Foundation considers all highly liquid debt instruments available for current use with a maturity date of three months or less at the date of purchase to be cash equivalents.

2. Summary of Significant Accounting Policies (*continued)*

Property and Equipment

Property and equipment are carried at cost and are depreciated using the straight-line method over the estimated useful life of the assets.

Grants

The liability for grants and project appropriations payable is recognized when specific grants are authorized by the Board of Directors and the recipients have been notified.

Fair Value of Financial Instruments

The Foundation follows Financial Accounting Standards Board (FASB) guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments Valuation

The fair value of alternative investments has been estimated using the Net Asset Value ("NAV") as reported by the management of the respective alternative investment fund. FASB guidance provides for the use of NAV as a "Practical Expedient" for estimating fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the Foundation's interest therein and their classification within Level 2 or 3 is based on the Foundation's ability to redeem its interest in the near term.

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized gains and losses on the sale of investments are computed on the specific identification basis. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Contributions

Contributions are recorded as temporarily restricted support if they are received with donor stipulations that limit the use of the contribution or that have time restrictions. When a temporary restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

2. Summary of Significant Accounting Policies (*continued)*

Reclassification

Certain items in the 2010 financial statements have been reclassified for comparative purposes only.

Accounting for Uncertainty in Income Taxes

The Foundation recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Foundation had no uncertain tax positions that would require financial statement recognition. The Foundation is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2008.

Prior Year Summarized Comparative Information

Information as of and for the year ended December 31, 2010 is presented for comparative purposes only. The notes to the financial statements and certain activity by net asset classification are not included in this report. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements as of and for the year ended December 31, 2010, from which the summarized comparative information was derived.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is May 30, 2012.

3. Concentrations of Credit Risk

The Foundation's financial instruments that are potentially exposed to concentration of credit risk consist of cash, cash equivalents and investments. The Foundation places its cash and cash equivalents with quality financial institutions. The gold exchange traded fund represents interest in physical gold held by a custodial bank. Equity or fixed income funds are in commingled vehicles organized as either Common Trust Funds, limited partnerships or Exchange Traded Funds. At times, cash balances may be in excess of FDIC insurance limit. The Foundation routinely assesses the financial strength of its cash, cash equivalents and investment portfolio. As a consequence, concentrations of credit risk are limited.

4. Property and Equipment

Property and equipment consists of the following as of December 31,

	2011	2010
Furniture and equipment	$ 694,897	$ 694,897
Leasehold Improvements	158,085	442,446
	852,982	1,137,343
Less: accumulated depreciation	441,400	306,186
	$ 411,582	$ 831,157

5. Investments

The following are major categories of investments measured at fair value on a recurring basis at December 31, grouped by fair value hierarchy:

	2011		
	Level 1	Level 2	Total
Exchange trade funds	$ 100,662,055	$ -	$ 100,662,055
Corporate bonds	-	21,764,776	21,764,776
Taxable municipal bonds	2,245,730	-	2,245,730
Alternative investments			
Equity funds	-	76,465,159	76,465,159
Fixed income funds	-	66,826,514	66,826,514
	$ 102,907,785	$ 165,056,449	$ 267,964,234

	2010		
	Level 1	Level 2	Total
Exchange trade funds	$ 110,024,968	$ -	$ 110,024,968
Corporate bonds	-	20,340,362	20,340,362
Taxable municipal bonds	1,975,350	-	1,975,350
Alternative investments			
Equity funds	-	75,496,414	75,496,414
Fixed income funds	-	73,317,011	73,317,011
	$ 112,000,318	$ 169,153,787	$ 281,154,105

5. Investments (*continued*)

Information regarding Level 2 investments valued using NAV as practical expedient at December 31, 2011 is as follows:

		Fair Value		Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity funds (see "a" below)	$	76,465,159	$	-	Daily, Weekly, Monthly	1 Day, 3 Days
Fixed income funds (see "b" below)		66,826,514		-	Daily, Monthly	2 Days, 10 Days
	$	143,291,673	$	-		

a. These assets are in vehicles organized as collective trust funds and the value of the Foundation's interest in these investments is reported by their respective fund managers. The funds include index funds for domestic equities using the Russell 1000 Index, global equities using the Morgan Stanley All Country World Index (excluding US), emerging markets equities using the Morgan Stanley Emerging Markets Index, and an actively managed equity fund investing in global natural resources companies.

b. These assets are in vehicles organized as collective trust funds or limited partnerships, and the value of the Foundation's interest in these investments is reported by their respective fund managers. The funds include index funds that follow the Barclays 7-10 Year Treasury Index, the Barclays Government/Credit Index and the Barclays TIPS Index. Also included is an actively managed fund investing on high-yield domestic bonds.

Investments organized as collective trust funds and limited partnerships are considered alternative investments for financial reporting purposes. The Foundation believes that there is little risk regarding the valuation of these assets: all of the investments comprise publicly traded securities where market values are readily available and almost all have few restrictions on redemption by the Foundation (the majority of the investments may be redeemed daily).

As of December 31, 2011, three individual investments represented approximately 9%, 10% and 15% of total investments. All three of these investments were in broadly diversified index funds.

6. Program Related Investments (PRIs)

During 2008, the Foundation made loans to two charitable organizations totaling $1,188,592 to assist in program related activities. PRIs, defined in IRC 4944(c), have a primary purpose of advancing the mission of the Foundation without a significant purpose of the production of income or the appreciation of property. PRIs are treated as charitable distributions on Internal Revenue Service Form 990-PF, the tax and information return filed by private foundations for minimum-distribution requirement purposes. In 2011, $59,002 was repaid on one of the loans.

7. Federal Excise Tax

The Foundation is exempt from Federal income taxes under Section 501(c)(3) and 509(a) of the Internal Revenue Code and has been further classified as a "private foundation." The Foundation is subject to an excise tax on its net investment income.

Excise taxes consist of two components: current taxes based upon net investment income and deferred taxes which arise from the difference between the tax cost of the investments and the fair value.

For the years ended December 31, Federal excise tax expense consisted of the following:

	2011	2010
Current	$ 187,000	$ 85,000
Deferred	65,488	273,378
	$ 252,488	$ 358,378

8. Grants Payable

The Foundation has entered into grant commitments with certain organizations. Payments to these organizations at December 31, are to be made as follows:

	2011	2010
Less than one year	$ 6,817,029	$ 9,266,010
One to three years	2,412,233	1,848,305
	9,229,262	11,114,315
Less: present value discount	115,536	60,070
Grants payable, net	$ 9,113,726	$ 11,054,245

To reflect the time value of money, grants payable as of December 31, 2011 were discounted to the present value using the Federal Reserve business lending rate of 4.38%.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2011 were restricted for the Community Health Worker Project. Net assets released from restrictions in 2011 were for the Community Health Worker Project.

10. Retirement Plan

The Foundation maintains a 403(b) defined contribution plan, which covers all employees. The Foundation matched employee contributions up to 7.5% of their annual salary in 2011 and 2010. The Foundation made contributions totaling $155,441 and $137,441 to the plan for 2011 and 2010, respectively. The Foundation also maintains a 457(b) plan that is limited to senior level management employees. The Foundation does not make contributions to the plan.

11. Commitments

In 2006 the Foundation entered into a lease agreement for its New York City office space that expires in 2012. In connection with the lease, the Foundation gave the landlord a deposit of $54,842. In 2010, the Foundation entered into an agreement to sublease this space to a third party expiring in 2012. This agreement requires monthly payments to the Foundation of approximately $10,000.

In 2010 the Foundation entered into an agreement for new office space expiring in 2027. The lease contains escalation clauses that provide for increase in payments resulting from increases in real estate taxes and certain other building expenses in excess of the base period amounts. In 2011, the Foundation entered into an agreement to license part of this space to a third party expiring in 2012. This agreement required monthly payments to the Foundation of approximately $6,000. The third party paid the full year's rent at the start of the license period. $48,000 of this amount is reflected in other liabilities as deferred revenue on the statement of financial position.

The future minimum rental payments under these lease agreements are:

2012	$ 605,061
2013	544,000
2014	544,000
2015	544,000
2016	600,667
Thereafter	5,865,000
	$ 8,702,728

Rent expense totaled $794,214 and $653,971 for 2011 and 2010, respectively.

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New York State Health Foundation

Supplemental Information

December 31, 2011
(With summarized totals for the year
ended December 31, 2010)

New York State Health Foundation

Functional Allocation Of Expenses

Year Ended December 31, 2011
(With summarized totals for the year ended December 31, 2010)

	Program Services	Operations and Governance	Investment	2011 Total	2010 Total
Grants Authorized, net	$ 10,144,064	$ -	$ -	$ 10,144,064	$ 9,076,374
Allocated expenses					
Salaries and wages	1,917,938	322,720	309,921	2,550,579	2,546,577
Payroll taxes and employee benefits	406,852	68,458	65,743	541,053	463,477
Legal fees	-	20,483	-	20,483	34,814
Accounting fees	-	44,329	-	44,329	62,156
Other professional fees	500,210	55,113	44,000	599,323	627,786
Depreciation	116,284	18,930	-	135,214	151,951
Occupancy	666,692	115,560	106,671	888,923	691,103
Travel and meetings	107,193	10,183	4,608	121,984	92,506
Printing and binding	8,233	964	-	9,197	14,481
Office expenses and IT	172,618	31,300	17,588	221,506	151,012
Insurance	40,669	6,620	-	47,289	45,424
Outreach and public events	209,544	5,614	1,585	216,743	106,059
Miscellaneous	8,238	1,236	-	9,474	8,185
Total Allocated Expenses	4,154,471	701,510	550,116	5,406,097	4,995,531
Direct investment expenses					
Manager fees	-	-	447,298	447,298	292,112
Total	$ 14,298,535	$ 701,510	$ 997,414	$ 15,997,459	$ 14,364,017

See independent auditors' report