

New York State Health Foundation

Financial Statements

December 31, 2014 and 2013

Independent Auditors' Report

To the Board of Directors of New York State Health Foundation

We have audited the accompanying financial statements of New York State Health Foundation (the "Foundation") which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

O'CONNOR DAVIES, LLP

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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, 2014 and 2013, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 13 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

May 12, 2015

New York State Health Foundation

Statements of Financial Position

	December 31	
	2014	2013
ASSETS		
Cash and cash equivalents	\$ 2,977,543	\$ 2,049,712
Accrued investment income	4,037	378,205
Grants receivable	-	152,500
Other receivables	410,391	-
Prepaid federal excise tax	223,000	186,000
Program related investments	805,223	849,680
Investments	286,248,355	283,749,279
Deposits and other assets	33,890	11,888
Property and equipment, net	144,744	252,209
	\$ 290,847,183	\$ 287,629,473
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 230,613	\$ 359,472
Grants payable, net	5,257,724	5,720,841
Deferred rent	628,882	601,468
Deferred federal excise tax	1,111,000	861,000
Total Liabilities	7,228,219	7,542,781
 Net Assets		
Unrestricted net assets	283,403,964	280,086,692
Temporarily restricted net assets	215,000	-
Total Net Assets	283,618,964	280,086,692
	\$ 290,847,183	\$ 287,629,473

See notes to financial statements

New York State Health Foundation

Statements of Activities

	Year Ended December 31			2013
	2014		Total	
	Unrestricted	Temporarily Restricted		
REVENUE AND SUPPORT				
Investment Income				
Interest and dividends	\$ 3,005,213	\$ -	\$ 3,005,213	\$ 3,332,226
Net realized gain from sale of investments	2,416,781	-	2,416,781	10,309,431
Less:				
Investment expense	<u>818,400</u>	-	<u>818,400</u>	<u>982,882</u>
Net Investment Income	4,603,594	-	4,603,594	12,658,775
Rental income	60,025	-	60,025	49,088
Contributions	-	<u>215,000</u>	<u>215,000</u>	<u>305,000</u>
Total Revenue and Support	<u>4,663,619</u>	<u>215,000</u>	<u>4,878,619</u>	<u>13,012,863</u>
EXPENSES				
Program Services				
Grants authorized, net of rescinded/refunded amounts of \$1,130,166 and \$660,477, and present value discount of (\$14,641) and \$31,449	8,361,020	-	8,361,020	8,023,826
Program support, planning and development	<u>3,898,197</u>	-	<u>3,898,197</u>	<u>3,745,188</u>
Total Program Services	12,259,217	-	12,259,217	11,769,014
Operations and governance	<u>707,650</u>	-	<u>707,650</u>	<u>668,633</u>
Total Expenses	<u>12,966,867</u>	-	<u>12,966,867</u>	<u>12,437,647</u>
Change in Net Assets Before Unrealized Gain on Investments and Provision for Federal Excise Taxes				
Excise Taxes	(8,303,248)	215,000	(8,088,248)	575,216
Unrealized gain on investments	12,533,520	-	12,533,520	8,986,360
Provision for federal excise taxes	<u>(913,000)</u>	-	<u>(913,000)</u>	<u>(541,727)</u>
Change in Net Assets	3,317,272	215,000	3,532,272	9,019,849
NET ASSETS				
Beginning of year	<u>280,086,692</u>	-	<u>280,086,692</u>	<u>271,066,843</u>
End of year	<u>\$ 283,403,964</u>	<u>\$ 215,000</u>	<u>\$ 283,618,964</u>	<u>\$ 280,086,692</u>

See notes to financial statements

New York State Health Foundation

Statements of Cash Flows

	Year Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,532,272	\$ 9,019,849
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	116,675	113,304
Realized gain from sale of investments	(2,416,781)	(10,309,431)
Unrealized gain on investments	(12,533,520)	(8,986,360)
Deferred federal excise tax	250,000	179,727
Discount on grants payable	(14,641)	31,449
Amortization of deferred rent	27,414	27,414
Changes in operating assets and liabilities		
Accrued investment income	374,168	292,496
Grants receivable	152,500	(152,500)
Other receivables	(410,391)	-
Prepaid excise tax	(37,000)	(138,000)
Deposits and other assets	(22,002)	7,083
Accounts payable and accrued expenses	(128,859)	23,206
Grants payable	(448,476)	(1,846,800)
Net Cash From Operating Activities	(11,558,641)	(11,738,563)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment of program related investments	44,457	101,459
Purchase of property and equipment	(9,210)	(57,303)
Proceeds from sale of investments	103,795,779	122,453,177
Purchase of investments	(91,344,554)	(110,379,112)
Net Cash From Investing Activities	12,486,472	12,118,221
Net Change in Cash and Cash Equivalents	927,831	379,658
 CASH AND CASH EQUIVALENTS		
Beginning of year	2,049,712	1,670,054
End of year	\$ 2,977,543	\$ 2,049,712
 SUPPLEMENTAL CASH FLOW INFORMATION		
Federal excise taxes paid	\$ 700,000	\$ 500,000

See notes to financial statements

New York State Health Foundation

Notes to Financial Statements
December 31, 2014

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 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

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which 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 revenue and expenses during the reporting period. Accordingly actual results could differ from those estimates.

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.

New York State Health Foundation

Notes to Financial Statements
December 31, 2014

2. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The Foundation follows U.S. GAAP 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

Investments are stated at fair value. 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. U.S. GAAP 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.

Property and Equipment

Furniture and equipment are carried at cost. Leasehold improvements are depreciated over the lesser of the life of the asset or the term of the lease. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, which ranges from 3 to 5 years. Physical assets acquired with costs in excess of \$1,000 and having a period of benefit in excess of one year are capitalized.

Grants

The liability for grants is recognized when specific grants are authorized by the Board of Directors and the recipients have been notified in an award letter.

New York State Health Foundation

Notes to Financial Statements
December 31, 2014

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

Presentation of Net Assets

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.

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. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the contribution is received.

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 or disclosure. The Foundation is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2011.

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 12, 2015.

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 funds are in commingled vehicles organized as either Common Trust Funds 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.

New York State Health Foundation

Notes to Financial Statements
December 31, 2014

4. Property and Equipment

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

	2014	2013
Furniture and equipment	\$ 502,353	\$ 744,932
Leasehold improvements	<u>132,562</u>	<u>132,562</u>
	634,915	877,494
Less: accumulated depreciation	<u>490,171</u>	<u>625,285</u>
	<u>\$ 144,744</u>	<u>\$ 252,209</u>

The Foundation disposed of \$251,789 in full depreciated property and equipment during the year ended December 31, 2014.

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:

	2014		
	Level 1	Level 2	Total
Exchange Traded Funds			
Equity fund	\$ 41,473,134	\$ -	\$ 41,473,134
Fixed income fund	84,638,232	-	84,638,232
Natural resources fund	13,585,000	-	13,585,000
Mutual fund, short-term	50	-	50
Alternative Investments			
Equity funds	-	<u>146,551,939</u>	<u>146,551,939</u>
	<u>\$ 139,696,416</u>	<u>\$ 146,551,939</u>	<u>\$ 286,248,355</u>
	2013		
	Level 1	Level 2	Total
Exchange Traded Funds			
Equity fund	\$ 38,616,531	\$ -	\$ 38,616,531
Fixed income fund	69,924,510	-	69,924,510
Natural resources fund	10,728,080	-	10,728,080
Mutual fund, equity	16,862,990	-	16,862,990
Corporate bonds	-	18,198,173	18,198,173
Taxable municipal bonds	2,155,190	-	2,155,190
Alternative Investments			
Equity funds	-	127,256,163	127,256,163
Money market fund	-	<u>7,642</u>	<u>7,642</u>
	<u>\$ 138,287,301</u>	<u>\$ 145,461,978</u>	<u>\$ 283,749,279</u>

New York State Health Foundation

Notes to Financial Statements
December 31, 2014

5. Investments (*continued*)

Information regarding investments valued using NAV as practical expedient at December 31, 2014 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity funds (see "a" below)	<u>\$ 146,551,939</u>	<u>\$ -</u>	Daily	3 Days

- 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 and global equities using the Morgan Stanley All Country World Index (excluding US).

Investments organized as collective trust funds 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. All of the investments may be redeemed daily.

As of December 31, 2014, four individual investments represented approximately 35%, 30%, 16% and 14% of total investments. As of December 31, 2013, four individual investments represented approximately 25%, 19%, 17% and 14% of total investments. All four of these investments were in broadly diversified index funds.

6. Program Related Investments (PRIs)

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 2014 and 2013, \$44,457 and \$101,459 was repaid on the loans, respectively.

New York State Health Foundation

Notes to Financial Statements
December 31, 2014

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:

	<u>2014</u>	<u>2013</u>
Current	\$ 663,000	\$ 362,000
Deferred	<u>250,000</u>	<u>179,727</u>
	<u>\$ 913,000</u>	<u>\$ 541,727</u>

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:

	<u>2014</u>	<u>2013</u>
Less than one year	\$ 3,742,544	\$ 4,287,936
One to three years	<u>1,584,703</u>	<u>1,487,787</u>
	5,327,247	5,775,723
Less: present value discount	<u>69,523</u>	<u>54,882</u>
Grants payable, net	<u>\$ 5,257,724</u>	<u>\$ 5,720,841</u>

To reflect the time value of money, grants payable as of December 31, 2014 and 2013 were discounted to the present value using the Federal Reserve business lending rate of 3.85% and 3.34%, respectively.

9. Temporarily Restricted Net Assets

In 2014, the Foundation received two grants from private foundations. One of the grants totaling \$115,000 will be used to support the Foundation’s statewide initiative to provide insurance enrollment assistance to underserved communities. The second grant totaling \$100,000 will be used to evaluate the South Bronx Healthy and Livable Neighborhoods program. It is the intention that both grants will be redistributed to two charitable organizations. At December 31, 2013, the Foundation did not have any temporarily restricted net assets.

New York State Health Foundation

Notes to Financial Statements
December 31, 2014

10. Retirement Plans

The Foundation maintains a 403(b) defined contribution plan, which covers all employees that meet eligibility requirements. The Foundation matched employee contributions up to 7.5% of their annual salary in 2014 and 2013. The Foundation made an additional 5% discretionary employer contribution to the 403(b) plan in 2014 and 2013. The Foundation made contributions totaling \$301,062 and \$279,886 to the plan for 2014 and 2013, 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 457(b) plan.

11. Commitments

The Foundation has a lease for its office space in New York City 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. The Foundation's policy is to record base rent on a straight-line basis over the term of the lease.

The future minimum rental payments under the lease agreement are:

2015	\$ 544,000
2016	600,667
2017	612,000
2018	612,000
2019	612,000
Thereafter	<u>4,029,000</u>
	<u>\$ 7,009,667</u>

Rent expense totaled \$571,414 for both 2014 and 2013.

The Foundation leases part of this space to a third party. This agreement is renewable on a quarterly basis. Rental income in 2014 and 2013 was \$60,025 and \$49,088, respectively.

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New York State Health Foundation

Supplementary Information

For the Year Ended December 31, 2014
(With Summarized Totals for the Year
Ended December 31, 2013)

New York State Health Foundation

Functional Allocation of Expenses

Year Ended December 31, 2014

(with summarized totals for the year ended December 31, 2013)

	<u>Program Services</u>	<u>Operations and Governance</u>	<u>Investment</u>	<u>2014 Total</u>	<u>2013 Total</u>
Grants authorized, net	\$ 8,361,020	\$ -	\$ -	\$ 8,361,020	\$ 8,023,826
Allocated Expenses					
Salaries and wages	2,150,596	359,223	314,138	2,823,957	2,785,273
Payroll taxes and employee benefits	565,356	94,433	82,582	742,371	691,586
Legal fees	-	124	-	124	3,608
Accounting fees	-	32,644	-	32,644	32,175
Other professional fees	236,812	4,469	48,500	289,781	130,582
Depreciation	100,341	16,334	-	116,675	113,304
Occupancy	493,024	84,332	71,359	648,715	660,708
Travel and meetings	89,098	41,759	3,303	134,160	114,560
Printing and design	11,889	1,079	-	12,968	29,607
Office expenses and IT	101,870	24,432	21,230	147,532	207,885
Insurance	12,755	40,284	-	53,039	50,458
Outreach and public events	136,456	-	-	136,456	138,145
Miscellaneous	-	8,537	-	8,537	7,019
Total Allocated Expenses	<u>3,898,197</u>	<u>707,650</u>	<u>541,112</u>	<u>5,146,959</u>	<u>4,964,910</u>
Direct Investment Expenses					
Manager fees	-	-	277,288	277,288	431,793
Total	<u>\$ 12,259,217</u>	<u>\$ 707,650</u>	<u>\$ 818,400</u>	<u>\$ 13,785,267</u>	<u>\$ 13,420,529</u>

See independent auditors' report