

New York State Health Foundation

Financial Statements

December 31, 2015 and 2014



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, 2015 and 2014, 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.

**To the Board of Directors of
New York State Health Foundation**

Page 2

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, 2015 and 2014, 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 14 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.

PKF O'Connor Davies, LLP

May 24, 2016

New York State Health Foundation

Statements of Financial Position

	December 31	
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 919,988	\$ 2,977,543
Accrued investment income	35,637	4,037
Other receivables	-	410,391
Prepaid federal excise tax	120,000	223,000
Investments	271,113,851	286,248,355
Deposits and other assets	426,579	839,113
Property and equipment, net	127,418	144,744
	<u>\$ 272,743,473</u>	<u>\$ 290,847,183</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 265,296	\$ 230,613
Grants payable, net	7,388,920	5,257,724
Deferred rent	656,296	628,882
Deferred federal excise tax	904,000	1,111,000
Total Liabilities	<u>9,214,512</u>	<u>7,228,219</u>
Net Assets		
Unrestricted	263,528,961	283,403,964
Temporarily restricted	-	215,000
Total Net Assets	<u>263,528,961</u>	<u>283,618,964</u>
	<u>\$ 272,743,473</u>	<u>\$ 290,847,183</u>

See notes to financial statements

New York State Health Foundation

Statements of Activities

	Year Ended December 31					
	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Investment Income						
Interest and dividends	\$ 2,828,008	\$ -	\$ 2,828,008	\$ 3,005,213	\$ -	\$ 3,005,213
Net realized gain from sale of investments	5,321,868	-	5,321,868	2,416,781	-	2,416,781
Less investment expense	751,886	-	751,886	818,400	-	818,400
Net Investment Income	7,397,990	-	7,397,990	4,603,594	-	4,603,594
Rental income	84,060	-	84,060	60,025	-	60,025
Contributions	-	115,000	115,000	-	215,000	215,000
Net assets released from restrictions	330,000	(330,000)	-	-	-	-
Total Revenue and Support	<u>7,812,050</u>	<u>(215,000)</u>	<u>7,597,050</u>	<u>4,663,619</u>	<u>215,000</u>	<u>4,878,619</u>
EXPENSES						
Program Services						
Grants authorized, net of rescinded/refunded amounts of \$82,156 and \$1,130,166, and present value discount of (\$10,051) and (\$14,641)	12,579,962	-	12,579,962	8,361,020	-	8,361,020
Program support, planning and development	3,692,949	-	3,692,949	3,898,197	-	3,898,197
Total Program Services	16,272,911	-	16,272,911	12,259,217	-	12,259,217
Operations and governance	785,117	-	785,117	707,650	-	707,650
Total Expenses	<u>17,058,028</u>	<u>-</u>	<u>17,058,028</u>	<u>12,966,867</u>	<u>-</u>	<u>12,966,867</u>
Change in Net Assets Before Unrealized (Loss) Gain on Investments and Provision for Federal						
Excise Taxes	(9,245,978)	(215,000)	(9,460,978)	(8,303,248)	215,000	(8,088,248)
Unrealized (loss) gain on investments	(10,383,025)	-	(10,383,025)	12,533,520	-	12,533,520
Provision for federal excise taxes	(246,000)	-	(246,000)	(913,000)	-	(913,000)
Change in Net Assets	<u>(19,875,003)</u>	<u>(215,000)</u>	<u>(20,090,003)</u>	<u>3,317,272</u>	<u>215,000</u>	<u>3,532,272</u>
NET ASSETS						
Beginning of year	<u>283,403,964</u>	<u>215,000</u>	<u>283,618,964</u>	<u>280,086,692</u>	<u>-</u>	<u>280,086,692</u>
End of year	<u>\$ 263,528,961</u>	<u>\$ -</u>	<u>\$ 263,528,961</u>	<u>\$ 283,403,964</u>	<u>\$ 215,000</u>	<u>\$ 283,618,964</u>

See notes to financial statements

New York State Health Foundation

Statements of Cash Flows

	Year Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (20,090,003)	\$ 3,532,272
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	54,014	116,675
Realized gain from sale of investments	(5,321,868)	(2,416,781)
Unrealized loss (gain) on investments	10,383,025	(12,533,520)
Deferred federal excise tax	(207,000)	250,000
Discount on grants payable	(10,051)	(14,641)
Deferred rent	27,414	27,414
Changes in operating assets and liabilities		
Accrued investment income	(31,600)	374,168
Grants receivable	-	152,500
Other receivables	410,391	(410,391)
Prepaid excise tax	103,000	(37,000)
Deposits and other assets	412,534	22,455
Accounts payable and accrued expenses	34,683	(128,859)
Grants payable	2,141,247	(448,476)
Net Cash From Operating Activities	(12,094,214)	(11,514,184)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(36,688)	(9,210)
Proceeds from sale of investments	10,073,347	103,795,779
Purchase of investments	-	(91,344,554)
Net Cash From Investing Activities	10,036,659	12,442,015
Net Change in Cash and Cash Equivalents	(2,057,555)	927,831
CASH AND CASH EQUIVALENTS		
Beginning of year	2,977,543	2,049,712
End of year	\$ 919,988	\$ 2,977,543
SUPPLEMENTAL CASH FLOW INFORMATION		
Federal excise taxes paid	\$ 350,000	\$ 700,000

See notes to financial statements

New York State Health Foundation

Notes to Financial Statements
December 31, 2015

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, 2015

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.

During 2015, the Foundation adopted new U.S. GAAP guidance which removed the requirements to categorize within the fair value hierarchy alternative investments where fair value is measured using the Net Asset Value (“NAV”) per share as a practical expedient. Adoption of this guidance was applied retrospectively and had no effect on the carrying value of such investments.

Investment Valuation and Income Recognition

Investments are stated at fair value. 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

Property 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 other assets, which range 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, 2015

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. Unrestricted net assets do not have donor-imposed restrictions. Temporarily restricted net assets are subject to donor restrictions that are expected to be satisfied by passage of time or actions of the Foundation. Permanently restricted net assets contain donor-imposed restrictions that stipulate that resources be maintained permanently, but permit the Foundation to use or expend part or all of the income derived from the donated amounts for a specified purpose. 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.

Reclassifications

Reclassifications of certain prior year amounts have been made to conform to the current year presentation.

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 2012.

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 24, 2016.

New York State Health Foundation

Notes to Financial Statements
December 31, 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 natural resources 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.

4. Property and Equipment

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

	2015	2014
Furniture and equipment	\$ 496,990	\$ 502,353
Leasehold improvements	<u>141,602</u>	<u>132,562</u>
	638,592	634,915
Less: accumulated depreciation	<u>511,174</u>	<u>490,171</u>
	<u>\$ 127,418</u>	<u>\$ 144,744</u>

The Foundation disposed of \$33,011 and \$251,789 in fully depreciated property and equipment during the years ended December 31, 2015 and 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 for those investments subject to categorization within such hierarchy:

	2015		
	Level 1	Investments Measured at Net Asset Value (*)	Total
Exchange Traded Funds			
Equity fund	\$ 40,995,558	\$ -	\$ 40,995,558
Fixed income fund	82,044,396	-	82,044,396
Natural resources fund	12,148,125	-	12,148,125
Alternative Investments			
Equity funds	-	<u>135,925,772</u>	<u>135,925,772</u>
	<u>\$ 135,188,079</u>	<u>\$ 135,925,772</u>	<u>\$ 271,113,851</u>

New York State Health Foundation

Notes to Financial Statements
December 31, 2015

5. Investments (continued)

	2014		
	Level 1	Investments Measured at Net Asset Value (*)	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	-	146,551,939	146,551,939
	\$ 139,696,416	\$ 146,551,939	\$ 286,248,355

(*) As discussed in Note 2, investments that are measured using the practical expedient are not classified within the fair value hierarchy.

Information regarding investments valued using NAV as practical expedient at December 31, 2015 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity funds (see "a" below)	\$ 135,925,772	\$ -	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, 2015, four individual investments represented approximately 34%, 30%, 16% and 15% of total investments. As of December 31, 2014, four individual investments represented approximately 35%, 30%, 16% and 14% of total investments. All four of these investments were in broadly diversified index funds.

New York State Health Foundation

Notes to Financial Statements
December 31, 2015

6. Program Related Investment (PRIs)

The Foundation makes loans to charitable organizations 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.

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>2015</u>	<u>2014</u>
Current	\$ 453,000	\$ 663,000
Deferred	<u>(207,000)</u>	<u>250,000</u>
	<u>\$ 246,000</u>	<u>\$ 913,000</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>2015</u>	<u>2014</u>
Less than one year	\$ 5,216,296	\$ 3,742,544
One to three years	<u>2,252,198</u>	<u>1,584,703</u>
	7,468,494	5,327,247
Less: present value discount	<u>79,574</u>	<u>69,523</u>
Grants payable, net	<u>\$ 7,388,920</u>	<u>\$ 5,257,724</u>

To reflect the time value of money, grants payable as of December 31, 2015 and 2014 were discounted to the present value using the Federal Reserve business lending rate of 2.92% and 3.85%, respectively.

New York State Health Foundation

Notes to Financial Statements
December 31, 2015

9. Temporarily Restricted Net Assets

In 2015, the Foundation received a grant totaling \$115,000 from a Public Charity to support its enrollment initiative. In 2014, the Foundation received two grants from private foundations. One of the grants totaling \$115,000 was used to support the Foundation's statewide initiative to provide insurance enrollment assistance to underserved communities. The second grant totaling \$100,000 was used to evaluate the South Bronx Healthy and Livable Neighborhoods program. During 2015, all three grants were redistributed to three charitable organizations.

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 2015 and 2014. The Foundation made an additional 5% discretionary employer contribution to the 403(b) plan in 2015 and 2014. The Foundation made contributions totaling \$313,492 and \$301,062 to the plan for 2015 and 2014, 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

Lease 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:

2016	\$ 600,667
2017	612,000
2018	612,000
2019	612,000
2020	612,000
Thereafter	<u>3,417,000</u>
	<u>\$ 6,465,667</u>

Rent expense totaled \$571,414 for both 2015 and 2014.

New York State Health Foundation

Notes to Financial Statements
December 31, 2015

11. Commitments (continued)

Rental Income

The Foundation leases part of this space to a third party. This agreement is renewable on a quarterly basis. In addition, during 2015 the Foundation entered into an additional sublease for its office space commencing February 1, 2016 and expiring on January 31, 2017.

The future minimum rental payments to be received under these lease agreements are:

2016	\$ 105,743
2017	<u>7,600</u>
	<u>\$ 113,343</u>

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New York State Health Foundation

Supplementary Information

For the Year Ended December 31, 2015
(With Summarized Totals for the Year
Ended December 31, 2014)

New York State Health Foundation

Functional Allocation of Expenses

Year Ended December 31, 2015

(with summarized totals for the year ended December 31, 2014)

	Program Services	Operations and Governance	Investment	2015 Total	2014 Total
Grants authorized, net	\$ 12,579,962	\$ -	\$ -	\$ 12,579,962	\$ 8,361,020
Allocated Expenses					
Salaries and wages	2,077,777	362,227	282,948	2,722,952	2,823,957
Payroll taxes and employee benefits	594,785	103,706	80,999	779,490	742,371
Legal fees	-	4,811	-	4,811	124
Accounting fees	-	33,637	-	33,637	32,644
Other professional fees	100,371	70,624	50,000	220,995	289,781
Depreciation	41,051	7,021	5,942	54,014	116,675
Occupancy	548,420	93,810	79,377	721,607	648,715
Travel and meetings	107,978	21,979	3,111	133,068	134,160
Printing and design	4,356	14,328	-	18,684	12,968
Office expenses and IT	92,146	14,354	15,312	121,812	147,532
Insurance	11,853	41,075	-	52,928	53,039
Outreach and public events	114,212	8,842	1,090	124,144	136,456
Miscellaneous	-	8,703	-	8,703	8,537
Total Allocated Expenses	3,692,949	785,117	518,779	4,996,845	5,146,959
Direct Investment Expenses					
Manager fees	-	-	233,107	233,107	277,288
Total	\$ 16,272,911	\$ 785,117	\$ 751,886	\$ 17,809,914	\$ 13,785,267

See independent auditors' report