

**New York State Health Foundation**

Financial Statements

December 31, 2007

## **Independent Auditors' Report**

### **Board of Directors New York State Health Foundation**

We have audited the accompanying statements of financial position of New York State Health Foundation (the "Foundation"), formerly The New York Charitable Asset Foundation, as of December 31, 2007 and 2006, and the related statements of activities and cash flows for the years 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 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 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 audits provide 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, 2007 and 2006, and the changes in its nets assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule on page 9 is presented for the purpose of additional analysis and is not a required part of these basic financial statements. Such information for 2007 has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The supplemental information for 2006 was derived from the Foundation's 2006 financial statements on which we issued our report dated May 4, 2007.

New York, New York  
April 21, 2008

# New York State Health Foundation

## Statements of Financial Position

December 31,

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,751,644	\$ 4,181,062
Accrued investment income	1,885,425	476,309
Prepaid expenses	94,972	97,615
Prepaid federal excise tax	105,000	-
Investments	294,841,932	282,916,563
Deposits	54,842	65,592
Property and equipment, net	<u>210,254</u>	<u>182,019</u>
	<u>\$ 301,944,069</u>	<u>\$ 287,919,160</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 203,444	\$ 166,070
Grants payable, net	6,595,637	2,898,612
Deferred rent	39,928	-
Federal excise tax payable	-	1,708,000
Deferred federal excise tax	<u>310,000</u>	<u>166,000</u>
Total Liabilities	<u>\$ 7,149,009</u>	<u>4,938,682</u>
Net Assets	<u>294,795,060</u>	<u>282,980,478</u>
	<u>\$ 301,944,069</u>	<u>\$ 287,919,160</u>

See notes to financial statements

**New York State Health Foundation**

Statements of Activities

Years Ended December 31,

	2007	2006
<b>INVESTMENT INCOME</b>		
Interest and dividends	\$ 11,286,540	\$ 8,341,713
Net realized gain from sale of investments	1,409,105	165,203,663
	12,695,645	173,545,376
Less: Investment expense	293,914	173,805
Net Investment Income	12,401,731	173,371,571
<b>EXPENSES</b>		
Grants authorized	12,180,265	5,957,433
Program support, planning and development	2,025,573	812,977
Total Program Services	14,205,838	6,770,410
Operations and governance	545,643	385,283
Total Expenses	14,751,481	7,155,693
Change in Net Assets before Federal Excise		
Taxes and Unrealized Gain (Loss) on Investments	(2,349,750)	166,215,878
(Provision) benefit for federal excise tax	(189,232)	1,596,916
Unrealized gain (loss) on investments	14,353,564	(159,559,078)
Change in Net Assets	11,814,582	8,253,716
<b>NET ASSETS</b>		
Beginning of year	282,980,478	274,726,762
End of year	\$ 294,795,060	\$ 282,980,478

See notes to financial statements

## New York State Health Foundation

### Statements of Cash Flows

Years Ended December 31,

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 11,814,582	\$ 8,253,716
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation	47,590	1,442
Realized gains from sale of investments	(1,409,105)	(165,203,663)
Unrealized (gain) loss on investments	(14,353,564)	159,559,078
Federal excise tax provision (benefit) on unrealized investment gains (losses)	144,000	(3,356,530)
Changes in operating assets and liabilities		
Accrued investment income	(1,409,116)	(407,278)
Prepaid expenses	2,643	(43,745)
Prepaid excise tax	(105,000)	-
Accounts payable and accrued expenses	37,374	88,627
Grants payable, net	3,697,025	2,898,612
Deferred rent	39,928	-
Federal excise tax payable	(1,708,000)	1,708,000
Net Cash (Used) Provided by Operating Activities	(3,201,643)	3,498,259
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(75,825)	(183,461)
Proceeds from sale of investments	13,978,283	379,889,402
Purchase of investments	(10,140,983)	(400,670,521)
Deposits	10,750	(90,592)
Net Cash Provided (Used) by Investing Activities	3,772,225	(21,055,172)
Net Change in Cash and Cash Equivalents	570,582	(17,556,913)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	4,181,062	21,737,975
End of year	\$ 4,751,644	\$ 4,181,062
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Federal excise taxes paid	\$ 1,960,000	\$ 54,313

See notes to financial statements

# New York State Health Foundation

## 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 balance of the WellChoice stock was held by the New York Public Asset Fund, a New York State entity. The Foundation participated pro rata in the Initial Public Offering ("IPO") of the stock of WellChoice, in which 20.3% of WellChoice's stock was sold at an initial price of \$25 per share on November 8, 2002. The proceeds of that sale by the Foundation were held in escrow by the N.Y.S. Comptroller until a final court decision which ruled in favor of the Foundation and NYS in connection with litigation relating to the conversion. The balance of the WellChoice shares owned by the Foundation were sold subsequently in market transactions resulting in a realized gain of \$165,203,663 in 2006, which was then invested in exchange traded funds where they remained throughout 2007. 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 New York State 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.

### 2. Summary of Significant Accounting Policies

#### *Basis of Presentation*

Classification of the Foundation’s net assets and its income and expenses are based on the existence or absence of donor imposed restrictions. At December 31, 2007 and 2006, all net assets of the Foundation were considered to be unrestricted.

# New York State Health Foundation

## Notes to Financial Statements

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

#### *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.

#### *Cash and Cash Equivalents*

Cash and cash equivalents consist of checking and money market accounts. The Foundation considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

#### *Investments*

Investments in marketable securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

#### *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.

### 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 Foundation invests in corporate stocks and bonds of financially strong companies. 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. Reclassification

Certain amounts in the December 31, 2006 financial statements have been reclassified for comparative purposes only.

## New York State Health Foundation

### Notes to Financial Statements

#### 5. Property and Equipment

Property and equipment consists of the following as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Furniture and equipment	\$ 221,786	\$ 183,461
Leasehold Improvements	<u>37,500</u>	<u>-</u>
	259,286	183,461
Less: accumulated depreciation	<u>49,032</u>	<u>1,442</u>
	<u>\$ 210,254</u>	<u>\$ 182,019</u>

#### 6. Investments

Investments at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Marketable Equities	\$ 87,987,300	\$ 91,489,072
US Treasury Bonds and Notes	<u>206,854,632</u>	<u>191,427,491</u>
	<u>\$294,841,932</u>	<u>\$282,916,563</u>

#### 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 market value. For the year ended December 31 Federal excise tax (expense) benefit consisted of the following:

	<u>2007</u>	<u>2006</u>
Current	\$ (45,232)	\$ (1,759,614)
Deferred	<u>(144,000)</u>	<u>3,356,530</u>
	<u>\$ (189,232)</u>	<u>\$ 1,596,916</u>

## New York State Health Foundation

### Notes to Financial Statements

#### 8. Grants Payable

The Foundation has entered into grant commitments with certain organizations. Payments to these organizations at December 31, 2007 and 2006 are to be made as follows:

	<u>2007</u>	<u>2006</u>
Less than one year	\$ 5,297,821	\$ 2,217,020
One to three years	<u>1,399,262</u>	<u>742,880</u>
	6,697,083	2,959,900
Less: present value discount	<u>101,446</u>	<u>61,288</u>
Grants payable, net	<u>\$ 6,595,637</u>	<u>\$ 2,898,612</u>

To reflect the time value of money, grants payable as of December 31, 2007 and 2006 were discounted to their present value using the prime rate of 7.25% and 8.25%, respectively.

#### 9. Retirement Plan

The Foundation maintains a 403(b) defined contribution plan, which covers all employees. The Foundation matches an employee contribution up to 5% of their annual salary. The Foundation made contributions totaling \$28,677 and \$22,433 to the plan for 2007 and 2006, respectively.

#### 10. Commitments

The Foundation has a lease agreement for its current New York City office space that expires in 2012. In connection with the lease, the Foundation gave the landlord a deposit of \$54,842. The future minimum rental payments under this lease agreement are:

2008	\$ 224,458
2009	229,678
2010	235,028
2011	240,512
2012	<u>41,022</u>
	<u>\$ 970,698</u>

Rent expense totaled \$216,556 and \$37,938 for 2007 and 2006, respectively.

**New York State Health Foundation**

Supplemental Information

December 31, 2007

**New York State Health Foundation**

Functional Allocation Of Expenses

Year Ended December 31, 2007  
(With summarized totals for the year ended December 31, 2006)

	<u>Program Services</u>	<u>Operations and Governance</u>	<u>Investment</u>	<u>2007 Total</u>	<u>2006 Total</u>
Grants Authorized, net	\$ 12,180,265	\$ -	\$ -	\$ 12,180,265	\$ 5,957,433
Allocated expenses					
Salaries and wages	907,032	201,408	44,732	1,153,172	345,603
Payroll taxes and employee benefits	167,480	37,332	8,534	213,346	58,520
Legal fees	-	75,249	-	75,249	118,668
Accounting fees	-	60,953	5,000	65,953	59,807
Other professional fees	408,994	54,890	-	463,884	474,223
Depreciation	40,927	6,663	-	47,590	1,442
Occupancy	198,063	32,243	-	230,306	37,938
Travel and meetings	43,648	31,807	-	75,455	54,768
Printing and binding	32,312	5,260	-	37,572	11,045
Office expense	29,100	4,410	-	33,510	14,491
Telecommunications	22,063	3,591	-	25,654	15,868
Insurance	23,340	23,339	-	46,679	40,797
Postage and delivery	4,510	734	-	5,244	3,651
Outreach and public events	48,526	-	-	48,526	245
Interest and penalties	99,578	-	-	99,578	-
Miscellaneous	-	7,764	-	7,764	6,507
Total Allocated Expenses	<u>2,025,573</u>	<u>545,643</u>	<u>58,266</u>	<u>2,629,482</u>	<u>1,243,573</u>
Direct investment expenses					
Manager fees	-	-	235,648	235,648	128,492
Total Direct Investment Expense	-	-	235,648	235,648	128,492
Total	<u>\$ 14,205,838</u>	<u>\$ 545,643</u>	<u>\$ 293,914</u>	<u>\$ 15,045,395</u>	<u>\$ 7,329,498</u>