

**New York State Health Foundation**

Financial Statements

December 31, 2010



O'Connor Davies Munns & Dobbins, llp  
ACCOUNTANTS AND CONSULTANTS

## 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"), as of December 31, 2010 and 2009, 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, 2010 and 2009, and the changes in its net 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 12 is presented for the purpose of additional analysis and is not a required part of these basic financial statements. Such information 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.

*O'Connor Davies Munns & Dobbins, LLP*

New York, New York  
June 3, 2011

# New York State Health Foundation

## Statements of Financial Position

December 31,

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,661,024	\$ 7,815,635
Accrued investment income	755,798	470,185
Program related investments	1,172,592	1,188,592
Grants receivable	190,000	-
Prepaid expenses	82,476	215,103
Prepaid federal excise tax	40,000	25,000
Investments	281,154,105	257,209,647
Deposits and other assets	54,842	201,069
Property and equipment, net	<u>831,157</u>	<u>413,323</u>
	<u>\$ 286,941,994</u>	<u>\$ 267,538,554</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 670,991	\$ 356,963
Grants payable, net	11,054,245	14,093,640
Deferred rent	405,072	33,169
Other liabilities	34,820	-
Deferred federal excise tax	<u>274,512</u>	<u>1,134</u>
Total Liabilities	<u>12,439,640</u>	<u>14,484,906</u>
Net Assets		
Unrestricted Net Assets	274,244,250	253,053,648
Temporarily Restricted Net Assets	<u>258,104</u>	<u>-</u>
Total Net Assets	<u>274,502,354</u>	<u>253,053,648</u>
	<u>\$ 286,941,994</u>	<u>\$ 267,538,554</u>

See notes to financial statements

**New York State Health Foundation**

Statements of Activities

Years Ended December 31,

	2010			2009 Total
	Unrestricted	Temporarily Restricted	Total	
<b>SUPPORT AND REVENUE</b>				
Investment Income				
Interest and dividends	\$ 4,357,423	\$ -	\$ 4,357,423	\$ 7,182,544
Net realized gain from sale of investments	4,139,664	-	4,139,664	8,042,444
Less:				
Investment expense	<u>770,808</u>	<u>-</u>	<u>770,808</u>	<u>744,491</u>
Net Investment Income	7,726,279	-	7,726,279	14,480,497
Contributions	-	370,000	370,000	-
Rental Income	71,258	-	71,258	-
Net assets released from restrictions	<u>111,896</u>	<u>(111,896)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>7,909,433</u>	<u>258,104</u>	<u>8,167,537</u>	<u>14,480,497</u>
<b>EXPENSES</b>				
Grants authorized	9,076,374	-	9,076,374	13,627,751
Program support, planning and development	<u>3,726,986</u>	<u>-</u>	<u>3,726,986</u>	<u>2,880,432</u>
Total Program Services	12,803,360	-	12,803,360	16,508,183
Operations and governance	<u>789,849</u>	<u>-</u>	<u>789,849</u>	<u>556,024</u>
Total Expenses	<u>13,593,209</u>	<u>-</u>	<u>13,593,209</u>	<u>17,064,207</u>
Change in Net Assets before Federal Excise				
Taxes and Unrealized Gain (Loss) on Investments	(5,683,776)	258,104	(5,425,672)	(2,583,710)
(Provision) Benefit for federal excise tax	(358,378)	-	(358,378)	210,916
Unrealized gain (loss) on investments	<u>27,232,756</u>	<u>-</u>	<u>27,232,756</u>	<u>(35,012,644)</u>
Change in Net Assets	21,190,602	258,104	21,448,706	(37,385,438)
<b>NET ASSETS</b>				
Beginning of year	<u>253,053,648</u>	<u>-</u>	<u>253,053,648</u>	<u>290,439,086</u>
End of year	<u>\$ 274,244,250</u>	<u>\$ 258,104</u>	<u>\$ 274,502,354</u>	<u>\$ 253,053,648</u>

See notes to financial statements

## New York State Health Foundation

### Statements of Cash Flows

Years Ended December 31,

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 21,448,706	\$ (37,385,438)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	151,951	56,674
Loss on disposal of property and equipment	-	13,205
Realized gains from sale of investments	(4,139,664)	(8,042,444)
Unrealized (gain) loss on investments	(27,232,756)	35,012,644
Deferred federal excise tax provision (benefit)	273,378	(350,916)
Changes in operating assets and liabilities		
Accrued investment income	(285,613)	593,891
Program related investment	16,000	-
Grants receivable	(190,000)	
Prepaid expenses	132,627	(176,190)
Prepaid excise tax	(15,000)	-
Deposits and other assets	146,227	(146,227)
Accounts payable and accrued expenses	314,028	150,755
Grants payable, net	(3,039,395)	663,664
Deferred rent	371,903	(5,984)
Other liabilities	34,820	-
Net Cash From Operating Activities	(12,012,788)	(9,616,366)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(569,785)	(309,171)
Proceeds from sale of investments	121,651,039	146,695,007
Purchase of investments	(114,223,077)	(137,935,398)
Net Cash From Investing Activities	6,858,177	8,450,438
Net Change in Cash and Cash Equivalents	(5,154,611)	(1,165,928)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	7,815,635	8,981,563
End of year	\$ 2,661,024	\$ 7,815,635
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Federal excise taxes paid	\$ 100,000	\$ 140,000

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 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.

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 did not have any permanently restricted net assets.

## **New York State Health Foundation**

### Notes to Financial Statements

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

##### ***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.

##### ***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***

Investments are carried 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. 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.

# New York State Health Foundation

## Notes to Financial Statements

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

#### *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.

#### *Accounting for Uncertainty in Income Taxes*

The Foundation recognized the effect of income tax positions only if those positions are more likely than not of being 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 audits by the applicable taxing jurisdictions for period prior to December 31, 2007.

#### *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 June 3, 2011.

### 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's investments consist entirely of marketable securities. 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.



## New York State Health Foundation

### Notes to Financial Statements

#### 4. Property and Equipment

Property and equipment consists of the following as of December 31, 2010 and 2009:

	2010	2009
Furniture and equipment	\$ 694,897	\$ 438,138
Leasehold Improvements	442,446	129,420
	1,137,343	567,558
Less: accumulated depreciation	306,186	154,235
	\$ 831,157	\$ 413,323

During 2009 the Foundation removed from its books and records property and equipment with a cost of \$20,577 and accumulated depreciation of \$7,372.

#### 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:

	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
	2009		
	Level 1	Level 2	Total
Equity index funds	\$ 44,878,919	\$ 26,982,432	\$ 71,861,351
Gold exchange trade funds	3,978,059	-	3,978,059
Fixed income funds	81,387,494	83,116,610	164,504,104
Corporate bonds	15,894,203	-	15,894,203
Taxable municipal bonds	971,930	-	971,930
	\$ 147,110,605	\$ 110,099,042	\$ 257,209,647

## New York State Health Foundation

### Notes to Financial Statements

#### 5. Investments *(continued)*

Information regarding Level 2 investments valued using NAV as practical expedient at December 31, 2010 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity funds (see : "a" below)	\$ 75,496,414	\$ -	Daily-Monthly	1-3 Days
Fixed income funds (see : "b" below)	73,317,011	-	Daily-Monthly	1-10 Days
	\$ 148,813,425	\$ -		

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 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, 2010, three individual investments represented 12%, 15% and 19% 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 in total \$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.

## New York State Health Foundation

### Notes to Financial Statements

#### 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>2010</u>	<u>2009</u>
Current	\$ 85,000	\$ 140,000
Deferred (Benefit)	<u>273,378</u>	<u>(350,916)</u>
	<u>\$ 358,378</u>	<u>\$ (210,916)</u>

#### 8. Grants Payable

The Foundation has entered into grant commitments with certain organizations. Payments to these organizations at December 31, 2010 and 2009 are to be made as follows:

	<u>2010</u>	<u>2009</u>
Less than one year	\$ 9,266,010	\$ 10,040,573
One to three years	<u>1,848,305</u>	<u>4,189,217</u>
	11,114,315	14,229,790
Less: present value discount	<u>60,070</u>	<u>136,150</u>
Grants payable, net	<u>\$ 11,054,245</u>	<u>\$ 14,093,640</u>

To reflect the time value of money, grants payable as of December 31, 2010 and 2009 were discounted to their present value using the prime rate of 3.25%.

#### 9. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2010 were restricted for the Community Health Worker Project. At December 31, 2009 all net assets were unrestricted. Net assets released from restrictions in 2010 were for the Community Health Worker Project.

## New York State Health Foundation

### Notes to Financial Statements

#### 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 2010 and 2009. The Foundation made contributions totaling \$137,441 and \$134,508 to the plan for 2010 and 2009, respectively.

#### 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 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 future minimum rental payments under these lease agreements are:

2011	\$ 693,388
2012	593,598
2013	544,000
2014	544,000
2015	544,000
Thereafter	<u>4,312,333</u>
	<u>\$ 7,231,319</u>

Rent expense totaled \$653,971 and \$224,654 for 2010 and 2009, respectively.

**New York State Health Foundation**

Supplemental Information

December 31, 2010

**New York State Health Foundation**

Functional Allocation Of Expenses

Year Ended December 31, 2010

(With summarized totals for the year ended December 31, 2009)

	<u>Program Services</u>	<u>Operations and Governance</u>	<u>Investment</u>	<u>2010 Total</u>	<u>2009 Total</u>
Grants Authorized, net	\$ 9,076,374	\$ -	\$ -	\$ 9,076,374	\$ 13,627,751
Allocated expenses					
Salaries and wages	1,880,861	352,328	313,388	2,546,577	2,305,437
Payroll taxes and employee benefits	342,316	64,124	57,037	463,477	433,726
Legal fees	-	30,734	4,080	34,814	114,418
Accounting fees	-	62,156	-	62,156	53,094
Other professional fees	627,075	45,231	62,349	734,655	487,247
Depreciation	121,561	30,390	-	151,951	56,674
Occupancy	518,327	138,221	34,555	691,103	244,969
Travel and meetings	63,647	25,718	3,141	92,506	94,722
Printing and binding	13,274	1,207	-	14,481	18,672
Office expense	49,923	13,313	3,328	66,564	39,706
Telecommunications	29,803	5,907	-	35,710	52,460
Insurance	36,339	9,085	-	45,424	39,903
Postage and delivery	1,638	4,127	28	5,793	4,212
Outreach and public events	41,345	-	790	42,135	70,168
Repairs & Maintenance	-	-	-	-	37,583
Miscellaneous	<u>877</u>	<u>7,308</u>	<u>-</u>	<u>8,185</u>	<u>6,757</u>
Total Allocated Expenses	<u>3,726,986</u>	<u>789,849</u>	<u>478,696</u>	<u>4,995,531</u>	<u>4,059,748</u>
Direct investment expenses					
Manager fees	<u>-</u>	<u>-</u>	<u>292,112</u>	<u>292,112</u>	<u>121,199</u>
Total	<u>\$ 12,803,360</u>	<u>\$ 789,849</u>	<u>\$ 770,808</u>	<u>\$ 14,364,017</u>	<u>\$ 17,808,698</u>