New York State Health Foundation

Financial Statements

December 31, 2013

O'CONNOR DAVIES

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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 statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year 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 audit. 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 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

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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Statements

We have previously audited the Foundation's December 31, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 30, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was 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 27, 2014

New York State Health Foundation

Statement of Financial Position
December 31, 2013
(With Comparative Amounts at December 31, 2012)

	2013	2012
ASSETS		
Cash and cash equivalents	$ 2,049,712	$ 1,670,054
Accrued investment income	378,205	670,701
Grants receivable	152,500	-
Prepaid expenses	9,442	18,971
Prepaid federal excise tax	186,000	48,000
Program related investments	849,680	951,139
Investments	283,749,279	276,527,553
Deposits and other assets	2,446	-
Property and equipment, net	252,209	308,210
	$ 287,629,473	$ 280,194,628

	2013	2012
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 359,472	$ 336,539
Grants payable, net	5,720,841	7,536,192
Deferred rent	601,468	574,054
Deferred Federal excise tax	861,000	681,000
Total Liabilities	7,542,781	9,127,785
Net Assets	280,086,692	271,066,843
	$ 287,629,473	$ 280,194,628

See notes to financial statements

New York State Health Foundation

Statement of Activities
Year Ended December 31, 2013
(With Summarized Totals for the Year Ended December 31, 2012)

	2013	2012
REVENUE AND SUPPORT		
Investment Income		
Interest and dividends	$ 3,332,226	$ 3,639,165
Net realized gain from sale of investments	10,309,431	3,642,958
Less:		
Investment expense	982,882	978,692
Net Investment Income	12,658,775	6,303,431
Rental Income	49,088	105,744
Contributions	305,000	-
Total Revenue and Support	13,012,863	6,409,175
EXPENSES		
Grants authorized, net of rescinded/refunded amounts of $660,477 and $111,348, and present value discount of $31,449 and $29,205	8,023,826	10,061,869
Program support, planning and development	3,745,188	3,954,875
Total Program Services	11,769,014	14,016,744
Operations and governance	668,633	717,358
Total Expenses	12,437,647	14,734,102
Change in Net Assets Before Unrealized Gain on Investments and Federal Excise Taxes	575,216	(8,324,927)
Unrealized gain on investments	8,986,360	17,221,697
Provision for Federal excise taxes	(541,727)	(485,846)
Change in Net Assets	9,019,849	8,410,924
NET ASSETS		
Beginning of year	271,066,843	262,655,919
End of year	$ 280,086,692	$ 271,066,843

See notes to financial statements

New York State Health Foundation

Statement of Cash Flows
Year Ended December 31, 2013
(With Comparative Amounts for the Year Ended December 31, 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 9,019,849	$ 8,410,924
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	113,304	110,471
Realized gain from sale of investments	(10,309,431)	(3,642,958)
Unrealized gain on investments	(8,986,360)	(17,221,697)
Deferred federal excise tax	180,000	341,000
Discount on grants payable	31,449	29,205
Amortization of deferred rent	27,414	22,365
Changes in operating assets and liabilities		
Accrued investment income	292,496	82,516
Grants receivable	(152,500)	-
Prepaid expenses	9,529	41,252
Prepaid excise tax	(138,000)	(65,000)
Deposits and other assets	(2,446)	54,842
Accounts payable and accrued expenses	22,933	39,578
Grants payable	(1,846,800)	(1,606,739)
Other liabilities	-	(82,820)
Net Cash From Operating Activities	(11,738,563)	(13,487,061)
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment of program related investments	101,459	162,451
Purchase of property and equipment	(57,303)	(7,099)
Proceeds from sale of investments	122,453,177	34,000,296
Purchase of investments	(110,379,112)	(21,698,960)
Net Cash From Investing Activities	12,118,221	12,456,688
Net Change in Cash and Cash Equivalents	379,658	(1,030,373)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,670,054	2,700,427
End of year	$ 2,049,712	$ 1,670,054
SUPPLEMENTAL CASH FLOW INFORMATION		
Federal excise taxes paid	$ 500,000	$ 210,000

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 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 revenues 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.

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

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

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. At December 31, 2013 and 2012 the Foundation did not have any temporarily or permanently restricted net assets.

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. 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. The Foundation is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2010.

Prior Year Summarized Comparative Information

Information as of and for the year ended December 31, 2012 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, 2012, 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 27, 2014.

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 money market 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,

	2013	2012
Furniture and equipment	$ 744,932	$ 696,196
Leasehold Improvements	132,562	123,995
	877,494	820,191
Less: accumulated depreciation	625,285	511,981
	$ 252,209	$ 308,210

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:

	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	-	7,642	7,642
	$ 138,287,301	$ 145,461,978	$ 283,749,279

	2012		
	Level 1	Level 2	Total
Exchange traded funds			
Equity fund	$ 30,575,645	$ -	$ 30,575,645
Fixed income funds	37,124,501	-	37,124,501
Natural resources fund	20,003,965	-	20,003,965
Mutual fund, equity	16,095,425	-	16,095,425
Corporate bonds	-	20,985,478	20,985,478
Taxable municipal bonds	2,326,600	-	2,326,600
Alternative investments			
Equity funds	-	97,617,232	97,617,232
Fixed income funds	-	51,798,707	51,798,707
	$ 106,126,136	$ 170,401,417	$ 276,527,553

5. Investments (*continued*)

Information regarding investments valued using NAV as practical expedient at December 31, 2013 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity funds (see "a" below)	$ 127,256,163	$ -	Daily	1 Day, 3 Days
Money market fund (see "b" below)	7,642	-	Daily	Daily
	$ 127,263,805	$ -		

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 a collective trust fund and the value of the Foundation's interest in these investments is reported by the fund manager. The fund invests in short term securities designed to produce a portfolio with a stable net asset value.

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. All of the investments may be redeemed daily.

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)

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 2013 and 2012, $101,459 and $162,451 was repaid on the loans, respectively.

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:

	2013	2012
Current	$ 362,000	$ 145,000
Deferred	179,727	340,846
	$ 541,727	$ 485,846

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:

	2013	2012
Less than one year	$ 4,287,936	$ 5,705,446
One to three years	1,487,787	1,917,077
	5,775,723	7,622,523
Less: present value discount	54,882	86,331
Grants payable, net	$ 5,720,841	$ 7,536,192

To reflect the time value of money, grants payable as of December 31, 2013 and 2012 were discounted to the present value using the Federal Reserve business lending rate of 3.34% and 3.87%, respectively.

At the end of 2013, the Foundation's quarterly meeting was postponed until early 2014. As a result, approximately $1.6 million in grants, that would have been authorized, were delayed until 2014.

9. Temporarily Restricted Net Assets

In 2013, the Foundation received three grants totaling $305,000 from private foundations. Two of the grants supported the Foundation's statewide initiative to provide insurance enrollment assistance to underserved communities and the grants were redistributed to two community-based organizations. The third grant was co-funding for a project to study diabetes prevention programs and was redistributed to an organization to conduct research.

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 2013 and 2012. The Foundation made an additional 5% discretionary employer contribution to the 403(b) plan in 2013 and 2012. The Foundation made contributions totaling $279,886 and $305,195 to the plan for 2013 and 2012, 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 future minimum rental payments under the lease agreement are:

2014	$ 544,000
2015	544,000
2016	600,667
2017	612,000
2018	612,000
Thereafter	4,641,000
	$ 7,553,667

Rent expense totaled $571,414 and $627,427 for 2013 and 2012, respectively.

The Foundation leases part of this space to a third party. This agreement requires monthly payments to the Foundation of approximately $4,000.

Rental income in 2013 and 2012 was $49,088 and $105,744, respectively.

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New York State Health Foundation

Supplemental Information

December 31, 2013
(With Summarized Totals for the Year
Ended December 31, 2012)

New York State Health Foundation

Functional Allocation of Expenses
Year Ended December 31, 2013
(With Summarized Totals for the Year Ended December 31, 2012)

	Program Services	Operations and Governance	Investment	2013 Total	2012 Total
Grants Authorized, net	$ 8,023,826	$ -	$ -	$ 8,023,826	$ 10,061,869
Allocated expenses					
Salaries and wages	2,111,842	351,092	322,339	2,785,273	2,862,360
Payroll taxes and employee benefits	524,371	87,178	80,037	691,586	715,890
Legal fees	-	3,608	-	3,608	26,355
Accounting fees	-	32,175	-	32,175	32,000
Other professional fees	81,133	949	48,500	130,582	185,961
Depreciation	97,153	16,151	-	113,304	110,471
Occupancy	502,137	85,893	72,678	660,708	738,470
Travel and meetings	98,699	14,923	938	114,560	125,459
Printing and binding	27,846	1,761	-	29,607	30,898
Office expenses and IT	151,120	30,168	26,597	207,885	251,187
Insurance	12,742	37,716	-	50,458	49,441
Outreach and public events	138,145	-	-	138,145	84,788
Miscellaneous	-	7,019	-	7,019	9,118
Total Allocated Expenses	3,745,188	668,633	551,089	4,964,910	5,222,398
Direct investment expenses					
Manager fees	-	-	431,793	431,793	428,527
Total	$ 11,769,014	$ 668,633	$ 982,882	$ 13,420,529	$ 15,712,794

See independent auditors' report