

New York State Health Foundation

Financial Statements

December 31, 2012

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, 2012, 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 of 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.

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, 2012, 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.

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

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Report on Summarized Comparative Statements

We have previously audited the Foundation's December 31, 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 30, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 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

New York, New York
May 30, 2013

New York State Health Foundation

Statement of Financial Position

December 31, 2012

(with comparative amounts at December 31, 2011)

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 1,670,054	\$ 2,700,427
Accrued investment income	670,701	753,217
Program related investments	951,139	1,113,590
Prepaid expenses	18,971	60,223
Prepaid federal excise tax	48,000	13,000
Investments	276,527,553	267,964,234
Deposits and other assets	-	54,842
Property and equipment, net	<u>308,210</u>	<u>411,582</u>
	<u>\$ 280,194,628</u>	<u>\$ 273,071,115</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 336,539	\$ 296,961
Grants payable	7,536,192	9,113,726
Federal excise tax payable	-	30,000
Deferred rent	574,054	551,689
Other liabilities	-	82,820
Deferred Federal excise tax	<u>681,000</u>	<u>340,000</u>
Total Liabilities	<u>9,127,785</u>	<u>10,415,196</u>
Net Assets		
Unrestricted net assets	271,066,843	262,621,614
Temporarily restricted net assets	<u>-</u>	<u>34,305</u>
Total Net Assets	<u>271,066,843</u>	<u>262,655,919</u>
	<u>\$ 280,194,628</u>	<u>\$ 273,071,115</u>

See notes to financial statements

New York State Health Foundation

Statement of Activities
Year Ended December 31, 2012
(with summarized totals for the year ended December 31, 2011)

	2012			2011 Total
	Unrestricted	Temporarily Restricted	Total	
REVENUE AND SUPPORT				
Investment Income				
Interest and dividends	\$ 3,639,165	\$ -	\$ 3,639,165	\$ 4,238,476
Net realized gain from sale of investments	3,642,958	-	3,642,958	10,641,484
Less:				
Investment expense	<u>978,692</u>	<u>-</u>	<u>978,692</u>	<u>997,414</u>
Net Investment Income	6,303,431	-	6,303,431	13,882,546
Contributions	-	-	-	10,000
Rental Income	105,744	-	105,744	144,129
Net assets released from restrictions	<u>34,305</u>	<u>(34,305)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>6,443,480</u>	<u>(34,305)</u>	<u>6,409,175</u>	<u>14,036,675</u>
EXPENSES				
Grants authorized, net of rescinded/refunded amounts of \$111,348 and \$679,020	10,061,869	-	10,061,869	10,144,064
Program support, planning and development	<u>3,954,875</u>	<u>-</u>	<u>3,954,875</u>	<u>4,154,471</u>
Total Program Services	14,016,744	-	14,016,744	14,298,535
Operations and governance	<u>717,358</u>	<u>-</u>	<u>717,358</u>	<u>701,510</u>
Total Expenses	<u>14,734,102</u>	<u>-</u>	<u>14,734,102</u>	<u>15,000,045</u>
Change in Net Assets Before Unrealized Gain (Loss)				
on Investments and Federal Excise Taxes	(8,290,622)	(34,305)	(8,324,927)	(963,370)
Unrealized gain (loss) on investments	17,221,697	-	17,221,697	(10,630,577)
Provision for Federal excise tax	<u>(485,846)</u>	<u>-</u>	<u>(485,846)</u>	<u>(252,488)</u>
Change in Net Assets	8,445,229	(34,305)	8,410,924	(11,846,435)
NET ASSETS				
Beginning of year	<u>262,621,614</u>	<u>34,305</u>	<u>262,655,919</u>	<u>274,502,354</u>
End of year	<u>\$ 271,066,843</u>	<u>\$ -</u>	<u>\$ 271,066,843</u>	<u>\$ 262,655,919</u>

New York State Health Foundation

Statement of Cash Flows
Year Ended December 31, 2012
(with comparative amounts for the year end December 31, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,410,924	\$ (11,846,435)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	110,471	135,214
Realized gain from sale of investments	(3,642,958)	(10,641,484)
Unrealized (gain) loss on investments	(17,221,697)	10,630,577
Deferred federal excise tax	341,000	65,488
Discount on grants payable	29,205	(55,466)
Changes in operating assets and liabilities		
Accrued investment income	82,516	2,581
Grants receivable	-	190,000
Prepaid expenses	41,252	22,253
Prepaid excise tax	(35,000)	27,000
Deposits and other assets	54,842	-
Accounts payable and accrued expenses	39,578	(85,266)
Grants payable	(1,606,739)	(1,885,053)
Federal excise tax payable	(30,000)	30,000
Deferred rent	22,365	146,617
Other liabilities	(82,820)	48,000
Net Cash From Operating Activities	(13,487,061)	(13,215,974)
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment of program related investments	162,451	59,002
Purchase of property and equipment	(7,099)	(4,403)
Proceeds from sale of investments	34,000,296	81,520,248
Purchase of investments	(21,698,960)	(68,319,470)
Net Cash From Investing Activities	12,456,688	13,255,377
Net Change in Cash and Cash Equivalents	(1,030,373)	39,403
CASH AND CASH EQUIVALENTS		
Beginning of year	2,700,427	2,661,024
End of year	\$ 1,670,054	\$ 2,700,427
SUPPLEMENTAL CASH FLOW INFORMATION		
Federal excise taxes paid	\$ 210,000	\$ 130,000

See notes to financial statements

New York State Health Foundation

Notes to Financial Statements
December 31, 2012

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.

New York State Health Foundation

Notes to Financial Statements
December 31, 2012

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

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 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. 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.

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 and project appropriations payable is recognized when specific grants are authorized by the Board of Directors and the recipients have been notified.

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.

New York State Health Foundation

Notes to Financial Statements
December 31, 2012

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 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 2009.

Prior Year Summarized Comparative Information

Information as of and for the year ended December 31, 2011 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, 2011, 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 30, 2013.

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 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
December 31, 2012

4. Property and Equipment

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

	2012	2011
Furniture and equipment	\$ 696,196	\$ 694,897
Leasehold Improvements	163,885	158,085
	860,081	852,982
Less: accumulated depreciation	551,871	441,400
	\$ 308,210	\$ 411,582

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:

	2012		
	Level 1	Level 2	Total
Exchange traded funds			
Equity funds	\$ 30,575,645	\$ -	\$ 30,575,645
Fixed income funds	37,124,501	-	37,124,501
Natural resources funds	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

	2011		
	Level 1	Level 2	Total
Exchange traded funds			
Equity funds	\$ 26,797,631	\$ -	\$ 26,797,631
Fixed income funds	39,490,938	-	39,490,938
Natural resources funds	18,725,285	-	18,725,285
Mutual fund, equity	15,648,201	-	15,648,201
Corporate bonds	-	21,764,776	21,764,776
Taxable municipal bonds	2,245,730	-	2,245,730
Alternative investments			
Equity funds	-	76,465,159	76,465,159
Fixed income funds	-	66,826,514	66,826,514
	\$ 102,907,785	\$ 165,056,449	\$ 267,964,234

New York State Health Foundation

Notes to Financial Statements
December 31, 2012

5. Investments (*continued*)

Information regarding Level 2 investments valued using NAV as practical expedient at December 31, 2012 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity funds (see "a" below)	\$ 97,617,232	\$ -	Daily	1 Day, 3 Days
Fixed income funds (see "b" below)	<u>51,798,707</u>	<u>-</u>	Daily, Monthly	2 Days, 10 Days
	<u>\$ 149,415,939</u>	<u>\$ -</u>		

- 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, the Barclays Government/Credit 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, 2012, three individual investments represented approximately 17%, 11% and 10% 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 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 2012, \$162,451 was repaid on the loans.

New York State Health Foundation

Notes to Financial Statements
December 31, 2012

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>2012</u>	<u>2011</u>
Current	\$ 145,000	\$ 187,000
Deferred	<u>340,846</u>	<u>65,488</u>
	<u>\$ 485,846</u>	<u>\$ 252,488</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>2012</u>	<u>2011</u>
Less than one year	\$ 5,705,446	\$ 6,817,029
One to three years	<u>1,917,077</u>	<u>2,412,233</u>
	7,622,523	9,229,262
Less: present value discount	<u>86,331</u>	<u>115,536</u>
Grants payable, net	<u>\$ 7,536,192</u>	<u>\$ 9,113,726</u>

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

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2011 were restricted for the Community Health Worker Project. Net assets released from restrictions in 2012 were for the Community Health Worker Project.

New York State Health Foundation

Notes to Financial Statements
December 31, 2012

10. Retirement Plan

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 2012 and 2011. In 2012, the Foundation implemented an additional 5% discretionary employer contribution to the 403(b) plan. The Foundation made contributions totaling \$305,195 and \$155,441 to the plan for 2012 and 2011, 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 had a lease agreement for its former New York City office space that expired in March, 2012. In connection with the lease, the Foundation gave the landlord a deposit of \$54,842 which was returned in full to the Foundation in 2012. In 2010, the Foundation entered into an agreement to sublease this space to a third party expiring in 2012. This agreement required monthly payments to the Foundation of approximately \$10,000. This sublease agreement expired in March, 2012.

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. In 2011, the Foundation entered into an agreement to license part of this space to a third party. This agreement was renewed in 2012. This agreement required monthly payments to the Foundation of approximately \$6,000.

Rental income in 2012 from both the sublease and license was \$105,744.

The future minimum rental payments under the new lease agreement are:

2013	\$ 544,000
2014	544,000
2015	544,000
2016	600,667
2017	612,000
Thereafter	<u>5,253,000</u>
	<u>\$ 8,097,667</u>

Rent expense totaled \$627,427 and \$794,214 for 2012 and 2011, respectively.

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New York State Health Foundation

Supplemental Information

December 31, 2012
(With summarized totals for the year
ended December 31, 2011)

New York State Health Foundation

Functional Allocation Of Expenses
Year Ended December 31, 2012
(with summarized totals for the year ended December 31, 2011)

	<u>Program Services</u>	<u>Operations and Governance</u>	<u>Investment</u>	<u>2012 Total</u>	<u>2011 Total</u>
Grants Authorized, net	\$ 10,061,869	\$ -	\$ -	\$ 10,061,869	\$ 10,144,064
Allocated expenses					
Salaries and wages	2,203,680	339,201	319,479	2,862,360	2,550,579
Payroll taxes and employee benefits	551,151	84,836	79,903	715,890	541,053
Legal fees	-	26,355	-	26,355	20,483
Accounting fees	-	32,000	-	32,000	44,329
Other professional fees	124,815	15,146	46,000	185,961	599,323
Depreciation	96,110	14,361	-	110,471	135,214
Occupancy	568,622	88,616	81,232	738,470	888,923
Travel and meetings	91,936	30,157	3,366	125,459	121,984
Printing and binding	24,324	6,574	-	30,898	9,197
Office expenses and IT	185,545	46,247	19,395	251,187	221,506
Insurance	43,014	6,427	-	49,441	47,289
Outreach and public events	64,968	19,030	790	84,788	216,743
Miscellaneous	710	8,408	-	9,118	9,474
Total Allocated Expenses	<u>3,954,875</u>	<u>717,358</u>	<u>550,165</u>	<u>5,222,398</u>	<u>5,406,097</u>
Direct investment expenses					
Manager fees	-	-	428,527	428,527	447,298
Total	<u>\$ 14,016,744</u>	<u>\$ 717,358</u>	<u>\$ 978,692</u>	<u>\$ 15,712,794</u>	<u>\$ 15,997,459</u>

See independent auditors' report