

New York State Health Foundation

Financial Statements

December 31, 2017 and 2016

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, 2017 and 2016, 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.

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, 2017 and 2016, 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 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.

PKF O'Connor Davies, LLP

May 24, 2018

New York State Health Foundation

Statements of Financial Position

	December 31	
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 1,316,608	\$ 1,017,059
Prepaid federal excise tax	284,000	164,000
Investments	302,198,540	275,309,068
Deposits and other assets	134,979	8,391
Property and equipment, net	<u>121,285</u>	<u>108,364</u>
	<u>\$ 304,055,412</u>	<u>\$ 276,606,882</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 285,631	\$ 323,007
Grants payable, net	5,730,493	5,175,574
Deferred rent	586,456	627,042
Deferred federal excise tax	<u>1,628,939</u>	<u>1,145,505</u>
Total Liabilities	8,231,519	7,271,128
Net Assets	<u>295,823,893</u>	<u>269,335,754</u>
	<u>\$ 304,055,412</u>	<u>\$ 276,606,882</u>

See notes to financial statements

New York State Health Foundation

Statements of Activities

	Year Ended December 31	
	2017	2016
REVENUE AND SUPPORT		
Investment Income		
Interest and dividends	\$ 2,736,638	\$ 2,734,453
Net realized gain from sale of investments	17,566,371	5,495,377
Less investment expense	641,270	815,700
Net Investment Income	19,661,739	7,414,130
Rental income	187,092	174,372
Total Revenue and Support	19,848,831	7,588,502
EXPENSES		
Program Services		
Grants authorized, net of rescinded/refunded amounts of \$237,290 and \$54,640, and present value discount of \$16,728 and \$5,623	11,994,741	9,253,005
Program support, planning and development	4,072,331	3,519,376
Total Program Services	16,067,072	12,772,381
Operations and governance	723,008	757,907
Total Expenses	16,790,080	13,530,288
Change in Net Assets Before Unrealized Gain on Investments and Provision for Federal Excise Taxes		
Excise Taxes	3,058,751	(5,941,786)
Unrealized gain on investments	24,192,822	12,096,084
Provision for federal excise taxes	(763,434)	(347,505)
Change in Net Assets	26,488,139	5,806,793
NET ASSETS		
Beginning of year	269,335,754	263,528,961
End of year	\$ 295,823,893	\$ 269,335,754

See notes to financial statements

New York State Health Foundation

Statements of Cash Flows

	Year Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 26,488,139	\$ 5,806,793
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	24,869	28,506
Realized gain from sale of investments	(17,566,371)	(5,495,377)
Unrealized gain on investments	(24,192,822)	(12,096,084)
Deferred federal excise tax	483,434	241,505
Discount on grants payable	(16,728)	5,623
Deferred rent	(40,586)	(29,254)
Contributions of stock to grantee	1,020,107	-
Changes in operating assets and liabilities		
Prepaid federal excise tax	(120,000)	(44,000)
Deposits and other assets	(126,588)	453,825
Accounts payable and accrued expenses	(37,376)	57,711
Grants payable	571,647	(2,218,969)
Net Cash From Operating Activities	(13,512,275)	(13,289,721)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(37,790)	(9,452)
Proceeds from sale of investments	33,427,498	13,396,244
Purchase of investments	(19,577,884)	-
Net Cash From Investing Activities	13,811,824	13,386,792
Net Change in Cash and Cash Equivalents	299,549	97,071
CASH AND CASH EQUIVALENTS		
Beginning of year	1,017,059	919,988
End of year	\$ 1,316,608	\$ 1,017,059
SUPPLEMENTAL CASH FLOW INFORMATION		
Federal excise taxes paid	\$ 400,000	\$ 150,000

See notes to financial statements

New York State Health Foundation

Notes to Financial Statements
December 31, 2017

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) ("Empire") 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, 2017

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.

The Foundation follows 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.

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.

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.

New York State Health Foundation

Notes to Financial Statements
December 31, 2017

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 statements of activities as net assets released from restrictions.

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 2014.

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, 2018.

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 exchange traded funds and collective trust 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, 2017

4. Property and Equipment

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

	2017	2016
Furniture and equipment	\$ 531,776	\$ 500,494
Leasehold improvements	<u>146,622</u>	<u>141,602</u>
	678,398	642,096
Less: accumulated depreciation	<u>557,113</u>	<u>533,732</u>
	<u>\$ 121,285</u>	<u>\$ 108,364</u>

The Foundation disposed of \$1,488 and \$5,948 in fully depreciated property and equipment during the years ended December 31, 2017 and 2016.

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:

	2017		
		Investments Measured at Net Asset Value (*)	Total
	Level 1		
Exchange Traded Funds			
Equity fund	\$ 38,873,718	\$ -	\$ 38,873,718
Fixed income fund	86,075,509	-	86,075,509
Natural resources fund	14,042,475	-	14,042,475
Alternative Investments			
Collective trust funds	-	163,206,838	163,206,838
	<u>\$ 138,991,702</u>	<u>\$ 163,206,838</u>	<u>\$ 302,198,540</u>
	2016		
		Investments Measured at Net Asset Value (*)	Total
	Level 1		
Exchange Traded Funds			
Equity fund	\$ 43,112,944	\$ -	\$ 43,112,944
Fixed income fund	79,132,338	-	79,132,338
Natural resources fund	12,437,300	-	12,437,300
Alternative Investments			
Collective trust funds	-	140,626,486	140,626,486
	<u>\$ 134,682,582</u>	<u>\$ 140,626,486</u>	<u>\$ 275,309,068</u>

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

New York State Health Foundation

Notes to Financial Statements
December 31, 2017

5. Investments *(continued)*

Information regarding investments valued using NAV as practical expedient at December 31, 2017 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Collective trust funds (see "a" below)	<u>\$ 163,206,838</u>	<u>\$ -</u>	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, 2017, three individual investments represented approximately 36%, 28% and 18% of total investments. As of December 31, 2016, four individual investments represented approximately 34%, 29%, 17% and 16% of total investments. All of these investments were in broadly diversified index funds.

6. 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:

	2017	2016
Current	\$ 280,000	\$ 106,000
Deferred	<u>483,434</u>	<u>241,505</u>
	<u>\$ 763,434</u>	<u>\$ 347,505</u>

New York State Health Foundation

Notes to Financial Statements
December 31, 2017

7. 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>2017</u>	<u>2016</u>
Less than one year	\$ 3,929,883	\$ 3,258,066
One to three years	<u>1,891,289</u>	<u>1,991,459</u>
	5,821,172	5,249,525
Less: present value discount	<u>90,679</u>	<u>73,951</u>
Grants payable, net	<u>\$ 5,730,493</u>	<u>\$ 5,175,574</u>

To reflect the time value of money, grants payable as of December 31, 2017 and 2016 were discounted to the present value using the Federal Reserve business lending rate of 3.75% and 3.50%.

8. 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 2017 and 2016. The Foundation made an additional 5% discretionary employer contribution to the 403(b) plan in 2017 and 2016. The Foundation made contributions totaling \$316,085 and \$285,877 to the plan for 2017 and 2016. 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.

9. Commitments

Lease Commitments

The Foundation has a lease for its office space in New York City expiring in 2026. 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:

2018	\$ 612,000
2019	612,000
2020	612,000
2021	654,500
2022	663,000
Thereafter	<u>2,099,500</u>
	<u>\$ 5,253,000</u>

New York State Health Foundation

Notes to Financial Statements
December 31, 2017

9. Commitments (continued)

Lease Commitments (continued)

Rent expense totaled \$571,414 annually for both 2017 and 2016.

Rental Income

The Foundation leases part of this space to third parties. One lease agreement is renewable on a quarterly basis. The other lease was renewed on February 1, 2018 expiring on January 31, 2019. The future minimum rental payments to be received under these lease agreements are:

2018	\$ 120,011
2019	<u>8,063</u>
	<u>\$ 128,074</u>

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New York State Health Foundation

Supplementary Information

For the Year Ended December 31, 2017
(With Summarized Totals for the Year
Ended December 31, 2016)

New York State Health Foundation

Functional Allocation of Expenses

Year Ended December 31, 2017

(with summarized totals for the year ended December 31, 2016)

	Program Services	Operations and Governance	Investment	2017 Total	2016 Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Grants authorized, net	\$ 11,994,741	\$ -	\$ -	\$ 11,994,741	\$ 9,253,005
Allocated Expenses					
Salaries and wages	2,159,896	387,595	260,591	2,808,082	2,628,269
Payroll taxes and employee benefits	627,720	110,773	48,373	786,866	724,324
Legal fees	-	7,944	-	7,944	51,773
Accounting fees	-	34,961	-	34,961	33,973
Other professional fees	80,806	-	50,000	130,806	93,234
Depreciation	19,177	3,384	2,308	24,869	28,506
Occupancy	566,047	99,887	68,121	734,055	725,482
Travel and meetings	119,260	40,213	1,102	160,575	123,429
Printing and design	22,804	6,335	-	29,139	22,262
Office expenses and IT	257,456	15,353	26,814	299,623	132,331
Insurance	44,101	7,783	-	51,884	50,589
Outreach and public events	175,064	-	2,744	177,808	252,804
Miscellaneous	-	8,780	-	8,780	6,666
Total Allocated Expenses	<u>4,072,331</u>	<u>723,008</u>	<u>460,053</u>	<u>5,255,392</u>	<u>4,873,642</u>
Direct Investment Expenses					
Manager fees	-	-	181,217	181,217	219,341
Total	<u>\$ 16,067,072</u>	<u>\$ 723,008</u>	<u>\$ 641,270</u>	<u>\$ 17,431,350</u>	<u>\$ 14,345,988</u>

See independent auditors' report