

New York State Health Foundation

Financial Statements

December 31, 2006



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 statement of financial position of New York State Health Foundation formerly The New York Charitable Asset Foundation (the "Foundation") as of December 31, 2006, and the related statements of activities and cash flows for the year 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 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 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 audit provides a reasonable basis for our opinion.

We also audited the adjustment described in Note 3 that was applied to restate the 2005 net assets. In our opinion, such an adjustment is appropriate and has been properly applied.

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, 2006 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the 2006 basic financial statements taken as a whole. The supplementary information included on page 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2006 financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

O'Connor Davies Munns & Dobbins, LLP

New York, New York
May 4, 2007

New York State Health Foundation

Statement of Financial Position

December 31, 2006

ASSETS

Cash and cash equivalents	\$ 4,181,062
Accrued investment income	476,309
Prepaid expenses	72,615
Investments	282,916,563
Furniture and equipment, net of accumulated depreciation of \$1,442	182,019
Deposits	<u>90,592</u>
	<u>\$ 287,919,160</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 166,070
Grants payable, net	2,898,612
Federal excise tax payable	1,708,000
Deferred federal excise tax	<u>166,000</u>
Total Liabilities	<u>4,938,682</u>
Net assets	<u>282,980,478</u>
	<u>\$ 287,919,160</u>

See notes to financial statements.

New York State Health Foundation

Statement of Activities

Year Ended December 31, 2006

INVESTMENT INCOME

Interest and dividends	\$ 8,341,713
Net realized gain from sale of investments	<u>165,203,663</u>
	173,545,376
Less: Investment expenses	<u>173,805</u>
Net Investment Income	<u>173,371,571</u>

EXPENSES

Grants authorized	5,957,433
Program support, planning and development	<u>812,977</u>
Total Program Services	6,770,410
Supporting services - operations and governance	<u>385,283</u>
Total Expenses	<u>7,155,693</u>
Change in net assets before federal excise tax and unrealized loss on investments	166,215,878
Federal excise tax	(1,759,614)
Benefit for deferred federal excise tax	3,356,530
Unrealized loss on investments	<u>(159,559,078)</u>
Change in Net Assets	8,253,716

NET ASSETS

Beginning of year, restated	<u>274,726,762</u>
End of year	<u>\$ 282,980,478</u>

See notes to financial statements.

New York State Health Foundation

Statement of Cash Flows

Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 8,253,716
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	1,442
Realized gains from sale of investments	(165,203,663)
Unrealized loss on investments	159,559,078
Deferred federal excise tax benefit on unrealized investment losses	(3,356,530)
Changes in operating assets and liabilities	
Accrued investment income	(407,278)
Prepaid expenses	(43,745)
Accounts payable and accrued expenses	88,627
Grants payable, net	2,898,612
Federal excise tax payable	<u>1,708,000</u>
Net Cash Provided by Operating Activities	<u>3,498,259</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(183,461)
Proceeds from sale of investments	379,889,402
Purchase of investments	(400,670,521)
Deposits made	<u>(90,592)</u>
Net Cash Used by Investing Activities	<u>(21,055,172)</u>
Net Change in Cash and Cash Equivalents	(17,556,913)

CASH AND CASH EQUIVALENTS

Beginning of year	<u>21,737,975</u>
End of year	<u>\$ 4,181,062</u>

SUPPLEMENTAL CASH FLOW INFORMATION

Federal excise taxes paid	<u>\$ 54,313</u>
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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. WellChoice, the holding company for Empire, raised \$415.5 million in the stock market on the first day of the Initial Public Offering (“IPO”). Approximately 16.7 million shares or 20.3% of WellChoice’s stock was sold at an initial price of \$25 on November 8, 2002. Five percent of this was sold by the Foundation and such amounts were held in escrow by the NYS controller until 2005. The Foundation provides funding and grants for the health care-related needs of residents of the State of New York (“NYS”), including without limitation, (i) expansion of access to health care by extending health insurance coverage to NYS residents who cannot afford to purchase their own coverage or who have coverage that is inadequate to meet their needs, (ii) expansion and enhancement of access to health care by augmenting and creating health care programs that deliver services to populations that are unable to access health care or that improve public health, (iii) augmentation of its other program priorities by supporting programs that inform and educate New York State residents about public health issues and empower communities to address the issues by becoming more effective at identifying and articulating health care needs and implementing solutions, and (iv) conducting any and all lawful activities which may be useful in accomplishing the foregoing purposes.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State 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.

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.

Investments

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

Furniture and Equipment Improvements

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

Grants

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

3. Prior Period Adjustment

The 2005 Net Assets have been restated to properly account for the deferred tax related to the difference between tax cost and the fair value of investments at December 31, 2005. Accordingly, Net Assets beginning of year have been restated as follows:

Net Assets as originally reported	
at December 31, 2005	\$278,249,292
Adjustment for Deferred Tax Liability	<u>(3,522,530)</u>
Net Assets, as restated	<u>\$274,726,762</u>

4. Concentrations of Credit Risk

The Foundation's financial instruments that are potentially exposed to concentration of credit risk consist of cash, cash equivalents and investments. The Foundation places its cash and cash equivalents with quality financial institutions. The Foundation invests in corporate stocks and bonds of financially strong companies. At times, cash balances may be in excess of FDIC insurance limit. The Foundation routinely assesses the financial strength of its cash, cash equivalent and investment portfolio. As a consequence, concentrations of credit risk are limited.

New York State Health Foundation

Notes to Financial Statements

5. Investments

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

Marketable Equities	\$ 91,489,072
Corporate Bonds	<u>191,427,491</u>
	<u>\$282,916,563</u>

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 market value.

7. Grants Payable

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

Less than one year	\$ 2,217,020
One to three years	<u>742,880</u>
	2,959,900
Less: present value discount	<u>61,288</u>
Grants payable, net	<u>\$ 2,898,612</u>

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

8. Retirement Plan

The Foundation maintains a 403(b) defined contribution plan, which covers all employees. Employees may contribute a pre-taxed portion of their compensation, not to exceed the annual limit set by the Internal Revenue Code. The Foundation matches an employee contribution up to 5% of their annual salary. The Foundation made contributions totaling \$22,433 to the plan for 2006.

New York State Health Foundation

Notes to Financial Statements

9. Commitments

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

2007	\$ 219,366
2008	224,458
2009	229,678
2010	235,028
2011	240,512
Thereafter	<u>41,022</u>
	<u>\$1,190,064</u>

Rent expense totaled \$37,938 for 2006

New York State Health Foundation

Supplemental Information

December 31, 2006

New York State Health Foundation

Functional Allocation Of Expenses

Year Ended December 31, 2006

	<u>Program Services</u>	<u>Operations and Governance</u>	<u>Investment</u>	<u>Total</u>
Grants Authorized, net	\$ 5,957,433	\$ -	\$ -	\$ 5,957,433
Allocated expenses				
Salaries and wages	260,395	65,277	19,931	345,603
Payroll taxes and employee benefits	45,060	10,131	3,329	58,520
Legal fees	29,962	89,046	11,260	130,268
Accounting fees	-	49,807	10,000	59,807
Other professional fees	341,543	121,080	-	462,623
Depreciation	1,442	-	-	1,442
Occupancy	29,212	8,726	-	37,938
Travel and meetings	42,488	12,280	-	54,768
Printing and binding	11,045	-	-	11,045
Office expense	8,746	2,612	-	11,358
Telecommunications	12,218	2,857	793	15,868
Insurance	20,398	20,399	-	40,797
Postage and delivery	2,857	794	-	3,651
Miscellaneous	<u>7,611</u>	<u>2,274</u>	<u>-</u>	<u>9,885</u>
Total Allocated Expenses	<u>812,977</u>	<u>385,283</u>	<u>45,313</u>	<u>1,243,573</u>
Direct investment expenses				
Manager fees	<u>-</u>	<u>-</u>	<u>128,492</u>	<u>128,492</u>
Total Direct Investment Expense	<u>-</u>	<u>-</u>	<u>128,492</u>	<u>128,492</u>
Total	<u>\$ 6,770,410</u>	<u>\$ 385,283</u>	<u>\$ 173,805</u>	<u>\$ 7,329,498</u>