

New York State Health Foundation

Financial Statements

December 31, 2008



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"), formerly The New York Charitable Asset Foundation, as of December 31, 2008 and 2007, 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, 2008 and 2007, and the changes in its nets 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 10 is presented for the purpose of additional analysis and is not a required part of these basic financial statements. Such information for 2008 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. The supplemental information for 2007 was derived from the Foundation's 2007 financial statements on which we issued our report dated April 21, 2008.

O'Connor Davies Munns & Dobbins, LLP

New York, New York
April 29, 2009

New York State Health Foundation

Statements of Financial Position

December 31,

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 8,981,563	\$ 4,751,644
Accrued investment income	1,064,076	1,885,425
Program related investments	1,188,592	-
Prepaid expenses	38,913	94,972
Prepaid federal excise tax	25,000	105,000
Investments	292,939,456	294,841,932
Deposits	54,842	54,842
Property and equipment, net	<u>174,031</u>	<u>210,254</u>
	<u>\$ 304,466,473</u>	<u>\$ 301,944,069</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 206,208	\$ 203,444
Grants payable, net	13,429,976	6,595,637
Deferred rent	39,153	39,928
Deferred federal excise tax	<u>352,050</u>	<u>310,000</u>
Total Liabilities	<u>\$ 14,027,387</u>	<u>7,149,009</u>
Net Assets	<u>290,439,086</u>	<u>294,795,060</u>
	<u>\$ 304,466,473</u>	<u>\$ 301,944,069</u>

See notes to financial statements

New York State Health Foundation

Statements of Activities

Years Ended December 31,

	2008	2007
INVESTMENT INCOME		
Interest and dividends	\$ 11,721,806	\$ 11,286,540
Net realized gain from sale of investments	222,203	1,409,105
	11,944,009	12,695,645
Less: Investment expense	414,154	293,914
Net Investment Income	11,529,855	12,401,731
EXPENSES		
Grants authorized	16,680,114	12,180,265
Program support, planning and development	2,665,512	2,025,573
Total Program Services	19,345,626	14,205,838
Operations and governance	503,177	545,643
Total Expenses	19,848,803	14,751,481
Change in Net Assets before Federal Excise Taxes and Unrealized Gain on Investments	(8,318,948)	(2,349,750)
Provision for federal excise tax	(242,050)	(189,232)
Unrealized gain on investments	4,205,024	14,353,564
Change in Net Assets	(4,355,974)	11,814,582
NET ASSETS		
Beginning of year	294,795,060	282,980,478
End of year	\$ 290,439,086	\$ 294,795,060

See notes to financial statements

New York State Health Foundation

Statements of Cash Flows

Years Ended December 31,

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,355,974)	\$ 11,814,582
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	55,901	47,590
Realized gains from sale of investments	(222,203)	(1,409,105)
Unrealized gain on investments	(4,205,024)	(14,353,564)
Federal excise tax provision on unrealized investment gains	42,050	144,000
Changes in operating assets and liabilities		
Accrued investment income	821,349	(1,409,116)
Program related investment	(1,188,592)	-
Prepaid expenses	56,059	2,643
Prepaid excise tax	80,000	(105,000)
Accounts payable and accrued expenses	2,764	37,374
Grants payable, net	6,834,339	3,697,025
Deferred rent	(775)	39,928
Federal excise tax payable	-	(1,708,000)
	(2,080,106)	(3,201,643)
Net Cash From Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(19,678)	(75,825)
Proceeds from sale of investments	6,329,703	13,978,283
Purchase of investments	-	(10,140,983)
Deposits	-	10,750
	6,310,025	3,772,225
Net Cash From Investing Activities		
Net Change in Cash and Cash Equivalents	4,229,919	570,582
CASH AND CASH EQUIVALENTS		
Beginning of year	4,751,644	4,181,062
End of year	\$ 8,981,563	\$ 4,751,644
SUPPLEMENTAL CASH FLOW INFORMATION		
Federal excise taxes paid	\$ 120,000	\$ 1,960,000

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.

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, 2008 and 2007, 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 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.

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

New York State Health Foundation

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

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

For the year ended December 31, 2008, the Foundation adopted FASB Statement of Financial Accounting Standards No. 157 Fair Value Measurements (“SFAS 157”). SFAS 157 establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FAS 157 are described below:

Level 1 Inputs

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted instruments;

Level 2 Inputs

Quoted prices for similar instruments in active markets or quoted prices for similar instruments in markets that are not active whose inputs are observable, either directly or indirectly;

Level 3 Inputs

Prices or valuations that require inputs that are both significant to the fair value and unobservable.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

As of and for the years ended December 31, 2008 and 2007 all of the Foundation's investments, bought, sold and held were Level 1 investments.

New York State Health Foundation

Notes to Financial Statements

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

Accounting for Uncertainty in Income Taxes

The Foundation's current accounting policy is to provide liabilities for uncertain tax positions when a liability is probable and estimable. Management is not aware of any violation of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income.

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 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 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, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Furniture and equipment	\$ 239,074	\$ 221,786
Leasehold Improvements	<u>39,890</u>	<u>37,500</u>
	278,964	259,286
Less: accumulated depreciation	<u>104,933</u>	<u>49,032</u>
	<u>\$ 174,031</u>	<u>\$ 210,254</u>

5. Investments

Investments at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Index Funds	\$ 52,756,836	\$ 87,987,300
Bond Funds -ETF	<u>240,182,620</u>	<u>206,854,632</u>
	<u>\$292,939,456</u>	<u>\$294,841,932</u>

New York State Health Foundation

Notes to Financial Statements

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.

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 market value. For the year ended December 31 Federal excise tax expense consisted of the following:

	<u>2008</u>	<u>2007</u>
Current	\$ 200,000	\$ 45,232
Deferred	<u>42,050</u>	<u>144,000</u>
	<u>\$ 242,050</u>	<u>\$ 189,232</u>

8. Grants Payable

The Foundation has entered into grant commitments with certain organizations. Payments to these organizations at December 31, 2008 and 2007 are to be made as follows:

	<u>2008</u>	<u>2007</u>
Less than one year	\$ 8,177,881	\$ 5,297,821
One to three years	<u>5,428,522</u>	<u>1,399,262</u>
	13,606,403	6,697,083
Less: present value discount	<u>176,427</u>	<u>101,446</u>
Grants payable, net	<u>\$ 13,429,976</u>	<u>\$ 6,595,637</u>

To reflect the time value of money, grants payable as of December 31, 2008 and 2007 were discounted to their present value using the prime rate of 3.25% and 7.25%, respectively.

New York State Health Foundation

Notes to Financial Statements

9. Retirement Plan

The Foundation maintains a 403(b) defined contribution plan, which covers all employees. The Foundation matched employee contributions up to 6% of their annual salary in 2008 and 5% in 2007. The Foundation made contributions totaling \$65,170 and \$28,677 to the plan for 2008 and 2007, respectively.

10. 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:

2009	229,678
2010	235,028
2011	240,512
2012	<u>41,022</u>
	<u>\$ 746,240</u>

Rent expense totaled \$229,229 and \$216,556 for 2008 and 2007, respectively.

11. Risks and Uncertainties

The credit and liquidity crisis in the United States continues to have substantial volatility in the global financial markets. Consequently, the value of the Foundation's individual investments have and will fluctuate in response to changing market conditions. The amount of losses, if any, that will be recognized in subsequent periods, cannot be determined.

12. Subsequent Event

Subsequent to year end the Foundation suffered an estimated loss of approximately \$200,000 due to fire damage. While the exact amount of the loss is not currently determinable, the Foundation expects to recover most of the value through insurance proceeds. As of the date of this report the Foundation received \$75,000 of insurance proceeds.

New York State Health Foundation

Supplemental Information

December 31, 2008

New York State Health Foundation

Functional Allocation Of Expenses

Year Ended December 31, 2008

(With summarized totals for the year ended December 31, 2007)

	<u>Program Services</u>	<u>Operations and Governance</u>	<u>Investment</u>	<u>2008 Total</u>	<u>2007 Total</u>
Grants Authorized, net	\$ 16,680,114	\$ -	\$ -	\$ 16,680,114	\$ 12,180,265
Allocated expenses					
Salaries and wages	1,397,488	264,641	104,246	1,766,375	1,153,172
Payroll taxes and employee benefits	258,600	32,617	19,581	310,798	213,346
Legal fees	-	86,169	-	86,169	75,249
Accounting fees	-	38,010	-	38,010	65,953
Other professional fees	485,752	1,542	136,693	623,987	463,884
Depreciation	50,311	5,590	-	55,901	47,590
Occupancy	202,848	25,600	15,360	243,808	230,306
Travel and meetings	86,951	10,338	104	97,393	75,455
Printing and binding	23,205	1,525	-	24,730	37,572
Office expense	30,699	2,859	1,716	35,274	33,510
Telecommunications	37,895	2,820	1,427	42,142	25,654
Insurance	23,484	23,485	-	46,969	46,679
Postage and delivery	6,047	763	458	7,268	5,244
Outreach and public events	59,400	1,340	295	61,035	48,526
Interest and penalties	-	-	-	-	99,578
Miscellaneous	<u>2,832</u>	<u>5,878</u>	<u>-</u>	<u>8,710</u>	<u>7,764</u>
Total Allocated Expenses	<u>2,665,512</u>	<u>503,177</u>	<u>279,880</u>	<u>3,448,569</u>	<u>2,629,482</u>
Direct investment expenses					
Manager fees	<u>-</u>	<u>-</u>	<u>134,274</u>	<u>134,274</u>	<u>235,648</u>
Total Direct Investment Expense	<u>-</u>	<u>-</u>	<u>134,274</u>	<u>134,274</u>	<u>235,648</u>
Total	<u>\$ 19,345,626</u>	<u>\$ 503,177</u>	<u>\$ 414,154</u>	<u>\$ 20,262,957</u>	<u>\$ 15,045,395</u>

See independent auditors' report