

**GREATER ROCHESTER HEALTH
FOUNDATION, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2009

GREATER ROCHESTER HEALTH FOUNDATION, INC.

TABLE OF CONTENTS

<u>AUDITED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES	3
STATEMENTS OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5 - 10
<u>SUPPLEMENTARY INFORMATION</u>	
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES	11



INDEPENDENT AUDITORS' REPORT

Board of Directors
Greater Rochester Health Foundation, Inc.
Rochester, New York

We have audited the accompanying statements of financial position of the Greater Rochester Health Foundation, Inc. (a not-for-profit corporation) as of December 31, 2009 and 2008, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 the Greater Rochester Health Foundation, Inc. as of December 31, 2009 and 2008, and its activities and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule on page 11 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 audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
July 6, 2010

GREATER ROCHESTER HEALTH FOUNDATION, INC.
Statements of Financial Position
December 31, 2009 and 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and cash equivalents - operating	\$ 1,092,398	\$ 1,424,128
Cash and cash equivalents - investments	8,919,515	11,467,427
Investments	169,140,183	145,897,206
Other current assets	301,894	10,328
Total current assets	179,453,990	158,799,089
Capital Assets		
Leasehold improvements	190,889	190,889
Furniture and fixtures	211,544	210,629
Office equipment	129,405	104,941
Software	97,395	81,941
Sub-total	629,233	588,400
Less, accumulated depreciation	(400,305)	(269,225)
Capital assets - net	228,928	319,175
Total Assets	\$ 179,682,918	\$ 159,118,264

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 169,445	\$ 144,647
Grants payable	1,251,595	1,989,855
Other current liabilities	20,413	37,700
Total current liabilities	1,441,453	2,172,202
Unrestricted Net Assets	178,241,465	156,946,062
Total Liabilities and Net Assets	\$ 179,682,918	\$ 159,118,264

The accompanying notes are an integral part of these financial statements.

GREATER ROCHESTER HEALTH FOUNDATION, INC.
Statements of Activities
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenue		
Interest and dividends	\$ 4,519,448	\$ 7,030,595
Net realized and unrealized gains (losses) on investments	26,824,220	(53,260,908)
Sub-total	<u>31,343,668</u>	<u>(46,230,313)</u>
Less, investment fees	(821,098)	(932,058)
Total revenue - net	<u>30,522,570</u>	<u>(47,162,371)</u>
 Expenses		
Grant expenses	5,787,066	7,214,448
Program expenses	1,713,874	2,078,533
General and administrative expenses	1,685,681	1,793,736
Excise taxes	40,546	71,941
Total expenses	<u>9,227,167</u>	<u>11,158,658</u>
 Change in Net Assets	 21,295,403	 (58,321,029)
 Unrestricted Net Assets - Beginning	 <u>156,946,062</u>	 <u>215,267,091</u>
 Unrestricted Net Assets - Ending	 <u>\$ 178,241,465</u>	 <u>\$ 156,946,062</u>

The accompanying notes are an integral part of these financial statements.

GREATER ROCHESTER HEALTH FOUNDATION, INC.
Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 21,295,403	\$ (58,321,029)
Adjustments		
Net realized and unrealized (gains) losses on investments	(26,824,220)	53,260,908
Depreciation	131,080	132,477
Changes in assets and liabilities		
Other current assets	(291,566)	166,708
Accounts payable	24,798	(27,121)
Grants payable	(738,260)	(210,145)
Other current liabilities	(17,287)	1,892
Net cash flows from operating activities	<u>(6,420,052)</u>	<u>(4,996,310)</u>
 Cash Flows from Investing Activities		
Purchases of capital assets	(40,833)	(36,923)
Purchases of investments	(57,752,517)	(58,050,231)
Proceeds from sale of investments	61,333,760	45,055,541
Net cash flows from investing activities	<u>3,540,410</u>	<u>(13,031,613)</u>
 Change in Cash and Cash Equivalents	 (2,879,642)	 (18,027,923)
 Cash and Cash Equivalents - Beginning	 <u>12,891,555</u>	 <u>30,919,478</u>
 Cash and Cash Equivalents - Ending	 <u>\$ 10,011,913</u>	 <u>\$ 12,891,555</u>
 Reconciliation of Total Cash to the Statements of Financial Position		
Cash and cash equivalents - operating	\$ 1,092,398	\$ 1,424,128
Cash and cash equivalents - investments	8,919,515	11,467,427
Total cash and cash equivalents - ending	<u>\$ 10,011,913</u>	<u>\$ 12,891,555</u>

The accompanying notes are an integral part of these financial statements.

GREATER ROCHESTER HEALTH FOUNDATION, INC.
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies and Nature of the Foundation

Nature of the Foundation - In 2006, Preferred Care merged with another New York State not-for-profit plan, MVP Health Plan. In turn, MVP Health Plan contributed \$200 million toward the development of a private foundation, the Greater Rochester Health Foundation, Inc. (the Foundation). The Foundation is a not-for-profit private charitable foundation created under section 501(c)(3) of the Internal Revenue Code.

The mission of the Foundation is to improve the health status of all residents in the Greater Rochester community, including people whose unique healthcare needs have not been met because of race, ethnicity or income. The Foundation will be good stewards of this valued community asset and will engage diverse populations and organizations in the fulfillment of their mission.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

Method of Accounting - The Foundation's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 (Prior authoritative literature: FASB statement No. 117, Financial Statements for Not-for-Profit Organizations). Under ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2009 and 2008, all of the net assets of the Foundation were unrestricted.

Unrestricted Net Assets - Unrestricted net assets represent net assets that are not subject to donor-imposed stipulations and are generally available for support of the Foundation's activities.

Cash and Cash Equivalents - All highly liquid instruments purchased with an original maturity of three months or less are considered to be cash equivalents. The Foundation maintains cash and cash equivalents at financial institutions which periodically may exceed federally insured limits.

Investments - In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320-10-05 (Prior authoritative literature: FASB statement No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations), the Foundation is required to report investments in equity securities with readily determinable fair values and all debt securities at fair value, with gains and losses reflected in the statement of activities. Investment securities are exposed at various risks, such as interest rate risk, market and credit risk. In addition, estimated fair value of certain alternative investments, such as private equity partnerships, is based on valuations provided by the external investment managers. The Foundation believes the carrying amounts of these financial instruments are a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated fair value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Due to the risks associated with investment securities and the uncertainty related to changes in the fair market value of investment securities, it is at least reasonably possible that changes in fair market value could affect the net assets of the Foundation.

GREATER ROCHESTER HEALTH FOUNDATION, INC.
Notes to Financial Statements

In September 2006, the Financial Accounting Standards Board issued ASC 820 (Prior authoritative literature FASB statement No. 157, Fair Value Measurements). This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. The fair value of investments is disclosed in Note 2.

Capital Assets - Capital assets are stated at the lower of cost or fair market value at the date of purchase, less accumulated depreciation. Routine maintenance and repairs are charged to operations as they are incurred. Expenditures, which extend the useful life of an asset, in excess of \$500 are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss, if any, is included in operations. Depreciation is computed for book and tax purposes using the straight-line method over the following periods:

Leasehold improvements	5 - 6 Years
Furniture and fixtures	5 Years
Office equipment	3 - 5 Years
Software	3 Years

Grants Payable - A grant is recognized as an expense when it is either paid or when the grant qualifies as a "set-aside" project under Section 4942 of the Internal Revenue Code provided it is approved by the Board of Directors and the grant agreement is properly executed.

Income Taxes - The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. As a private foundation the Foundation is subject to excise tax of 1% or 2% on the net investment income of the Foundation. In addition, there is the potential for a 15% excise tax on amounts not distributed. Excise tax expense recorded in the statement of activities amounted to \$40,546 and \$71,941 for the years ended December 31, 2009 and 2008, respectively.

In June 2006, the Financial Accounting Standards Board issued ASC 740-10-50 (prior authoritative literature FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes), which prescribed a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that the organization has taken or expects to take on their tax return. ASC 740-10-50 is effective for nonpublic entities for years beginning after December 15, 2008. The Foundation adopted ASC 740-10-50 as of January 1, 2009 and, thereafter, recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. Management believes that the Foundation is currently operating in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no liability for unrecognized tax benefits has been included on the Foundation's financial statements. The Foundation's tax returns are subject to audit by various taxing authorities and its open audit periods are 2007 through 2009.

Subsequent Events - On May 28, 2009, the Financial Accounting Standards Board issued FASB ASC 855 (Prior authoritative literature: SFAS 165, Subsequent Events). FASB ASC 855 provides guidance on management's assessment of subsequent events and requires additional disclosure about the timing of management's assessment of subsequent events. FASB ASC 855 does not significantly change the accounting requirements for the reporting of subsequent events. FASB ASC 855 is effective for interim or annual financial periods ending after June 15, 2009. The Foundation adopted FASB ASC 855 as of December 31, 2009 and accordingly assessed subsequent events in these annual financial statements from December 31, 2009 through July 6, 2010, the date these financial statements were issued. The adoption of this standard did not materially impact the Foundation's financial position, results of operations, changes in net assets or disclosures in the financial statements.

GREATER ROCHESTER HEALTH FOUNDATION, INC.
Notes to Financial Statements

Note 2. Investments

The Foundation has determined the fair value of investments through the application of ASC 820, which places assets into one of three levels. Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets using level 3 inputs are primarily valued using management's analysis about the assumptions market participants would utilize in pricing the asset. Valuation techniques utilized to determine fair value are consistently applied.

Investments at December 31 are stated at fair market value and consisted of the following:

	Total 2009	Quoted Prices in Active Markets: Level 1	Significant Other Inputs: Level 2	Significant Unobservable Inputs: Level 3
Global Asset Allocation Funds	\$ 20,542,180	\$ 20,542,180	\$ -	-
International Equity Funds	33,817,399	33,817,399	-	-
Domestic Equity Funds	46,890,866	46,890,866	-	-
Fixed Income Funds	39,402,046	39,402,046	-	-
Private Equity Partnerships	6,617,741	-	-	6,617,741
Hedge Funds and Opportunistic	21,869,951	-	5,837,368	16,032,583
Total	<u>\$ 169,140,183</u>	<u>\$ 140,652,491</u>	<u>\$ 5,837,368</u>	<u>\$ 22,650,324</u>

	Total 2008	Quoted Prices in Active Markets: Level 1	Significant Other Inputs: Level 2	Significant Unobservable Inputs: Level 3
Global Asset Allocation Funds	\$ 17,399,628	\$ 17,399,628	\$ -	-
International Equity Funds	29,512,960	29,512,960	-	-
Domestic Equity Funds	50,631,167	50,631,167	-	-
Fixed Income Funds	44,659,393	44,659,393	-	-
Private Equity Partnerships	3,694,058	-	-	3,694,058
Total	<u>\$ 145,897,206</u>	<u>\$ 142,203,148</u>	<u>\$ -</u>	<u>\$ 3,694,058</u>

The following is a rollforward of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

Balance - December 31, 2007	\$ 617,151
Contributed capital	3,546,769
Distributions and withdrawals - net	18,662
Realized and unrealized losses - net	(389,617)
Expenses (includes management fees)	(98,907)
Balance - December 31, 2008	<u>\$ 3,694,058</u>

GREATER ROCHESTER HEALTH FOUNDATION, INC.
Notes to Financial Statements

Balance - December 31, 2008	\$ 3,694,058
Contributed capital	17,245,250
Distributions and withdrawals - net	(108,230)
Realized and unrealized gains - net	1,880,801
Expenses (includes management fees)	<u>(61,555)</u>
Balance - December 31, 2009	<u>\$ 22,650,324</u>

The fair market value of the level 3 investments is determined by the investment managers within each private equity partnership, hedge fund or opportunistic fund. The fair market value is then supported by the funds audited financial statements.

One of the private equity partnerships has communicated to management that final audited financial statements will not be available until the third quarter of 2010. As a result, we have based our audit procedures on the estimated fair market value at December 31, 2009 totaling \$798,371. Based on a review of materiality levels, this private equity investment has been deemed as immaterial to the overall financial statements. As such, any potential adjustments to the carrying value of this investment will also be immaterial. These financial statements do not include the impact of any potential adjustments to this particular investment for the year ended December 31, 2009.

Earnings on investments are as follows for the years ended December 31:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 4,519,448	\$ 7,030,595
Realized loss	\$ (5,399,785)	\$ (5,251,589)
Unrealized gain (loss)	\$ 32,224,005	\$ (48,009,319)

Note 3. Grants Payable

Outstanding grants payable of \$1,251,595 and \$1,989,855 at December 31, 2009 and 2008, respectively, represent a grant initiative that qualified for Internal Revenue Code Section 4942 set-aside treatment during 2007. As stated in Note 1, "set-aside" projects under Section 4942 of the Internal Revenue Code are expensed in the period in which they were initially "set-aside". These grants will be paid over an extended period of time.

Future cash payments are currently estimated as follows at December 31:

2010	\$ 1,113,885
2011	<u>137,710</u>
Total	<u>\$ 1,251,595</u>

Note 4. Commitments

Operating Leases - In September 2006, the Foundation began leasing office space under a noncancelable operating lease. Lease payments increase approximately 3% in September of each year through December 2011.

Future minimum lease payments are currently estimated as follows at December 31:

2010	\$ 87,179
2011	<u>89,795</u>
Total	<u>\$ 176,974</u>

GREATER ROCHESTER HEALTH FOUNDATION, INC.
Notes to Financial Statements

Potential Future Grant Commitments - The Foundation has authorized potential future grant payments totaling approximately \$6,000,000. These payments will be disbursed and expensed over the next three years on the condition that the grantees satisfy all requirements as detailed in the grant agreements.

Investments - During 2007 and 2008, the Foundation participated in four private equity investments. In 2009, the Foundation began participating in one additional private equity investment for a total of five private equity investments as of December 31, 2009. The investments require a total capital commitment from the Foundation of \$16.75 million. For the years ending December 31, 2009 and 2008, the Foundation funded capital contributions of \$2,245,250 and \$3,538,738, respectively. The cumulative capital contribution as of December 31, 2009 totals \$6,455,238 with the remaining total commitment of \$10.3 million to be funded periodically by the Foundation when capital calls are required through approximately 2016.

Note 5. Contingencies

In 2006, Preferred Care merged with another New York State not-for-profit plan, MVP Health Plan (MVP). In turn, MVP contributed \$200 million toward the development of the Foundation. As part of the Merger agreement, MVP further agreed to make additional capital payments to the Foundation of \$26.6 million and related interest income of \$5.4 million on January 6, 2012. These payments are subject to MVP's ability to fund the amounts on that date and are subordinated to the demands of other MVP creditors. These payments are also subject to approval of the New York State Department of Insurance. Due to the nature of these contingencies, the Foundation will recognize receipt of these funds in its financial statements on the day they may be received, January 6, 2012.

Note 6. Retirement Plan

The Foundation has a defined contribution retirement plan, with no eligibility restrictions. The plan provides an employer contribution of 3% of the participant's gross wages plus an additional matching contribution of up to another 3% of the participant's gross wages. Accrued pension costs are funded currently and are calculated as a percentage of each participant's payroll. Pension expense was \$56,565 and \$65,268 for the years ended December 31, 2009 and 2008, respectively.

Note 7. Deferred Compensation Plan

During 2009, the Foundation adopted a 457 Deferred Compensation Plan for the purpose of allowing eligible employees to defer a portion of their compensation until retirement, death, or financial hardship. As of December 31, 2009, the Foundation has elected to provide no contributions to this Plan.

Note 8. Supplemental Cash Flow Information

	<u>2009</u>	<u>2008</u>
Cash paid during the year for:		
Excise taxes	\$ <u>58,625</u>	\$ <u>87,572</u>

GREATER ROCHESTER HEALTH FOUNDATION, INC.
Notes to Financial Statements

Note 9. Reclassifications

Certain reclassifications have been made to the financial statements for the year ended December 31, 2008. These reclassifications are for comparative purposes only and have no effect on net assets as originally reported.

Note 10. Subsequent Events

Subsequent to year end, the Foundation has invested in new various alternative investments totaling \$13,750,000.

GREATER ROCHESTER HEALTH FOUNDATION, INC.
Schedules of General and Administrative Expenses
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
General and Administrative Expenses		
Wages	\$ 1,032,847	\$ 1,071,318
Want ads and placement fees	2,316	7,141
Temporary help	9,380	9,507
Payroll taxes and employee benefits	205,790	212,904
Professional services	103,940	98,080
Travel expenses	3,129	19,893
Meetings and seminars	12,385	19,092
Forms and supplies	23,432	44,912
Dues and subscriptions	12,253	28,192
Repairs and maintenance	10,685	10,583
Insurance	25,206	28,058
Telephone	21,848	20,821
Occupancy	84,639	82,174
Postage and delivery	6,751	8,584
Depreciation	131,080	132,477
Total general and administrative expenses	<u>\$ 1,685,681</u>	<u>\$ 1,793,736</u>