

**GREATER ROCHESTER HEALTH
FOUNDATION, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2010

GREATER ROCHESTER HEALTH FOUNDATION, INC.

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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, 2010 and 2009, 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, 2010 and 2009, 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 audit was conducted for the purpose of forming an opinion on the financial statements 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 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.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
July 25, 2011

GREATER ROCHESTER HEALTH FOUNDATION, INC.
Statements of Financial Position
December 31, 2010 and 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Current Assets		
Cash and cash equivalents - operating	\$ 257,066	\$ 1,092,398
Cash and cash equivalents - investments	1,059,123	8,919,515
Investments	190,175,110	169,140,183
Other current assets	16,000	301,894
Total current assets	191,507,299	179,453,990
Capital Assets		
Leasehold improvements	190,889	190,889
Furniture and fixtures	223,533	211,544
Office equipment	126,588	129,405
Software	99,283	97,395
Sub-total	640,293	629,233
Less, accumulated depreciation	(513,854)	(400,305)
Capital assets - net	126,439	228,928
Total Assets	\$ 191,633,738	\$ 179,682,918

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 154,576	\$ 169,445
Grants payable	652,545	1,251,595
Other current liabilities	49,225	20,413
Total current liabilities	856,346	1,441,453
Unrestricted Net Assets	190,777,392	178,241,465
Total Liabilities and Net Assets	\$ 191,633,738	\$ 179,682,918

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenue		
Interest and dividends	\$ 3,461,719	\$ 4,519,448
Net realized and unrealized gains on investments	18,373,409	26,824,220
Sub-total	<u>21,835,128</u>	<u>31,343,668</u>
Less, investment fees	(826,865)	(821,098)
Total revenue - net	<u>21,008,263</u>	<u>30,522,570</u>
 Expenses		
Grant expenses	4,330,637	5,787,066
Program expenses	2,326,112	1,713,874
General and administrative expenses	1,732,614	1,685,681
Excise taxes	82,973	40,546
Total expenses	<u>8,472,336</u>	<u>9,227,167</u>
 Change in Net Assets	 12,535,927	 21,295,403
 Unrestricted Net Assets - Beginning	 <u>178,241,465</u>	 <u>156,946,062</u>
 Unrestricted Net Assets - Ending	 <u>\$ 190,777,392</u>	 <u>\$ 178,241,465</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 12,535,927	\$ 21,295,403
Adjustments		
Net realized and unrealized gains on investments	(18,373,409)	(26,824,220)
Depreciation	126,148	131,080
Changes in assets and liabilities		
Other current assets	285,894	(291,566)
Accounts payable	(14,869)	24,798
Grants payable	(599,050)	(738,260)
Other current liabilities	28,812	(17,287)
Net cash flows from operating activities	<u>(6,010,547)</u>	<u>(6,420,052)</u>
Cash Flows from Investing Activities		
Purchases of capital assets	(11,060)	(40,833)
Purchases of investments	(63,898,800)	(57,752,517)
Proceeds from sale of investments	61,224,683	61,333,760
Net cash flows from investing activities	<u>(2,685,177)</u>	<u>3,540,410</u>
Net Change in Cash and Cash Equivalents	(8,695,724)	(2,879,642)
Cash and Cash Equivalents - Beginning	<u>10,011,913</u>	<u>12,891,555</u>
Cash and Cash Equivalents - Ending	<u>\$ 1,316,189</u>	<u>\$ 10,011,913</u>
Reconciliation of Total Cash to the Statements of Financial Position		
Cash and cash equivalents - operating	\$ 257,066	\$ 1,092,398
Cash and cash equivalents - investments	1,059,123	8,919,515
Total cash and cash equivalents - ending	<u>\$ 1,316,189</u>	<u>\$ 10,011,913</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.

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.

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.

Basis of Presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). 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, 2010 and 2009, 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 ASC 320, 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

ASC 820, *Fair Value Measurements and Disclosures*, 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 expense was \$126,148 and \$131,080 for the years ended December 31, 2010 and 2009, respectively. 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 an additional 15% excise tax on amounts not distributed. Excise tax expense recorded in the statement of activities amounted to \$82,973 and \$40,546 for the years ended December 31, 2010 and 2009, respectively.

In accordance with ASC 740-10-50, *Accounting for Uncertainty in Income Taxes*, the Foundation 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 2010.

Subsequent Events - In accordance with ASC 855-10 the Foundation evaluated subsequent events through July 25, 2011, the date these financial statements were available to be issued.

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:

	<u>Total 2010</u>	<u>Quoted Prices in Active Markets: Level 1</u>	<u>Significant Other Inputs: Level 2</u>	<u>Significant Unobservable Inputs: Level 3</u>
Global Asset Allocation Funds	\$ 28,223,550	\$ 28,223,550	\$ -	\$ -
International Equity Funds	34,460,649	32,663,378	1,797,271	-
Domestic Equity Funds	33,950,008	33,950,008	-	-
Fixed Income Funds	37,434,329	37,434,329	-	-
Real Assets	13,336,327	13,336,327	-	-
Private Equity Partnerships	9,837,580	19,322	410,018	9,408,240
Hedge Funds and Opportunistic	32,932,667	5,752,862	23,722,284	3,457,521
Total	<u>\$190,175,110</u>	<u>\$ 151,379,776</u>	<u>\$ 25,929,573</u>	<u>\$ 12,865,761</u>

	<u>Total 2009</u>	<u>Quoted Prices in Active Markets: Level 1</u>	<u>Significant Other Inputs: Level 2</u>	<u>Significant Unobservable Inputs: Level 3</u>
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>

GREATER ROCHESTER HEALTH FOUNDATION, INC.
Notes to Financial Statements

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

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)	(61,555)
Balance - December 31, 2009	\$ 22,650,324
Balance - December 31, 2009	\$ 22,650,324
Reallocation of level 3 inputs to levels 1 and 2	(14,301,894)
Contributed capital	4,474,700
Distributions and withdrawals - net	(1,036,067)
Realized and unrealized gains - net	1,142,225
Expenses (includes management fees)	(63,527)
Balance - December 31, 2010	\$ 12,865,761

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.

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

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 3,461,719	\$ 4,519,448
Realized gain (loss)	\$ 4,360,046	\$ (5,399,785)
Unrealized gain	\$ 14,013,363	\$ 32,224,005

Note 3. Note Receivable

During 2010, the Foundation agreed to provide a \$200,000 note receivable at 1% interest to a health services provider as bridge financing until the provider received funding from a grant expected to be received from the NYS Department of Health. In May, 2011, the provider agreed to liquidate and combine its operations with another local health care provider. As such, the note receivable was expensed to program costs. If the newly created combined entity should repay the note, program costs will be reduced in the period funds are received.

Note 4. Grants Payable

Outstanding grants payable of \$652,545 and \$1,251,595 at December 31, 2010 and 2009, 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". The grant payable balance at December 31, 2010 is expected to be paid off during 2011.

GREATER ROCHESTER HEALTH FOUNDATION, INC.
Notes to Financial Statements

Note 5. Commitments

Operating Leases - In June 2011, the Foundation extended the noncancelable operating lease it began in September, 2006. The new seven year term from September 2011 to August 2018 calls for 2% annual increases in September of each year.

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

2011	\$ 79,755
2012	82,482
2013	84,139
2014	85,818
2015	87,526
Cumulative Thereafter	241,851
Total	<u>\$ 661,571</u>

Potential Future Grant Commitments - The Foundation has authorized potential future grant payments totaling approximately \$9,000,000. 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 - The Foundation participates in several private equity investments requiring a total capital commitment from the Foundation of \$27.25 million. For the years ending December 31, 2010 and 2009, the Foundation funded capital contributions of \$3,880,964 and \$2,245,250, respectively. The cumulative capital contribution as of December 31, 2010 totals \$10,336,202 with the remaining total commitment of \$16.9 million to be funded periodically by the Foundation when capital calls are required through approximately 2016.

Note 6. 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 7. Retirement Plan

The Foundation has a defined contribution retirement plan, with no eligibility restrictions. For the years ended December 31, 2010 and 2009, the plan provides an employer contribution of 4% and 3%, respectively, 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 \$58,511 and \$56,565 for the years ended December 31, 2010 and 2009, respectively.

Note 8. 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. For the years ended December 31, 2010 and 2009, the Foundation made no contributions to this Plan.

GREATER ROCHESTER HEALTH FOUNDATION, INC.
Notes to Financial Statements

Note 9. Supplemental Cash Flow Information

	<u>2010</u>	<u>2009</u>
Cash paid during the year for:		
Excise taxes	<u>\$ 59,935</u>	<u>\$ 58,625</u>

Note 10. Subsequent Events

Subsequent to year end, the Foundation made two new alternative investment commitments totaling \$7.5 million. These commitments are to be funded over the next several years.

GREATER ROCHESTER HEALTH FOUNDATION, INC.
Schedules of General and Administrative Expenses
For the Years Ended December 31, 2010 and 2009

General and Administrative Expenses	<u>2010</u>	<u>2009</u>
Wages	\$ 1,043,403	\$ 1,032,847
Want ads and placement fees	-	2,316
Temporary help	1,400	9,380
Payroll taxes and employee benefits	202,516	205,790
Professional services	146,791	103,940
Travel expenses	10,206	3,129
Meetings and seminars	12,400	12,385
Forms and supplies	18,848	23,432
Dues and subscriptions	19,881	12,253
Repairs and maintenance	9,241	10,685
Insurance	28,940	25,206
Telephone	18,894	21,848
Occupancy	87,178	84,639
Postage and delivery	6,768	6,751
Depreciation	126,148	131,080
Total general and administrative expenses	<u>\$ 1,732,614</u>	<u>\$ 1,685,681</u>