

**REPORT OF THE AUDIT OF THE  
FOUNDATION FOR A HEALTHY KENTUCKY, INC.**

**For the Year Ended  
December 31, 2007**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

Board of Directors  
Foundation for a Healthy Kentucky, Inc.

Independent Auditor's Report

We have audited the accompanying statement of financial position of the Foundation for a Healthy Kentucky, Inc. (Foundation) as of December 31, 2007, 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 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 audit provides 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 Foundation for a Healthy Kentucky, Inc., as of December 31, 2007, 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.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

April 18, 2008





**FOUNDATION FOR A HEALTHY KENTUCKY, INC.**  
**STATEMENT OF FINANCIAL POSITION**

**December 31, 2007**

**Assets**

Current Assets:

Cash and Cash Equivalents	\$ 425,718
Accrued Dividend Receivable	4,316
Prepaid Expenses	6,384
Total Current Assets	<u>436,418</u>

Long-term Investments	15,556,214
Assets Limited as to Use by Board	45,000,000
Total Long-term Investments and Assets Limited as to Use by Board	<u>60,556,214</u>

Property and Equipment	53,389
Less: Accumulated Depreciation	(35,601)
	<u>17,788</u>

Deposits	2,111
Total Assets	<u>\$ 61,012,531</u>

**Liabilities and net assets**

Current Liabilities:

Accounts Payable	\$ 112,343
Grants Payable	642,403
Payroll Taxes Payable	6,302
TDA Payable	2,489
Simple SEP Payable	1,424
Total Current Liabilities	<u>764,961</u>

Unrestricted Net Assets	<u>60,247,570</u>
Total Liabilities and Net Assets	<u>\$ 61,012,531</u>

See accompanying notes to financial statements.

**FOUNDATION FOR A HEALTHY KENTUCKY, INC.**  
**STATEMENT OF ACTIVITIES**

**For The Year Ended December 31, 2007**

Changes in Unrestricted Net Assets From Operations:

Revenues and Gains:	
Investment Income	\$ 5,792,541
Other Income	655
Total Revenue and Gains:	5,793,196
Expenses and Losses:	
Program	587,551
Grants	1,629,980
General Administrative	98,209
Unrealized Loss on Investments	2,336,311
Investment Management Fees and Losses	224,991
Total Expenses and Losses	4,877,042
Increase in Unrestricted Net Assets	916,154
Net Assets at January 1, 2007	59,331,416
Net Assets at December 31, 2007	\$ 60,247,570

See accompanying notes to financial statements.

**FOUNDATION FOR A HEALTHY KENTUCKY, INC.**  
**STATEMENT OF CASH FLOWS**

**For The Year Ended December 31, 2007**

**Cash Flows from Operating Activities:**

Change in Net Assets	\$ 916,154
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	12,169
Unrealized Loss on Investments	2,336,311
Realized Gain on Sale of Investments	(4,553,726)
Other Changes in Operating Assets and Liabilities:	
Increase in Grants Payable	125,846
Increase in Prepaid Expenses	(102)
Increase in Accrued Dividend Receivable	(4,316)
Increase in Other Current Liabilities	62,651
Net Cash Used By Operating Activities	<u>(1,105,013)</u>

**Cash Flows from Investing Activities:**

Purchase of Property and Equipment	(1,183)
Purchase of Investments	(28,101,062)
Sale of Investments	29,602,887
Net Cash Provided by Investing Activities	<u>1,500,642</u>

Increase in Cash and Cash Equivalents	395,629
Cash and Cash Equivalents - January 1, 2007	30,089
Cash and Cash Equivalents - December 31, 2007	<u>\$ 425,718</u>

See accompanying notes to financial statements.

**FOUNDATION FOR A HEALTHY KENTUCKY, INC.  
NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2007**

## **1. Organization**

The Foundation for a Healthy Kentucky, Inc. (Foundation), a non-profit corporation, is organized for the charitable purpose of the promotion of health by seeking to address the unmet health care needs of Kentucky. The Foundation was created when the Attorney General of the Commonwealth of Kentucky reached a settlement with Anthem Blue Cross that it place \$45 million into a charitable trust to fulfill the charitable charter of Kentucky Blue Cross, which merged with Anthem and subsequently became a for-profit entity. In 2001, the Commonwealth of Kentucky transferred \$51.1 million (settlement amount plus accrued interest) to the Foundation, of which \$45 million has been internally designated by the Board of Directors to be set aside as an endowment to fund activities of the Foundation.

## **2. Basis of Presentation and Accounting Policies**

### **Basis of Presentation**

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

### **Use of Estimates**

The preparation of the 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 disclosures of contingent assets and liabilities at the date of its 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 cash and highly liquid investments having maturity at the date of acquisition of three months or less except those classified as investments.

### **Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the statement of activities. During FY 2004, the Finance and Investment Committee made changes to the investment policy to allow purchase of alternative investments. The Foundation's investment holding at

**FOUNDATION FOR A HEALTHY KENTUCKY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For The Year Ended December 31, 2007**  
**(Continued)**

**2. Basis of Presentation and Accounting Policies (Continued)**

**Investments (Continued)**

December 31, 2007, included approximately \$3.4 million (6% of total investments) in alternative investments. The sole source of this investment is a hedge fund with holdings in various securities, including derivatives. The uncertainty and higher risk generally associated with derivatives is largely offset by the managed nature of the hedge fund, as well as the funds holdings in other securities.

**Assets Limited as to Use**

Certain assets have limitations as to their use. The Board of Directors has designated \$45 million to be set aside as an endowment to fund activities of the Foundation. If the Foundation's investments fall below the \$45 million designation, the Foundation will cease to make grants and will only use the assets to fund operations. Grant-making activities may continue when the investment again reach \$45 million. There are internal designations and the underlying investments are commingled with the Foundation's cash and investments.

**Property and Equipment**

Property and equipment are stated at cost. The Foundation records depreciation on the straight-line method over the estimated useful life of the assets. Current year depreciation expense is \$12,169. The Foundation's capitalization policy is that all capital purchases must be budgeted in a capital budget and approved by the Board of Directors. Capital purchases reported on the financial statements include furniture and equipment in excess of \$500.

**Excess of Expenses over Revenues from Operations**

The statement of activities and change in net assets includes subtotals for excess of expenses over revenues from operations and nonoperating increases in net assets. Excess of expenses over revenues includes expenses associated with carrying out the mission of the Foundation. Nonoperating increases in net assets include investment income, unrealized gains and losses on investments, and investment management fees.

**FOUNDATION FOR A HEALTHY KENTUCKY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For The Year Ended December 31, 2007**  
**(Continued)**

**2. Basis of Presentation and Accounting Policies (Continued)**

**Leases**

In May 2007, the Foundation entered into a non-cancelable operating lease amendment for office space. Future minimum payments are as follows:

2008	\$	26,273
2009		26,273
2010		26,273
2011		26,273
2012		26,273

In May 2007, the Foundation entered into a lease for storage space. Future minimum payments are as follows:

2008	\$	728
2009		728
2010		728
2011		728
2012		728

In October 2006, the Foundation entered into an operating lease for a copier. Future minimum payments are as follows:

2008	\$	728
2009		728
2010		728

**Tax Exempt Status**

The Foundation is exempt from federal income taxes under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3).

**Functional Expenses**

The Foundation provides a wide range of services to residents of Kentucky. Expenses related to providing these services approximate 100 percent of total operating expenses for the Foundation for the year ended December 31, 2007. The Foundation classifies the expenses into three categories:

Grant Expenses

These are costs made up solely of monies disbursed to grantees in the form of awards.

**FOUNDATION FOR A HEALTHY KENTUCKY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For The Year Ended December 31, 2007**  
**(Continued)**

**2. Basis of Presentation and Accounting Policies (Continued)**

**Functional Expenses (Continued)**

Program Expenses

These are costs that are directly allocated to a program initiative within the Foundation which include personnel and operating costs.

General Administrative Expenses

All other administrative costs, which are not charged to a program initiative, such as, personnel, supplies, professional fees, rent, insurance, board related and other general administrative costs.

**3. Investments and Assets Limited as to Use**

A summary of investments, assets limited as to use, and accrued income follows:

General Administrative Expenses

All other administrative costs, which are not charged to a program initiative, personnel, supplies, professional fees, rent, insurance, board related and other administrative costs.

Investment income of \$5,792,541 includes realized gains of \$4,553,726 for the year ended December 31, 2007.

**4. Retirement Plan**

The Foundation has a Simplified Employee Pension (SEP) Retirement account through Mutual of America. The Foundation contributes five percent of each qualified employees' gross annual salary. The Foundation recorded \$21,123 as pension expense in connection with the SEP plan for the year ended December 31, 2007.

**5. Grants Payable**

As of December 31, 2007, the Foundation had 13 grants payable totaling \$642,403 awarded to various organizations including schools, health departments, universities, and other non-profit entities.

**6. Change in Presentation**

Investment income was reclassified in the statement of activities from non-operating to operating revenue. This was done to more accurately reflect the primary functions of the Foundation.