UNITED HOSPITAL FUND OF NEW YORK

Financial Statements

February 29, 2012 and February 28, 2011

(With Independent Auditors’ Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
United Hospital Fund of New York:

We have audited the accompanying statements of financial position of United Hospital Fund of New York (the Fund) as of February 29, 2012 and February 28, 2011, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Fund'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 Fund'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 United Hospital Fund of New York as of February 29, 2012 and February 28, 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

June 11, 2012

UNITED HOSPITAL FUND OF NEW YORK

Statements of Financial Position

February 29, 2012 and February 28, 2011

Assets		February 29, 2012	February 28, 2011
Cash and cash equivalents (note 13)	$	4,779,149	3,977,805
Grants and other receivables, net (note 3)		961,169	3,402,962
Other assets		720,555	1,135,108
Investments (notes 4, 8, and 12)		100,980,318	107,032,706
Property and equipment, net (note 5)		3,476,292	2,763,239
Beneficial interest in perpetual trusts (notes 6, 10, and 12)		3,552,996	3,617,251
Total assets	$	114,470,479	121,929,071
Liabilities and Net Assets			
Liabilities:			
Accounts payable and other liabilities	$	823,605	1,412,786
Indebtedness (note 11)		366,667	1,700,000
Pension benefit liability (notes 7 and 12)		1,748,136	1,502,402
Deferred rent obligation (note 8)		2,970,846	2,396,377
Grant commitments (note 2i)		748,000	1,153,000
Accrued postretirement benefits (note 7)		728,689	604,269
Total liabilities		7,385,943	8,768,834
Net assets:			
Unrestricted (note 9)		80,950,492	87,139,248
Temporarily restricted (notes 6 and 9)		21,323,608	21,246,298
Permanently restricted (notes 6 and 9)		4,810,436	4,774,691
Total net assets		107,084,536	113,160,237
Total liabilities and net assets	$	114,470,479	121,929,071

See accompanying notes to financial statements.

UNITED HOSPITAL FUND OF NEW YORK

Statements of Activities

Years ended February 29, 2012 and February 28, 2011

	February 29, 2012				February 28, 2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Operating revenues and support:								
Public support:								
Foundation grants	$ —	2,709,710	—	2,709,710	—	2,128,875	—	2,128,875
Government contracts	1,078,264	—	—	1,078,264	1,974,185	—	—	1,974,185
Legacies	8,549	—	—	8,549	19,031	—	—	19,031
Contributions	331,100	—	—	331,100	425,744	—	—	425,744
Special events (net of direct expenses of $329,235 in 2012 and $388,665 in 2011)	2,002,327	—	—	2,002,327	1,927,590	—	—	1,927,590
Total public support	3,420,240	2,709,710	—	6,129,950	4,346,550	2,128,875	—	6,475,425
Other revenues:								
Conferences and other	101,394	—	—	101,394	65,496	—	—	65,496
Investment return designated for current operations (notes 4 and 9)	5,720,000	—	—	5,720,000	5,925,000	—	—	5,925,000
Other investment income	93,779	—	—	93,779	156,221	—	—	156,221
Total other revenues	5,915,173	—	—	5,915,173	6,146,717	—	—	6,146,717
Net assets released from restrictions (note 6)	2,145,699	(2,145,699)	—	—	1,472,901	(1,472,901)	—	—
Total operating revenues and support	11,481,112	564,011	—	12,045,123	11,966,168	655,974	—	12,622,142
Operating expenses:								
Program services:								
Grants	879,642	—	—	879,642	1,208,000	—	—	1,208,000
Health services research, policy analysis, and education	5,523,131	—	—	5,523,131	5,867,629	—	—	5,867,629
Publications and information services	1,158,331	—	—	1,158,331	1,238,222	—	—	1,238,222
Total program services	7,561,104	—	—	7,561,104	8,313,851	—	—	8,313,851
Supporting services:								
Administrative and general	2,881,907	—	—	2,881,907	2,849,361	—	—	2,849,361
Fundraising	844,767	—	—	844,767	786,861	—	—	786,861
Total supporting services	3,726,674	—	—	3,726,674	3,636,222	—	—	3,636,222
Total operating expenses	11,287,778	—	—	11,287,778	11,950,073	—	—	11,950,073
Change in net assets from operations	193,334	564,011	—	757,345	16,095	655,974	—	672,069
Nonoperating activities and support:								
Investment return (less than) more than amounts designated for current operations (note 4)	(4,988,449)	(791,026)		(5,779,475)	8,230,019	2,062,454	—	10,292,473
Pension related changes other than net periodic pension cost (note 7)	(862,098)	—	—	(862,098)	(331,284)	—	—	(331,284)
Postretirement related changes other than net periodic postretirement cost (note 7)	(122,525)	—	—	(122,525)	11,952	—	—	11,952
Change in value of beneficial interest in perpetual trusts (note 10)	—	—	(64,255)	(64,255)	—	—	366,947	366,947
Tax expense from unrelated business income (note 4)	(4,693)	—	—	(4,693)	(36,264)	—	—	(36,264)
Reclassification of funds	(404,325)	304,325	100,000	—	—	—	—	—
Change in net assets from nonoperating activities and support	(6,382,090)	(486,701)	35,745	(6,833,046)	7,874,423	2,062,454	366,947	10,303,824
Change in total net assets	(6,188,756)	77,310	35,745	(6,075,701)	7,890,518	2,718,428	366,947	10,975,893
Net assets at beginning of year	87,139,248	21,246,298	4,774,691	113,160,237	79,248,730	18,527,870	4,407,744	102,184,344
Net assets at end of year	$ 80,950,492	21,323,608	4,810,436	107,084,536	87,139,248	21,246,298	4,774,691	113,160,237

See accompanying notes to financial statements.

UNITED HOSPITAL FUND OF NEW YORK

Statements of Cash Flows

Years ended February 29, 2012 and February 28, 2011

		February 29, 2012	February 28, 2011
Cash flows from operating activities:			
Change in net assets	$	(6,075,701)	10,975,893
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		307,329	343,401
Realized and unrealized losses (gains) on investments		1,471,214	(15,100,725)
Change in value of beneficial interest in perpetual trusts		64,255	(366,947)
Loss on disposal of assets not fully depreciated		—	11,978
Net change in assets and liabilities:			
Grants and other receivables, net		2,441,793	(1,861,479)
Other assets		414,553	(400,205)
Accounts payable and other liabilities, and deferred rent obligation (net of investing activities)		(17,623)	2,199,741
Pension benefit liability		245,734	685,367
Grant commitments		(405,000)	(499,520)
Accrued postretirement benefits		124,420	(7,988)
Net cash used in operating activities		(1,429,026)	(4,020,484)
Cash flows from investing activities:			
Purchases of property and equipment		(1,020,382)	(2,469,131)
Accounts payable related to leasehold improvements		2,911	719,813
(Repayment of)/proceeds from debt instruments		(1,333,333)	1,700,000
Purchases of investments		(28,234,691)	(8,797,938)
Proceeds from sales of investments		32,815,865	13,310,522
Net cash provided by investing activities		2,230,370	4,463,266
Net increase in cash and cash equivalents		801,344	442,782
Cash and cash equivalents, beginning of year		3,977,805	3,535,023
Cash and cash equivalents, end of year	$	4,779,149	3,977,805
Supplemental disclosures of cash flow information:			
Cash paid during the year for income taxes	$	4,693	36,264
Cash for interest on debt instruments		24,111	1,306

See accompanying notes to financial statements.

UNITED HOSPITAL FUND OF NEW YORK

Statement of Functional Expenses

Year ended February 29, 2012

	Program services				Supporting services			
	Grants	**Health services research, policy analysis, and education**	**Publications and information services**	**Total program services**	**Administrative and general**	**Fundraising**	**Total supporting services**	**Total**
Salaries and benefits:								
Salaries	$ —	2,763,974	605,681	3,369,655	1,260,571	389,005	1,649,576	5,019,231
Benefits (note 7)	—	1,006,745	220,612	1,227,357	459,148	141,690	600,838	1,828,195
Total salaries and benefits	—	3,770,719	826,293	4,597,012	1,719,719	530,695	2,250,414	6,847,426
Grants	879,642	—	—	879,642	—	—	—	879,642
Other expenses:								
Consulting and professional fees	—	613,652	18,694	632,346	409,043	50,150	459,193	1,091,539
Occupancy costs (note 8)	—	809,068	190,209	999,277	582,184	136,430	718,614	1,717,891
Conference costs	—	137,743	2,956	140,699	10,430	15,939	26,369	167,068
Printing costs	—	22,744	50,127	72,871	2,011	63,067	65,078	137,949
Other	—	169,205	70,052	239,257	158,520	48,486	207,006	446,263
Total other expenses	—	1,752,412	332,038	2,084,450	1,162,188	314,072	1,476,260	3,560,710
Total operating expenses	$ 879,642	5,523,131	1,158,331	7,561,104	2,881,907	844,767	3,726,674	11,287,778
Special events								329,235
Total expenses								$ 11,617,013

See accompanying notes to financial statements.

UNITED HOSPITAL FUND OF NEW YORK

Statement of Functional Expenses

Year ended February 28, 2011

	Program services				Supporting services			
	Grants	**Health services research, policy analysis, and education**	**Publications and information services**	**Total program services**	**Administrative and general**	**Fundraising**	**Total supporting services**	**Total**
Salaries and benefits:								
Salaries	$ —	2,824,311	583,821	3,408,132	1,243,756	351,221	1,594,977	5,003,109
Benefits (note 7)	—	992,378	203,594	1,195,972	467,533	121,368	588,901	1,784,873
Total salaries and benefits	—	3,816,689	787,415	4,604,104	1,711,289	472,589	2,183,878	6,787,982
Grants	1,208,000	—	—	1,208,000	—	—	—	1,208,000
Other expenses:								
Consulting and professional fees	—	729,662	—	729,662	442,763	22,885	465,648	1,195,310
Occupancy costs (note 8)	—	977,148	318,260	1,295,408	510,991	160,117	671,108	1,966,516
Conference costs	—	104,585	1,009	105,594	17,212	17,205	34,417	140,011
Printing costs	—	58,546	61,400	119,946	143	56,541	56,684	176,630
Other	—	180,999	70,138	251,137	166,963	57,524	224,487	475,624
Total other expenses	—	2,050,940	450,807	2,501,747	1,138,072	314,272	1,452,344	3,954,091
Total operating expenses	$ 1,208,000	5,867,629	1,238,222	8,313,851	2,849,361	786,861	3,636,222	11,950,073
Special events								388,665
Total expenses								$ 12,338,738

See accompanying notes to financial statements.

(1) Organization

The United Hospital Fund of New York (the Fund) is a not-for-profit organization incorporated under the laws of New York State and is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

The Fund is a health services research and philanthropic organization whose primary mission is to shape positive change in health care for the people of New York. The Fund was founded in 1879 by hospital trustees to help meet the financial needs of New York City's not-for-profit hospitals through a unified and coordinated citywide annual fundraising effort and to help hospitals address common concerns.

Over the years, the Fund has evolved into a nationally recognized independent research and philanthropic organization dedicated to inspiring and nurturing innovation and improvement across the full spectrum of health care delivery and financing. The Fund currently focuses its efforts to:

- Achieve improvements in safety and quality of care for hospitalized patients;
- Link health care and community resources to meet rising chronic care needs of seniors;
- Involve and support family caregivers as essential members of the health care team;
- Strengthen the operation of New York's Medicaid program, to improve care and reduce costs, with a special focus on high-cost, high-need patients;
- Maximize affordable insurance coverage through the design and implementation of New York's health insurance exchange.

The Fund's approach to innovation and improvement draws on four methods: *information and analysis* that clarify health care issues, identify possible solutions, and shape public policy; *partnerships* that engage leaders, bridge perspectives, and develop new ideas and approaches within the health care community and with business and government; *grant making* that stimulates innovation by testing new ideas and proposed solutions; and *communications* that "tell the story" and build consensus and partnerships to implement effective policies and proven strategies.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Net Asset Classifications

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Fund and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions. This includes unrestricted gifts which the Board designates for long-term investment purposes but that the Board can approve for use at a future date.

(Continued)

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met either by actions of the Fund and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Fund. Generally, the donors of these assets permit the Fund to use all or part of the income earned on related investments.

Revenues, gains, and other support are reported as increases in unrestricted net assets unless their use is limited by explicit donor-imposed restrictions or by law. Expenses are reported as decreases in net assets. Gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-imposed stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

(c) Measure of Operations

In the statements of activities, the Fund includes in its definition of operations, all support, revenue, and expenses that are an integral part of its program and supporting activities. Investment income, including net realized and unrealized gains and losses, earned in excess of the Fund's authorized spending policy, pension and other postretirement related changes other than net periodic cost, and other nonrecurring activities are recognized as nonoperating activities and support.

(d) Contributions and Grants

Contributions and grants, which include unconditional promises to give, are recognized as revenues in the period received. Conditional contributions and promises to give are not recognized until they become unconditional, that is when the future and uncertain event on which they depend has occurred. Contributions with a donor-designated recipient are treated as pass-through items and are recognized as a receivable and payable, with no impact on the statements of activities. Donated securities are measured at fair value at the date of the contribution. Unless material, the Fund does not discount to present value, contributions to be received greater than one year.

(e) Legacies

Legacies are recognized as support when the wills have passed probate and the sum is certain.

(f) Cash and Cash Equivalents

Cash and cash equivalents consist of cash, demand bank accounts, and short-term money market accounts, but exclude cash held for long-term investment. The Fund maintains cash in one commercial bank and the balance, at times, may exceed insured limits. The Fund has not experienced any losses in such accounts.

(g) Investments

Investments in short-term instruments, fixed income securities, and equity securities are carried at fair value based on published market prices at the end of the fiscal year. Investments in mutual funds are valued at their closing net asset value per share on the valuation date, which is their redeemable value. Investments in investment funds and limited partnerships are stated at the net asset value as provided by the investment managers. Because of the inherent uncertainty of valuation of the Fund's investments in investment partnerships and for certain underlying investments held by the investment partnerships, values for those investments may differ significantly from values that would have been used had a ready market for the investments existed. Purchases and sales of short-term instruments, fixed income securities, and equity securities are reflected on the trade-date basis. Investment income and gains are recorded on an accrual basis.

(h) Property and Equipment

Purchases in excess of $1,000 are capitalized and are recorded at cost. Property and equipment are depreciated using the straight-line method over their estimated useful lives, which approximate 37 years for property and ranges from 3 to 5 years for equipment. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease.

(i) Grant Commitments

Grant commitments consist of grants, which the Fund is obligated to pay to beneficiary hospitals or other organizations. Grants are recorded as a liability and related expense when the Board of Directors approves them. Unless material, the Fund does not discount to present value, commitments to be paid later than one year. Grant commitments of $748,000 and $1,153,000 as of February 29, 2012 and February 28, 2011, respectively, are payable within one year.

(j) Beneficial Interest in Perpetual Trusts

The Fund receives periodic income from certain trusts that require part or all of the income to be paid to the Fund in perpetuity. Title to the principal interests in the assets of these trusts is held by outside trustees not affiliated with the Fund, who retain control over the investment decisions regarding these assets. U.S. generally accepted accounting principles require, however, that these trusts be recorded as permanently restricted net assets in the Fund's financial statements. As a result, the Fund has recorded the trusts based upon the Fund's ownership percentage of the fair value of the underlying assets. Changes in the value of the investments are recognized as gains or losses in permanently restricted net assets in the accompanying statements of activities on an annual basis.

(k) Board Spending Policy

The Fund maintains an investment pool for certain investments. Its Board of Directors has authorized a policy to provide a predictable flow of funds to support operations. The policy permits allocation based on a trailing moving average of the pool calculated as of the calendar year-end, as operating income in the following fiscal year, even in the event the actual return achieved is inadequate to meet the allocation. The allocation authorized for the years ended February 29, 2012 and February 28, 2011 was 5.5%. For the years ended February 29, 2012 and February 28, 2011, the trailing moving average used was a 36-month base. Certain endowment gifts are restricted for specific purposes, the income from which, included in the spending rate, is spent in accordance with those restrictions.

(Continued)

(l) Functional Allocation of Expenses

The costs of providing the various program and other activities of the Fund have been summarized on a functional basis in the statements of activities. Accordingly, costs have been allocated directly among the programs and supporting services benefited.

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingencies at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(n) Fair Values

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

In 2011, the Fund adopted Accounting Standards Update (ASU) No. 2010-06, *Improving Disclosures About Fair Value Measurements*. The ASU amends Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the Organization's interest therein, its classification in Level 2 or 3 is based on the Fund's ability to redeem its interest at or near the balance sheet date. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(o) Tax

The Fund recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Income generated from activities unrelated to the Fund's exempt purpose is subject to tax under Internal Revenue Code Section 511. The Fund did not recognize any unrelated business income tax liability for the years ended February 29, 2012 and February 28, 2011.

(3) Grants and Other Receivables

Grants and other receivables outstanding were as follows:

	February 29, 2012	February 28, 2011
Gross receivables due:		
Within one year	$ 960,169	3,177,712
One to five years	10,000	235,000
Gross receivables	970,169	3,412,712
Allowance for doubtful accounts	(9,000)	(9,750)
	$ 961,169	3,402,962

(4) Investments

Investments consisted of the following as of February 29, 2012 and February 28, 2011:

	February 29, 2012	February 28, 2011	
Held at financial institutions:			
Cash and short-term investments	$ 529,282	640,946	
Accrued income	15,525	18,613	
Mutual funds – fixed income and bonds	17,427,715	16,406,013	
Mutual funds – primarily U.S. equities	8,769,194	8,090,245	
U.S. common stocks	5,814,087	5,917,244	
International equities	2,394,265	3,155,746	
Treasury inflation – protected securities	1,337,179	2,061,177	F
	36,287,247	36,289,984	
Limited partnerships/commingled funds:			
Absolute return fund of funds	9,655,255	15,302,763	A
Real estate fund of funds	962,441	963,475	E
WTC common trust fund real asset portfolio	8,615,380	9,094,510	B
International value equity trust	11,521,718	16,321,395	C
Concentrated core equities fund	9,046,375	9,455,343	D
Investable emerging markets country fund	7,731,145	7,526,600	G
Equity hedge funds	10,801,172	5,499,153	H
International equity	6,359,585	6,579,483	I
	64,693,071	70,742,722	
	$ 100,980,318	107,032,706	

A Absolute Return Fund of Funds is an investment in an exempted company with limited liability incorporated in the Cayman Islands. The Fund of Funds manager invests primarily in a diversified group of managers employing investment strategies relating to long equity positions, arbitrage opportunities, bankruptcies and reorganizations, international and emerging markets, commodities, futures and fixed income trading.

B The WTC Common Trust Fund Real Asset Portfolio is an inflation hedge fund that invests in four primary asset categories that offer strong relative performance in rising inflation environments. The underlying assets consist of equity securities (primarily companies involved in energy, metals and mining, and forest sectors), real estate securities, fixed income securities (primarily inflation-linked government and corporate bonds), and commodity futures.

C The International Value Equity Trust is a commingled fund formed primarily to afford participants an opportunity to obtain long-term capital gains and income from a diversified portfolio of equity securities of companies ordinarily incorporated outside of the United States. At times, this fund may enter into foreign currency contracts with banks for purchases and sales of securities denominated in a foreign currency, thus fixing the U.S. dollar price of the security traded. Unanticipated changes in currency prices may result in poorer overall performance for this fund than if it had not entered into such contracts.

D The Concentrated Core Equities Fund is a commingled fund that is generally invested in equity securities. This fund primarily targets top large cap companies and seeks to maximize total return, with an emphasis on capital appreciation.

E The Real Estate Fund of Funds is an investment in a limited partnership that invests in real estate managers pursuing traditional commercial property strategies. This fund can have up to 20% invested internationally.

F This fund consists primarily of inflation-indexed securities of which at least 80% of assets are invested in inflation-indexed bonds of the U.S. government. However, up to 35% of assets may be invested in noninflation-indexed securities, such as corporate debt, U.S. government, and agency bonds. This fund typically maintains a dollar-weighted average maturity of 7–10 years. This fund may also invest in options and futures and up to 15% of assets may be invested in illiquid securities.

G The Investable Emerging Markets Country Fund's objective is to achieve long-term capital growth by investing in emerging markets. Its policy is to make such investments indirectly through closed-end country funds whose assets are invested principally in emerging markets.

H The Equity Hedge Fund is an offshore limited partnership that invests primarily in long-short equity hedge funds. The objective of the fund is to outperform the indices over a two-year period with significantly lower volatility and correlation to those indices. The underlying investments consist of common stocks and debt securities in the United States and abroad, as well as options and futures.

I The International Equity is a comingled fund comprising well-managed, financially strong, growing international companies with a competitive advantage. Risk is managed through prudent diversification across dimensions of geography, industry sector, currency, and size. Foreign currency exposure is not routinely hedged.

As of February 29, 2012, the following table summarizes the composition of $64,693,071 at fair value of investments by the various redemption provisions and lock-up periods:

Redemption period		Amount
Daily	$	6,359,585
Monthly		36,914,618
Quarterly		9,655,255
Annual		10,801,172
Lock-up		962,441
Total	$	64,693,071

The amount subject to redemption lock-up of $962,441 is set to expire in fiscal year 2016.

Investment return and its classification in the statements of activities are as follows:

	February 29, 2012			February 28, 2011		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Dividends and interest (net of investment and advisory fees of $506,815 in 2012 and $478,515 in 2011)	$ 1,078,041	333,698	1,411,739	898,222	218,526	1,116,748
Realized gain on investments	1,780,839	496,449	2,277,288	3,170,969	691,636	3,862,605
Unrealized (loss) gain on investments	(2,931,329)	(817,173)	(3,748,502)	9,225,828	2,012,292	11,238,120
	(72,449)	12,974	(59,475)	13,295,019	2,922,454	16,217,473
Spending rate allocated for current operations	804,000	(804,000)	—	860,000	(860,000)	—
	731,551	(791,026)	(59,475)	14,155,019	2,062,454	16,217,473
Investment return designated for current operations	(5,720,000)	—	(5,720,000)	(5,925,000)	—	(5,925,000)
Investment return (less than) more than designated for current operations	$ (4,988,449)	(791,026)	(5,779,475)	8,230,019	2,062,454	10,292,473

(5) Property and Equipment

Property and equipment consisted of the following as of February 29, 2012 and February 28, 2011:

	February 29, 2012	February 28, 2011
Property	$ 417,375	415,863
Leasehold improvements	2,804,212	2,370,333
Furniture and office equipment	1,104,120	519,129
	4,325,707	3,305,325
Accumulated depreciation and amortization	(849,415)	(542,086)
Total	$ 3,476,292	2,763,239

(6) Restricted Net Assets

Net assets were restricted for the following purposes as of February 29, 2012 and February 28, 2011:

		February 29, 2012	February 28, 2011
Temporarily restricted net assets to support:			
Distributions to member hospitals	$	17,628,331	18,115,032
Program grants		2,053,019	2,797,266
Program grants (time restriction)		1,642,258	328,336
Charitable remainder trust		—	5,664
	$	21,323,608	21,246,298

		February 29, 2012	February 28, 2011
Permanently restricted net assets:			
Investments to be held in perpetuity, the income from which is temporarily restricted to support directed distribution	$	1,257,440	1,157,440
Beneficial interest in perpetual trusts, the income from which is unrestricted		3,552,996	3,617,251
	$	4,810,436	4,774,691

(7) Pension and Postretirement Benefit Plans

The Fund has a qualified defined benefit pension plan (Pension or Plan) for eligible employees. The benefits are based on years of service and the employee's average final compensation. Average annual compensation is defined as the amount paid to a member during their five most highly paid consecutive years of participation during the 10 years immediately preceding their retirement or termination of service.

The Fund's funding policy is to contribute such amounts as are necessary on an actuarial basis to provide the Plan with assets sufficient to provide benefits to plan participants. On June 20, 2007, the Board elected to close the defined benefit plan to new members and to freeze the plan for existing members as of December 31, 2011. On November 16, 2011, the Board elected to terminate the defined benefit plan as of March 1, 2012 and amended the plan to include a lump-sum payment option. The Fund submitted the Plan to the Internal Revenue Service (IRS) in January 2012 to obtain a final determination.

The Fund also has a noncontributory unfunded postretirement benefit plan (Postretirement), which covers substantially all employees and their spouses. Each participant will be eligible to receive benefits at age 65 and after 5 years of service. Coverage for both the retiree and the spouse continues for their lifetimes, so long as required contributions are made. Employees who retired on or after February 1, 1993 are not eligible for Medicare Part B premium reimbursement.

Health care cost trend assumptions were not used in the postretirement calculation since the benefit liability attributable to the Fund is determined by the portion of the total cost of medical benefits that are covered by the Fund. The Fund's contribution amount is $1,500 per year for individuals and $3,000 per year for family coverage, without regard to the total cost of the medical benefit in each case. The liability, based on this flat dollar benefit amount contributed by the Fund, assumes no further increases in the $1,500/$3,000 Fund contribution.

The accumulated pension and postretirement benefit obligations and the funded status of the plans as of February 29, 2012 and February 28, 2011 are as follows:

	Pension		Postretirement	
	February 29, 2012	**February 28, 2011**	**February 29, 2012**	**February 28, 2011**
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 14,524,841	13,286,629	604,269	612,257
Service cost	273,201	310,218	19,472	16,961
Interest cost	768,902	749,983	31,415	34,002
Actuarial loss (gain)	2,686,576	657,120	94,533	(36,951)
Benefits paid	(486,592)	(479,109)	(21,000)	(22,000)
Benefit obligation, end of year	17,766,928	14,524,841	728,689	604,269
Fair value of plan assets	16,018,792	13,022,439	—	—
Funded status	$ (1,748,136)	(1,502,402)	(728,689)	(604,269)
Accumulated benefit obligation	$ 17,766,928	14,354,931	728,689	604,269
Employer contributions	920,000	—	(21,000)	(22,000)

The components of benefit cost for the years ended February 29, 2012 and February 28, 2011 are as follows:

	Pension		Postretirement	
	February 29, 2012	**February 28, 2011**	**February 29, 2012**	**February 28, 2011**
Service cost	$ 273,201	310,218	19,472	16,961
Interest cost	768,902	749,983	31,415	34,002
Expected return on assets	(761,744)	(729,395)	—	—
Amortization of prior service cost	23,277	23,277	—	—
Recognized actuarial gain	—	—	(27,992)	(24,999)
Net benefit cost	$ 303,636	354,083	22,895	25,964

The amounts recognized in unrestricted net assets for the pension plan consist of the following as of February 29, 2012 and February 28, 2011:

		February 29, 2012	February 28, 2011
Net actuarial loss	$	1,640,105	754,730
Prior service cost		5,821	29,098
	$	1,645,926	783,828

The amounts recognized in unrestricted net assets for the postretirement plan consist of the following as of February 29, 2012 and February 28, 2011:

		February 29, 2012	February 28, 2011
Net actuarial gain	$	209,147	331,672

Other changes in plan assets and benefit obligations recognized in the change in unrestricted net assets for the pension plan for the year ended February 29, 2012 are as follows:

		Pension	Postretirement	Total
Prior service cost	$	(23,277)	—	(23,277)
Net loss (gain)		885,375	(122,525)	762,850
Total recognized in change in unrestricted net assets		862,098	(122,525)	739,573
Net periodic benefit cost		303,636	22,895	326,531
Total recognized in change in unrestricted net assets and net periodic benefit	$	1,165,734	(99,630)	1,066,104

Other changes in plan assets and benefit obligations recognized in the change in unrestricted net assets for the pension plan for the year ended February 28, 2011 are as follows:

		Pension	Postretirement	Total
Prior service cost	$	(23,277)	—	(23,277)
Net loss (gain)		354,561	(11,952)	342,609
Total recognized in change in unrestricted net assets		331,284	(11,952)	319,332
Net periodic benefit cost		354,083	25,964	380,047
Total recognized in change in unrestricted net assets and net periodic benefit	$	685,367	14,012	699,379

The amounts expected to be recognized in net periodic pension and benefit costs during fiscal year 2012 are as follows:

		Pension	Postretirement
Cost recognition	$	23,277	—
Gain recognition		—	27,992
	$	23,277	27,992

The Fund expects to make at least a $1,200,000 contribution to its pension plan in fiscal year 2013.

The weighted average assumptions used to determine the components of benefit cost as of and for the years ended February 29, 2012 and February 28, 2011 were as follows:

	Pension		Postretirement	
	February 29, 2012	February 28, 2011	February 29, 2012	February 28, 2011
Weighted average assumptions:				
Discount rate	4.18%	5.40%	4.18%	5.40%
Expected return on plan assets	6.00	6.00	—	—
Rate of compensation increase	3.50	3.50	—	—

The defined benefit plan's expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

If the approvals for the plan termination are received this year, the entire value of the benefit obligation will be paid out within 120 days of such approval and no further benefits will be paid.

The assets (expressed in percentages) for the pension plan consisted of the following as of February 29, 2012 and February 28, 2011:

	February 29, 2012	February 28, 2011
Debt securities	78%	72%
Immediate participation guarantee contract, unallocated	22	28
	100%	100%

In addition to the defined benefit retirement plan, the Fund maintains a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code, in which all employees, as defined, are eligible to participate. Participants may make voluntary contributions, subject to plan limitations, to be applied toward the purchase of retirement annuities. The Fund is obligated to match annual employee contributions, measured as of December 31 of each year, up to a maximum of $2,000 for each eligible employee, as defined in this plan. In conjunction with the freezing of the defined benefit plan in fiscal year 2008, the Board implemented an enhancement to its defined contribution retirement plan under Section 403(b) of the Internal Revenue Code during calendar year 2007. The enhancement allowed for a discretionary employer contribution of 4% to 8% based on years of service. The enhancement was available immediately to those not eligible for the defined benefit plan as of June 20, 2007, and was made available to defined benefit plan participants on January 1, 2012, subsequent to the defined benefit plan's freeze on December 31, 2011. For the years ended February 29, 2012 and February 28, 2011, the Fund contributed $189,333 and $136,896, respectively, to the defined contribution plan. All contributions vest immediately. This plan's assets consist primarily of U.S. equity holdings and fixed income securities.

In December 2002, due to IRS Tax Code changes, the Fund implemented a 457(b) defined contribution retirement plan, in which only certain highly compensated employees are eligible to participate. Participants may make voluntary contributions, subject to plan limitations, applicable toward the purchase of retirement annuities. The Fund may make a contribution to the Plan on behalf of certain participants as defined in the Plan to receive a Fund contribution. For the years ended February 29, 2012 and February 28, 2011, the Fund contributed $31,054 and $34,011, respectively, to this plan.

(8) Commitments

In September 2010, the Fund entered into a lease for office facilities at 1411 Broadway, expiring in October 2025. The lease terms provide for a free rent period through October 2011 and tenant improvement allowances (TI allowance) in the amount of $2,045,228. Free rent period, TI allowance, and charges are accounted for on a straight-line basis over the life of the lease. The Fund's prior lease at 350 Fifth Avenue ended on March 31, 2011 and the space was returned and accepted by the landlord with no further obligation.

In December 2007, the Fund entered into a lease for office facilities in Albany. The lease expires in December 2012.

Future minimum lease payments as of February 29, 2012, net of the applicable rent credits, for the fiscal years ending February 29 are as follows:

2013	$	1,077,330
2014		1,064,330
2015		1,064,330
2016		1,064,330
2017		1,064,330
Thereafter		9,224,194
	$	14,558,844

Rent expense for the years ended February 29, 2012 and February 28, 2011 amounted to $1,079,756 and $1,098,483, respectively, and a deferred rent obligation of $2,970,846 and $2,396,377, respectively, was recorded for the free rent period and tenant improvement allowance.

The Fund has made a commitment to invest $2,500,000 in real estate limited partnerships (real estate fund of funds investment), funded from its fixed income investments within the investment portfolio. As of February 29, 2012 and February 28, 2011, the Fund had invested $2,125,000 of this commitment. For the years ended February 29, 2012 and February 28, 2011, the Fund received redemptions of $173,843 and $100,345, respectively.

(9) Endowment Net Assets

In 2011, the Fund adopted New York Prudent Management of Institutional Funds Act (NYPMIFA). Accordingly, the Fund classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. ASC No. 958-205, *Not-for-Profit Entities*, requires the portion of a donor-restricted endowment fund that is not classified as permanently restricted to be classified as temporarily restricted net assets until appropriated for expenditure.

The Fund's Board of Directors has interpreted state law to include preservation of an endowment gift's historic value measured as of the gift date, absent explicit donor stipulations to the contrary. The policy for valuing the Fund's investments is described in note 2(g). In accordance with accounting principles generally accepted in the United States of America, any deterioration of the fair value of assets associated with donor-restricted endowment funds that falls below the level the donor requires the Fund to retain in perpetuity is to be reported in unrestricted net assets. The Fund has not incurred such deficiencies in its endowment funds as of February 29, 2012 and February 28, 2011.

The Fund's endowment investment policy states the Fund is to invest primarily in a mix of equities, alternative investments, and fixed income securities based on a prescribed asset allocation strategy designed to achieve the Fund's investment objectives. These objectives are to preserve the inflation-adjusted value of the Fund's invested assets after administrative costs and spending needs, prudently invest assets in high-quality, diversified vehicles, and achieve the optimal return possible within specified risk parameters. The prescribed asset allocation strategy is designed to achieve not less than a 0.5% rate of return, net of spending needs and expenses, over the long term. The Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Fund's annual spending rate from endowment, described in note 2(k), is to invest primarily in equities and fixed income based on an asset allocation to satisfy its overall endowment financial and investment objectives such as to preserve the principal, protect against inflation, receive stable returns, and achieve long-term growth.

The composition of the endowment net assets at February 29, 2012 is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Board-designated quasi-endowment	$ 76,351,116	—	—	76,351,116
Donor-restricted endowment	—	17,628,331	1,257,440	18,885,771
Total endowment	$ 76,351,116	17,628,331	1,257,440	95,236,887

The composition of the endowment net assets at February 28, 2011 is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Board-designated quasi-endowment	$ 81,724,077	—	—	81,724,077
Donor-restricted endowment	—	18,115,032	1,157,440	19,272,472
Total endowment	$ 81,724,077	18,115,032	1,157,440	100,996,549

Changes in endowment net assets for the year ended February 29, 2012 are as follows:

	Board-designated unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 81,724,077	18,115,032	1,157,440	100,996,549
Investment activity:				
Interest and dividends	1,078,041	333,698	—	1,411,739
Realized gain on investments	1,780,839	496,449	—	2,277,288
Unrealized loss on investments	(2,931,329)	(817,173)	—	(3,748,502)
Spending rate applied to operations	(4,916,000)	(804,000)	—	(5,720,000)
Other	19,813	—	—	19,813
Reclassification of funds	(404,325)	304,325	100,000	—
Endowment net assets, end of the year	$ 76,351,116	17,628,331	1,257,440	95,236,887

Changes in endowment net assets for the year ended February 28, 2011 are as follows:

	Board-designated unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 73,429,535	16,052,578	1,157,440	90,639,553
Investment activity:				
Interest and dividends	898,222	218,526	—	1,116,748
Realized gain on investments	3,170,969	691,636	—	3,862,605
Unrealized gain on investments	9,225,828	2,012,292	—	11,238,120
Spending rate applied to operations	(5,065,000)	(860,000)	—	(5,925,000)
Other	64,523	—	—	64,523
Endowment net assets, end of the year	$ 81,724,077	18,115,032	1,157,440	100,996,549

(10) Beneficial Interest in Perpetual Trusts

The Fund has recorded a decrease of $64,255 and an increase of $366,947 in permanently restricted net assets for the years ended February 29, 2012 and February 28, 2011, respectively, relating to the change in fair value of its beneficial interest in perpetual trusts. An outside custodian holds these trusts on behalf of the Fund, the perpetual beneficiary. Certain income from the trusts is paid to the Fund and the balance, if any, is retained in the trusts.

The underlying assets in the perpetual trusts are allocated as follows:

	February 29, 2012	**February 28, 2011**
Cash and short-term investments	4%	3%
Equities	60	50
Fixed income	26	28
Alternative investments	10	1
Other	—	18
	100%	100%

For the years ended February 29, 2012 and February 28, 2011, the Fund received distributions from these trusts of $84,494 and $68,794, respectively.

(11) Indebtedness

In December 2010, the Fund entered into a one-year credit agreement of up to $3,300,000 to finance the cost of leasehold improvements for its new offices at 1411 Broadway. The agreement calls for revolver loan advances to and repayments by the Fund with interest at monthly LIBOR plus 1.4% and a commitment fee of 0.20% on the daily average unused amount of the commitment during the period of the agreement. As of February 28, 2011, the Fund had borrowed $1,700,000. During 2012, the Fund repaid $1,300,000 and converted the remaining balance of $400,000 to a 4-year term loan with interest using the monthly LIBOR rate. As of February 29, 2012, the loan had an outstanding balance of $366,667 and interest in the amount of $24,111 had been paid to the lender. The Fund is not and has not been in violation of any loan covenants through the date of this report.

In October 2011, the Fund renewed a $1,000,000 line of credit, which expires on October 29, 2012. Borrowings are unsecured and interest is charged at the bank's prime rate. There were no amounts outstanding under this agreement during the year or at February 29, 2012 and February 28, 2011.

(12) Fair Value of Financial Instruments

The following methods and assumptions were used by the Fund in estimating the fair value of each class of financial instruments for which it is practicable to estimate fair value:

Cash and Short-Term Investments, Actively Traded Mutual Funds, Common Stocks, and U.S. Treasury Inflation-Protected Securities – Valued using market prices in active markets.

Fund of Funds, Hedge Fund, and Real Estate Investment Trusts – Stated at the net asset value as provided by the investment managers.

Grants and Other Receivables, Accounts Payable and Other Liabilities, and Grant Commitments – The carrying amount reported in the statements of financial position approximates its fair value because of the short-term nature of the accounts.

Financial assets carried at fair value at February 29, 2012 are classified in the table in one of three levels as follows:

	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
Investments:				
Cash and short-term investments	$ 529,282	—	—	529,282
Accrued income	15,525	—	—	15,525
Mutual funds – fixed income and bonds	17,427,715	—	—	17,427,715
Mutual funds – primarily U.S. equities	8,769,194	—	—	8,769,194
U.S. common stocks	5,814,087	—	—	5,814,087
International equities	2,394,265	—	—	2,394,265
Treasury inflation – protected securities	1,337,179	—	—	1,337,179
Limited partnerships/ commingled funds:				
Absolute return fund of funds	—	9,655,255	—	9,655,255
Real estate fund of funds	—	—	962,441	962,441
WTC common trust fund real estate portfolio	—	8,615,380	—	8,615,380
International value equity trust	—	11,521,718	—	11,521,718
Concentrated core equities fund	—	9,046,375	—	9,046,375
Investable emerging markets country fund	—	7,731,145	—	7,731,145
Equity hedge funds			10,801,172	10,801,172
International equity	—	6,359,585	—	6,359,585
Total investments	$ 36,287,247	52,929,458	11,763,613	100,980,318

		Level 1	Level 2	Level 3	Total
Beneficial interest in perpetual trusts	$	—	—	3,552,996	3,552,996
Pension plan assets:					
Immediate participation guarantee contract		—	3,702,527	—	3,702,527
Bonds		12,316,265	—	—	12,316,265
Total assets carried at fair value	$	48,603,512	56,631,985	15,316,609	120,552,106

Financial assets carried at fair value at February 28, 2011 are classified in the table in one of three levels as follows:

		Level 1	Level 2	Level 3	Total
Assets carried at fair value:					
Investments:					
Cash and short-term investments	$	640,946	—	—	640,946
Accrued income		18,613	—	—	18,613
Mutual funds – fixed income and bonds		16,406,013	—	—	16,406,013
Mutual funds – primarily U.S. equities		8,090,245	—	—	8,090,245
U.S. common stocks		5,917,244	—	—	5,917,244
International equities		3,155,746	—	—	3,155,746
Treasury inflation – protected securities		2,061,177	—	—	2,061,177
Limited partnerships/ commingled funds:					
Absolute return fund of funds		—	15,302,763	—	15,302,763
Real estate fund of funds		—	—	963,475	963,475
WTC common trust fund real estate portfolio		—	9,094,510	—	9,094,510
International value equity trust		—	16,321,395	—	16,321,395
Concentrated core equities fund		—	9,455,343	—	9,455,343
Investable emerging markets country fund		—	7,526,600	—	7,526,600

	Level 1	Level 2	Level 3	Total
Equity hedge funds	$ —	—	5,499,153	5,499,153
International equity	—	6,579,483	—	6,579,483
Total investments	36,289,984	64,280,094	6,462,628	107,032,706
Beneficial interest in perpetual trusts	—	—	3,617,251	3,617,251
Pension plan assets:				
Immediate participation guarantee contract	—	3,673,605	—	3,673,605
Bonds	9,348,834	—	—	9,348,834
Total assets carried at fair value	$ 45,638,818	67,953,699	10,079,879	123,672,396

The changes in assets measured at fair value for which the Fund has classified as Level 3 are as follows for the year ended February 29, 2012:

	Real estate fund of funds	Equity hedge fund	Beneficial interest in perpetual trusts	Total
Balance at February 28, 2011	$ 963,475	5,499,153	3,617,251	10,079,879
Purchases	99,413	5,000,000	—	5,099,413
Redemptions	(212,517)	—	—	(212,517)
Realized/unrealized gain	112,070	302,019	—	414,089
Change in value of beneficial interest in perpetual trusts	—	—	(64,255)	(64,255)
Balance at February 29, 2012	$ 962,441	10,801,172	3,552,996	15,316,609

The changes in assets measured at fair value for which the Fund has classified as Level 3 are as follows for the year ended February 28, 2011:

Balance at February 28, 2010	$ 22,135,900
Transferred to Level 2 (a)	(13,671,832)
Purchases	1,021,806
Redemptions	(113,845)
Realized gain	29,255
Unrealized gain	311,648
Change in value of beneficial interest in perpetual trusts	366,947
Balance at February 28, 2011	$ 10,079,879

(Continued)

(a) In January 2010, the Fund invested in an account which did not allow for any withdrawals in the first 12 months. This restriction expired in January 2011.

(13) Concentration of Credit Risk

Financial instruments that potentially subject the Fund to a concentration of credit risk include cash accounts and other cash equivalents that may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits. During 2008, FDIC insurance coverage for interest-bearing accounts, normally limited to $100,000, was increased to $250,000 until December 31, 2013. For noninterest-bearing accounts, such coverage is unlimited to December 31, 2009 for participating banks, which includes the financial institution that holds the Fund's cash and cash equivalents. As of February 29, 2012 and February 28, 2011, the Fund's cash and cash equivalents included cash and money market funds approximating $4,527,649 and $3,726,300, respectively, which are not covered by FDIC insurance.

(14) Subsequent Events

In connection with the preparation of the financial statements, the Fund evaluated subsequent events after the balance sheet date of February 29, 2012 through June 11, 2012, which was the date the financial statements were available to be issued and determined that there were no matters that are required to be disclosed.