

THE JOHN A. HARTFORD
FOUNDATION, INC.

DECEMBER 31, 2016 AND 2015

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DONALD F. SCHERER

Independent Auditor's Report

The John A. Hartford Foundation, Inc.
55 East 59th Street
New York, NY 10022

We have audited the accompanying financial statements of The John A. Hartford Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The John A. Hartford Foundation, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Quen J. Flanagan + Co.

June 14, 2017
New York, New York

THE JOHN A. HARTFORD FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Investments, at fair value (Notes 2, 3 and 4)		
Short-term cash investments	\$ 51,070,293	\$ 18,360,116
Fixed-income funds	78,885,633	71,321,309
Stocks and exchange traded funds	226,016,800	222,244,406
Commingled funds	116,888,547	137,297,452
Private equity funds	42,019,056	41,718,050
Real estate pooled funds	27,953,553	44,246,901
<u>Total Investments</u>	<u>542,833,882</u>	<u>535,188,234</u>
Grant receivable	926,320	2,154,130
Interest and dividends receivable	39,939	25,626
Prepayments and deposits	82,899	85,447
Prepaid taxes	-	8,258
	<u>1,049,158</u>	<u>2,273,461</u>
Office condominium, furniture, equipment and website (net of accumulated depreciation of \$4,865,046 in 2016 and \$4,623,097 in 2015)(Note 5)	<u>532,714</u>	<u>803,201</u>
<u>Total Assets</u>	<u>\$544,415,754</u>	<u>\$538,264,896</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Grants payable (Note 2)		
Current	\$ 13,693,102	\$ 11,030,222
Non-current (Note 7)	17,606,357	19,863,761
Accounts payable	514,701	734,920
Current tax payable	58,041	-
Deferred Federal excise tax (Note 2)	1,274,502	967,712
<u>Total Liabilities</u>	<u>33,146,703</u>	<u>32,596,615</u>
Net Assets		
Unrestricted		
Board designated (Note 2)	2,397,574	4,050,430
Undesignated	508,188,426	500,032,082
	510,586,000	504,082,512
Temporarily restricted	683,051	1,585,769
<u>Total Net Assets (Exhibit B)</u>	<u>511,269,051</u>	<u>505,668,281</u>
<u>Total Liabilities and Net Assets</u>	<u>\$544,415,754</u>	<u>\$538,264,896</u>

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

THE JOHN A. HARTFORD FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>REVENUES</u>		
Short-term investment earnings	\$ 63,946	\$ 26,002
Dividends, interest and partnership earnings	9,851,653	13,837,140
Net realized capital gains	8,449,487	12,925,872
Net change in unrealized appreciation, net of deferred Federal excise tax (Note 3)	<u>15,032,726</u>	<u>(22,700,268)</u>
	33,397,812	4,088,746
Direct investment expenses	(2,700,069)	(2,985,313)
Excise and unrelated business income taxes	<u>(170,094)</u>	<u>(340,422)</u>
<u>Net Investment Revenue</u>	<u>30,527,649</u>	<u>763,011</u>
Donation	<u>-</u>	<u>25</u>
<u>NET ASSETS RELEASED FROM RESTRICTION</u>	<u>902,718</u>	<u>809,558</u>
<u>GRANTS AND EXPENSES</u>		
Grant expense (less cancellations and refunds of \$1,281,330 in 2016 and \$55,654 in 2015)	18,884,918	26,150,354
Foundation-administered projects	987,244	751,706
Grant-related direct expenses	182,970	156,556
Personnel salaries and benefits (Note 6)	3,260,598	3,465,003
Office and other expenses	1,198,184	1,294,000
Depreciation	315,262	311,315
Professional services	<u>97,703</u>	<u>133,098</u>
<u>Total Grants and Expenses</u>	<u>24,926,879</u>	<u>32,262,032</u>
Increase (Decrease) in Unrestricted Net Assets	<u>6,503,488</u>	<u>(30,689,438)</u>
<u>NET ASSETS RELEASED FROM RESTRICTION</u>	<u>(902,718)</u>	<u>(809,558)</u>
Decrease in Temporarily Restricted Net Assets	<u>(902,718)</u>	<u>(809,558)</u>
Increase (Decrease) in Net Assets for Year	5,600,770	(31,498,996)
Net Assets, beginning of year	<u>505,668,281</u>	<u>537,167,277</u>
<u>NET ASSETS, END OF YEAR (Exhibit A)</u>	<u><u>\$511,269,051</u></u>	<u><u>\$505,668,281</u></u>

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

THE JOHN A. HARTFORD FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS PROVIDED (USED)</u>		
FROM OPERATING ACTIVITIES:		
Interest and dividends received	\$ 7,527,621	\$ 7,702,207
Cash distributions from private equity funds and real estate pooled funds	29,092,332	29,764,829
Grant funds received	1,227,812	514,851
Donation	-	25
Grants and Foundation-administered projects paid (net of refunds)	(19,471,087)	(20,980,045)
Expenses and taxes paid	<u>(7,277,451)</u>	<u>(7,993,531)</u>
<u>Net Cash Flows Provided By Operating Activities</u>	<u>11,099,227</u>	<u>9,008,336</u>
FROM INVESTING ACTIVITIES:		
Purchase of equipment and website	(44,215)	(23,501)
Proceeds from sale of investments	106,960,378	127,249,242
Purchases of investments	<u>(85,305,213)</u>	<u>(136,943,829)</u>
<u>Net Cash Flows Provided (Used) By Investing Activities</u>	<u>21,610,950</u>	<u>(9,718,088)</u>
Net Increase (Decrease) in Cash and Equivalents	32,710,177	(709,752)
Cash and equivalents, beginning of year	<u>18,360,116</u>	<u>19,069,868</u>
Cash and equivalents, end of year	<u>\$ 51,070,293</u>	<u>\$ 18,360,116</u>
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase (Decrease) in Net Assets	\$ 5,600,770	\$(31,498,996)
Adjustment to reconcile increase in net assets to net cash used by operating activities:		
Depreciation	315,262	311,316
Decrease (Increase) in interest and dividends receivable	(14,313)	9,758
Decrease in grant receivable	1,227,810	514,851
Decrease (Increase) in prepayments and deposits	2,548	(10,433)
Decrease in grants payable	405,476	5,912,569
(Decrease) Increase in accounts payable	(220,781)	49,927
Net realized gains and change in unrealized appreciation	(23,653,169)	9,512,725
Other	27,435,624	24,206,619
	<u>\$ 11,099,227</u>	<u>\$ 9,008,336</u>

THE JOHN A. HARTFORD FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Supplemental Information:</u>		
Detail of other:		
Private equity funds and real estate pooled funds:		
Cash distributions	\$29,092,332	\$29,764,829
Add: investment fees reported	650,656	875,319
Less: reported income	<u>(2,373,663)</u>	<u>(6,170,695)</u>
	<u>27,369,325</u>	<u>24,469,453</u>
Tax expense	341,051	602,093
Net taxes paid	<u>(274,752)</u>	<u>(864,927)</u>
Difference	<u>66,299</u>	<u>(262,834)</u>
 <u>Total - Other</u>	 <u>\$27,435,624</u>	 <u>\$24,206,619</u>

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

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. Purpose of Foundation

The John A. Hartford Foundation was established in 1929 and originally funded with bequests from its founder, John A. Hartford and his brother, George L. Hartford. The Foundation supports efforts to improve the care of older adults through grants and Foundation-administered projects. The Foundation's primary source of revenue is from investment earnings.

2. Summary of Significant Accounting Policies

Method of Accounting

The accounts of the Foundation are maintained, and the accompanying financial statements have been prepared, on the accrual basis of accounting.

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 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

Net assets are recorded based on donor-imposed restrictions or lack thereof.

Unrestricted Net Assets - These assets are free from donor restriction and can be used to carry out the programs of the Foundation in accordance with its bylaws. Included in unrestricted net assets are *Board Designated Net Assets*. This currently represents the discount on grants payable and contingent grants.

Temporarily Restricted Net Assets - These assets are either restricted for a specific purpose or for a future time period.

Permanently Restricted Net Assets - These assets were restricted by the donor to be invested in perpetuity. Income earned on these assets is to be used in accordance with the gift instrument. Currently, the Foundation does not have Permanently Restricted Net Assets.

Investments

Investments in marketable securities are valued at their fair value (quoted market price). Commingled funds, private equity funds and real estate pooled funds are valued at their fair value as reported by the fund manager. Because of the inherent uncertainty of valuation, estimated values may differ significantly from the values that would have been used had a ready market for the entities existed. Realized gains and losses from the sale of marketable securities are recorded by comparison of proceeds to cost determined under the specific identification method.

Grants

The liability for grants payable is recognized when specific unconditional grants are authorized by the Board of Trustees and the recipients have been notified. If grantees are required to satisfy certain conditions of the grant, the liability is not recorded until the conditions have been met. Annually the Foundation reviews its estimated payment schedule of long-term grants and discounts the grants payable to present value using the prime rate as quoted in the Wall Street Journal at December 31 to reflect the time value of money. The amount of the discount and conditional grants is then recorded as designated net assets.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

2. Summary of Significant Accounting Policies (Continued)

Definition of Cash

For purposes of the statements of cash flows, the Foundation defines cash and equivalents as cash and short-term cash investments. Short-term cash investments are comprised of cash in custody accounts, money market mutual funds and net cash pending settlement.

Tax Status

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as a "private foundation." The Foundation is subject to an excise tax on net investment income at either a 1% or 2% rate depending on the amount of qualifying distributions. For 2016 and 2015 the Foundation's rate was 2%.

Investment expenses for 2016 include direct investment fees of \$2,700,069 and \$375,000 of allocated salaries, legal fees and other office expenses. The 2015 comparative numbers were \$2,985,313 and \$360,000.

Deferred Federal excise taxes payable were also recorded on the unrealized appreciation of investments using the 2% excise tax rate.

The Foundation intends to distribute at least \$17,300,000 of undistributed income in grants or qualifying expenditures by December 31, 2017, to comply with Internal Revenue Service regulations.

Some of the Foundation's private equity funds and real estate pooled funds have underlying investments which generate "unrelated business taxable income." This income is subject to Federal and state income taxes at "for-profit" corporation income tax rates.

Property and Equipment

The Foundation's office condominium, furniture and fixtures are capitalized at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (office condominium-20 years; office furniture and fixtures-5 years).

3. Investments

The net change in unrealized gains in 2016 are summarized as follows:

	<u>Recorded Cost</u>	<u>Recorded Value</u>	<u>Appreciation</u>
Balance, December 31, 2016	<u>\$479,108,737</u>	<u>\$542,833,882</u>	<u>\$63,725,145</u>
Balance, December 31, 2015	<u>\$486,802,605</u>	<u>\$535,188,234</u>	<u>\$48,385,629</u>
Increase in unrealized appreciation during the year, net of increased deferred Federal excise tax of \$306,790			<u>\$15,032,726</u>

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

3. Investments (Continued)

For 2015, the decrease in unrealized appreciation was \$22,700,268 net of decreased deferred Federal excise tax of \$463,271.

Receivables and payables on security sales and purchases pending settlement at December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Proceeds from sales	\$31,023,305	\$483,921
Payables from purchases	<u>-</u>	<u>(64,811)</u>
Net cash pending settlement	<u>\$31,023,305</u>	<u>\$419,110</u>

4. Fair Value of Investments

The Foundation follows Financial Accounting Standards Board (FASB) guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based on input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

FASB guidance provides for the use of the Net Asset Value ("NAV") as a "practical expedient" for estimating the fair value of certain investment funds that are not actively traded. The fair value of some of the Foundation's funds has been estimated using the NAV as reported by the fund manager. In 2016, the Foundation adopted new guidance that removes investments valued using the NAV as a practical expedient from the level classification of the fair value hierarchy. The "Valued at NAV" column is included for reconciliation purposes. The prior year numbers have been reclassified to conform to the current year presentation.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

4. Fair Value of Investments (Continued)

The Foundation's investments are categorized as follows:

		2016	
	Level 1	Valued at NAV	Total
Short-term cash investments	\$ 51,070,293		\$ 51,070,293
Fixed-income funds	78,885,633		78,885,633
Stocks			
Exchange traded funds			
US equities	95,824,319		95,824,319
Non-US equities	42,489,590		42,489,590
Asset allocation	48,044,121		48,044,121
Financials	9,451,301		9,451,301
Consumer discretionary	8,006,921		8,006,921
Information technology	7,597,820		7,597,820
Other	14,602,728		14,602,728
Commingled funds			
Global and international -			
long only		\$ 39,219,276	39,219,276
U.S. - long only		20,953,885	20,953,885
Equity - long/short		26,256,280	26,256,280
Tactical trading		10,949,351	10,949,351
Event-driven		13,954,795	13,954,795
Relative value		5,554,960	5,554,960
Private equity funds		42,019,056	42,019,056
Real estate pooled funds		27,953,553	27,953,553
	<u>\$355,972,726</u>	<u>\$186,861,156</u>	<u>\$542,833,882</u>

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

4. Fair Value of Investments (Continued)

		2015	
	Level 1	Valued at NAV	Total
Short-term cash investments	\$ 18,360,116		\$ 18,360,116
Fixed-income funds	71,321,309		71,321,309
Stocks			
Exchange traded funds			
US equities	86,416,924		86,416,924
Non-US equities	29,903,831		29,903,831
Asset allocation	46,448,911		46,448,911
Financials	8,116,477		8,116,477
Industrials	8,111,304		8,111,304
Consumer discretionary	11,392,466		11,392,466
Other	31,854,493		31,854,493
Commingled funds			
Global and international - long only		\$ 41,031,646	41,031,646
Equity - long/short		38,376,484	38,376,484
Tactical trading		25,165,600	25,165,600
Event-driven		27,148,834	27,148,834
Relative value		5,574,888	5,574,888
Private equity funds		41,718,050	41,718,050
Real estate pooled funds		44,246,901	44,246,901
	<u>\$311,925,831</u>	<u>\$223,262,403</u>	<u>\$535,188,234</u>

At December 31, 2016, commingled funds investments consist of the following:

<u>Strategy</u>	<u>Number of Funds</u>	<u>Liquidity</u>
Global and international - long only	3	Monthly
U.S. - long only	1	Monthly
Equity - long/short	5	Quarterly
Tactical trading	4	Quarterly
Event-driven	3	Annual
Relative value	1	Quarterly

Notice requirements for withdrawal range from 2 to 90 days.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

4. Fair Value of Investments (Continued)

At December 31, 2016, the Foundation has seven illiquid private equity funds. Two are partnerships with a value of \$17,038,416 and have remaining capital commitments of \$363,000. Their terms expire in 2017. Five are offshore funds and are valued at \$24,835,763 with terms expiring in 2023 through 2026 and have remaining capital commitments of \$27,414,000. In addition, the Foundation was a participant in three other private equity partnerships which were in liquidation. The recorded value of these investments is \$144,877.

Real estate investments included four funds valued at \$24,931,224 at December 31, 2016. There are no additional capital commitments for these funds and they have terms expiring in 2017 through 2021. In addition, four other real estate investments are in liquidation. The recorded value of these investments is \$3,022,329.

5. Office Condominium, Furniture, Equipment and Website

At December 31, 2016 and 2015 the fixed assets of the Foundation were as follows:

	<u>2016</u>	<u>2015</u>
Office condominium	\$4,622,812	\$4,622,812
Furniture, equipment and website	<u>774,948</u>	<u>803,486</u>
	5,397,760	5,426,298
Less: Accumulated depreciation	<u>4,865,046</u>	<u>4,623,097</u>
Office condominium, furniture, equipment and website, net	<u>\$ 532,714</u>	<u>\$ 803,201</u>

6. Pension Plan

The Foundation has a defined contribution retirement plan covering all eligible employees under which the Foundation contributes 14% of salary for employees. Pension expense under the plan for 2016 and 2015 amounted to \$280,528 and \$300,479, respectively.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

7. Grants Payable

The Foundation estimates that the non-current grants payable as of December 31, 2016 will be disbursed as follows:

2018	\$11,823,102
2019	5,605,595
2020	1,038,424
2021	22,237
2022	61,625
2023	<u>3,243</u>
	18,554,226
Discount to present value	<u>(947,869)</u>
	<u>\$17,606,357</u>

The amount of the discount to present value is calculated using the prime rate as quoted in the Wall Street Journal. The prime rate for 2016 and 2015 was 3.75% and 3.5%, respectively.

8. Social Innovation Fund

During 2012, the Foundation received notification that it had been awarded a \$2,000,000 grant from the Social Innovation Fund ("Federal Grant"). In 2014, an additional \$1,000,000 was awarded to the Foundation. Under the terms of the grant, the Foundation will match this grant with its own funds to implement the IMPACT depression care model in the rural Northwest. This will be accomplished through a coordinating center and sub-grantees.

Prior to 2015, the Foundation drew down \$331,019 from the grant and paid or approved payment of \$604,675.

In 2015, \$514,851 was drawn down on the grant. Grants paid or approved for payment totaled \$809,558.

In 2016, \$1,227,812 was drawn down on the grant. Grants paid or approved for payment totaled \$902,718.

In addition, there are conditional grants payable at December 31, 2016 of \$1,449,705 which includes the Federal grant and the Foundation matching portion. When the conditions are satisfied, the Foundation will receive proceeds under the Federal grant and will release this amount from temporarily restricted net assets.

9. Alternative Investment Incentive Fees

Most alternative investment vehicles provide for an incentive allocation of gains to the general partner or organizer of the Fund. These fees are deducted from the share of gains reported to the Foundation. It is estimated these fees were approximately \$2,000,000 in 2016 and \$3,000,000 in 2015.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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10. Other Investment Fees

Investments fees charged by certain investments such as exchange traded funds, mutual funds and offshore funds are directly deducted from the respective fund's capital balance. Accordingly, investment fees paid by these funds are not directly reported in the Foundation's financial statements. The approximate amount of these fees was \$3,400,000 in 2016 and \$3,600,000 in 2015.

11. Subsequent Events

In connection with the preparation of the financial statements, the Foundation evaluated subsequent events after the statement of financial position date of December 31, 2016, through June 14, 2017, which was the date the financial statements were available to be issued. The Foundation did not have any material recognizable subsequent events during this period.