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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 statement of financial position as of December 31, 2018 and the related statements of activities, cash flows and functional expenses for the year 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, 2018, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended December 31, 2018 The John A. Hartford Foundation, Inc. adopted new accounting guidance resulting in a change in the manner it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited The John A. Hartford Foundation, Inc.'s December 31, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 14, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Owen J. Flanagan & Co.".

May 30, 2019
New York, New York

THE JOHN A. HARTFORD FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Investments, at fair value (Notes 3, 4 and 5)		
Short-term cash investments	\$ 20,249,503	\$ 14,932,044
Fixed-income funds	113,877,555	96,934,229
Stocks and exchange traded funds	197,244,452	264,486,023
Commingled funds	156,363,007	153,659,962
Private equity funds	41,064,495	39,764,449
Real estate pooled funds	4,342,121	14,186,409
<u>Total Investments</u>	<u>533,141,133</u>	<u>583,963,116</u>
Grants receivable	-	50,727
Interest and dividends receivable	85,685	67,491
Prepayments and deposits	74,715	81,780
Prepaid taxes	742	87,130
	<u>161,142</u>	<u>287,128</u>
Office condominium, furniture, fixtures and equipment (net of accumulated depreciation of \$5,222,667 in 2018 and \$5,169,481 in 2017) (Note 6)	<u>214,456</u>	<u>255,092</u>
<u>Total Assets</u>	<u>\$ 533,516,731</u>	<u>\$ 584,505,336</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Grants payable (Note 3)		
Current	\$ 9,532,780	\$ 13,454,611
Non-current (Note 8)	9,949,106	8,644,321
Accounts payable	474,202	580,015
Accrued vacation pay	158,720	-
Deferred Federal excise tax (Note 3)	1,405,137	2,279,518
<u>Total Liabilities</u>	<u>21,519,945</u>	<u>24,958,465</u>
Net Assets		
Without Donor Restriction		
Board designated (Note 3)	962,275	530,638
Undesignated	511,034,511	559,016,233
<u>Total Net Assets (Exhibit B)</u>	<u>511,996,786</u>	<u>559,546,871</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 533,516,731</u>	<u>\$ 584,505,336</u>

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

THE JOHN A. HARTFORD FOUNDATION, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
<u>Without Donor Restriction</u>		
<u>REVENUE (LOSS)</u>		
Net investment revenue (loss) (Note 9)	\$ (24,428,496)	\$ 65,383,306
Excise and unrelated business income taxes	(398,891)	(303,330)
Deferred federal excise tax recovery (expense)	874,381	(1,005,016)
Net investment revenue (loss) after taxes	(23,953,006)	64,074,960
Donations	10,000	50
Net assets released from donor restriction	-	539,701
Total Revenue (Loss)	(23,943,006)	64,614,711
<u>EXPENSES (Note 3)</u>		
Grants and foundation-administered projects	18,838,221	11,087,600
Program administration	2,405,389	2,190,395
Total Program	21,243,610	13,277,995
Management and general	1,979,153	2,029,935
Investment oversight	384,316	345,910
Total Expenses	23,607,079	15,653,840
Change in Net Assets Without Donor Restriction	(47,550,085)	48,960,871
<u>With Donor Restriction</u>		
Net assets released from donor restriction	-	(539,701)
Reduction in grant amount	-	(143,350)
Change in Net Assets With Donor Restriction	-	(683,051)
Change in Net Assets for Year	(47,550,085)	48,277,820
Net Assets, Beginning of Year	559,546,871	511,269,051
Net Assets, End of Year	<u>\$ 511,996,786</u>	<u>\$ 559,546,871</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS PROVIDED (USED)</u>		
FROM OPERATING ACTIVITIES:		
Interest and dividends received	\$ 9,417,799	\$ 7,017,515
Cash distributions from private equity funds and real estate pooled funds	21,141,203	25,640,826
Grant funds received	50,727	732,243
Donations	10,000	50
Grants and foundation-administered projects paid (net of refunds)	(21,040,357)	(19,891,939)
Expenses and taxes paid	<u>(7,212,846)</u>	<u>(7,176,528)</u>
<u>Net Cash Flows Provided by Operating Activities</u>	<u>2,366,526</u>	<u>6,322,167</u>
FROM INVESTING ACTIVITIES:		
Purchases of furniture, fixtures and equipment	(148,977)	(27,373)
Proceeds from sale of investments	136,017,063	82,469,410
Purchases of investments	<u>(132,917,153)</u>	<u>(124,902,453)</u>
<u>Net Cash Flows Provided (Used) by Investing Activities</u>	<u>2,950,933</u>	<u>(42,460,416)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	5,317,459	(36,138,249)
Cash and equivalents, beginning of year	<u>14,932,044</u>	<u>51,070,293</u>
Cash and equivalents, end of year	<u>\$ 20,249,503</u>	<u>\$ 14,932,044</u>
<u>Supplemental Disclosure</u>		
Excise and unrelated business income taxes paid (refunded)	<u>\$ 312,503</u>	<u>\$ (448,503)</u>

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

THE JOHN A. HARTFORD FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018
(With Comparative Totals for 2017)

	Grants and Foundation- Administered Projects	Program Administration	Total Program	Management and General	Investment Oversight	Total 2018	Total 2017
Grants	\$ 17,656,767		\$ 17,656,767			\$ 17,656,767	\$ 9,548,047
Salaries and benefits	255,533	\$ 1,634,114	1,889,647	\$ 1,340,777	\$ 242,420	3,472,844	3,375,246
Travel	3,715	228,523	232,238	52,403	-	284,641	270,090
Meetings	101,637	-	101,637	-	-	101,637	94,302
Occupancy	19,298	99,708	119,006	73,720	13,123	205,849	202,352
Professional services	763,011	103,273	866,284	163,404	17,500	1,047,188	1,265,264
Trustee fees and Board costs	-	142,093	142,093	142,093	85,256	369,442	290,851
Publications	-	-	-	60,603	-	60,603	70,350
Office expenses	11,973	61,862	73,835	45,737	8,142	127,714	125,352
Technology	8,511	43,972	52,483	32,511	5,787	90,781	107,551
Depreciation	17,776	91,844	109,620	67,905	12,088	189,613	304,435
<u>Total</u>	<u>\$ 18,838,221</u>	<u>\$ 2,405,389</u>	<u>\$ 21,243,610</u>	<u>\$ 1,979,153</u>	<u>\$ 384,316</u>	<u>\$ 23,607,079</u>	<u>\$ 15,653,840</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, 2018 AND 2017****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. Change in Accounting Principle

On January 1, 2018, the Foundation adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires the Foundation to report based on two net asset classes, net assets with donor restriction and net assets without donor restriction. In addition, the new guidance requires the Foundation to report investment revenue net of direct expenses and to make certain expanded disclosures relating to (1) the liquidity and availability of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements.

3. 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.

Net Assets without Donor Restrictions - 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 net assets without donor restrictions are *Board Designated Net Assets*. This currently represents the discount on grants payable and contingent grants approved.

Net Assets with Donor Restrictions - These assets are either restricted for a specific purpose, or a future time period or to be invested in perpetuity. At December 31, 2018, the Foundation does not have any net assets with donor restrictions.

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. Dividends from securities are recorded on the ex-dividend date.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

3. Summary of Significant Accounting Policies (Continued)

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 approved is then recorded as designated net assets.

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 2018 and 2017 the Foundation's rate was 2%.

Deferred Federal excise taxes payable are also recorded on the unrealized appreciation of investments using the 2% excise tax rate, as the rate is not determinable until the year in which gains are realized.

The Foundation intends to distribute at least \$22,500,000 of undistributed income in grants or qualifying expenditures by December 31, 2019, 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 ("UBIT"). This income is subject to Federal and state income taxes at "for-profit" corporation income tax rates. In 2018, these funds reported UBIT losses.

Property and Equipment

The Foundation's office condominium, furniture, fixtures and equipment 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).

Allocation of Expenses

The financial statements report categories of expenses that are attributable to program and supporting services. These expenses include salaries and benefits, professional fees, occupancy and travel. Salaries and benefits are allocated based on estimates of time spent, occupancy, office and technology expenses are allocated based on number of full time employees and the remaining expenses are based on estimates of the category benefitted.

THE JOHN A. HARTFORD FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2018 AND 2017****3. Summary of Significant Accounting Policies** (Continued)**Prior Year Information**

The financial statements include certain prior year summarized comparative information in total but does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements as of and for the year ended December 31, 2017 from which the summary comparative information was derived. Certain amounts in the 2017 financial statements have been reclassified for comparative purposes only to conform to the 2018 presentation.

4. Net Cash Pending Settlement

Receivables and payables on security sales and purchases pending settlement at December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Proceeds from sales	\$ 1,486,765	\$ 39,664
Payables from purchases	<u>(154,080)</u>	<u>-</u>
Net Cash pending settlement	<u>\$ 1,332,685</u>	<u>\$ 39,664</u>

These are shown as part of short-term cash investments.

5. 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 accordance with FASB guidance, investments valued using the NAV as a practical expedient are removed from the level classification of the fair value hierarchy. The "Valued at NAV" column is included for reconciliation purposes.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

5. Fair Value of Investments (Continued)

The Foundation's investments are categorized as follows:

		2018	
	Level 1	Valued at NAV	Total
Short-term cash investments	\$ 20,249,503		\$ 20,249,503
Fixed-income funds	113,877,555		113,877,555
Stocks			
Exchange traded funds			
US equities	102,145,489		102,145,489
Non-US equities	38,647,887		38,647,887
Financials	13,163,027		13,163,027
Consumer discretionary	8,459,012		8,459,012
Information technology	7,727,852		7,727,852
Other	27,101,185		27,101,185
Commingled funds			
Global and international - long only		\$ 56,000,926	56,000,926
U.S. long only		19,802,291	19,802,291
Equity - long/short		26,916,673	26,916,673
Tactical trading		13,641,132	13,641,132
Event-driven		20,776,013	20,776,013
Relative value		19,225,972	19,225,972
Private equity funds		41,064,495	41,064,495
Real estate pooled funds		4,342,121	4,342,121
	<u>\$ 331,371,510</u>	<u>\$ 201,769,623</u>	<u>\$533,141,133</u>

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

5. Fair Value of Investments (Continued)

	2017		
	Level 1	Valued at NAV	Total
Short-term cash investments	\$ 14,932,044		\$ 14,932,044
Fixed-income funds	96,934,229		96,934,229
Stocks			
Exchange traded funds			
US equities	101,142,388		101,142,388
Non-US equities	52,411,057		52,411,057
Asset allocation	45,905,652		45,905,652
Financials	17,161,362		17,161,362
Consumer discretionary	11,415,692		11,415,692
Information technology	12,463,112		12,463,112
Other	23,986,760		23,986,760
Commingled funds			
Global and international -			
long only		\$ 51,803,937	51,803,937
U.S. long only		25,666,675	25,666,675
Equity - long/short		36,659,629	36,659,629
Tactical trading		13,183,482	13,183,482
Event-driven		20,139,855	20,139,855
Relative value		6,206,384	6,206,384
Private equity funds		39,764,449	39,764,449
Real estate pooled funds		14,186,409	14,186,409
	\$ 376,352,296	\$ 207,610,820	\$583,963,116

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

5. Fair Value of Investments (Continued)

At December 31, 2018, commingled funds consist of the following:

<u>Strategy</u>	<u># of Funds</u>	<u>Liquidity</u>	<u>Fair Value</u>
Global and international - long only	3	Monthly	<u>\$ 56,000,926</u>
U.S. long only	1	Monthly	<u>19,802,291</u>
Equity long/short	1	Monthly	5,613,575
	4	Quarterly	<u>21,303,098</u>
			<u>26,916,673</u>
Tactical Trading	3	Monthly	10,226,519
	1	Quarterly	<u>3,414,613</u>
			<u>13,641,132</u>
Event Driven	4	Quarterly	<u>20,776,013</u>
Relative Value	1	Semi-Monthly	6,626,890
	1	Monthly	7,144,402
	1	Quarterly	<u>5,454,680</u>
			<u>19,225,972</u>
			<u>\$ 156,363,007</u>

Notice requirements for withdrawals range from 2 to 95 days.

At December 31, 2018, the Foundation has nine illiquid private equity funds. One is a partnership with a value of \$7,138,990 and has a remaining capital commitment of \$10,000. Its term expires in 2020. Eight are offshore funds and are valued at \$33,880,156 with terms expiring from 2023 through 2028 and have remaining capital commitments of \$63,943,000. In addition, the Foundation was a participant in two other private equity partnerships that are in liquidation. The recorded value of these investments is \$45,351.

Real estate investments include two funds valued at \$1,295,454 at December 31, 2018. There are no additional capital commitments for these funds and they have terms expiring in 2019 through 2021. In addition, there are three other real estate investments held that are in liquidation. The fair value of these investments is \$3,046,667.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

6. Office Condominium, Furniture, Fixtures and Equipment

At December 31, 2018 and 2017 the fixed assets of the Foundation were as follows:

	<u>2018</u>	<u>2017</u>
Office condominium	\$4,643,452	\$4,622,812
Furniture, fixtures and equipment	<u>793,671</u>	<u>801,761</u>
	5,437,123	5,424,573
Less: Accumulated depreciation	<u>(5,222,667)</u>	<u>(5,169,481)</u>
Office condominium, furniture, fixtures and equipment	<u>\$ 214,456</u>	<u>\$ 255,092</u>

7. 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 2018 and 2017 amounted to \$297,778 and \$298,307, respectively.

8. Grants Payable

The Foundation estimates that the non-current grants payable as of December 31, 2018 will be disbursed as follows:

2020	\$ 5,499,751
2021	2,852,801
2022	2,419,912
2023	<u>138,917</u>
	10,911,381
Discount to present value	<u>(962,275)</u>
	<u>\$ 9,949,106</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 2018 and 2017 was 5.5% and 4.5%, respectively.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

9. Net Investment Revenue (Loss)

The detail of net investment revenue (loss) is as follows:

	2018	2017
Short-term investment earnings	\$ 337,357	\$ 131,333
Dividends, interest and partnership earnings	8,938,141	8,004,602
Net realized capital gains	12,010,867	9,537,394
Net change in unrealized appreciation	(43,719,071)	50,250,807
	(22,432,706)	67,924,136
Direct investment expenses	(1,995,790)	(2,540,830)
Net investment revenue (loss) before taxes	(24,428,496)	65,383,306
Excise and unrelated business income taxes	(398,891)	(303,330)
Deferred federal excise tax recovery (expense)	874,381	(1,005,016)
Net investment revenue (loss) after taxes	<u>\$ (23,953,006)</u>	<u>\$ 64,074,960</u>

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 \$3,900,000 in 2018 and \$3,800,000 in 2017.

11. Liquidity and Availability of Financial Assets

The Foundation's financial assets and resources available to meet cash needs for general expenditures and capital commitments within one year of the date of the statement of financial position were as follows:

Financial Assets	
Investments	\$ 533,141,133
Interest and dividends receivable	85,685
	533,226,818
Less: Illiquid investments	(45,406,616)
Financial assets available to meet general expenditures and capital commitments over the next twelve months	<u>\$ 487,820,202</u>

Annually the Board approves a spending policy based on a three-year average of its investments.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

12. 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, 2018, through May 30, 2019, 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.

13. Uncertain Tax Positions

The Foundation has not entered into any uncertain tax positions that would require financial statement recognition. It is no longer subject to audits by the applicable taxing jurisdictions prior to periods ending December 31, 2015.