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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, 2019 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, 2019, 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.

Report on Summarized Comparative Information

We have previously audited The John A. Hartford Foundation, Inc.'s December 31, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 30, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Quinn J. Flanagan + Co.

June 11, 2020
New York, New York

THE JOHN A. HARTFORD FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019
(With Comparative Totals for 2018)

	2019	2018
<u>ASSETS</u>		
Investments, at fair value (Notes 2, 3 and 4)		
Short-term cash investments	\$ 17,790,746	\$ 20,249,503
Fixed-income funds	110,029,464	113,877,555
Stocks and exchange traded funds	211,716,599	197,244,452
Commingled funds	205,358,869	156,363,007
Private equity funds	50,682,433	41,064,495
Private credit funds	5,045,301	-
Real estate pooled funds	1,916,289	4,342,121
<u>Total Investments</u>	602,539,701	533,141,133
Interest and dividends receivable	44,591	85,685
Prepayments and deposits	121,829	74,715
Prepaid taxes	159,136	742
	325,556	161,142
Office condominium, furniture, fixtures and equipment (net of accumulated depreciation of \$5,276,097 in 2019 and \$5,222,667 in 2018) (Note 5)	222,860	214,456
<u>Total Assets</u>	<u>\$ 603,088,117</u>	<u>\$ 533,516,731</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Grants payable (Note 2)		
Current	\$ 9,937,446	\$ 9,532,780
Non-current (Note 7)	18,126,171	9,949,106
Accounts payable	477,418	474,202
Accrued vacation pay	177,960	158,720
Deferred Federal excise tax (Note 2)	2,030,607	1,405,137
<u>Total Liabilities</u>	30,749,602	21,519,945
Net Assets		
Without Donor Restriction		
Board designated (Note 2)	1,730,990	962,275
Undesignated	570,607,525	511,034,511
<u>Total Net Assets (Exhibit B)</u>	572,338,515	511,996,786
<u>Total Liabilities and Net Assets</u>	<u>\$ 603,088,117</u>	<u>\$ 533,516,731</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, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
<u>REVENUE (LOSS)</u>		
Net investment revenue (loss) (Note 8)	\$ 96,430,233	\$ (24,428,496)
Excise and unrelated business income taxes	(185,420)	(398,891)
Deferred federal excise tax (expense) recovery	(625,470)	874,381
Net investment revenue (loss) after taxes	95,619,343	(23,953,006)
Donations	-	10,000
<u>Total Revenue (Loss)</u>	<u>95,619,343</u>	<u>(23,943,006)</u>
<u>EXPENSES (Note 2)</u>		
Grants and foundation-administered projects	30,543,985	18,838,221
Program administration	2,419,519	2,405,389
Total Program	32,963,504	21,243,610
Management and general	1,967,571	1,979,153
Investment oversight	346,539	384,316
<u>Total Expenses</u>	<u>35,277,614</u>	<u>23,607,079</u>
Change in Net Assets for Year	60,341,729	(47,550,085)
Net Assets, Beginning of Year	511,996,786	559,546,871
Net Assets, End of Year	<u>\$ 572,338,515</u>	<u>\$ 511,996,786</u>

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

THE JOHN A. HARTFORD FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS PROVIDED (USED)</u>		
FROM OPERATING ACTIVITIES:		
Interest and dividends received	\$ 9,108,338	\$ 9,417,799
Cash distributions from private equity funds and real estate pooled funds	10,094,358	21,141,203
Grant funds received	-	50,727
Donations	-	10,000
Grants and foundation-administered projects paid (net of refunds)	(21,568,408)	(21,040,357)
Expenses and taxes paid	<u>(7,473,459)</u>	<u>(7,212,846)</u>
<u>Net Cash Flows (Used) Provided by Operating Activities</u>	<u>(9,839,171)</u>	<u>2,366,526</u>
FROM INVESTING ACTIVITIES:		
Purchases of furniture, fixtures and equipment	(76,647)	(148,977)
Proceeds from sale of investments	76,472,064	136,017,063
Purchases of investments	<u>(69,015,003)</u>	<u>(132,917,153)</u>
<u>Net Cash Flows Provided by Investing Activities</u>	<u>7,380,414</u>	<u>2,950,933</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(2,458,757)	5,317,459
Cash and equivalents, beginning of year	<u>20,249,503</u>	<u>14,932,044</u>
Cash and equivalents, end of year	<u><u>\$ 17,790,746</u></u>	<u><u>\$ 20,249,503</u></u>
<u>Supplemental Disclosure</u>		
Excise and unrelated business income taxes paid	<u><u>\$ 343,814</u></u>	<u><u>\$ 312,503</u></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, 2019
(With Comparative Totals for 2018)

	Grants and Foundation- Administered Projects	Program Administration	Total Program	Management and General	Investment Oversight	Total 2019	Total 2018
Grants	\$ 29,276,809		\$ 29,276,809			\$ 29,276,809	\$ 17,656,767
Salaries and benefits	258,721	\$ 1,748,832	2,007,553	\$ 1,346,824	\$ 232,133	3,586,510	3,472,844
Travel	3,285	227,706	230,991	67,959	-	298,950	284,641
Meetings	99,221	-	99,221	-	-	99,221	101,637
Occupancy	17,114	99,832	116,946	65,376	11,638	193,960	205,849
Professional services	862,915	79,211	942,126	192,781	17,500	1,152,407	1,047,188
Trustee fees and Board costs	-	112,736	112,736	112,736	67,642	293,114	369,442
Publications	-	-	-	82,875	-	82,875	60,603
Office expenses	10,920	63,697	74,617	41,717	7,425	123,759	127,714
Technology	8,979	52,380	61,359	34,301	6,106	101,766	90,781
Depreciation	6,021	35,125	41,146	23,002	4,095	68,243	189,613
<u>Total</u>	<u>\$ 30,543,985</u>	<u>\$ 2,419,519</u>	<u>\$ 32,963,504</u>	<u>\$ 1,967,571</u>	<u>\$ 346,539</u>	<u>\$ 35,277,614</u>	<u>\$ 23,607,079</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, 2019 AND 2018****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.

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, 2019, 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 and credit 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.

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 grant payment schedule and discounts the non-current 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.

THE JOHN A. HARTFORD FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2019 AND 2018****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 2019 and 2018 the Foundation's rate was 1% and 2%, respectively.

Deferred Federal excise taxes payable are also recorded on the unrealized appreciation of investments using the 1.39% excise tax rate which is the rate effective for years beginning after December 31, 2019.

The Foundation intends to distribute at least \$24,000,000 of undistributed income in grants or qualifying expenditures by December 31, 2020, 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" corporate income tax rates. In 2019, 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 program or supporting service benefitted.

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, 2018 from which the summary comparative information was derived.

THE JOHN A. HARTFORD FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2019 AND 2018****3. Net Cash Pending Settlement**

Receivables and payables on security sales and purchases pending settlement at December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Proceeds from sales	\$ 2,021,272	\$ 1,486,765
Payables from purchases	<u>(43,476)</u>	<u>(154,080)</u>
Net cash pending settlement	<u>\$ 1,977,796</u>	<u>\$ 1,332,685</u>

Net cash pending settlement is reported as part of short-term cash investments.

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 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, 2019 AND 2018****4. Fair Value of Investments** (Continued)

The Foundation's investments are categorized as follows:

		2019	
	Level 1	Valued at NAV	Total
Short-term cash investments	\$ 17,790,746		\$ 17,790,746
Fixed-income funds	110,029,464		110,029,464
Stocks and exchange traded funds			
Exchange traded funds			
US equities	108,502,102		108,502,102
Non-US equities	45,741,520		45,741,520
Financials	12,998,366		12,998,366
Communication services	9,496,536		9,496,536
Consumer discretionary	8,849,175		8,849,175
Other	26,128,900		26,128,900
Commingled funds			
Global and international -			
long only		\$ 94,431,762	94,431,762
U.S. long only		20,997,435	20,997,435
Equity - long/short		30,504,400	30,504,400
Tactical trading		14,453,757	14,453,757
Event-driven		23,942,801	23,942,801
Relative value		21,028,714	21,028,714
Private equity funds		50,682,433	50,682,433
Private credit funds		5,045,301	5,045,301
Real estate pooled funds		1,916,289	1,916,289
	<u>\$ 339,536,809</u>	<u>\$ 263,002,892</u>	<u>\$602,539,701</u>

THE JOHN A. HARTFORD FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2019 AND 2018****4. Fair Value of Investments** (Continued)

	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 and exchange traded funds			
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
	\$ 331,371,510	\$ 201,769,623	\$533,141,133

THE JOHN A. HARTFORD FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2019 AND 2018****4. Fair Value of Investments** (Continued)

At December 31, 2019, 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	1	Weekly	\$ 16,435,109
	3	Monthly	77,996,653
			<u>94,431,762</u>
U.S. long only	1	Monthly	<u>20,997,435</u>
Equity - long/short	1	Monthly	6,903,086
	3	Quarterly	18,555,723
	1	(A)	5,045,591
			<u>30,504,400</u>
Tactical Trading	4	Monthly	<u>14,453,757</u>
Event-Driven	2	Quarterly	17,678,496
	1	Annual	6,264,305
			<u>23,942,801</u>
Relative Value	1	Semi-Monthly	6,384,630
	1	Monthly	8,415,987
	1	Quarterly	6,228,097
			<u>21,028,714</u>
			<u>\$ 205,358,869</u>

(A) Illiquid until 9/25/22, then quarterly liquidity

Notice requirements for withdrawals range from 2 to 95 days.

At December 31, 2019, the Foundation has nine illiquid private equity funds. One is a partnership with a value of \$6,670,411 and has a remaining capital commitment of \$8,742. Its term expires in 2020. Eight are offshore funds and are valued at \$43,990,295 with terms expiring from 2023 through 2029 and have remaining capital commitments of \$52,940,674. In addition, the Foundation was a participant in two other private equity partnerships that are in liquidation. The recorded value of these investments is \$21,729. The Foundation also has a private credit fund that is valued at \$5,045,301 and has a remaining capital commitment of \$12,104,817. Its term expires in 2033.

THE JOHN A. HARTFORD FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2019 AND 2018****4. Fair Value of Investments** (Continued)

Real estate investments include four funds valued at \$1,916,289 at December 31, 2019. There are no additional capital commitments for these funds and they are in the process of liquidating.

5. Office Condominium, Furniture, Fixtures and Equipment

At December 31, 2019 and 2018 the fixed assets of the Foundation were as follows:

	<u>2019</u>	<u>2018</u>
Office condominium	\$4,643,452	\$4,643,452
Furniture, fixtures and equipment	<u>855,505</u>	<u>793,671</u>
	5,498,957	5,437,123
Less: Accumulated depreciation	<u>(5,276,097)</u>	<u>(5,222,667)</u>
Office condominium, furniture, fixtures and equipment	<u>\$ 222,860</u>	<u>\$ 214,456</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 2019 and 2018 amounted to \$307,972 and \$297,778, respectively.

7. Grants Payable

The Foundation estimates that the non-current grants payable as of December 31, 2019 will be disbursed as follows:

2021	\$ 12,343,779
2022	6,211,820
2023	<u>782,615</u>
	19,338,214
Discount to present value	<u>(1,212,043)</u>
	<u>\$ 18,126,171</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 2019 and 2018 was 4.75% and 5.5%, respectively.

THE JOHN A. HARTFORD FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2019 AND 2018****8. Net Investment Revenue (Loss)**

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

	<u>2019</u>	<u>2018</u>
Short-term investment earnings	\$ 322,993	\$ 337,357
Dividends, interest and partnership earnings	8,808,967	8,938,141
Net realized capital gains	13,613,891	12,010,867
Net change in unrealized appreciation	75,830,005	(43,719,071)
	<u>98,575,856</u>	<u>(22,432,706)</u>
Direct investment expenses	(2,145,623)	(1,995,790)
Net investment revenue (loss) before taxes	96,430,233	(24,428,496)
Excise and unrelated business income taxes	(185,420)	(398,891)
Deferred federal excise tax (expense) recovery	(625,470)	874,381
Net investment revenue (loss) after taxes	<u>\$ 95,619,343</u>	<u>\$ (23,953,006)</u>

9. 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 \$3,800,000 in 2019 and \$3,900,000 in 2018.

10. 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	\$ 602,539,701
Interest and dividends receivable	<u>44,591</u>
	602,584,292
Less: Illiquid investments	<u>(62,689,614)</u>
Financial assets available to meet general expenditures and capital commitments over the next twelve months	<u>\$ 539,894,678</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, 2019 AND 2018****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, 2019, through June 11, 2020, 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.

The Foundation's operations and financial performance may be affected by the recent coronavirus outbreak which has spread globally and is affecting economic conditions throughout the world. As the outbreak continues and conditions evolve, the Foundation may experience a disruption in operations as well as a decline in the fair value of investments. The outbreak is likely to adversely affect the Foundation's activities, financial conditions, and change in net assets on an interim basis. An estimate amount of the total loss due to the outbreak cannot be determined at this time.

12. 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, 2016.