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DONALD F. SCHERER

Independent Auditors' Report

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

Ladies and Gentlemen:

We have audited the balance sheets of The John A. Hartford Foundation, Inc. (a New York not-for-profit corporation) as of December 31, 2011 and 2010 and the related statements of revenues, grants and expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 The John A. Hartford Foundation, Inc. as of December 31, 2011 and 2010 and its changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,



June 6, 2012
New York, New York

THE JOHN A. HARTFORD FOUNDATION, INC.
BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Investments, at fair value, or adjusted cost (Notes 2, 3 and 4)		
Short-term cash investments	\$ 53,482,860	\$ 46,863,327
Stocks	65,322,787	93,667,379
Commingled funds	150,094,666	122,529,998
Investment partnerships	82,327,780	105,047,035
Real estate pooled funds	<u>107,348,694</u>	<u>113,576,294</u>
<u>Total Investments</u>	<u>458,576,787</u>	<u>481,684,033</u>
Interest and dividends receivable	91,931	150,563
Prepayments and deposits	82,123	67,337
Prepaid taxes	<u>297,488</u>	<u>498,961</u>
	<u>471,542</u>	<u>716,861</u>
Office condominium, furniture, equipment and website (net of accumulated depreciation of \$3,654,788 in 2011 and \$3,363,259 in 2010)(Note 5)	<u>1,688,993</u>	<u>1,924,272</u>
<u>Total Assets</u>	<u>\$460,737,322</u>	<u>\$484,325,166</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Grants payable (Note 2)		
Current	\$ 16,699,440	\$ 18,270,600
Non-current (Note 7)	14,161,278	30,829,670
Accounts payable	284,568	625,362
Deferred Federal excise tax (Note 2)	<u>140,910</u>	<u>280,815</u>
<u>Total Liabilities</u>	<u>31,286,196</u>	<u>50,006,447</u>
Net Assets - Unrestricted		
Board designated (Note 2)	675,639	1,922,660
Undesignated	<u>428,775,487</u>	<u>432,396,059</u>
<u>Total Net Assets (Exhibit B)</u>	<u>429,451,126</u>	<u>434,318,719</u>
<u>Total Liabilities and Net Assets</u>	<u>\$460,737,322</u>	<u>\$484,325,166</u>

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

THE JOHN A. HARTFORD FOUNDATION, INC.
STATEMENTS OF REVENUES, GRANTS AND EXPENSES
AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>REVENUES</u>		
Short-term investment earnings	\$ 12,090	\$ 14,808
Dividends, interest and partnership earnings	12,251,037	7,745,432
Net realized capital gains	15,562,325	29,248,335
Net change in unrealized appreciation, net of deferred Federal excise tax (Note 3)	<u>(20,896,108)</u>	<u>10,670,950</u>
	6,929,344	47,679,525
Direct investment expenses	(5,223,074)	(5,751,231)
Excise and unrelated business income taxes	<u>(361,099)</u>	<u>22,403</u>
<u>Net Investment Revenue</u>	<u>1,345,171</u>	<u>41,950,697</u>
<u>GRANTS AND EXPENSES</u>		
Grant expense (less cancellations and refunds of \$1,287,943 in 2011 and \$243,948 in 2010)	1,354,413	5,847,010
Foundation-administered projects	471,933	475,128
Grant-related direct expenses	199,338	176,948
Personnel salaries and benefits (Note 6)	2,586,558	3,143,803
Office and other expenses	1,245,857	1,206,744
Depreciation	291,529	286,917
Professional services	<u>63,136</u>	<u>62,656</u>
<u>Total Grants and Expenses</u>	<u>6,212,764</u>	<u>11,199,206</u>
Increase (Decrease) in Net Assets for the Year	(4,867,593)	30,751,491
Net Assets, beginning of year	<u>434,318,719</u>	<u>403,567,228</u>
<u>NET ASSETS, END OF YEAR (Exhibit A)</u>	<u>\$429,451,126</u>	<u>\$434,318,719</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS PROVIDED (USED)</u>		
FROM OPERATING ACTIVITIES:		
Interest and dividends received	\$ 1,168,967	\$ 1,246,259
Cash distributions from partnerships and real estate pooled funds	28,771,198	18,736,460
Grants and Foundation-administered projects paid (net of refunds)	(20,054,596)	(24,068,360)
Expenses and taxes paid	<u>(7,099,445)</u>	<u>(6,659,894)</u>
<u>Net Cash Flows Provided (Used) By Operating Activities</u>	<u>2,786,124</u>	<u>(10,745,535)</u>
FROM INVESTING ACTIVITIES:		
Purchase of equipment and website	(56,250)	(21,550)
Proceeds from sale of investments	128,927,573	137,279,670
Purchases of investments	<u>(125,043,619)</u>	<u>(155,038,063)</u>
<u>Net Cash Flows Provided (Used) By Investing Activities</u>	<u>3,827,704</u>	<u>(17,779,943)</u>
Net Increase (Decrease) in Cash and Equivalents	6,613,828	(28,525,478)
Cash and equivalents, beginning of year	<u>46,863,327</u>	<u>75,388,805</u>
Cash and equivalents, end of year	<u><u>\$ 53,477,155</u></u>	<u><u>\$ 46,863,327</u></u>
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Increase (Decrease) in Net Assets	\$ (4,867,593)	\$ 30,751,491
Adjustment to reconcile increase in net assets to net cash used by operating activities:		
Depreciation	291,529	286,917
Decrease in interest and dividends receivable	58,632	29,825
Decrease (Increase) in prepayments and deposits	(14,786)	2,352
Decrease in grants payable	(18,239,552)	(17,730,448)
Increase (Decrease) in accounts payable	(340,794)	289,848
Net realized gains and change in unrealized appreciation	5,024,209	(40,132,652)
Other	<u>20,874,479</u>	<u>15,757,132</u>
	<u><u>\$ 2,786,124</u></u>	<u><u>\$ (10,745,535)</u></u>

THE JOHN A. HARTFORD FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>Supplemental Information:</u>		
Detail of other:		
Investment partnerships and real estate pooled funds:		
Cash distributions	\$28,771,198	\$18,736,460
Add: investment fees reported	3,052,512	3,553,765
Less: reported income	<u>(11,152,792)</u>	<u>(6,543,807)</u>
	<u>20,670,918</u>	<u>15,746,418</u>
Tax expense	670,673	190,964
Net taxes paid	<u>(467,112)</u>	<u>(180,250)</u>
Difference	<u>203,561</u>	<u>10,714</u>
 <u>Total - Other</u>	 <u>\$20,874,479</u>	 <u>\$15,757,132</u>
 Composition of Cash and Equivalents:		
Short-term cash investments	\$53,482,860	\$46,863,327
Unrealized gain on foreign cash and short-term cash investments	<u>(5,705)</u>	<u>-</u>
	<u>\$53,477,155</u>	<u>\$46,863,327</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, 2011 AND 2010

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 health care in America 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.

All net assets of the Foundation are unrestricted.

Investments

Investments in marketable securities are valued at their fair value (quoted market price). Investment and real estate partnerships where the Foundation has the right to withdraw its investment at least annually are valued at their fair value as reported by the partnership. Investment partnerships, real estate partnerships and REIT's which are illiquid in nature are recorded at cost adjusted annually for the Foundation's share of distributions and undistributed realized income or loss. Valuation allowances are also recorded on a group basis for declines in fair value below recorded cost. 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 grants are authorized by the Board of Trustees and the recipients have been notified. 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 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 six-month U.S. Treasury Bills.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

2. Summary of Significant Accounting Policies (Continued)

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 2011 and 2010 the Foundation's rate was 2% and 1%, respectively.

Investment expenses for 2011 include direct investment fees of \$5,223,074 and \$365,000 of allocated salaries, legal fees and other office expenses. The 2010 comparative numbers were \$5,751,231 and \$520,000.

Deferred Federal excise taxes payable were also recorded on the unrealized appreciation of investments using 2% and 1% excise tax rate in 2011 and 2010.

The Foundation intends to distribute at least \$12,200,000 of undistributed income in grants or qualifying expenditures by December 31, 2012, to comply with Internal Revenue Service regulations.

Some of the Foundation's investment partnerships 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 2011 are summarized as follows:

	<u>Recorded Cost</u>	<u>Recorded Value</u>	<u>Appreciation</u>
Balance, December 31, 2011	<u>\$451,531,294</u>	<u>\$458,576,787</u>	<u>\$ 7,045,493</u>
Balance, December 31, 2010	<u>\$453,602,527</u>	<u>\$481,684,033</u>	<u>\$ 28,081,506</u>
Decrease in unrealized appreciation during the year, net of decreased deferred Federal excise tax of \$139,905			<u>\$ 20,896,108</u>

For 2010, the increase in unrealized appreciation was \$10,670,950, net of increased deferred Federal excise tax of \$107,787.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

3. Investments (Continued)

Receivables and payables on security sales and purchases pending settlement at December 31, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Proceeds from sales	\$1,632,338	\$22,619,671
Payables from purchases	<u>(376,640)</u>	<u>(20,991,960)</u>
Net cash pending settlement	<u>\$1,255,698</u>	<u>\$ 1,627,711</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.

The fair value of some funds has been estimated using the Net Asset Value ("NAV") as reported by the management of the fund. FASB guidance provides for the use of the NAV as a "practical expedient" for estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the Foundation's interest in the fund. Its classification within level 2 or 3 is based on the Foundation's ability to redeem its interest in the near term.

Excluded from these categories are illiquid investments valued at lower of adjusted cost or fair value.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

4. Fair Value of Investments (Continued)

The Foundation's investments are categorized as follows:

	2011				
	Level 1	Level 2	Level 3	Excluded	Total
Short-term cash investments	\$ 53,482,860				\$ 53,482,860
Stocks					
Information technology	17,071,752				17,071,752
Consumer discretionary	12,475,353				12,475,353
Health care	10,824,251				10,824,251
Other	24,951,431				24,951,431
Commingled funds					
International		\$ 44,683,971			44,683,971
Credit			\$28,580,753		28,580,753
Fixed income hedge			22,088,539		22,088,539
Domestic and other		53,658,114	1,083,289		54,741,403
Investment partnerships					
Private equity and venture capital				\$ 36,733,692	36,733,692
Event driven				33,277,740	33,277,740
International equity		12,316,348			12,316,348
Real estate pooled funds				107,348,694	107,348,694
	<u>\$118,805,647</u>	<u>\$110,658,433</u>	<u>\$51,752,581</u>	<u>177,360,126</u>	<u>\$458,576,787</u>
	2010				
	Level 1	Level 2	Level 3	Excluded	Total
Short-term cash investments	\$ 46,863,327				\$ 46,863,327
Stocks					
Information technology	20,816,384				20,816,384
Financials	17,479,471				17,479,471
Health care	12,074,796				12,074,796
Other	43,296,728				43,296,728
Commingled funds					
International		\$ 42,867,087			42,867,087
Credit			\$24,106,956		24,106,956
Fixed income hedge			15,000,000		15,000,000
Other		38,617,147	1,938,808		40,555,955
Investment partnerships					
Private equity and venture capital				\$ 35,774,447	35,774,447
Event driven				34,233,736	34,233,736
International equity		14,401,031			14,401,031
Reits		20,637,821			20,637,821
Real estate pooled funds				113,576,294	113,576,294
	<u>\$140,530,706</u>	<u>\$116,523,086</u>	<u>\$41,045,764</u>	<u>183,584,477</u>	<u>\$481,684,033</u>

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

4. Fair Value of Investments (Continued)

At December 31, 2011, the level 3 investments consist of the following: two fixed income hedge investments, one with the ability to withdraw 1/3 per year (\$20,614,532) and the other is a new investment that has limited marketability (\$1,474,007); an investment in one value-oriented credit hedge fund that has annual liquidity with 60 days notice; and the remaining illiquid side pocket investments of a former fund investment. As they become liquid, they will be redeemed.

Of the level 2 investments, \$33,508,345 have monthly liquidity and the remaining amount, \$76,808,004 have quarterly liquidity.

The Foundation is a participant in two private equity partnerships. As of December 31, 2011, \$65,684,000 had been invested in these partnerships and future commitments for additional investment aggregated \$14,316,000. These investments are illiquid and have terms expiring through 2016. In addition, the Foundation was a participant in four other private equity and venture capital partnerships which were in liquidation. The recorded value of these investments is \$2,100,258.

The Foundation is a participant in an event-driven partnership where its full commitment of \$30,000,000 has been funded. The investment is illiquid and the term ends in 2012 but may be extended for up to two years.

The Foundation is also a participant in another event-driven partnership that is in liquidation. Its recorded value is \$192,903.

Real estate investments included six limited partnerships and five real estate investment trusts. The Foundation had invested \$173,350,000 at December 31, 2011, and future commitments for additional investment aggregated \$5,650,000. These commitments may be called at various times through 2012.

In addition, three other real estate investments are in liquidation. The recorded value of these investments is \$343,406.

These funds are illiquid in nature and have terms remaining up to ten years.

The change in level 3 investments for 2011 consists of the following:

	<u>Credit</u>	<u>Fixed Income Hedge</u>	<u>Domestic And Other</u>	<u>Total</u>
Balance, January 1, 2011	\$24,106,956	\$15,000,000	\$1,938,808	\$41,045,764
Realized gains			428,188	428,188
Unrealized gain (loss)	(526,203)	(411,461)	(405,604)	(1,343,268)
Purchases	5,000,000	7,500,000		12,500,000
Redemptions			(878,103)	(878,103)
Balance, December 31, 2011	<u>\$28,580,753</u>	<u>\$22,088,539</u>	<u>\$1,083,289</u>	<u>\$51,752,581</u>

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

4. Fair Value of Investments (Continued)

The change in level 3 investments for 2010 consists of the following:

	<u>Credit</u>	<u>Global</u>	<u>Fixed Income Hedge</u>	<u>Other</u>	<u>Total</u>
Balance, January 1, 2010	\$21,642,985	\$17,660,973		\$2,999,846	\$42,303,804
Realized gain		1,266,287		601,874	1,868,161
Unrealized gain (loss)	2,463,971	(1,660,973)		(222,546)	580,452
Purchases			\$15,000,000		15,000,000
Redemptions		(17,266,287)		(1,440,366)	(18,706,653)
Balance, December 31, 2010	<u>\$24,106,956</u>	<u>\$ -</u>	<u>\$15,000,000</u>	<u>\$1,938,808</u>	<u>\$41,045,764</u>

5. Office Condominium, Furniture, Equipment and Website

At December 31, 2011 and 2010 the fixed assets of the Foundation were as follows:

	<u>2011</u>	<u>2010</u>
Office condominium	\$4,622,812	\$4,622,812
Furniture, equipment and website	<u>720,969</u>	<u>664,719</u>
	5,343,781	5,287,531
Less: Accumulated depreciation	<u>3,654,788</u>	<u>3,363,259</u>
Office condominium, furniture, equipment and website, net	<u>\$1,688,993</u>	<u>\$1,924,272</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. (Effective January 1, 2011, employees are eligible immediately upon hire, in 2010 employees were eligible after one year of service.) Pension expense under the plan for 2011 and 2010 amounted to \$231,244 and \$260,419, respectively. The Foundation also incurred additional pension costs of approximately \$19,000 in 2011 and 2010 for payments to a retiree who began employment with the Foundation prior to the initiation of the formal retirement plan.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

7. Grants Payable

The Foundation estimates that the non-current grants payable as of December 31, 2011 will be disbursed as follows:

2013	\$ 8,810,244
2014	5,213,899
2015	781,800
2016	<u>30,974</u>
	14,836,917
Discount to present value	<u>(675,639)</u>
	<u>\$14,161,278</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 2011 and 2010 was 3.25%.

8. Non-Marketable Investments Reported at Lower of Adjusted Cost or Estimated Fair Value

As previously mentioned, the Foundation values the majority of its investment partnerships and real estate investments at cost adjusted for the Foundation's share of distributions and undistributed realized income or loss. If a group of investments has total unrealized losses, the losses are recognized.

Income from these investments is summarized as follows:

	<u>2011</u>	<u>2010</u>
Partnership earnings	\$10,336,597	\$ 5,674,190
Realized gain (loss)	(825,183)	1,655,524
Unrealized gain	4,468,582	9,579,841
Investment management fees	<u>(2,784,460)</u>	<u>(3,189,916)</u>
	<u>\$11,195,536</u>	<u>\$13,719,639</u>

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 Foundation. It is estimated these fees were approximately \$1,700,000 in 2011 and \$2,700,000 in 2010.

10. Other Investment Fees

Certain alternative investments organized offshore are in the legal form of corporate stock investments. Income is only recognized when dividends are declared or a sale of shares takes place. Unrealized gain (loss) is recorded for the change in value. Accordingly, investment fees paid by the corporation are not recorded in these financial statements. The approximate amount of fees by these investments was \$1,900,000 in 2011 and \$1,400,000 in 2010.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

11. Accounting for Uncertainty in Income Taxes

Management has determined that the Foundation had no uncertain tax positions that would require financial statement recognition. The Foundation is no longer subject to audits by the applicable taxing jurisdictions for the periods prior to 2008.

12. Subsequent Events

In connection with the preparation of the financial statements and in accordance with recently issued guidance, the Foundation evaluated subsequent events after the statement of financial position date of December 31, 2011, through June 6, 2012, which was the date the financial statements were available to be issued.