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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, 2017 and 2016, 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, 2017 and 2016, 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.

Oliver J. Flanagan & Co.

June 14, 2018
New York, NY

THE JOHN A. HARTFORD FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Investments, at fair value (Notes 2, 3 and 4)		
Short-term cash investments	\$ 14,932,044	\$ 51,070,293
Fixed-income funds	96,934,229	78,885,633
Stocks and exchange traded funds	264,486,023	226,016,800
Commingled funds	153,659,962	116,888,547
Private equity funds	39,764,449	42,019,056
Real estate pooled funds	14,186,409	27,953,553
<u>Total Investments</u>	<u>583,963,116</u>	<u>542,833,882</u>
Grants receivable	50,727	926,320
Interest and dividends receivable	67,491	39,939
Prepayments and deposits	81,780	82,899
Prepaid taxes	87,130	-
	<u>287,128</u>	<u>1,049,158</u>
Office condominium, furniture, equipment and website (net of accumulated depreciation of \$5,169,481 in 2017 and \$4,865,046 in 2016) (Note 5)	255,092	532,714
<u>Total Assets</u>	<u>\$ 584,505,336</u>	<u>\$ 544,415,754</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Grants payable (Note 2)		
Current	\$ 13,454,611	\$ 13,693,102
Non-current (Note 7)	8,644,321	17,606,357
Accounts payable	580,015	514,701
Current tax payable	-	58,041
Deferred Federal excise tax (Note 2)	2,279,518	1,274,502
<u>Total Liabilities</u>	<u>24,958,465</u>	<u>33,146,703</u>
Net Assets		
Unrestricted		
Board designated (Note 2)	530,638	2,397,574
Undesignated	559,016,233	508,188,426
	<u>559,546,871</u>	<u>510,586,000</u>
Temporarily restricted	-	683,051
<u>Total Net Assets (Exhibit B)</u>	<u>559,546,871</u>	<u>511,269,051</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 584,505,336</u>	<u>\$ 544,415,754</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>REVENUES</u>		
Short-term investment earnings	\$ 131,333	\$ 63,946
Dividends, interest and partnership earnings	8,004,602	9,851,653
Net realized capital gains	9,346,646	8,449,487
Net change in unrealized appreciation, net of deferred Federal excise tax (Note 3)	49,245,791	15,032,726
	<u>66,728,372</u>	<u>33,397,812</u>
Direct investment expenses	(2,540,830)	(2,700,069)
Excise and unrelated business income taxes	(112,582)	(170,094)
	<u>64,074,960</u>	<u>30,527,649</u>
<u>Net Investment Revenue</u>		
Donation	50	-
	<u>539,701</u>	<u>902,718</u>
<u>NET ASSETS RELEASED FROM RESTRICTION</u>		
<u>GRANTS AND EXPENSES</u>		
Grant expense (less cancellations and refunds of \$ 653,878 in 2017 and \$1,281,330 in 2016)	9,548,047	18,884,918
Foundation-administered projects	1,145,391	987,244
Grant-related direct expenses	147,392	182,970
Personnel salaries and benefits (Note 6)	3,385,959	3,260,598
Office and other expenses	1,066,544	1,198,184
Depreciation	304,435	315,262
Professional services	56,072	97,703
	<u>15,653,840</u>	<u>24,926,879</u>
<u>Total Grants and Expenses</u>		
Increase in Unrestricted Net Assets	48,960,871	6,503,488
	<u>(539,701)</u>	<u>(902,718)</u>
<u>NET ASSETS RELEASED FROM RESTRICTION</u>		
<u>REDUCTION IN GRANT AMOUNT</u>		
Decrease in Temporarily Restricted Net Assets	(143,350)	-
	<u>(683,051)</u>	<u>(902,718)</u>
	<u>48,277,820</u>	<u>5,600,770</u>
Increase in Net Assets for the Year		
Net Assets, beginning of year	511,269,051	505,668,281
	<u>\$ 559,546,871</u>	<u>\$ 511,269,051</u>
<u>NET ASSETS, END OF YEAR (Exhibit A)</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, 2017 AND 2016

	2017	2016
<u>CASH FLOWS PROVIDED (USED)</u>		
FROM OPERATING ACTIVITIES:		
Interest and dividends received	\$ 7,017,515	\$ 7,527,621
Cash distributions from private equity funds and real estate pooled funds	25,640,826	29,092,332
Grant funds received	732,243	1,227,812
Donation	50	-
Grants and Foundation-administered projects paid (net of refunds)	(19,891,939)	(19,471,087)
Expenses and taxes paid	(7,176,528)	(7,277,451)
<u>Net Cash Flows Provided by Operating Activities</u>	6,322,167	11,099,227
FROM INVESTING ACTIVITIES:		
Purchase of equipment and website	(27,373)	(44,215)
Proceeds from sale of investments	82,469,410	106,960,378
Purchases of investments	(124,902,453)	(85,305,213)
<u>Net Cash Flows (Used) Provided by Investing Activities</u>	(42,460,416)	21,610,950
Net (Decrease) Increase in Cash and Cash Equivalents	(36,138,249)	32,710,177
Cash and equivalents, beginning of year	51,070,293	18,360,116
Cash and equivalents, end of year	\$ 14,932,044	\$ 51,070,293
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 48,277,820	\$ 5,600,770
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	304,435	315,262
Increase in interest and dividends receivable	(27,552)	(14,313)
Decrease in grant receivable	875,593	1,227,810
Decrease in prepayments and deposits	1,119	2,548
(Decrease) Increase in grants payable	(9,200,527)	405,476
Increase (Decrease) in accounts payable	65,875	(220,781)
Net realized gains and change in unrealized appreciation	(58,783,186)	(23,653,169)
Other	24,808,590	27,435,624
	\$ 6,322,167	\$ 11,099,227

THE JOHN A. HARTFORD FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Supplemental Information:		
Detail of other:		
Private equity funds and real estate pooled funds:		
Cash distributions	\$ 25,640,826	\$ 29,092,332
Add: investment fees reported	403,805	650,656
Less: reported income	<u>(1,090,868)</u>	<u>(2,373,663)</u>
	<u>24,953,763</u>	<u>27,369,325</u>
Tax expense	303,330	341,051
Net taxes paid	<u>(448,503)</u>	<u>(274,752)</u>
	<u>(145,173)</u>	<u>66,299</u>
Total -Other	<u>\$ 24,808,590</u>	<u>\$ 27,435,624</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, 2017 AND 2016

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. At December 31, 2017, the Foundation does not have temporarily restricted net assets.

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, 2017 AND 2016****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 2017 and 2016 the Foundation's rate was 2%.

Investment expenses for 2017 include direct investment fees of \$2,540,830 and \$353,000 of allocated salaries, legal fees and other office expenses. The 2016 comparative numbers were \$2,700,069 and \$375,000.

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 \$20,400,000 of undistributed income in grants or qualifying expenditures by December 31, 2018, 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 2017, these funds reported UBIT losses.

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 2017 are summarized as follows:

	<u>Recorded Cost</u>	<u>Recorded Value</u>	<u>Appreciation</u>
Balance, December 31, 2017	<u>\$ 469,987,164</u>	<u>\$ 583,963,116</u>	<u>\$ 113,975,952</u>
Balance December 31, 2016	<u>\$ 479,108,737</u>	<u>\$ 542,833,882</u>	<u>\$ 63,725,145</u>
Increase in unrealized appreciation during the year, net of increased deferred Federal excise tax of \$1,005,016			<u>\$ 49,245,791</u>

THE JOHN A. HARTFORD FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 2016****3. Investments** (continued)

For 2016, the increase in unrealized appreciation was \$15,032,726 net of increased deferred Federal excise tax of \$306,790.

Receivables and payables on security sales and purchases pending settlement at December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Proceeds from sales	\$ 39,664	\$ 31,023,305
Payables from purchases	<u>-</u>	<u>-</u>
Net Cash pending settlement	<u>\$ 39,664</u>	<u>\$ 31,023,305</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 removed 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 JOHN A. HARTFORD FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 2016****4. Fair Value of Investments** (Continued)

The Foundation's investments are categorized as follows:

	Level 1	2017 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
	<u>\$ 376,352,296</u>	<u>\$ 207,610,820</u>	<u>\$583,963,116</u>

THE JOHN A. HARTFORD FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 2016****4. Fair Value of Investments** (Continued)

		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, 2017 AND 2016****4. Fair Value of Investments** (Continued)

At December 31, 2017, commingled funds investments 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>\$ 51,803,937</u>
U.S. long only	1	Monthly	<u>25,666,675</u>
Equity long/short	1	Monthly	4,689,726
	4	Quarterly	25,810,567
	1	Annual	6,159,336
			<u>36,659,629</u>
Tactical Trading	3	Monthly	10,827,501
	1	Quarterly	2,355,981
			<u>13,183,482</u>
Event Driven	3	Quarterly	15,161,470
	1	Annual	4,978,385
			<u>20,139,855</u>
Relative Value	1	Monthly	<u>6,206,384</u>
			<u>\$ 153,659,962</u>

Notice requirements for withdrawal range from 2 to 95 days.

At December 31, 2017, the Foundation has eight illiquid private equity funds. Two are partnerships with a value of \$13,086,529 and have remaining capital commitments of \$363,000. Their terms expire in 2019. Six are offshore funds and are valued at \$26,589,293 with terms expiring in 2023 through 2026 and have remaining capital commitments of \$38,090,690. In addition, the Foundation was a participant in three other private equity partnerships which were in liquidation. The recorded value of these investments is \$88,627.

Real estate investments included four funds valued at \$11,438,258 at December 31, 2017. There are no additional capital commitments for these funds and they have terms expiring in 2018 through 2021. In addition, four other real estate investments are in liquidation. The fair value of these investments is \$2,748,151.

THE JOHN A. HARTFORD FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 2016****5. Office Condominium, Furniture, Equipment and Website**

At December 31, 2017 and 2016 the fixed assets of the Foundation were as follows:

	<u>2017</u>	<u>2016</u>
Office condominium	\$4,622,812	\$4,622,812
Furniture, equipment and website	801,761	774,948
	5,424,573	5,397,760
Less: Accumulated depreciation	<u>(5,169,481)</u>	<u>(4,865,046)</u>
Office condominium, furniture, equipment and website, net	<u>\$ 255,092</u>	<u>\$ 532,714</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 2017 and 2016 amounted to \$298,307 and \$280,528, respectively.

7. Grants Payable

The Foundation estimates that the non-current grants payable as of December 31, 2017 will be disbursed as follows:

2019	\$6,479,632
2020	2,166,733
2021	432,361
2022	96,233
	<u>9,174,959</u>
Discount to present value	<u>(530,638)</u>
	<u>\$8,644,321</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 2017 and 2016 was 4.5% and 3.75%, respectively.

THE JOHN A. HARTFORD FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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 2016, the Foundation drew down \$845,870 from the grant and paid or approved payment of \$1,414,233.

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

In 2017, \$732,243 was drawn down on the grant. Grants paid or approved for payment totaled \$539,700.

The grant was officially closed on December 13, 2017.

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 \$1,900,000 in 2017 and \$2,000,000 in 2016.

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 \$3,800,000 in 2017 and \$3,400,000 in 2016.

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, 2017, through June 14, 2018, 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.