

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, 2009 and 2008 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, 2009 and 2008 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,

May 19, 2010
New York, New York

THE JOHN A. HARTFORD FOUNDATION, INC.**BALANCE SHEETS****DECEMBER 31, 2009 AND 2008**

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
Investments, at fair value, or adjusted cost (Notes 2, 3 and 4)		
Short-term cash investments	\$ 75,388,805	\$ 76,215,165
Stocks and marketable alternatives	216,525,378	187,942,968
Investment partnerships	86,984,074	94,781,553
Real estate pooled funds	<u>89,058,840</u>	<u>94,300,367</u>
<u>Total Investments</u>	<u>467,957,097</u>	<u>453,240,053</u>
Interest and dividends receivable	180,388	265,581
Prepayments and deposits	69,689	55,784
Prepaid taxes	<u>509,925</u>	<u>472,200</u>
	<u>760,002</u>	<u>793,565</u>
Office condominium, furniture and equipment (net of accumulated depreciation of \$3,076,342 in 2009 and \$2,975,096 in 2008)(Note 5)	<u>2,211,189</u>	<u>2,228,608</u>
<u>Total Assets</u>	<u>\$470,928,288</u>	<u>\$456,262,226</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Grants payable (Note 2)		
Current	\$ 22,476,860	\$ 21,847,588
Non-current (Note 7)	44,353,858	73,639,284
Accounts payable	357,314	362,423
Deferred Federal excise tax (Note 2)	<u>173,028</u>	<u>-</u>
<u>Total Liabilities</u>	<u>67,361,060</u>	<u>95,849,295</u>
Net Assets - Unrestricted		
Board designated (Note 2)	8,445,736	6,455,586
Undesignated	<u>395,121,492</u>	<u>353,957,345</u>
<u>Total Net Assets (Exhibit B)</u>	<u>403,567,228</u>	<u>360,412,931</u>
<u>Total Liabilities and Net Assets</u>	<u>\$470,928,288</u>	<u>\$456,262,226</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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>REVENUES</u>		
Short-term investment earnings	\$ 176,587	\$ 1,366,980
Dividends, interest and partnership earnings	8,112,964	11,852,972
Net realized capital gains (losses)	(78,173,981)	(34,484,518)
Net change in unrealized gains (losses), net of deferred Federal excise tax (Note 3)	<u>122,152,077</u>	<u>(169,427,126)</u>
	52,267,647	(190,691,692)
Direct investment expenses	(6,317,686)	(5,232,197)
Excise and unrelated business income taxes	<u>261,902</u>	<u>(382,239)</u>
<u>Net Investment Revenue (Loss)</u>	<u>46,211,863</u>	<u>(196,306,128)</u>
<u>GRANTS AND EXPENSES</u>		
Grant expense (less cancellations and refunds of \$124,497 in 2009 and \$66,859 in 2008)	21,498,060	28,016,636
Foundation-administered projects	431,471	428,787
Grant-related direct expenses	155,375	225,443
Personnel salaries and benefits (Note 6)	2,979,250	2,771,212
Office and other expenses	1,048,035	1,222,552
Depreciation	283,696	269,323
Professional services	<u>75,666</u>	<u>93,354</u>
<u>Total Grants and Expenses</u>	<u>26,471,553</u>	<u>33,027,307</u>
<u>Increase (Decrease) in Net Assets before Special Item</u>	19,740,310	(229,333,435)
<u>SPECIAL ITEM</u> - Long term grant rescissions (Note 7)	<u>23,413,987</u>	<u>-</u>
Increase (Decrease) in Net Assets for the Year	43,154,297	(229,333,435)
Net Assets, beginning of year	<u>360,412,931</u>	<u>589,746,366</u>
<u>NET ASSETS, END OF YEAR (Exhibit A)</u>	<u>\$403,567,228</u>	<u>\$360,412,931</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, 2009 AND 2008

<u>CASH FLOWS PROVIDED (USED)</u>	<u>2009</u>	<u>2008</u>
FROM OPERATING ACTIVITIES:		
Interest and dividends received	\$ 1,967,799	\$ 6,033,053
Cash distributions from partnerships and real estate pooled funds	35,566,532	18,746,660
Grants and Foundation-administered projects paid (net of refunds)	(27,175,503)	(25,641,901)
Expenses and taxes paid	<u>(6,290,489)</u>	<u>(7,345,948)</u>
<u>Net Cash Flows Provided (Used) By Operating Activities</u>	<u>4,068,339</u>	<u>(8,208,136)</u>
FROM INVESTING ACTIVITIES:		
Purchase of equipment	(244,727)	(7,394)
Proceeds from sale of investments	247,845,821	303,093,711
Purchases of investments	<u>(252,496,556)</u>	<u>(234,055,891)</u>
<u>Net Cash Flows Provided (Used) By Investing Activities</u>	<u>(4,895,462)</u>	<u>69,030,426</u>
Net Increase (Decrease) in Cash and Equivalents	(827,123)	60,822,290
Cash and equivalents, beginning of year	<u>76,215,928</u>	<u>15,393,638</u>
Cash and equivalents, end of year	<u>\$ 75,388,805</u>	<u>\$ 76,215,928</u>
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:		
Increase (Decrease) in Net Assets	\$ 43,154,297	\$(229,333,435)
Adjustment to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation	283,696	269,323
Decrease in interest and dividends receivable	85,193	225,770
Decrease (Increase) in prepayments and deposits	(13,905)	2,053
Increase (Decrease) in grants payable	(28,656,154)	2,820,141
Decrease in accounts payable	(25,913)	(419,154)
Net realized and change in unrealized losses (gains)	(43,978,096)	203,911,644
Other	<u>33,219,221</u>	<u>14,315,522</u>
	<u>\$ 4,068,339</u>	<u>\$ (8,208,136)</u>

THE JOHN A. HARTFORD FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>Supplemental Information:</u>		
Detail of other:		
Investment partnerships and real estate pooled funds:		
Cash distributions	\$35,566,532	\$18,746,660
Add: investment fees reported	4,098,104	3,348,473
Less: reported income	<u>(6,406,945)</u>	<u>(7,514,144)</u>
	<u>33,257,691</u>	<u>14,580,989</u>
Tax expense (recovery)	(261,902)	383,237
Net taxes refunded (paid)	<u>223,432</u>	<u>(749,179)</u>
Difference (change in prepaid/payable)	<u>(38,470)</u>	<u>(366,942)</u>
Cost adjustment	<u>-</u>	<u>101,475</u>
<u>Total - Other</u>	<u>\$33,219,221</u>	<u>\$14,315,522</u>
Composition of Cash and Equivalents:		
Short-term cash investments	\$75,388,805	\$76,215,165
Unrealized (gain) loss on forward currency contracts and foreign cash	<u>-</u>	<u>763</u>
	<u>\$75,388,805</u>	<u>\$76,215,928</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, 2009 AND 2008

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.

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 and money market mutual funds. Short-term cash investments also include the unrealized gain or loss on open foreign currency forward contracts and foreign cash.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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 2009 and 2008 the Foundation's rate was 1%.

Investment expenses for 2009 include direct investment fees of \$6,317,686 and \$416,000 of allocated salaries, legal fees and other office expenses. The 2008 comparative numbers were \$5,232,197 and \$460,000.

Deferred Federal excise taxes payable were also recorded on the unrealized appreciation of investments using the Foundation's normal 1% excise tax rate in 2009. No deferred excise tax was provided in 2008 as the recorded cost of investments exceeded fair value.

The Foundation intends to distribute at least \$19,000,000 of undistributed income in grants or qualifying expenditures by December 31, 2010 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 New York 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 2009 are summarized as follows:

	<u>Recorded Cost</u>	<u>Recorded Value</u>	<u>(Depreciation) Appreciation</u>
Balance, December 31, 2009	<u>\$450,654,328</u>	<u>\$467,957,097</u>	<u>\$ 17,302,769</u>
Balance, December 31, 2008	<u>\$558,262,389</u>	<u>\$453,240,053</u>	<u>\$(105,022,336)</u>
Increase in unrealized appreciation during the year, net of increased deferred Federal excise tax of \$173,028			<u>\$ 122,152,077</u>

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

3. Investments (Continued)

For 2008, the decrease in unrealized appreciation was \$169,427,126 net of decreased deferred Federal excise tax of \$650,553.

Receivables and payables on security sales and purchases pending settlement at December 31, 2009 and 2008 were as follows:

	2009	2008
Proceeds from sales	\$29,815,861	\$ 216,483
Payables from purchases	(1,245,827)	(382,276)
Net cash pending settlement	\$28,570,034	\$(165,793)

At December 31, 2009, proceeds from sales includes \$26,543,063 that represents a withdrawal from a partnership.

The net amount has been included with short-term cash investments in the accompanying balance sheet.

The Foundation is a participant in seven investment limited partnerships. As of December 31, 2009, \$100,272,210 had been invested in these partnerships and future commitments for additional investment aggregated \$27,727,790. One of the investments is considered liquid and is recorded at fair value, \$17,470,160 (adjusted cost \$17,928,536).

In addition, the Foundation was a participant in three other investment partnerships which were in liquidation. The recorded value of these investments is \$863,188.

Real estate investments included six limited partnerships and five real estate investment trusts. The Foundation had invested \$145,800,000 at December 31, 2009 and future commitments for additional investment aggregated \$38,200,000. Subsequent to December 31, 2009, the Foundation was able to negotiate a \$5,000,000 reduction in a future commitment to one real estate investment.

In addition, three other real estate investments are in liquidation. The recorded value of these investments is \$463,898.

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 JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

4. Fair Value of Investments (Continued)

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 Foundation’s investments are categorized as follows:

	2009				Total
	Level 1	Level 2	Level 3	Excluded	
Short-term cash investments	\$ 75,388,805				\$ 75,388,805
Stocks and marketable alternatives	94,997,385	\$79,224,189	\$42,303,804		216,525,378
Investment partnerships		17,470,160		\$ 69,513,914	86,984,074
Real estate pooled funds				89,058,840	89,058,840
	<u>\$170,386,190</u>	<u>\$96,694,349</u>	<u>\$42,303,804</u>	<u>\$158,572,754</u>	<u>\$467,957,097</u>
	2008				Total
	Level 1	Level 2	Level 3	Excluded	
Short-term cash investments	\$ 76,215,165				\$ 76,215,165
Stocks and marketable alternatives	107,692,700	\$45,526,676	\$34,723,592		187,942,968
Investment partnerships		14,382,556	19,794,901	\$ 60,604,096	94,781,553
Real estate pooled funds				94,300,367	94,300,367
	<u>\$183,907,865</u>	<u>\$59,909,232</u>	<u>\$54,518,493</u>	<u>\$154,904,463</u>	<u>\$453,240,053</u>

The change in level 3 investments consists of the following:

	Stocks	Investment Partnerships	Total
	Balance, January 1, 2008	\$52,343,217	\$30,839,592
Realized gain (loss)	(1,261,740)	(713,121)	(1,974,861)
Unrealized gain (loss)	(15,736,366)	(12,662,247)	(28,398,613)
Net additions (subtractions)	<u>(621,519)</u>	<u>2,330,677</u>	<u>1,709,158</u>
Balance, December 31, 2008	34,723,592	19,794,901	54,518,493
Realized gain (loss)	10,013,030	(7,728,534)	2,284,496
Unrealized gain (loss)	1,593,126	13,983,009	15,576,135
Net additions (subtractions)	<u>(4,025,944)</u>	<u>(26,049,376)</u>	<u>(30,075,320)</u>
Balance, December 31, 2009	<u>\$42,303,804</u>	<u>\$ -</u>	<u>\$ 42,303,804</u>

The level 3 investments at December 31, 2009 consist of two funds, valued at \$39,303,957, with annual liquidity and the remaining segregated illiquid investments from an investment fund. These funds will be transferred to the Foundation upon liquidation.

THE JOHN A. HARTFORD FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

5. Office Condominium, Furniture and Equipment

At December 31, 2009 and 2008 the fixed assets of the Foundation were as follows:

	2009	2008
Office condominium	\$4,622,812	\$4,622,812
Furniture and equipment	664,719	580,892
	5,287,531	5,203,704
Less: Accumulated depreciation	3,076,342	2,975,096
Office condominium, furniture and equipment, net	\$2,211,189	\$2,228,608

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 with at least one year of service. Pension expense under the plan for 2009 and 2008 amounted to \$268,325 and \$274,368, respectively. The Foundation also incurred additional pension costs of approximately \$19,000 and \$20,000 in 2009 and 2008 for payments to certain retirees who began employment with the Foundation prior to the initiation of the formal retirement plan.

7. Grants Payable

The Foundation estimates that the non-current grants payable as of December 31, 2009 will be disbursed as follows:

2011	\$18,503,600
2012	17,220,785
2013	7,945,971
2014	2,419,783
2015	566,519
2016-2018	548,378
	47,205,036
Discount to present value	(2,851,178)
	\$44,353,858

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 2009 and 2008 was 3.25%.

THE JOHN A. HARTFORD FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

7. Grants Payable (Continued)

In March 2009, due to the decline in the Foundation's endowment, the Foundation reviewed its long term grants payable and decided to rescind some future year commitments. These amounts are shown as a special item on Exhibit B.

8. Non-Marketable Investments Reported at Adjusted Cost

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:

	2009	2008
Partnership earnings	\$ 4,367,623	\$ 4,771,662
Realized gain (loss)	(5,127,211)	4,990,750
Unrealized loss	(853,235)	(44,957,241)
Investment management fees	(3,599,446)	(2,782,805)
	<u>\$(5,212,269)</u>	<u>\$(37,977,634)</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 \$2,000,000 in 2009 and \$2,300,000 in 2008.

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 \$1,200,000 in 2009 and \$1,300,000 in 2008.

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 2006.

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, 2009 through May 19, 2010 which was the date the financial statements were available to be issued.