

**THE JOHN A. HARTFORD**  
**FOUNDATION, INC.**

**DECEMBER 31, 2013 AND 2012**

OWEN J. FLANAGAN & COMPANY  
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ACCOUNTANTS

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, 2013 and 2012, 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, 2013 and 2012, 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.

*Quinn J. Flanagan + Co.*

June 4, 2014  
New York, New York

**THE JOHN A. HARTFORD FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2013 AND 2012**

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Investments, at fair value (Notes 2, 3 and 4)		
Short-term cash investments	\$ 24,531,946	\$ 18,005,956
Fixed-income funds	66,109,787	36,422,440
Stocks and exchange traded funds	172,485,325	114,925,396
Commingled funds	176,721,596	156,408,564
Investment partnerships	39,694,971	95,811,746
Real estate pooled funds	<u>72,836,586</u>	<u>91,972,839</u>
<u>Total Investments</u>	<u>552,380,211</u>	<u>513,546,941</u>
Grant receivable	1,943,935	2,000,000
Interest and dividends receivable	40,950	12,629
Prepayments and deposits	83,668	72,429
Prepaid taxes	<u>347,979</u>	<u>16,225</u>
	<u>2,416,532</u>	<u>2,101,283</u>
Office condominium, furniture, equipment and website (net of accumulated depreciation of \$4,257,777 in 2013 and \$3,939,669 in 2012)(Note 5)	<u>1,198,315</u>	<u>1,491,423</u>
<u>Total Assets</u>	<u>\$555,995,058</u>	<u>\$517,139,647</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Grants payable (Note 2)		
Current	\$ 14,203,562	\$ 13,200,671
Non-current (Note 7)	19,788,331	25,489,432
Accounts payable	568,256	453,988
Deferred Federal excise tax (Note 2)	<u>1,357,749</u>	<u>910,893</u>
<u>Total Liabilities</u>	<u>35,917,898</u>	<u>40,054,984</u>
Net Assets		
Unrestricted		
Board designated (Note 2)	3,587,298	1,412,266
Undesignated	<u>514,628,931</u>	<u>473,672,397</u>
	518,216,229	475,084,663
Temporarily restricted	<u>1,860,931</u>	<u>2,000,000</u>
<u>Total Net Assets (Exhibit B)</u>	<u>520,077,160</u>	<u>477,084,663</u>
<u>Total Liabilities and Net Assets</u>	<u>\$555,995,058</u>	<u>\$517,139,647</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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b><u>REVENUES</u></b>		
Short-term investment earnings	\$ 3,790	\$ 27,034
Dividends, interest and partnership earnings	12,853,625	9,028,243
Net realized capital gains	31,167,478	34,664,358
Net change in unrealized appreciation, net of deferred Federal excise tax (Note 3)	<u>21,896,013</u>	<u>18,641,886</u>
	65,920,906	62,361,521
Direct investment expenses	(3,402,475)	(4,530,595)
Excise and unrelated business income taxes	<u>(292,264)</u>	<u>(338,759)</u>
<u>Net Investment Revenue</u>	<u>62,226,167</u>	<u>57,492,167</u>
<u>NET ASSETS RELEASED FROM RESTRICTION</u>	<u>139,069</u>	<u>-</u>
<b><u>GRANTS AND EXPENSES</u></b>		
Grant expense (less cancellations and refunds of \$51,387 in 2013 and \$5,479,430 in 2012)	13,534,814	25,330,968
Foundation-administered projects	569,366	689,675
Grant-related direct expenses	196,999	210,621
Personnel salaries and benefits (Note 6)	3,177,737	2,971,917
Office and other expenses	1,349,351	1,343,565
Depreciation	318,108	309,185
Professional services	<u>87,295</u>	<u>89,917</u>
<u>Total Grants and Expenses</u>	<u>19,233,670</u>	<u>30,945,848</u>
Increase in Unrestricted Net Assets	<u>43,131,566</u>	<u>26,546,319</u>
<u>GRANT INCOME</u>	-	2,000,000
<u>NET ASSETS RELEASED FROM RESTRICTION</u>	<u>(139,069)</u>	<u>-</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(139,069)</u>	<u>2,000,000</u>
Increase in Net Assets for Year	42,992,497	28,546,319
Net Assets, beginning of year	<u>477,084,663</u>	<u>448,538,344</u>
<u>NET ASSETS, END OF YEAR (Exhibit A)</u>	<u>\$520,077,160</u>	<u>\$477,084,663</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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b><u>CASH FLOWS PROVIDED (USED)</u></b>		
<b>FROM OPERATING ACTIVITIES:</b>		
Interest and dividends received	\$ 4,873,809	\$ 2,740,973
Cash distributions from partnerships and real estate pooled funds	53,538,851	51,901,133
Grant funds received	56,065	-
Grants and Foundation-administered projects paid (net of refunds)	(18,777,965)	(18,177,852)
Expenses and taxes paid	<u>(7,593,680)</u>	<u>(7,030,845)</u>
<u>Net Cash Flows Provided By Operating Activities</u>	<u>32,097,080</u>	<u>29,433,409</u>
<b>FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment and website	(25,000)	(111,615)
Proceeds from sale of investments	130,917,098	217,334,185
Purchases of investments	<u>(156,463,188)</u>	<u>(282,127,178)</u>
<u>Net Cash Flows Used By Investing Activities</u>	<u>(25,571,090)</u>	<u>(64,904,608)</u>
Net Increase (Decrease) in Cash and Equivalents	6,525,990	(35,471,199)
Cash and equivalents, beginning of year	<u>18,005,956</u>	<u>53,477,155</u>
Cash and equivalents, end of year	<u>\$ 24,531,946</u>	<u>\$ 18,005,956</u>
<b>RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Increase in Net Assets	\$ 42,992,497	\$ 28,546,319
Adjustment to reconcile increase in net assets to net cash used by operating activities:		
Depreciation	318,108	309,185
Decrease (Increase) in interest and dividends receivable	(28,323)	79,302
Decrease (Increase) in grant receivable	56,065	(2,000,000)
Decrease (Increase) in prepayments and deposits	(11,239)	9,694
Increase (Decrease) in grants payable	(4,698,210)	7,829,385
Increase in accounts payable	114,267	169,420
Net realized gains and change in unrealized appreciation	(53,699,562)	(54,013,680)
Other	<u>47,053,477</u>	<u>48,503,784</u>
	<u>\$ 32,097,080</u>	<u>\$ 29,433,409</u>

**THE JOHN A. HARTFORD FOUNDATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<u>Supplemental Information:</u>		
Detail of other:		
Investment partnerships and real estate pooled funds:		
Cash distributions	\$53,538,851	\$51,901,133
Add: investment fees reported	1,801,662	2,714,994
Less: reported income	<u>(7,955,283)</u>	<u>(6,393,606)</u>
	<u>47,385,230</u>	<u>48,222,521</u>
Tax expense	928,336	1,046,195
Net taxes paid	<u>(1,260,089)</u>	<u>(764,932)</u>
Difference	<u>(331,753)</u>	<u>281,263</u>
 <u>Total - Other</u>	 <u>\$47,053,477</u>	 <u>\$48,503,784</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, 2013 AND 2012**

**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 health and health care of older Americans 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.

*Temporarily Restricted Net Assets* - These assets are either restricted for a specific purpose or for a future time period.

*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, investment and real estate partnerships 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, 2013 AND 2012**

**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 and money market mutual funds.

**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 2013 and 2012 the Foundation's rate was 2%.

Investment expenses for 2013 include direct investment fees of \$3,402,475 and \$411,000 of allocated salaries, legal fees and other office expenses. The 2012 comparative numbers were \$4,530,595 and \$447,000.

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 \$13,300,000 of undistributed income in grants or qualifying expenditures by December 31, 2014, 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 2013 are summarized as follows:

	<u>Recorded Cost</u>	<u>Recorded Value</u>	<u>Appreciation</u>
Balance, December 31, 2013	<u>\$484,492,761</u>	<u>\$552,380,211</u>	<u>\$67,887,450</u>
Balance, December 31, 2012	<u>\$468,002,361</u>	<u>\$513,546,941</u>	<u>\$45,544,580</u>
Increase in unrealized appreciation during the year, net of increased deferred Federal excise tax of \$446,857			<u>\$21,896,013</u>

For 2012, the increase in unrealized appreciation was \$18,641,886, net of increased deferred Federal excise tax of \$380,448.

**THE JOHN A. HARTFORD FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

**3. Investments** (Continued)

Receivables and payables on security sales and purchases pending settlement at December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Proceeds from sales	\$27,758	\$1,737,112
Payables from purchases	<u>-</u>	<u>(2,340,629)</u>
Net cash pending settlement	<u>\$27,758</u>	<u>\$ (603,517)</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.

**THE JOHN A. HARTFORD FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

**4. Fair Value of Investments** (Continued)

The Foundation's investments are categorized as follows:

	2013			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term cash investments	\$ 24,531,946			\$ 24,531,946
Fixed-income funds	66,109,787			66,109,787
Stocks				
Exchange traded funds				
US equities	79,291,226			79,291,226
Non-US equities	27,755,583			27,755,583
Information technology	12,015,782			12,015,782
Consumer discretionary	13,204,495			13,204,495
Financials	10,797,037			10,797,037
Other	29,421,202			29,421,202
Commingled funds				
Global and international -				
long only		\$ 42,886,900		42,886,900
Equity - long/short		30,112,302		30,112,302
Tactical trading		23,633,973		23,633,973
Asset allocation		44,191,853		44,191,853
Event-driven		17,154,153	\$ 3,215,011	20,369,164
Credit			4,900,870	4,900,870
Fixed-income hedge			6,613,886	6,613,886
Relative value		4,012,648		4,012,648
Investment partnerships				
Private equity			24,952,231	24,952,231
Event-driven			14,742,740	14,742,740
Real estate pooled funds			72,836,586	72,836,586
	<u>\$263,127,058</u>	<u>\$161,991,829</u>	<u>\$127,261,324</u>	<u>\$552,380,211</u>

**THE JOHN A. HARTFORD FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2013 AND 2012**

**4. Fair Value of Investments** (Continued)

	2012			Total
	Level 1	Level 2	Level 3	
Short-term cash investments	\$ 18,005,956			\$ 18,005,956
Fixed-income funds	36,422,440			36,422,440
Stocks				
Exchange traded funds				
US equities	51,886,971			51,886,971
Non-US equities	26,006,143			26,006,143
Information technology	7,232,914			7,232,914
Consumer discretionary	6,498,560			6,498,560
Financials	5,502,716			5,502,716
Other	17,798,092			17,798,092
Commingled funds				
Global and international -				
long only		\$ 29,524,470		29,524,470
Equity - long/short		32,379,824		32,379,824
Tactical trading		24,341,694		24,341,694
Asset allocation		22,652,378		22,652,378
Event-driven		4,114,434		4,114,434
Credit			\$ 28,207,522	28,207,522
Fixed-income hedge		881,378	13,703,193	14,584,571
Other		603,671		603,671
Investment partnerships				
Private equity			70,307,452	70,307,452
Event-driven			25,504,294	25,504,294
Real estate pooled funds			91,972,839	91,972,839
	<u>\$169,353,792</u>	<u>\$114,497,849</u>	<u>\$229,695,300</u>	<u>\$513,546,941</u>

At December 31, 2013, the level 3 investments consist of the following: a liquidating fixed-income hedge investment that will be redeemable in 2014, an investment in a value-oriented credit hedge fund that has annual liquidity with 60 days notice, an investment in an event driven hedge fund that has annual liquidity with 90 days notice, investment partnerships and real estate pooled funds.

Level 2 investments at December 31, 2013 have the following liquidity, \$110,723,628 have monthly liquidity and \$51,268,201 have quarterly liquidity.

At the end of 2012, the Foundation was a participant in two private equity partnerships. In 2013, the Foundation, through the secondary market, sold one of these investments and reduced its position by one half in the other. The remaining investment is illiquid, has a remaining capital commitment of \$1,616,377 and its term expires in 2016. Also, during 2013, the Foundation invested \$3,120,000 in two new offshore funds for private equity. These funds are illiquid, have remaining capital commitments of \$31,880,000 and have terms expiring in 2023. In addition, the Foundation was a participant in three other private equity partnerships which were in liquidation. The recorded value of these investments is \$765,260.

**THE JOHN A. HARTFORD FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2013 AND 2012**

**4. Fair Value of Investments (Continued)**

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 investment commitment period ended in 2012. The partnership will continue until June 30, 2015. The Foundation is also a participant in another event-driven partnership that is in liquidation. Its recorded value is \$75,716.

Real estate investments included five limited partnerships and five real estate investment trusts. The Foundation had invested \$171,100,000 at December 31, 2013, and future commitments for additional investment aggregated \$2,900,000. In addition, two other real estate investments are in liquidation. The recorded value of these investments is \$80,010.

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

The change in level 3 investments for 2013 and 2012 consists of the following:

	<u>Credit</u>	<u>Fixed-Income Hedge</u>	<u>Domestic and Other</u>	<u>Real Estate</u>	<u>Private Equity</u>	<u>Event Driven</u>	<u>Total</u>
January 1, 2012	\$28,580,753	\$22,088,539	\$1,083,289	\$107,348,694	\$56,784,716	\$32,703,468	\$248,589,459
Capital additions				1,700,000	13,150,415		14,850,415
Ordinary income				2,129,611	129,847	960,211	3,090,058
Realized gains			310,358	3,717,707	8,140,922	3,795,346	15,964,333
Unrealized gain (loss)	4,626,769	(22,064)	(183,947)	2,474,188	6,103,018	547,575	13,545,539
Transfer to Level 2		(1,474,007)	(603,671)				(2,077,678)
Redemptions	<u>(5,000,000)</u>	<u>(6,889,275)</u>	<u>(606,029)</u>	<u>(25,397,361)</u>	<u>(14,001,466)</u>	<u>(12,502,306)</u>	<u>(64,396,437)</u>
December 31, 2012	28,207,522	13,703,193		91,972,839	70,307,452	25,504,294	229,695,300
Capital additions			3,000,000	1,050,000	3,499,676		7,549,676
Ordinary income				2,246,832	3,655,549	251,241	6,153,622
Realized gains	11,651,385			989,736	11,676,511	457,060	24,774,692
Unrealized gain (loss)	(9,708,037)	(405,207)	215,011	4,101,360	(16,650,379)	1,314,345	(21,132,907)
Redemptions	<u>(25,250,000)</u>	<u>(6,684,100)</u>		<u>(27,524,181)</u>	<u>(47,536,578)</u>	<u>(12,784,200)</u>	<u>(119,779,059)</u>
December 31, 2013	<u>\$ 4,900,870</u>	<u>\$ 6,613,886</u>	<u>\$3,215,011</u>	<u>\$ 72,836,586</u>	<u>\$24,952,231</u>	<u>\$14,742,740</u>	<u>\$127,261,324</u>

**THE JOHN A. HARTFORD FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

**5. Office Condominium, Furniture, Equipment and Website**

At December 31, 2013 and 2012 the fixed assets of the Foundation were as follows:

	2013	2012
Office condominium	\$4,622,812	\$4,622,812
Furniture, equipment and website	833,280	808,280
	5,456,092	5,431,092
Less: Accumulated depreciation	4,257,777	3,939,669
Office condominium, furniture, equipment and website, net	<b>\$1,198,315</b>	<b>\$1,491,423</b>

**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 2013 and 2012 amounted to \$286,052 and \$269,557, respectively. The Foundation also incurred additional pension costs of approximately \$19,000 in 2013 and 2012 for payments to a retiree 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, 2013 will be disbursed as follows:

	2015	\$13,813,913
	2016	6,020,560
	2017	707,561
	2018	128,992
	2019	6,340
		20,677,366
Discount to present value		(889,035)
		<b>\$19,788,331</b>

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 2013 and 2012 was 3.25%.

**THE JOHN A. HARTFORD FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

**8. Social Innovation Fund**

During 2012, the Foundation received notification it had been awarded a \$2,000,000 grant from the Social Innovation Fund (“Federal Grant”). It is anticipated this grant will be used over a two-year period.

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.

At December 31, 2012, the \$2,000,000 was shown as grant receivable and temporarily restricted net assets.

During 2013, the Foundation drew down \$56,065 from the grant and paid or approved payment of \$139,069 in grant expenses. In addition, there are conditional grants payable of \$2,689,263 which includes the Federal grant and the Foundation matching portion. When the conditions are satisfied, the Foundation will receive proceeds under the grant and will release from restriction net assets.

The Foundation is eligible to receive an additional \$1,000,000 for an additional year of the program conditioned on satisfactory progress.

**10. 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 \$7,100,000 in 2013 and \$5,100,000 in 2012.

**11. Other Investment Fees**

Certain investments, such as exchange traded funds, mutual funds and offshore funds, are in the 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, net of fees. Accordingly, investment fees paid by the investment are not recorded in Foundation’s financial statements. The approximate amount of fees by these investments was \$2,800,000 in 2013 and \$2,000,000 in 2012.

**12. 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 2010.

**13. 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, 2013, through June 4, 2014, 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 JOHN A. HARTFORD FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

**14. Change in Method of Accounting**

Prior to 2013, the Foundation recorded its investments in illiquid investment partnerships and real estate pooled funds at the lower of adjusted cost or fair value. This year, the Foundation elected to record these investments at their fair value as reported by the fund managers. As a result of this change, the 2012 opening net assets were increased by \$19,087,218 reflecting a \$19,476,753 increase in investment partnerships offset by a \$389,535 increase in deferred Federal excise tax.

The 2012 presentation has been restated to reflect the new accounting method. The new presentation reflects a \$26,181,436 increase to investment partnerships and \$523,630 increase in deferred Federal income tax. The 2012 change in net assets was increased by \$6,570,589 (net change in unrealized appreciation) as a result of the new accounting method.