

HARTFORD FOUNDATION FOR PUBLIC GIVING

FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

HARTFORD FOUNDATION FOR PUBLIC GIVING

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Independent Auditors' Report

To the Board of Directors
Hartford Foundation for Public Giving
Hartford, Connecticut

We have audited the accompanying financial statements of Hartford Foundation for Public Giving, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended and the statement of functional expenses for the year ended December 31, 2018, 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.

Auditors' Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 auditors consider 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 Hartford Foundation for Public Giving as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2, during the year ended December 31, 2018, the Hartford Foundation for Public Giving adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
April 16, 2019

HARTFORD FOUNDATION FOR PUBLIC GIVING

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Investments, at Market Value		
U.S. equities	\$ 316,775,461	\$ 347,219,006
International equities	231,420,630	302,598,410
Fixed income	212,260,555	193,217,987
Alternative investments	60,739,281	60,123,076
Emerging market equities	60,179,558	69,118,231
Cash equivalents	28,441,152	46,561,557
Split-interest agreements	7,341,064	8,404,573
Other investments	404,730	404,730
Total investments	<u>917,562,431</u>	<u>1,027,647,570</u>
Other Assets		
Cash	4,404,043	8,612,343
Assets held as fiscal agent	5,032,839	-
Accrued investment income	1,807,816	1,495,578
Contributions receivable - split-interest agreements	2,676,118	2,902,705
Property and equipment, net	1,569,437	1,751,916
Other assets	<u>223,806</u>	<u>399,963</u>
Total Assets	<u>\$ 933,276,490</u>	<u>\$ 1,042,810,075</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Grants and other payables	\$ 30,766,913	\$ 29,210,885
Annuity liability	2,020,987	2,226,900
Agency endowments	3,316,300	3,723,948
Other liabilities	583,658	595,155
Liability held as fiscal agent	5,032,839	-
Total liabilities	<u>41,720,697</u>	<u>35,756,888</u>
Net Assets		
Without donor restrictions	24,843,876	32,355,753
With donor restrictions	866,711,917	974,697,434
Total net assets	<u>891,555,793</u>	<u>1,007,053,187</u>
Total Liabilities and Net Assets	<u>\$ 933,276,490</u>	<u>\$ 1,042,810,075</u>

The accompanying notes are an integral part of the financial statements

HARTFORD FOUNDATION FOR PUBLIC GIVING

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support						
Donations and bequests	\$ -	\$ 13,097,119	\$ 13,097,119	\$ -	\$ 16,689,982	\$ 16,689,982
Investment income, net of investment and trustees fees of \$812,949 in 2018 and \$762,278 in 2017	835,217	15,351,361	16,186,578	804,714	14,879,033	15,683,747
Change in value of split-interest agreements and other assets	(602,385)	(588,269)	(1,190,654)	258,225	718,704	976,929
Net assets released from restrictions	47,160,590	(47,160,590)	-	45,215,144	(45,215,144)	-
Other revenues	203,874	425,211	629,085	184,951	355,167	540,118
Total revenues, gains and other support	<u>47,597,296</u>	<u>(18,875,168)</u>	<u>28,722,128</u>	<u>46,463,034</u>	<u>(12,572,258)</u>	<u>33,890,776</u>
Expenses						
Program expenses:						
Grants authorized, net	38,055,194	-	38,055,194	34,426,053	-	34,426,053
Related program activities and Foundation administered projects	3,288,468	-	3,288,468	3,448,363	-	3,448,363
Program support	2,799,257	-	2,799,257	2,459,509	-	2,459,509
Management and general:						
Operating expenses	4,788,897	-	4,788,897	4,110,163	-	4,110,163
Fundraising expenses	1,723,847	-	1,723,847	1,287,680	-	1,287,680
Total expenses	<u>50,655,663</u>	<u>-</u>	<u>50,655,663</u>	<u>45,731,768</u>	<u>-</u>	<u>45,731,768</u>
Increase (Decrease) in Net Assets Before Realized and Unrealized Appreciation (Depreciation) on Investments and Other Assets	(3,058,367)	(18,875,168)	(21,933,535)	731,266	(12,572,258)	(11,840,992)
Realized and Unrealized Appreciation (Depreciation) on Investments and Other Assets, Net of Investment and Trustees Fees of \$4,926,094 in 2018 and \$4,818,910 in 2017	<u>(4,453,510)</u>	<u>(89,110,349)</u>	<u>(93,563,859)</u>	<u>5,782,361</u>	<u>131,736,419</u>	<u>137,518,780</u>
Increase (Decrease) in Net Assets	(7,511,877)	(107,985,517)	(115,497,394)	6,513,627	119,164,161	125,677,788
Net Assets - Beginning of Year	<u>32,355,753</u>	<u>974,697,434</u>	<u>1,007,053,187</u>	<u>25,842,126</u>	<u>855,533,273</u>	<u>881,375,399</u>
Net Assets - End of Year	<u>\$ 24,843,876</u>	<u>\$ 866,711,917</u>	<u>\$ 891,555,793</u>	<u>\$ 32,355,753</u>	<u>\$ 974,697,434</u>	<u>\$ 1,007,053,187</u>

The accompanying notes are an integral part of the financial statements

HARTFORD FOUNDATION FOR PUBLIC GIVING

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services			Management and General	Fundraising	Total Expenses
	Grants Authorized, Net	Administered Projects and Program Support	Total Program Services			
Grants	\$ 38,055,194	\$ -	\$ 38,055,194	\$ -	\$ -	\$ 38,055,194
Salaries and benefits	-	3,392,915	3,392,915	3,372,772	1,091,118	7,856,805
Professional fees	-	757,607	757,607	576,784	104,525	1,438,916
Office expense	-	416,496	416,496	351,639	120,813	888,948
Communications and marketing	-	283,142	283,142	196,377	316,317	795,836
Miscellaneous expense	-	612,501	612,501	-	-	612,501
Occupancy	-	221,169	221,169	204,774	64,017	489,960
Program expenses	-	310,415	310,415	-	-	310,415
Depreciation	-	93,480	93,480	86,551	27,057	207,088
Total Expenses	\$ 38,055,194	\$ 6,087,725	\$ 44,142,919	\$ 4,788,897	\$ 1,723,847	\$ 50,655,663

The accompanying notes are an integral part of the financial statements

HARTFORD FOUNDATION FOR PUBLIC GIVING

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ (115,497,394)	\$ 125,677,788
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation expense	207,088	212,944
Realized and unrealized (appreciation) depreciation of investments and other assets	93,563,859	(137,518,780)
Loss on disposal of property and equipment	-	2,770
(Increase) decrease in operating assets:		
Assets held as fiscal agent	(5,032,839)	-
Accrued investment income	(312,238)	(310,376)
Contributions receivable - split-interest agreements	1,290,096	(788,491)
Other assets	176,157	(110,126)
Increase (decrease) in operating liabilities:		
Grants and other payables	1,556,028	(558,828)
Annuity liability	(205,913)	(93,882)
Agency endowments	(407,648)	288,563
Other liabilities	(11,497)	211,040
Liability held as fiscal agent	5,032,839	-
Net cash used in operating activities	<u>(19,641,462)</u>	<u>(12,987,378)</u>
Cash Flows from Investing Activities		
Purchases of investments	(200,188,415)	(380,841,427)
Proceeds from sales of investments	215,646,186	401,043,152
Purchases of property and equipment	(24,609)	(1,610,027)
Net cash provided by investing activities	<u>15,433,162</u>	<u>18,591,698</u>
Net Increase (Decrease) in Cash	(4,208,300)	5,604,320
Cash - Beginning of Year	<u>8,612,343</u>	<u>3,008,023</u>
Cash - End of Year	<u>\$ 4,404,043</u>	<u>\$ 8,612,343</u>

The accompanying notes are an integral part of the financial statements

HARTFORD FOUNDATION FOR PUBLIC GIVING

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE FOUNDATION

Hartford Foundation for Public Giving (the Foundation) is a community foundation serving the Greater Hartford area. As a community grantor, the Foundation accepts applications from not-for-profit organizations and agencies in need of financial assistance. The Foundation's affairs, including its grant making, are governed by an 11-member Board of Directors.

The financial statements of the Foundation include the combined accounts of the various funds held in trust for, or by, the Foundation and the assets of HFPG, Inc., HFPG Special Assets, Inc., and HFPG Impact, LLC (exempt not-for-profit corporations). HFPG, Inc., and HFPG Special Assets, Inc., are component organizations whose purpose is substantially identical to the Foundation and whose Board members are also members of the Board of the Foundation. HFPG, Inc., and HFPG Special Assets, Inc., were established to provide the Foundation greater flexibility in receiving donations and managing investments. HFPG Impact, LLC, a wholly owned subsidiary of the Foundation, was organized in 2018 for the purpose of making investments beyond the scope and range of the Foundation's traditional grantmaking. HFPG, Inc., had total assets of \$403,376,906 and \$442,204,994 and net assets of \$382,637,723 and \$425,965,859 as of December 31, 2018 and 2017, respectively. HFPG Special Assets, Inc., and HFPG Impact, LLC, had no net assets as of December 31, 2018 and 2017.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment changes the previous reporting model for nonprofit organizations and enhances the disclosure requirements. The major changes include: (a) requiring the presentation of only two classes of net assets rather than three, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investments expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. This ASU is effective for annual periods beginning after December 15, 2017. Management has adopted ASU 2016-14 for the year ended December 31, 2018. The amendments have been retrospectively applied, with the exception of a statement of functional expenses and disclosures on liquidity and availability of resources for the year ended December 31, 2017.

HARTFORD FOUNDATION FOR PUBLIC GIVING

NOTES TO FINANCIAL STATEMENTS

Basis of Accounting and Presentation

The Foundation prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accounts of the Foundation are reported in the following categories:

Net Assets Without Donor Restrictions

These net assets are defined as assets that are free of donor-imposed restrictions and include all investment income and appreciation not subject to donor-imposed restrictions. The Board has designated net assets without donor restrictions to function as an endowment. The Board has also designated up to \$10 million to be used for the purposes of HFPG Impact, LLC.

Net Assets With Donor Restrictions

These net assets include contributions, unconditional promises to give and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Foundation. This classification includes investment income and appreciation, which can be expended but for which restrictions have not yet been met. Included in the net assets with donor restrictions are charitable remainder trusts, a charitable lead trust, pooled income funds and contributions receivable. This classification also includes accumulated investment income and gains on donor-restricted endowment assets that have not been appropriated for expenditure. Net assets with donor restrictions also include the historic dollar value (fair market value at time of the gift) of contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

Endowment Fund Management and Variance Power

To ensure observation of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are managed as individual charitable funds according to their nature and purpose. Endowment funds are subject to the restriction of the gift instruments. Funds consist of the assets held in trust for, or by, the Foundation, the assets of HFPG, Inc., and certain other funds. The endowment assets held subject to the Foundation's Resolution and Declaration of Trust and subject to HFPG, Inc.'s Certificate of Incorporation are intended by the Board of Directors to be treated similarly for accounting and legal purposes. Such endowment and other funds are subject to both variance power (the unilateral power, pursuant to federal regulations, to modify any restriction or condition if it becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community) and limited invasion of corpus power. The Foundation's and HFPG, Inc.'s governance documents describe the criteria and limited circumstances under which these powers would be exercised.

Gifts and bequests received by the Foundation are accounted for and managed for endowment recordkeeping in certain categories described below:

Endowment

The Foundation's endowment funds consist of original assets and undistributed investment return on endowment funds. The Foundation makes distributions of investment return (i.e., interest, dividends and appreciation or depreciation) from these funds in accordance with the spending formula and subject to the Resolution and Declaration of Trust.

HARTFORD FOUNDATION FOR PUBLIC GIVING

NOTES TO FINANCIAL STATEMENTS

Other

Other funds consist of the Foundation's operating funds for grants and administration, charitable gift annuities, charitable remainder trusts, pooled income funds, amounts internally designated for future grant making and certain unspent investment return from designated and donor-advised funds.

Agency Endowments

The Foundation maintains assets under certain agency endowments with unrelated organizations. The amounts held but not yet distributed totaled \$3,316,300 and \$3,723,948 at December 31, 2018 and 2017, respectively, and are included on the statements of financial position in agency endowments. Amounts received and distributed under these relationships totaled \$30,000 and \$119,977, respectively, for the year ended December 31, 2018 and \$100 and \$116,473, respectively, for the year ended December 31, 2017.

Fiscal Agent

The Foundation acts as a fiscal agent and maintains funds owned by other organizations. The Foundation reports these funds as assets held as fiscal agent and a corresponding liability held as fiscal agent on the statements of financial position.

Cash

The Foundation maintains deposits in financial institutions that may, at times, exceed federal depository insurance limits. Management believes that the Foundation's deposits are not subject to significant credit risk.

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized appreciation (depreciation) on investments and other assets includes the Foundation's gains and losses on investments bought and sold as well as held during the year.

Bank of America, the trustee bank, holds all the investments for the trusts established on behalf of the Foundation in a variety of investment vehicles, including mutual funds and separate accounts. Trust Company of Connecticut, a division of First Niagara Bank, is also named a trustee bank. All of the investments of HFPG, Inc., are held in a variety of investment vehicles, including mutual funds and separate accounts, held in custody by Northern Trust Company and State Street Bank and Trust Company of Boston, Massachusetts.

Donated Assets

Donated marketable securities and other assets are recorded as contributions at their estimated fair values as of the date of donation.

HARTFORD FOUNDATION FOR PUBLIC GIVING

NOTES TO FINANCIAL STATEMENTS

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over their estimated useful lives, which range from 3 to 10 years. The Foundation follows the practice of capitalizing all expenditures for capitalizable property and equipment in excess of \$1,000.

Contributions

The Foundation accounts for its contributions received as follows:

Contributions Received

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises to give that are scheduled to be received after the fiscal year end are shown as support with donor restrictions and reclassified to net assets without donor restrictions when the time restriction is met. Contributions whose restrictions are met in the same fiscal year are recorded as support without donor restrictions. Conditional promises to give to the Foundation are not included as support until such time as the conditions are substantially met.

Split-Interest Agreements

The Foundation's split-interest agreements with donors consist of charitable gift annuities, charitable remainder annuity trusts, charitable remainder unitrusts, a charitable lead annuity trust and pooled income funds. Assets recognized under split-interest agreements are recorded at fair value. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements. The present value of payments to beneficiaries under these arrangements is calculated using discount rates ranging from 2% to 8%. Such rates represent risk-free rates in existence at the date of gift. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the value of split-interest agreements in the statements of activities.

Donations relating to split-interest agreements of \$132,320 in 2018 and \$60,570 in 2017 were recognized as support with donor restrictions. During December 31, 2018 and 2017, several split-interest agreement income beneficiaries passed away, and the remaining assets, totaling \$10,175 and \$140,702, respectively, reverted to the Foundation.

Bequests

Bequests are recorded as support when all events required for the transfer of the assets from the estate of the donor to the Foundation have occurred and the probate court has issued an order to transfer.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been presented on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis. The expenses are allocated based on time and effort and usage.

Income Taxes

The Foundation is exempt from federal and state income taxes under Section 501(c)(3) as an organization other than a private foundation; however, the Foundation is subject to federal income tax on any unrelated business taxable income.

HARTFORD FOUNDATION FOR PUBLIC GIVING

NOTES TO FINANCIAL STATEMENTS

Measure of Operations

The Foundation's measure of operations, as presented, includes all changes in net assets except for realized and unrealized appreciation (depreciation) on investments.

Use of Estimates

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 certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Risks and Uncertainties

The Foundation invests in a variety of investments, including debt and equity securities, and alternative investments. These investments are exposed to interest rate, market, credit and other risks depending on the nature of the specific investment. Accordingly, it is at least reasonably possible that these factors will result in changes in the value of the Foundation's investments that could materially affect amounts reported in the financial statements.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the current year's presentation.

Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through April 16, 2019, which represents the date the financial statements were available to be issued.

NOTE 3 - PROPERTY AND EQUIPMENT

The components of property and equipment as of December 31, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 2,269,762	\$ 2,245,152
Furniture and equipment	568,479	568,480
	<u>2,838,241</u>	<u>2,813,632</u>
Less accumulated depreciation	1,268,804	1,061,716
	<u>\$ 1,569,437</u>	<u>\$ 1,751,916</u>

Depreciation expense of \$207,088 and \$212,944 was recognized for the years ended December 31, 2018 and 2017, respectively.

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NOTES TO FINANCIAL STATEMENTS

NOTE 4 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. As a practical expedient, certain investments are measured at fair value on the basis of net asset value. The fair value of these investments is not included in the fair value hierarchy.

Financial Instruments Measured at Fair Value

The following is a description of the valuation methodologies and investment strategies used for assets measured at fair value:

Equity

Certain equity is valued at the closing price reported in the active market in which the individual securities are traded. Other equity is valued using the net asset value as reported by the investment manager of the fund. This net asset value is based on the fair value of the underlying assets and liabilities of the related fund at the measurement date. This investment class seeks to provide long-term capital appreciation. Equity managers are selected with the objective of building a portfolio that is diversified by geographic region, economic sector, industry and market capitalization. The objective in selecting equity managers is to generate average annual compounded returns that exceed the relevant broad market indices (i.e., the S&P 500, the Russell 1000, MSCI EAFE and MSCI World), net of fees, over full market cycles (5-10 years). The redemption period for these investments ranges from daily to monthly with 30 days' written notice.

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Fixed Income

Certain fixed income is valued at the closing price reported in the active market in which the individual securities are traded. Other fixed income is valued based on yields currently available on comparable securities of issuers with similar durations and credit ratings. This investment class seeks to provide current income from a broad range of U.S. and global fixed income securities, be an important source of liquidity for distribution for current expenses and create some measure of diversification. The redemption period for these investments ranges from daily to quarterly with 15 days' written notice.

Alternative Investments

The following alternative asset strategies include investments in private equity fund-of-funds and real assets:

Private Equity

Interests in private equity are valued using net asset values determined by the investment manager of the fund in accordance with the procedures outlined in each respective limited partnership agreement. This net asset value is based on the fair value of the underlying assets and liabilities of the related fund at the measurement date. The primary objective of these investments is to produce over their economic horizons an annualized return net of all costs that exceeds the annualized return produced over the same time period by the broad U.S. stock market. The funds seek to achieve these objectives by investing either directly in or via secondary purchases of privately offered funds that employ venture capital and buyout strategies. These investments are deemed to be illiquid.

Real Assets

Interests in real assets are valued using net asset values as determined by the investment manager of the fund in accordance with written policies and procedures. The net asset value is based on the fair value of the underlying assets and liabilities of the related fund at the measurement date. To help guard against inflation risk, the Foundation invests in real assets that are normally expected to rise in value as inflation fears rise and actual inflation increases. The objective of this investment is to provide long-term total return in excess of an equal-sector-weighted version of the S&P Goldman Sachs Commodity Index, by investing in commodity-related instruments. The redemption period for these investments is monthly.

Cash Equivalents

Cash equivalents are valued at the quoted net asset value of shares held by the Foundation at year end.

HARTFORD FOUNDATION FOR PUBLIC GIVING

NOTES TO FINANCIAL STATEMENTS

Split-Interest Agreements

Fair value inputs used for split-interest agreements are based on the estimated present value of the future payments to the Foundation, which is considered to be the fair value of the assets held in trust.

Other Investments

Included in other investments is real estate received through donation. This investment is presented at its estimated fair value as determined by independent appraisals.

Annuity Liability

The fair value of the annuity liability is based on the 2000 CM mortality tables.

There have been no changes in the methodologies used at December 31, 2018 and 2017.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets and liabilities at fair value as of December 31, 2018 and 2017:

Description	December 31, 2018	Fair Value Measurements Using			Assets Valued at NAV (a)
		Level 1	Level 2	Level 3	
Assets:					
U.S. equities	\$ 316,775,461	\$ 252,197,190	\$ -	\$ -	\$ 64,578,271
International equities	231,420,630	31,654,637	-	-	199,765,993
Fixed income	212,260,555	-	99,056,592	-	113,203,963
Alternative investments:					
Private equity	52,459,183	-	-	-	52,459,183
Real assets	8,280,098	-	-	-	8,280,098
Emerging market equities	60,179,558	-	-	-	60,179,558
Cash equivalents	28,441,152	28,441,152	-	-	-
Split-interest agreements	7,341,064	2,803,329	-	-	4,537,735
Other investments	404,730	-	404,730	-	-
Total investments	917,562,431	315,096,308	99,461,322	-	503,004,801
Contributions receivable - split-interest agreements	2,676,118	-	-	2,676,118	-
Subtotal	920,238,549	315,096,308	99,461,322	2,676,118	503,004,801
Less cash equivalents	(28,441,152)	(28,441,152)	-	-	-
Total Assets at Fair Value	\$ <u>891,797,397</u>	\$ <u>286,655,156</u>	\$ <u>99,461,322</u>	\$ <u>2,676,118</u>	\$ <u>503,004,801</u>
Liabilities:					
Annuity Liability at Fair Value	\$ <u>2,020,987</u>	\$ -	\$ -	\$ <u>2,020,987</u>	\$ -

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NOTES TO FINANCIAL STATEMENTS

Description	December 31, 2017	Fair Value Measurements Using			Assets Valued at NAV (a)
		Level 1	Level 2	Level 3	
Assets:					
U.S. equities	\$ 347,219,006	\$ 284,275,896	\$ -	\$ -	\$ 62,943,110
International equities	302,598,410	48,345,961	-	-	254,252,449
Fixed income	193,217,987	-	86,280,120	-	106,937,867
Alternative investments:					
Private equity	50,483,925	-	-	-	50,483,925
Real assets	9,639,151	-	-	-	9,639,151
Emerging market equities	69,118,231	-	-	-	69,118,231
Cash equivalents	46,561,557	46,561,557	-	-	-
Split-interest agreements	8,404,573	3,159,726	-	-	5,244,847
Other investments	404,730	-	404,730	-	-
Total investments	1,027,647,570	382,343,140	86,684,850	-	558,619,580
Contributions receivable - split-interest agreements	2,902,705	-	-	2,902,705	-
Subtotal	1,030,550,275	382,343,140	86,684,850	2,902,705	558,619,580
Less cash equivalents	(46,561,557)	(46,561,557)	-	-	-
Total Assets at Fair Value	\$ <u>983,988,718</u>	\$ <u>335,781,583</u>	\$ <u>86,684,850</u>	\$ <u>2,902,705</u>	\$ <u>558,619,580</u>
Liabilities:					
Annuity Liability at Fair Value	\$ <u>2,226,900</u>	\$ -	\$ -	\$ <u>2,226,900</u>	\$ -

(a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

There were no transfers between levels of investments during the years ended December 31, 2018 or 2017.

The following is a summary of the commitments and redemption rights of investments in entities that calculate net asset per share:

Description	Fair Value	Unfunded Commitments	Redemption Terms	Redemption Restrictions
U.S. equities	\$ 64,578,271	\$ -	Monthly	30 days written notice
International equities	199,765,993	-	Monthly	2-30 days written notice
Fixed income	113,203,963	3,894,298	Monthly	5-15 days written notice
Private equities	52,459,183	23,651,621	Illiquid	Illiquid
Real assets	8,280,098	-	Illiquid	Illiquid
Emerging market equities	60,179,558	-	Monthly	10-30 days written notice
Split-interest agreements	4,537,735	-	Illiquid	Illiquid
Total	\$ <u>503,004,801</u>	\$ <u>27,545,919</u>		

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NOTES TO FINANCIAL STATEMENTS

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets and liabilities for the years ended December 31, 2018 and 2017:

	<u>Contributions Receivable - Split-Interest Agreements</u>	<u>Annuity Liability</u>
Balance - January 1, 2017	\$ 2,753,431	\$ 2,320,782
Change in value of split-interest agreements	<u>149,274</u>	<u>(93,882)</u>
Balance - December 31, 2017	2,902,705	2,226,900
Change in value of split-interest agreements	<u>(226,587)</u>	<u>(205,913)</u>
Balance - December 31, 2018	<u>\$ 2,676,118</u>	<u>\$ 2,020,987</u>

Financial Instruments Not Measured at Fair Value

The carrying amounts of cash, contributions receivable and grants payable approximate their fair value because of the short-term nature of these instruments. There have been no changes in the methodologies used at December 31, 2018 and 2017.

NOTE 5 - ANNUITY CONTRACT AND RETIREMENT BENEFIT PAYABLE

The Foundation established a 457(b) Deferred Compensation Plan for the benefit of a former employee and is the sole owner of the assets of the plan. Distributions will be made upon severance from employment, but no later than April 1 of the calendar year following the calendar year in which the employee attains age 70-1/2.

The Foundation also established a 457(f) nonqualified Deferred Compensation Plan for the benefit of a former employee and is the sole owner of the assets of the plan. Upon termination of employment or disability, if the participant does not violate the terms of the agreement, the amount credited to the account shall be payable in two installments. The first payment was made during 2018 and the second payment will be made during 2019 and shall be equal to the remaining balance in the account.

The amounts funded and the liability accrued for these plans are recorded in other assets and other liabilities on the statements of financial position.

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NOTES TO FINANCIAL STATEMENTS

NOTE 6 - EMPLOYEE BENEFIT PLAN

The Foundation sponsors a noncontributory defined contribution employee benefit plan in which the Foundation makes contributions based on each employee's level of compensation at the discretion of the Foundation's Board of Directors. For the years ended December 31, 2018 and 2017, the Board authorized contributions to the plan at the rate of 10% of each eligible employee's compensation. An employee must have at least one year of service to be eligible for the plan. Employees are immediately 100% vested in the Foundation's contributions. The Foundation contributed \$525,814 and \$516,138 to the plan for the years ended December 31, 2018 and 2017, respectively.

NOTE 7 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's financial assets available within one year of the statements of financial position date for general expenditure are as follows:

Cash	\$	4,404,043
Accrued Investment income		1,807,816
Investments		18,260,844
Board designations:		
Approved appropriation of endowment assets for expenditure in 2019		<u>52,100,000</u>
Total Financial Assets Available to Management for General Expenditure Within One Year	\$	<u><u>76,572,703</u></u>

Liquidity Management

The Foundation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Foundation invests cash in excess of monthly requirements in short-term investments. The Foundation's governing board has designated \$24,843,876 of its resources without donor restrictions for endowment. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board.

NOTE 8 - ENDOWMENT

The Foundation's endowment consists of approximately 1,200 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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NOTES TO FINANCIAL STATEMENTS

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (CTUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation would classify as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as a permanent endowment would be classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by CTUPMIFA. In accordance with CTUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

In accordance with the provisions, donor-restricted endowment funds subject to the limited invasion of corpus over time may be an endowment fund within the meaning of CTUPMIFA, but is not a permanent endowment fund to be held in perpetuity. A significant portion of the Foundation's endowment funds, as authorized under the Foundation's governing documents and gift instruments, are held subject to both variance power and limited invasion of corpus power and, as such, are classified as net assets with donor restrictions.

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NOTES TO FINANCIAL STATEMENTS

Endowment Net Assets

Changes in endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets - January 1, 2017	\$ 25,842,126	\$ 855,533,273	\$ 881,375,399
Investment income	804,714	14,879,033	15,683,747
Investment gains	5,782,361	131,736,419	137,518,780
Net investment return	<u>6,587,075</u>	<u>146,615,452</u>	<u>153,202,527</u>
Contributions	<u>-</u>	<u>16,689,982</u>	<u>16,689,982</u>
Appropriation of endowment assets for expenditure	<u>(1,788,896)</u>	<u>(45,215,144)</u>	<u>(47,004,040)</u>
Other changes:			
Appropriated funds from prior year	1,272,272	-	1,272,272
Other revenue	184,951	355,167	540,118
Change in value of split-interest agreements and other assets	<u>258,225</u>	<u>718,704</u>	<u>976,929</u>
Total other changes	<u>1,715,448</u>	<u>1,073,871</u>	<u>2,789,319</u>
Endowment net assets - December 31, 2017	<u>32,355,753</u>	<u>974,697,434</u>	<u>1,007,053,187</u>
Investment income	835,217	15,351,361	16,186,578
Investment losses	<u>(4,453,510)</u>	<u>(89,110,349)</u>	<u>(93,563,859)</u>
Net investment return	<u>(3,618,293)</u>	<u>(73,758,988)</u>	<u>(77,377,281)</u>
Contributions	<u>-</u>	<u>13,097,119</u>	<u>13,097,119</u>
Appropriation of endowment assets for expenditure	<u>(4,386,712)</u>	<u>(47,160,590)</u>	<u>(51,547,302)</u>
Other changes:			
Unexpended funds appropriated	891,639	-	891,639
Other revenue	203,874	425,211	629,085
Change in value of split-interest agreements and other assets	<u>(602,385)</u>	<u>(588,269)</u>	<u>(1,190,654)</u>
Total other changes	<u>493,128</u>	<u>(163,058)</u>	<u>330,070</u>
Endowment Net Assets - December 31, 2018	<u>\$ 24,843,876</u>	<u>\$ 866,711,917</u>	<u>\$ 891,555,793</u>

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Amounts classified as net assets with donor restrictions (endowment only) at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Net assets with donor restrictions:		
Endowment funds subject to time restriction	\$ 860,047,886	\$ 967,429,940
Charitable remainder trusts, charitable lead trust, pooled income funds and contributions receivable	<u>6,664,051</u>	<u>7,267,494</u>
Total Endowment Funds Classified as Net Assets With Donor Restrictions	<u>\$ 866,711,917</u>	<u>\$ 974,697,434</u>

Spending Formula

With a few exceptions, all funds are managed in accordance with a spending formula based upon the total return concept, which emphasizes total investment return, consisting of investment income and realized and unrealized gains and losses. There are certain funds that, based upon donor's intent, are not considered in this spending formula. Under this spending formula, a distribution of investment return is provided for program support that is independent of the cash yield and appreciation of investments in that year. The Foundation has adopted this spending formula designed specifically to stabilize annual spending levels and to preserve the real value of the fund portfolio over time.

The Foundation's spending policy limits spending to 5% of the 20-quarter trailing average, subject to a floor of 4.25% of current assets and a ceiling of 5.75% of current assets. The Board of Directors continues to examine the limit on spending. The Foundation does not consider appreciation or depreciation on endowment investments or realized gains and losses as a component of its operations as presented in the statements of activities. Total investment gains (losses) (i.e., investment income or loss net of all investment fees, net realized and unrealized gains or losses on investments, and change in value of split-interest agreements) totaled approximately \$(77.4) million and \$153.2 million for the years ended December 31, 2018 and 2017, respectively. The Foundation has a policy that permits spending from endowment funds with deficiencies depending on the degree to which the fund is deficient, unless otherwise precluded by donor intent or relevant laws and regulations.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the historic dollar value as referenced in CTUPMIFA. Funds with deficiencies of this nature were \$1,537,652 and \$15,018 as of December 31, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed

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the Foundation's long-term spending needs adjusted for inflation while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return that meets or exceeds the consumer price index plus 5%. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 9 - GRANTS

Grants are recorded as expenses when authorized by the Board of Directors and committed to a specified recipient and all material conditions have been satisfied by the recipient.

As of December 31, 2018 and 2017, grants payable are committed as follows:

	<u>2018</u>	<u>2017</u>
Due within one year	\$ 29,376,387	\$ 27,472,705
Due in one to five years	<u>1,390,526</u>	<u>1,738,180</u>
	<u>\$ 30,766,913</u>	<u>\$ 29,210,885</u>

For the years ended December 31, 2018 and 2017, the Foundation cancelled previously authorized grants of \$300,193 and \$220,026, respectively. Grant cancellations are recorded in other revenues in the statements of activities.

NOTE 10 - RELATED PROGRAM ACTIVITIES AND FOUNDATION ADMINISTERED PROJECTS

The financial statements include certain funds that the Foundation manages on behalf of several special projects. As of December 31, 2018 and 2017, the net assets of these funds totaled \$1,064,146 and \$538,228, respectively.

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Related program activities represent the activities of certain special projects and related organizations for which the Foundation provides oversight and certain administrative support. The special projects and their costs, are as follows:

	<u>2018</u>	<u>2017</u>
Special projects:		
Nonprofit Support Program	\$ 1,481,418	\$ 1,392,079
Community Schools Initiative/Education	861,804	1,161,412
Early Childhood Investments	723,285	659,528
Small Agencies Program	56,765	130,587
Adult Literacy/Career Pathways Initiative	<u>165,196</u>	<u>104,757</u>
Related Program Activities and Foundation Administered Projects	\$ <u>3,288,468</u>	\$ <u>3,448,363</u>

The costs of these activities are charged to the funds and are included in related program activities on the statements of activities.

NOTE 11 - LEASE COMMITMENTS

The Foundation leases a facility under an operating lease which expires in 2026. Rent expense under this lease totaled \$489,960 and \$403,150 for the years ended December 31, 2018 and 2017, respectively. Future minimum lease payments under the lease that has a remaining term in excess of one year are as follows:

Year Ending December 31

2019	\$ 489,942
2020	502,058
2021	514,173
2022	526,289
2023	538,404
Thereafter	<u>1,687,905</u>
	\$ <u>4,258,771</u>