

**CONNECTICUT HEALTH FOUNDATION, INC.**

Independent Auditors' Report  
Financial Statements

December 31, 2010 and 2009

CONNECTICUT HEALTH FOUNDATION, INC.

Contents

December 31, 2010 and 2009

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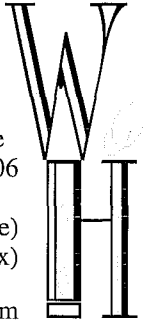
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Connecticut Health Foundation, Inc.

We have audited the accompanying statements of financial position of Connecticut Health Foundation, Inc. as of December 31, 2010 and 2009 and the related statements of activities 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 audit.

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 Connecticut Health Foundation, Inc. as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Whittlesey & Hadley, P.C.*

June 16, 2011

# CONNECTICUT HEALTH FOUNDATION, INC.

## Statements of Financial Position

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Investments	\$ 114,284,602	\$ 107,863,706
Cash and cash equivalents	548,111	644,452
Dividends and interest receivable	42,529	51,206
Prepaid expenses and deposits	56,007	109,063
Fixed assets, net of accumulated depreciation	<u>336,590</u>	<u>89,879</u>
Total assets	<u>\$ 115,267,839</u>	<u>\$ 108,758,306</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 564,039	\$ 191,100
Grants payable	<u>2,752,000</u>	<u>2,613,129</u>
Total liabilities	3,316,039	2,804,229
Net assets - unrestricted	<u>111,951,800</u>	<u>105,954,077</u>
Total liabilities and net assets	<u>\$ 115,267,839</u>	<u>\$ 108,758,306</u>

The accompanying notes are an integral part of the financial statements.

# CONNECTICUT HEALTH FOUNDATION, INC.

## Statements of Activities

For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Revenues and Investment Gains / (Losses):</b>		
Interest and dividend income	\$ 2,071,894	\$ 2,201,336
Net realized investment gains/(losses)	6,659,572	(8,625,271)
Net unrealized investment gains	4,546,321	26,068,704
	<u>13,277,787</u>	<u>19,644,769</u>
<b>Expenses:</b>		
Grants and program related expenses	5,299,811	3,715,740
General and administrative expenses	1,065,338	985,411
Investment expenses, including excise taxes of \$159,655 and \$8,516, respectively	914,915	607,289
	<u>7,280,064</u>	<u>5,308,440</u>
Change in net assets	5,997,723	14,336,329
Net assets at beginning of year	<u>105,954,077</u>	<u>91,617,748</u>
Net assets at end of year	<u>\$ 111,951,800</u>	<u>\$ 105,954,077</u>

The accompanying notes are an integral part of the financial statements.

# CONNECTICUT HEALTH FOUNDATION, INC.

## Statements of Cash Flows

For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 5,997,723	\$ 14,336,329
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	28,922	25,615
Loss on disposal of fixed assets	12,991	-
Leasehold improvement amortization adjustment	37,046	-
Realized and unrealized gains on marketable securities	(11,205,893)	(17,443,433)
(Increase)/decrease in:		
Dividends and interest receivable	8,677	3,154
Prepaid expenses	53,056	(22,513)
Increase/(decrease) in:		
Accounts payable and accrued liabilities	372,939	42,279
Grants payable	138,871	(1,103,352)
Net change in cash from operating activities	(4,555,668)	(4,161,921)
Cash flows from investing activities:		
Payments for the purchase of leasehold improvements	(203,555)	-
Payments for the purchase of fixed assets	(122,115)	(3,268)
Purchases of investments	(101,948,638)	(41,540,960)
Proceeds from the sale of investments	106,733,635	45,880,462
Net change in cash from investing activities	4,459,327	4,336,234
Net change in cash and cash equivalents	(96,341)	174,313
Cash and cash equivalents at beginning of year	644,452	470,139
Cash and cash equivalents at end of year	\$ 548,111	\$ 644,452

The accompanying notes are an integral part of the financial statements.

# CONNECTICUT HEALTH FOUNDATION, INC.

## Notes to the Financial Statements

December 31, 2010 and 2009

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### NOTE 1 – BACKGROUND INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

*Background* - The Connecticut Health Foundation, Inc. (the “Foundation”) is a nonprofit foundation that was established in 1999 to promote the health and welfare of the people of Connecticut.

*Formation* - In 1999 the former ConnectiCare, Inc. was reorganized and changed its name to Connecticut Health Foundation, Inc. (“the Foundation”). As part of the reorganization, the Foundation sold ConnectiCare, Inc. in 2001, receiving payments totaling \$132,000,000.

*Use of Estimates* - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Specifically, management has made estimates based on assumptions for fair value of financial instruments and the assessment of other than temporary impairment on investments. Actual results could differ from those estimates.

*Cash and Cash Equivalents* - For purposes of the statements of cash flows, cash and cash equivalents include cash and short-term highly liquid investments, having an original maturity of three months or less. The Foundation maintains its cash on deposit with financial institutions and, at times, these balances may exceed federally insured limits. Management of the Foundation believes it adequately mitigates this risk by only investing in major financial institutions

*Income Taxes* - The Foundation is a private foundation as described under Section 509(a) of the U.S. Internal Revenue Service Code (the Code) and is exempt from Federal income taxes pursuant to Section 501(a) of the Code as described in Section 501(c)3. The Foundation continually evaluates expiring statutes of limitations, proposed settlements, changes to tax law and new authoritative rulings to determine if the Agency has any uncertain tax positions. As of December 31, 2010, the Foundation does not believe it is exposed to any uncertain tax positions. The Foundation is required to pay excise tax on net investment income at a rate up to a maximum of 2%.

The Foundation adopted the *Fair Value Measurements* topic of the FASB Accounting Standards Codification, which defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles. The topic defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs that may be used to measure fair values:

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect the Foundation’s own assumptions about the estimates that market participants would use in pricing an asset or liability.

## NOTE 1 – BACKGROUND INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation techniques based on unobservable inputs are highly subjective and require judgments regarding significant matters, such as the amount and timing of future cash flows and the selection of discount rates that may appropriately reflect market and credit risks. Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are as of a specific point in time, they are susceptible to material near-term changes.

In general, and where applicable, we used quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies to our Level 1 investments such as equity securities. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then we use quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly. These investments are included in Level 2 and consist of fixed-income securities. Investments for which no functioning markets currently exist are classified as Level 3, and consist of an equity security that invests in a limited partnership and a limited liability company that invests in various marketable securities.

*Property and Equipment* – Purchases of \$1,000 or more, whether individually or in the aggregate, are capitalized. Furniture, fixtures, and equipment are stated at cost, less accumulated depreciation, and are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are stated at cost, less accumulated depreciation, and are depreciated using the straight-line method over the remaining term of the lease.

*Spending Policy* - The Foundation follows a spending policy based upon the total return concept, which emphasizes total investment return, consisting of investment income and realized and unrealized gains and losses. Under the spending policy, a distribution of investment return is not contingent on the total investment return in that year. This spending formula is designed specifically to stabilize annual spending levels and to preserve the real value of the fund portfolio over time. The Foundation's spending is based on a rate, to be determined by the Board of Directors, multiplied by the previous 12 quarters' average net asset values. Spending will be sufficient to ensure that the 5% minimum requirement established by the Internal Revenue Service, is met.

*Subsequent Events Measurement Date* - The Foundation monitored and evaluated subsequent events for footnote disclosures or adjustments required in its financial statements for the year ended December 31, 2010 through June 16, 2011, the date on which financial statements were available to be issued.

## NOTE 2 – INVESTMENTS

Changes in the Foundation's investment portfolio for the years ended December 31, 2010 and 2009, were as follows:

Balance, December 31, 2008	\$ 94,759,775
Interest and dividend income	1,660,498
Net realized gain on sale of investments	(8,625,271)
Net unrealized gain on investments	26,068,704
Distributions	<u>(6,000,000)</u>
Balance, December 31, 2009	107,863,706
Interest and dividend income	2,071,894
Net realized gain on sale of investments	6,659,572
Net unrealized gain on investments	4,546,321
Distributions	<u>(6,856,891)</u>
Balance, December 31, 2010	<u>\$ 114,284,602</u>

**NOTE 3 – FAIR VALUE MEASUREMENT**

Fair values of assets measured at the reporting date, are as follows:

	December 31, 2010			
	Fair Value	Level 1	Level 2	Level 3
Equities	\$ 90,049,805	\$53,960,845	\$16,726,103	\$19,362,857
Fixed Income	23,494,151	-	23,494,151	-
Cash equivalents	740,646	-	740,646	-
	<u>\$ 114,284,602</u>	<u>\$53,960,845</u>	<u>\$40,960,900</u>	<u>\$19,362,857</u>

	December 31, 2009			
	Fair Value	Level 1	Level 2	Level 3
Equities	\$ 86,785,484	\$47,938,305	\$32,110,972	\$ 6,736,207
Fixed Income	21,078,222	-	21,078,222	-
	<u>\$ 107,863,706</u>	<u>\$47,938,305</u>	<u>\$53,189,194</u>	<u>\$ 6,736,207</u>

The following is a reconciliation of the above assets in which significant unobservable inputs (Level 3) were used in determining values as of December 31, 2010 and 2009:

	Level 3 reconciliation
Balance, January 1, 2009	\$ 4,578,782
Net appreciation	2,157,425
Balance, December 31, 2009	6,736,207
Purchases	10,000,000
Net appreciation	2,626,650
Balance, December 31, 2010	<u>\$ 19,362,857</u>

**NOTE 4 – GRANTS PAYABLE**

During the years ended December 31, 2010 and 2009, the Foundation made approximately 54 and 52 grants, respectively. The grants ranged from \$2,000 to \$200,000. Total grants approved by the Foundation for the years ended December 31, 2010 and 2009, were \$3,480,737 and \$2,044,998, respectively. The following is a schedule of grants committed to be paid over future periods ending December 31:

2011	\$2,548,202
2012	203,798
	<u>\$2,752,000</u>

The difference between the carrying amount and the fair value of grants payable is not considered material to the accompanying financial statements. The Foundation approves grants with certain conditions; however, the probability is remote that grantees will not meet those specified conditions. Accordingly, conditional grants are accounted for as grants made and payable when approved.

**NOTE 5 – RETIREMENT PLANS**

The Foundation sponsors a Safe-harbor 401(k) and a Roth 401(k) plan for its employees. The election period for new participants is generally 60 days before their one-year anniversary date. The employer will match dollar for dollar up to 3% of the employee's annual compensation and fifty-cents per dollar for contributions of 4% and 5%. These dollars are 100% vested at the time they are paid. For the years ended December 31, 2010 and 2009, total cost to the Foundation was \$24,558 and \$27,486, respectively.

**NOTE 6 – OPERATING LEASE**

The Foundation leased office space in New Britain, Connecticut. The lease expired in December 2010. The Foundation now leases office space in Hartford, Connecticut. The lease calls for payments of \$10,328 per month beginning in September 2011, and expires in August 2021. The Foundation also leases parking spaces in a parking garage. The lease calls for payments of \$1,450 per month and expires August 2011. The future minimum lease payments are as follows:

2011	\$ 52,912
2012	123,937
2013	123,937
2014	123,937
2015	123,937
Thereafter	734,925

Total lease expense for 2010 and 2009 was \$87,404 and \$65,999, respectively.