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CONNECTICUT HEALTH FOUNDATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

CONNECTICUT HEALTH FOUNDATION, INC.

CONTENTS

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Independent Auditors' Report

To the Board of Directors
Connecticut Health Foundation, Inc.

We have audited the accompanying financial statements of Connecticut Health Foundation, Inc., which comprise the statements of financial position as of December 31, 2015 and 2014, 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.

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 Connecticut Health Foundation, Inc., as of December 31, 2015 and 2014, 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.

Change in Accounting Principle

As discussed in Note 1, during the year ended December 31, 2015, Connecticut Health Foundation, Inc., elected early adoption of Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent).* The amendments require retrospective application. As a result, investment disclosures have been restated as of December 31, 2014. Our opinion is not modified with respect to this matter.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
March 30, 2016

CONNECTICUT HEALTH FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 726,743	$ 1,245,468
Investments	99,124,788	108,156,409
Accounts receivable	-	24,905
Prepaid expenses and deposits	327,134	38,216
Property and equipment, net	174,614	203,951
Total Assets	$ 100,353,279	$ 109,668,949
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	$ 172,584	$ 232,429
Grants payable	1,543,553	1,592,488
Deferred excise tax liability	90,000	122,000
Total liabilities	1,806,137	1,946,917
Unrestricted Net Assets	98,547,142	107,722,032
Total Liabilities and Net Assets	$ 100,353,279	$ 109,668,949

The accompanying notes are an integral part of the financial statements

CONNECTICUT HEALTH FOUNDATION, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Revenues		
Interest and dividend income	$ 1,329,223	$ 1,779,984
Unrealized investment losses	(1,599,467)	(7,541,671)
Realized investment gains (losses)	(2,927,651)	9,344,566
Total revenues	(3,197,895)	3,582,879
Expenses		
Grants and program related expenses	4,446,551	4,425,865
General administrative expenses	1,078,970	1,175,831
Investment expenses	472,920	499,289
Provision for excise tax (benefit)	(21,446)	90,872
Total expenses	5,976,995	6,191,857
Increase (Decrease) in Net Assets	(9,174,890)	(2,608,978)
Net Assets - Beginning of Year	107,722,032	110,331,010
Net Assets - End of Year	$ 98,547,142	$ 107,722,032

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, 2015 AND 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	$ (9,174,890)	$ (2,608,978)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	46,179	49,131
Unrealized loss on investments	1,599,467	7,541,671
Realized (gain) loss on investments	2,927,651	(9,344,566)
(Increase) decrease in operating assets:		
Accounts receivable	24,905	(24,905)
Prepaid expenses and deposits	(288,918)	6,533
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(59,845)	58,711
Grants payable	(48,935)	(310,609)
Deferred excise tax liability	(32,000)	(151,000)
Net cash used in operating activities	(5,006,386)	(4,784,012)
Cash Flows from Investing Activities		
Purchase of property and equipment	(16,842)	(5,766)
Purchases of investments	(47,353,698)	(55,195,107)
Proceeds from the sale of investments	51,858,201	60,242,129
Net cash provided by investing activities	4,487,661	5,041,256
Net Increase (Decrease) in Cash and Cash Equivalents	(518,725)	257,244
Cash and Cash Equivalents - Beginning of Year	1,245,468	988,224
Cash and Cash Equivalents - End of Year	$ 726,743	$ 1,245,468

The accompanying notes are an integral part of the financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Connecticut Health Foundation, Inc. (the Foundation) is a not-for-profit corporation organized under the laws of the State of Connecticut. The Foundation, established in 1999, is the largest independent/private foundation in Connecticut. The mission of the Foundation is to improve the health and wellbeing of all Connecticut residents using a systems change approach with the immediate focus on expanding health equity by helping more people gain access to quality, affordable health care - especially those who disproportionately lack it now, people of color.

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 (GAAP). Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Under applicable accounting standards, the net assets of the Foundation are considered to be unrestricted.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Management has made estimates based on assumptions for the fair value of financial instruments, specifically alternative investments. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents are defined as highly liquid investments with original maturities of 90 days or less. The Foundation maintains deposits in financial institutions that may, at times, exceed federal depository insurance limits. Management believes it adequately mitigates this risk by only investing in major financial institutions. However, the Foundation has not experienced any losses in such accounts and management believes the Foundation is not exposed to any significant credit risk on cash and cash equivalents.

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 2 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. Net realized and unrealized gains (losses) on investments include the Foundation’s gains and losses on investments bought and sold as well as held during the year. Realized and unrealized gains and losses and investment income are classified as increases and decreases in unrestricted net assets.

The Foundation’s investments in debt and equity securities 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, which could materially affect amounts reported in the financial statements.

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, which range from two to ten years. Leasehold improvements are stated at cost, less accumulated depreciation, and are depreciated using the straight-line method over the remaining term of the lease.

Repairs and maintenance are charged to expense as incurred. Depreciation expense for the years ended December 31, 2015 and 2014, was $46,179 and $49,131, respectively.

Federal Excise Taxes

As an organization described in Section 501(c)(3) of the Internal Revenue Code, the Foundation is exempt from federal income taxes and has been classified as a private foundation. In accordance with the applicable provisions of the Internal Revenue Code, the Foundation is subject to an excise tax on net investment income, including realized gains, and to tax on unrelated business income in connection with certain partnership investments. Excise tax expense for the years ended December 31, 2015 and 2014, was $10,554 and $241,872, respectively.

The Foundation has provided for deferred income taxes at the excise tax rate of 2%. Deferred excise taxes relate to net unrealized investment gains or losses that have been recognized in the financial statements but are deferred from taxable income until realized. Total deferred excise benefit recorded on the statements of activities for the years ended December 31, 2015 and 2014, is $32,000 and $151,000, respectively. The Foundation's informational returns for the years ended December 31, 2012 through 2015 are subject to examination by the Internal Revenue Service and the Attorney General of the State of Connecticut.

In accordance with private foundation regulations, qualified minimum distributions are required to be made by the Foundation on an annual basis. Qualified distributions for the fiscal years ended December 31, 2015 and 2014, were $5,489,896 and $5,794,437, respectively.

Spending Policy

The Foundation follows a spending policy based upon the trailing twenty-quarter average market value as of September 30 of the preceding fiscal year. The 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 capped at 5.4% of a twenty-quarter running average of total invested assets. Spending will be sufficient to ensure that the 5% minimum requirement established by the Internal Revenue Service is met. Distributions in excess of the minimum requirement were $91,444 and $569,010 for the years ended December 31, 2015 and 2014, respectively.

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk in the near term could materially affect the amounts reported in the statements of financial position and the statements of activities.

Change in Accounting Principle

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize investments measured at net asset value within the fair value hierarchy tables. The standard is effective for years beginning after December 15, 2016 and early adoption is permitted. The Foundation has elected to early adopt ASU 2015-07 for the year ended December 31, 2015.

Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through March 30, 2016, which represents the date the financial statements were available to be issued.

NOTE 2 - FAIR VALUE

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. Liquidity of this level of investments is daily.

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. The liquidity of this level of investments ranges from greater than daily through quarterly.

Level 3
Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The liquidity of this level of investment ranges from more than quarterly to illiquid.

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.

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

Mutual Fund Equities
Equities are valued at the closing price reported in the active market in which the individual securities are traded.

Domestic Equity
Domestic equity is valued at the closing price reported in the active market in which the individual securities are traded. This investment class seeks to outperform equity market indices on a risk-adjusted basis. The redemption period for these investments ranges from daily to quarterly. There are no unfunded commitments related to this investment class.

International Equity
International equity is valued at the closing price reported in the active market in which the individual securities are traded. This investment class seeks to outperform the non-U.S. equity market indices on a risk-adjusted basis. The redemption period for these investments ranges from daily to monthly, with 0-10 days notice. There are no unfunded commitments related to this investment class.

Private Equity
This includes illiquid investments, defined as assets that are traded very infrequently and cannot be sold without great penalty, in legal entities that focus on providing venture capital, growth capital, buyout capital, mezzanine debt, distressed debt and other opportunistic capital to companies and markets. These investments are valued using the net asset value as reported by the investment manager.

Fixed Income
Fixed income is valued at the closing price reported in the active market in which the individual securities are traded. This investment class invests in U.S. treasuries, securities and diversified fixed income strategies, which invest in corporate credits, including bank loans, high yield and investment grade bonds. The redemption period for these investments ranges from daily to quarterly, with 0-60 days notice. There are no unfunded commitments related to this investment class.

Commodities
Interests in commodities are valued using net asset values as determined 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 capital appreciation by investing in a portfolio of commodities within six groups (Agriculture, Base Metals, Precious Metals, Softs and Others, Energy and Livestock). The redemption period for these investments is monthly, with five days notice. There are no unfunded commitments related to this investment class.

Hedge Fund of Funds

Interests in hedge fund of funds are valued using net asset values as determined 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 long-term equity-like returns with minimal correlation to the major market average. There are no unfunded commitments related to this investment class.

Natural Resources

Interests in natural resources are valued using net asset values as determined by the investment manager of the fund. This investment class invests in a diversified portfolio of global natural resource and commodity securities. The fund does not have a specific return or volatility target, but rather focuses on generating absolute returns in all markets. The redemption period for these investments is quarterly, with 60 days notice. There are no unfunded commitments related to this investment class.

REITs

Investments in real estate investment trusts are valued at the closing price reported in the active market in which the individual securities are traded. The redemption period for this investment is monthly. There are no unfunded commitments related to this investment class.

There have been no changes in the methodologies used at December 31, 2015 and 2014.

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 at fair value as of December 31, 2015 and 2014:

	2015				
	Fair Value Measurements Using			Investments Measured at Net Asset Value (a)	December 31, 2015
	Level 1	Level 2	Level 3		
Mutual funds:					
Equity	$ -	$ -	$ -	$ 1,259,163	$ 1,259,163
Domestic equity:					
Large cap equity	2,999,649	-	-	15,974,745	18,974,394
Small cap equity	493,170	-	-	-	493,170
International equity:					
Developed	4,054,101	1,546,637	-	8,577,636	14,178,374
Emerging	1,631,685	1,153,597	-	3,310,234	6,095,516
Global equity	-	-	-	13,967,553	13,967,553
Private equity	-	-	-	4,119,318	4,119,318
Fixed income:					
Domestic governmental bonds	3,829,928	-	-	-	3,829,928
U.S. bonds	4,987,559	-	-	-	4,987,559
Opportunistic fund	1,358	-	-	537,729	539,087
Mortgage backed securities	-	-	3,624,441	-	3,624,441
Marketable alternatives:					
Hedge fund of funds	1,889,237	1,256,748	1,658,469	17,414,089	22,218,543
Natural resources	-	-	-	339,759	339,759
Total investments	19,886,687	3,956,982	5,282,910	65,500,226	94,626,805
Cash held by portfolio managers included in cash and cash equivalents	4,497,983	-	-	-	4,497,983
Total Assets at Fair Value	$ 24,384,670	$ 3,956,982	$ 5,282,910	$ 65,500,226	$ 99,124,788

	2014				
	Fair Value Measurements Using			Investments Measured at Net Asset Value (a)	December 31, 2014
	Level 1	Level 2	Level 3		
Mutual funds:					
Equity	$ -	$ -	$ -	$ 2,013,869	$ 2,013,869
Domestic equity:					
Large cap equity	3,808,742	-	-	11,724,067	15,532,809
Small cap equity	559,769	-	-	-	559,769
International equity:					
Developed	3,516,910	1,036,983	-	7,245,186	11,799,079
Emerging	3,655,992	922,630	-	5,745,594	10,324,216
Global equity	-	-	-	7,656,593	7,656,593
Private equity:	-	-	-	1,762,584	1,762,584
Fixed income:					
Domestic governmental bonds	2,158,191	-	-	-	2,158,191
U.S. bonds	10,768,331	-	-	-	10,768,331
Global gov't nominal bonds	-	-	-	5,226,929	5,226,929
Emerging market debt	928,507	-	-	-	928,507
Opportunistic Fund	1,393	-	-	868,499	869,892
Mortgage backed securities	-	-	3,469,340	-	3,469,340
Marketable alternatives:					
Commodities	-	-	-	2,373,621	2,373,621
Hedge fund of funds	1,250,000	1,404,657	3,151,705	18,715,958	24,522,320
Natural resources	-	-	-	6,014,576	6,014,576
REIT	-	-	-	1,747,235	1,747,235
Total investments	26,647,835	3,364,270	6,621,045	71,094,711	107,727,861
Cash held by portfolio managers included in cash and cash equivalents	428,548	-	-	-	428,548
Total Assets at Fair Value	$ 27,076,383	$ 3,364,270	$ 6,621,045	$ 71,094,711	$ 108,156,409

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 this table 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, 2015 and 2014.

Additional information regarding investments that report fair value based on net asset value per share or unit as of December 31, 2015 is as follows:

Description	Fair Value	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Mutual fund - equity	$ 1,259,163	$ -	Daily	$ -
Domestic equity - large cap	15,974,745	-	Daily to Quarterly	-
International equity - developed	8,577,636	-	Daily to Monthly	0-10 days written notice
International equity - emerging	3,310,234	-	Daily	-
International equity - global equity	13,967,553	-	Daily to every 36 months on anniversary of purchase price	-
Fixed income - opportunistic fund	537,729	-	Daily	-
Hedge fund of funds	17,414,089	-	Monthly to annually with lock up periods of 27 to 37 months	0 to 65 days written notice
Natural resources	339,759	-	Daily	-
Private equity	4,119,318	6,544,089	Illiquid	-
Total	$ 65,500,226	$ 6,544,089		

The investment strategies of the portfolio maintained by the Foundation are as follows:

a. The investment objective is to provide a reliable source of funds to support the Foundation's spending needs, which include grantmaking, program-related initiatives and operations and administrative expenses, while achieving an investment return sufficient to maintain or grow the funds' purchasing power in perpetuity.

b. The performance objective is to achieve a real total annualized return greater than the combined total of the spending policy and investment expenses, on average, over a typical market cycle (generally considered to be five years). The target of real return, net of all investment expenses, is 5.5% over any rolling five-year period.

c. The fund will be invested in a manner that is expected to preserve its purchasing power in real terms after spending and maximize its long-term total return with reasonable and acceptable levels of investment risk. Investment risk is defined in two ways: (i) the possibility of the investments decline in value and (ii) the expected performance volatility of the investments in the portfolio. The portfolio will comprise investments made in multiple asset categories in order to safeguard the portfolio's capital and to lower overall portfolio risk.

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the years ended December 31, 2015 and 2014:

	Marketable Alternatives - Hedge Fund of Funds	Fixed Income - Mortgage Backed Securities
Balance - January 1, 2014	$ 2,037,268	$ -
Total gains (realized and unrealized) included in the change in net assets	(296,057)	-
Sales	-	-
Purchases	1,410,494	3,469,340
Balance - December 31, 2014	3,151,705	3,469,340
Total gains (realized and unrealized) included in the change in net assets	160,365	155,101
Sales	(1,678,057)	-
Purchases	24,456	-
Balance - December 31, 2015	$ 1,658,469	$ 3,624,441

Gains and losses (realized and unrealized) included in changes in net assets for the year ended December 31, 2015 are reported in unrealized investment gains and realized investment gains in the statement of activities.

The Board of Directors approves the overall investment strategy and guidelines of the Foundation, which are implemented with full discretion by the external Chief Investment Officer. Management fees for investment managers and advisors were $472,920 and $499,289 for the years ended December 31, 2015 and 2014, respectively.

NOTE 3 - GRANTS PAYABLE

Grants authorized but unpaid at year-end are reported as liabilities. The following is a summary of grants authorized and payable at December 31, 2015 and 2014:

	2015	2014
To be paid in 2015	$ -	$ 1,468,488
To be paid in 2016	1,482,043	124,000
To be paid in 2017	61,510	-
Total	$ 1,543,553	$ 1,592,488

NOTE 4 - RETIREMENT PLANS

The Foundation sponsors a safe-harbor 401(k) and a Roth 401(k) plan for all eligible 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 eligible compensation. The employer will also match fifty cents per dollar for contributions of greater than 3% and 5% for the year ended December 31, 2015 and 2014. These dollars are 100% vested at the time they are paid. Effective January 1, 2015, the plan provides for a discretionary employer contribution which was 2% in 2015. For the years ended December 31, 2015 and 2014, total cost to the Foundation was $48,932 and $33,108, respectively.

NOTE 5 - OPERATING LEASES

The Foundation leases office space in Hartford, Connecticut, under an operating lease that expires August 2021. The lease requires escalating monthly payments ranging from $10,328 to $10,872 over the term of the lease. The Foundation recognizes rent expensed on a straight-line basis over the respective lease term of the underlying agreement. Rent expense under this method was $117,396 for the years ended December 31, 2015 and 2014, respectively.

The Foundation entered into a lease agreement in February 2012 to lease a copier under a noncancelable operating lease with a term of more than one year. Rental expense amounted to $7,962 for the years ended December 31, 2015 and 2014.

The following is a schedule of future minimum payments required under the above leases as of December 31, 2015:

Year Ending December 31		
2016	$	134,617
2017		132,451
2018		130,460
2019		130,460
2020		130,460
Thereafter		76,102
	$	734,550