

CONNECTICUT HEALTH FOUNDATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2020

CONNECTICUT HEALTH FOUNDATION, INC.

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Independent Auditors' Report

To the Board of Directors
Connecticut Health Foundation, Inc.
Hartford, Connecticut

We have audited the accompanying financial statements of Connecticut Health Foundation, Inc., which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2020, and the changes in its net assets and its cash flows for the year 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, 2020, Connecticut Health Foundation, Inc., adopted Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

CliftonLarsonAllen LLP

West Hartford, Connecticut
April 1, 2021

CONNECTICUT HEALTH FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2020

ASSETS

Cash and cash equivalents	\$ 1,649,815
Investments	121,557,155
Accounts receivable	216,680
Prepaid expenses and deposits	42,470
Prepaid grants	2,618,582
Property and equipment, net	<u>97,541</u>

Total Assets	\$ <u>126,182,243</u>
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LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued liabilities	\$ 392,266
Deferred excise tax liability	<u>393,000</u>
Total liabilities	<u>785,266</u>

Net Assets

Net assets without donor restrictions	125,184,675
Net assets with donor restrictions	<u>212,302</u>
Total net assets	<u>125,396,977</u>

Total Liabilities and Net Assets	\$ <u>126,182,243</u>
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The accompanying notes are an integral part of the financial statements

CONNECTICUT HEALTH FOUNDATION, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2020

Changes in Net Assets Without Donor Restrictions

Revenues:

Investment return, net	\$ 14,612,787
Interest and dividend income	356,496
Contributions	531,198
Other revenue	667
Total revenues	<u>15,501,148</u>

Expenses:

Operating	
Grants and program related expenses	4,748,914
General administrative expenses	893,601
Total operating expenses	<u>5,642,515</u>
Provision for excise tax:	
Current	71,058
Deferred	9,000
Total expenses	<u>5,722,573</u>

Increase in net assets without donor restrictions 9,778,575

Changes in Net Assets With Donor Restrictions

Contributions	<u>212,302</u>
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Increase in Net Assets 9,990,877

Net Assets - Beginning of Year, as Previously Reported 112,488,047

Cumulative Adjustment - Adoption of New Accounting
Standard (Note 1) 2,918,053

Net Assets - Beginning of Year, as Adjusted 115,406,100

Net Assets - End of Year \$ 125,396,977

The accompanying notes are an integral part of the financial statements

CONNECTICUT HEALTH FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Programs</u>	<u>Management and General</u>	<u>Total</u>
Grants and supporting activities	\$ 3,316,235	\$ 8,653	\$ 3,324,888
Salaries and benefits	1,029,125	595,098	1,624,223
Professional services	125,812	121,533	247,345
Facilities	138,970	80,360	219,330
Operations	<u>138,772</u>	<u>87,957</u>	<u>226,729</u>
Total Expenses by Function	\$ <u>4,748,914</u>	\$ <u>893,601</u>	\$ <u>5,642,515</u>

The accompanying notes are an integral part of the financial statements

CONNECTICUT HEALTH FOUNDATION, INC.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2020

Cash Flows from Operating Activities

Change in net assets	\$ 9,990,877
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	38,791
Loss on sale of property and equipment	8,156
Net realized and unrealized gains on investments	(14,949,499)
(Increase) decrease in operating assets:	
Accounts receivable	(216,680)
Prepaid expenses and deposits	222,784
Prepaid grants	(848,993)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued liabilities	247,773
Grants payable	(50,783)
Deferred excise tax liability	9,000
Net cash used in operating activities	<u>(5,548,574)</u>

Cash Flows from Investing Activities

Purchase of property and equipment	(54,328)
Purchases of investments	(85,934,676)
Proceeds from the sale of investments	91,835,643
Net cash provided by investing activities	<u>5,846,639</u>

Net Increase in Cash and Cash Equivalents 298,065

Cash and Cash Equivalents - Beginning of Year 1,351,750

Cash and Cash Equivalents - End of Year \$ 1,649,815

The accompanying notes are an integral part of the financial statements

CONNECTICUT HEALTH FOUNDATION, INC.

NOTES TO 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 health philanthropy 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.

Change in Accounting Principle

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. The amendment clarifies guidance on how an entity determines whether a transfer of assets is a contribution or exchange transaction. The amendment also clarifies the determination of conditional contributions based on evaluating whether there is a right of return and a barrier to overcome. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified prospective method, in which case the effect of applying the standard would be recognized for any agreements not completed and any new agreements entered into at the date of initial application. The new standard is effective for annual reporting periods beginning after December 15, 2018 for resource recipients and for annual reporting periods beginning after December 15, 2019 for resource providers. Management has adopted ASU 2018-08, as a resource provider, for the year ended December 31, 2020. The amendments have been applied using the full retrospective method.

The cumulative effect of applying the resource provider portion of ASU 2018-08 resulted in the following adjustments at January 1, 2020.

<u>Financial Statement Line</u>	<u>As Previously Reported</u>	<u>Cumulative Adjustment</u>	<u>As Adjusted</u>
On the statement of activities:			
Beginning net assets	\$ 112,488,047	\$ 2,918,053	\$ 115,406,100

Basis of Accounting and Presentation

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, the accounts of the Foundation are reported in the following net asset categories:

Net Assets Without Donor Restrictions

Net assets without donor restrictions represent available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Directors.

CONNECTICUT HEALTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Grants

As of December 31, 2020, the Foundation awarded \$1,383,888 of grants that were not paid as of year-end. Due to the existence of barriers and a right of return for these grants, they are not included within grants payable at December 31, 2020. Conditional grants in the amount of \$2,618,582 were paid prior to year end and are recognized as prepaid grants on the statement of financial position.

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.

Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through April 1, 2021, which represents the date the financial statements were available to be issued.

NOTE 2 - AVAILABLE RESOURCES AND LIQUIDITY

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal that are not subject to donor or other contractual restrictions, including cash, marketable debt, equity securities and selected alternative investments. The Foundation considers all readily marketable securities to be financial assets available within one year. Certain alternative investments are subject to redemption restrictions and lock up periods and therefore are excluded from the table below.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all potential expenditures related to its ongoing activities of grantmaking, policy advocacy and strategic communications, as well as the conduct of functions performed in support of these activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation has access to dividend and interest proceeds and any capital gains generated from long-term investment transactions, both of which could contribute to the funding of general expenditures.

At December 31, 2020 the following financial assets could be made available within one year to meet general expenditures needs:

Cash and cash equivalents	\$ 1,649,815
Cash held by portfolio managers	3,968,978
International equity	18,691,666
Fixed income	<u>10,310,277</u>
Total Assets Available	\$ <u>34,620,736</u>

CONNECTICUT HEALTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - 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:

Domestic Equity

Mutual funds within domestic equity are valued at the closing price reported in the active market in which the individual securities are traded. For domestic equities valued at net asset value (NAV), please see (a) on page 13. 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.

CONNECTICUT HEALTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

International Equity

Mutual funds within international equity are valued at the closing price reported in the active market in which the individual securities are traded. For international equities valued at NAV, please see (a) on page 13. 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 quarterly, with 0-45 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. At December 31, 2020, the Foundation's unfunded commitment is \$10,905,070.

Fixed Income

Fixed income is valued at the closing price reported in the active market in which the individual securities are traded. For fixed income securities valued at NAV, please see (a) on page 13. 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 illiquid. There are no unfunded commitments related to this investment class.

Marketable Alternatives

Interests in marketable alternatives are valued using NAV as determined by the investment manager of the fund. This NAV 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.

There have been no changes in the methodologies used at December 31, 2020.

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.

CONNECTICUT HEALTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2020:

	Fair Value Measurements Using			Investments Measured at Net Asset Value (a)	December 31, 2020
	Level 1	Level 2	Level 3		
Domestic equity	\$ 754,056	\$ -	\$ -	\$ 4,520,526	\$ 5,274,582
International equity	18,691,667	1,881,791	-	32,195,478	52,768,936
Private equity	-	-	-	19,263,070	19,263,070
Fixed income	10,310,277	-	-	1,615,064	11,925,341
Marketable alternatives	-	-	-	28,356,248	28,356,248
Total investments at fair value	29,756,000	1,881,791	-	85,950,386	117,588,177
Cash held by portfolio managers	3,968,978	-	-	-	3,968,978
Total Investments	\$ 33,724,978	\$ 1,881,791	\$ -	\$ 85,950,386	\$ 121,557,155

(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 year ended December 31, 2020.

CONNECTICUT HEALTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Additional information regarding investments that report fair value based on net asset value per share or unit as of December 31, 2020 is as follows:

Description	Fair Value	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Domestic equity	\$ 4,520,526	\$ -	Monthly	30 days written notice
International equity	32,195,478	-	Daily, Semi-Monthly, Monthly, Quarterly, every 12, 24, or 36 months on Anniversary of Purchase, including lock up periods of 24 months	0-90 days written notice
Private equity	19,263,070	10,905,070	Illiquid	-
Fixed income	1,615,064	-	Daily, including lock up period of 12 months	-
			Monthly, Quarterly, Annually, every 12 or 36 months on Anniversary of purchase, Illiquid, including lock up periods of 12, 24, and 36 months	0 to 126 days written notice
Marketable alternatives	28,356,248	-		
Total	\$ 85,950,386	\$ 10,905,070		

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

- 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 the funds' purchasing power in perpetuity.
- The performance objective is to achieve a real (net of inflation) 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% over any rolling ten-year period.

CONNECTICUT HEALTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

- 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 three ways: (i) the possibility of the investments' decline in value, (ii) the expected performance volatility of the investments in the portfolio and (iii) the possibility of increased illiquidity, and cash being unavailable for daily operations and grant making. The portfolio will comprise investments made in multiple asset categories in order to safeguard the portfolio's capital and to lower overall portfolio risk.

Gains and losses (realized and unrealized) included in changes in net assets for the year ended December 31, 2020 are reported in investment return, net 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. Direct management fees for investment managers and advisors were \$336,712 for the year ended December 31, 2020.

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 within one month of employment. After one year of service, 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 between 3% and 5%. These dollars are 100% vested at the time they are paid. The plan provides for a discretionary profit-sharing contribution of between 0% and 3%. A 2% contribution was declared in 2020. For the year ended December 31, 2020, total cost to the Foundation was \$57,639.

NOTE 5 - OPERATING LEASES

The Foundation leases office space in Hartford, Connecticut under an operating lease that expires December 31, 2028 after exercising the first option to extend the lease, effective November 1, 2020. The lease requires escalating monthly payments ranging from \$12,231 to \$14,133 over the term of the lease. The Foundation recognizes rent expense on a straight-line basis over the lease term. Rent expense under this method was \$112,411 for the year ended December 31, 2020.

The Foundation entered into a lease agreement in November 2016 to lease a copier under a noncancelable operating lease with a term of more than one year. Rental expense amounted to \$7,104 for the year ended December 31, 2020.

The following is a schedule of future minimum payments required under the above leases as of December 31, 2020:

Year Ending December 31

2021	\$	117,726
2022		149,757
2023		153,019
2024		156,280
2025		159,542
Thereafter		498,194

CONNECTICUT HEALTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - CORONAVIRUS

On March 11, 2020, the World Health Organization classified the coronavirus outbreak as a pandemic, triggering significant instability in the global economy and investment markets. As a result, the Foundation's investments experienced significant volatility during the year ended December 31, 2020. The current fair value of the Foundation's investments may be materially different from the amounts presented on the statement of financial position as of December 31, 2020. As of the report date, the pandemic is still ongoing and, therefore, the total impact it may have on the Foundation's investments cannot be reasonably determined at this time.

