The F.B. Heron Foundation

Financial Statements

December 31, 2010

O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

Independent Auditors' Report

Board of Directors
The F.B. Heron Foundation

We have audited the accompanying statements of financial position of The F.B. Heron Foundation (the "Foundation") 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 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 The F.B. Heron Foundation 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

O'Connor Davies Munns & Dobbins, LLP

New York, New York
June 9, 2011

The F.B. Heron Foundation

Statements of Financial Position

December 31,

	2010	2009
ASSETS		
Cash and cash equivalents	$ 1,039,517	$ 508,120
Traditional investments	158,200,757	156,419,446
Mission-related investments	93,886,984	83,279,267
Other assets	553,427	633,994
Property and equipment, net	9,078	35,933
	$ 253,689,763	$ 240,876,760
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 226,412	$ 165,251
Grants payable	3,205,000	3,332,500
Deferred rent	104,313	-
Deferred Federal excise tax payable	156,137	-
Total Liabilities	3,691,862	3,497,751
Unrestricted net assets	249,997,901	237,379,009
	$ 253,689,763	$ 240,876,760

See notes to financial statements

The F.B. Heron Foundation

Statements of Activities

Years Ended December 31,

	2010	2009
REVENUE		
Net investment income		
Interest, dividends and partnership earnings	$ 4,373,543	$ 6,441,111
Investment expenses	(1,034,152)	(1,173,422)
Current Federal excise tax	(130,000)	(50,000)
Net Investment Income	3,209,391	5,217,689
Program service revenue	-	1,650
Total Revenue	3,209,391	5,219,339
EXPENSES		
Program services		
Grants	8,237,575	9,807,050
Program expenses	1,589,163	1,817,770
Total Program Services	9,826,738	11,624,820
Administrative expenses	650,664	821,879
Total Expenses	10,477,402	12,446,699
Change in Net Assets before Appreciation in Fair Value of Investments, net of Deferred Federal Excise Tax	(7,268,011)	(7,227,360)
Net appreciation in fair value of investments, net of deferred federal excise tax	19,886,903	28,602,686
Change in Net Assets	12,618,892	21,375,326
NET ASSETS		
Beginning of year	237,379,009	216,003,683
End of year	$ 249,997,901	$ 237,379,009

See notes to financial statements

The F.B. Heron Foundation

Statements of Cash Flows

Years Ended December 31,

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 12,618,892	$ 21,375,326
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	26,855	49,163
Net appreciation in fair value of investments	(20,043,040)	(28,852,686)
Deferred Federal excise tax	156,137	-
Net change in operating assets and liabilities:		
Other assets	80,567	(11,015)
Accounts payable and accrued expenses	61,161	(39,295)
Grants payable	(127,500)	(1,150,000)
Deferred rent	104,313	-
Net Cash from Operating Activities	(7,122,615)	(8,628,507)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of traditional investments	(55,652,642)	(75,686,670)
Proceeds from traditional investments sold	70,320,236	93,925,678
Purchases of mission-related investments	(32,360,417)	(34,667,186)
Proceeds from mission-related investments sold or repaid	25,346,835	18,639,695
Net Cash from Investing Activities	7,654,012	2,211,517
Net Change in Cash and Cash Equivalents	531,397	(6,416,990)
CASH AND CASH EQUIVALENTS		
Beginning of year	508,120	6,925,110
End of year	$ 1,039,517	$ 508,120
SUPPLEMENTAL DISCLOSURE		
Federal excise tax paid	$ 130,000	$ -

See notes to financial statements

1. Organization

The F.B. Heron Foundation (the Foundation) is a not-for-profit, charitable corporation formed in December 1991 under the General Corporation Law of the State of Delaware. The Foundation is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and is classified as a private foundation under Section 509(a) of the Code.

To advance its mission of helping people and communities to help themselves, the Foundation supports organizations that help low-income people to create and preserve wealth and take control of their lives. The Foundation makes grants to and investments in organizations engaged in the following wealth-creation strategies for urban and rural communities: advancing home ownership, supporting enterprise development and increasing access to capital.

2. Summary of Significant Accounting Policies

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absences of donor-imposed restrictions. Accordingly, the Foundation's net assets are classified as permanently restricted, temporarily restricted or unrestricted. All of the activities and net assets of the Foundation are unrestricted.

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 the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents include short-term investments with maturities of three months or less at the time of purchase, which are intended to be used for payment of expenses and grants and exclude those amounts used by investment managers for long-term investment strategies.

2. Summary of Significant Accounting Policies *(continued)*

Fair Value Measurements

The Foundation follows Financial Accounting Standards Board (FASB) guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments Valuation

Investments (both traditional and mission-related), with the exception of program-related investments, are stated at fair value. The fair value of limited partnerships has been estimated using the Net Asset Value ("NAV") as reported by the management of the respective partnerships. FASB guidance provides for the use of NAV as a "Practical Expedient" for estimating fair value of limited partnerships. NAV reported by each partnership is used as a practical expedient to estimate the fair value of the Foundation's interest therein and their classification within Level 2 or 3 is based on the Foundation's ability to redeem its interest in the near term. For insured deposits, fair value is the amount of the deposit. Program-related investments are stated at cost.

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Grants

Grants are recorded when approved by the Board of Directors and/or President, unless conditions imposed on the grantee have not been fulfilled. Such conditional grants are recorded when the conditions have been satisfied. All multiyear grants are subject to review and approval of program and financial reports, a work plan, and a budget for the ensuing period of the grant.

2. Summary of Significant Accounting Policies *(continued)*

Property and Equipment

Property and equipment are capitalized at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets. The estimated useful lives range from five to seven years. Leasehold improvements have been capitalized at cost less amounts reimbursed by the landlord, and are being amortized over the life of the lease, which is ten years.

Accounting for Uncertainty in Income Taxes

The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Foundation had no uncertain tax positions that would require financial statement disclosure. The Foundation is no longer subject to audits by the applicable taxing jurisdictions for periods prior to 2006.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is June 9, 2011.

3. Traditional Investments

The following are major categories of investments measured at estimated fair value as of December 31:

	2010		
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Invested cash and cash equivalents	$ 83	$ -	$ 83
Fixed-income funds			
Long-term government/Credit bond	-	12,536,974	12,536,974
US corporate bond	-	13,424,455	13,424,455
Equity funds			
US Large Cap	-	48,632,805	48,632,805
US Mid/small cap	-	25,500,445	25,500,445
Non-US developed markets	-	43,759,730	43,759,730
Non-US emerging markets	-	14,346,265	14,346,265
	$ 83	$ 158,200,674	$ 158,200,757

3. Traditional Investments *(continued)*

	2009		
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Invested cash and cash equivalents	$ 168,702	$ -	$ 168,702
Fixed-income securities	-	29,419,775	29,419,775
Common and preferred stock	25,774,514	101,056,455	126,830,969
	$ 25,943,216	$ 130,476,230	$ 156,419,446

4. Mission-Related Investments

Mission-related investments advance the mission of the Foundation using the core program strategies articulated in Note 1. These include both risk-adjusted, market-rate investments that advance the mission as well as program-related investments (PRIs).

PRIs, defined in IRC 4944(c), have a primary purpose of advancing the mission of the Foundation without a significant purpose of the production of income or the appreciation of property. PRIs are treated as charitable distributions on Internal Revenue Service form 990-PF, the tax and information return filed by private foundations for minimum-distribution requirement purposes. The Foundation's PRI loans bear interest at below-market rates, from 1% to 6%, generally payable on March 31 and September 30 of each year. Seven PRIs are limited partnership interests in community development venture and real estate funds, one is preferred stock in a regulated community bank, and two are secondary capital investments in low income credit unions.

4. Mission-Related Investments *(continued)*

The following are major categories of mission related investments measured at fair value on a recurring basis at December 31, grouped by fair value hierarchy:

	2010				
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Excluded	Total
Invested cash and cash equivalents	$ 1,773,212	$ -	$ -	$ -	$ 1,773,212
Insured deposits in low income designated					
Credit Unions and Community					
Development Banks	5,400,000	-	-	-	5,400,000
Common and preferred stock					
Information Technology	4,279,448	-	-	-	4,279,448
Financials	3,922,822	-	-	-	3,922,822
Health Care	3,043,159	-	-	-	3,043,159
Other	13,240,987	-	-	-	13,240,987
Fixed-income securities				-	-
US Government	17,177,766	-	-	-	17,177,766
US Agency	-	20,732,876	-	-	20,732,876
Limited partnership interests	-	-	7,345,535	-	7,345,535
Program-related investments	-	-	-	16,971,179	16,971,179
	$ 48,837,394	$ 20,732,876	$ 7,345,535	$ 16,971,179	$ 93,886,984

	2009				
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Excluded	Total
Invested cash and cash equivalents	$ 1,251,512	$ -	$ -	$ -	$ 1,251,512
Insured deposits in low income designated					
Credit Unions and Community					
Development Banks	5,750,000	-	-	-	5,750,000
Common and preferred stock	9,963,043	-	-	-	9,963,043
Fixed-income securities	15,685,750	23,047,271	68,604	-	38,801,625
Limited partnership interests	-	-	7,220,345	-	7,220,345
Program-related investments	-	-	-	20,292,742	20,292,742
	$ 32,650,305	$ 23,047,271	$ 7,288,949	$ 20,292,742	$ 83,279,267

4. Mission-Related Investments *(continued)*

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value using significant unobservable inputs (Level 3) during 2010:

	Limited Partnership Interests	Fixed - Income Securities
Beginning balance	$ 7,220,345	$ 68,604
Total realized losses included in changes in net assets	(233,246)	-
Unrealized gains relating to instruments still held at the reporting date included in changes in net assets	533,021	-
Sales	(1,252,604)	(68,604)
Purchases, issuances and settlements	1,078,019	-
Ending balance	$ 7,345,535	$ -

Information regarding Level 3 investments at December 31, 2010 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited Partnership Interests	$ 7,345,535	$ 4,660,000	*	*

* The limited partnership interests are illiquid assets.

The following summarizes changes in PRIs for 2010 and 2009:

	2010	2009
Balance at beginning of year	$ 20,292,742	$ 18,363,889
Additions:		
Disbursements	2,296,105	4,794,273
Deductions:		
Repayments	(3,870,168)	(2,615,420)
Writeoffs	(2,097,500)	-
Change in allowance for uncollectability	350,000	(250,000)
Balance at end of year	$ 16,971,179	$ 20,292,742

4. Mission-Related Investments *(continued)*

PRI principal repayments before reserves are projected as follows:

2011	$ 2,393,668
2012	1,768,387
2013	1,266,485
2014	1,814,918
2015	1,341,163
Thereafter	8,636,558
	17,221,179
Less PRI Reserve	250,000
	$ 16,971,179

5. Property and Equipment

Property and equipment consisted of the following at December 31:

	2010	2009
Leasehold improvements	$ 446,255	$ 446,255
Furniture	120,581	120,581
Equipment	82,641	82,641
	649,477	649,477
Accumulated depreciation and amortization	(640,399)	(613,544)
	$ 9,078	$ 35,933

6. Grants Payable

The following summarizes changes in grants payable for the years ended December 31:

	2010	2009
Balance at beginning of year	$ 3,332,500	$ 4,482,500
Grants authorized	8,237,575	9,807,050
Grants refunded	175,000	
Grants paid	(8,540,075)	(10,957,050)
Balance at end of year	$ 3,205,000	$ 3,332,500

7. Federal Excise Tax

As a private foundation, the Foundation is normally subject to a Federal excise tax equal to 2% of its net investment income for tax purposes. However, under Section 4940(e) of the Code, this tax is reduced to 1% if certain conditions are met. Current taxes are estimated at 2% of net investment income, as defined in the Code. In 2009, the Foundation paid taxes at the 1% rate.

Deferred excise taxes are recorded using the Foundation's normal 1% rate. In 2010 deferred excise taxes amounted to $156,137. No deferred taxes are recorded in 2009 since the fair value of investments was lower than the cost.

For Federal excise tax purposes, realized gains and losses from the sale of securities are determined on the specific-identification basis. Net realized gain or loss on funds is based on the Foundation's allocated share, and, on sale, average cost is used.

8. Lease Commitment

In November 1999, the Foundation entered into an office space lease agreement expiring August 31, 2010. During 2010, the Foundation extended this lease for ten years and four months. The lease also provides for $150,405 of payments for leasehold improvements made by December 31, 2012. Any amount not used under this provision can be used to offset future rental payments. The Foundation has the right to cancel this lease effective December 31, 2015 upon 1 years notice and the payment of $345,147. Future minimum rental payments under this agreement are as follows:

2011	$ 310,837
2012	310,837
2013	310,837
2014	310,837
2015	310,837
2016-2020	1,679,522
	$ 3,233,707

Rent expense for 2010 and 2009 was $322,867 and $370,130.

9. Retirement Plans

The Foundation sponsors a defined contribution retirement plan under IRC Section 401(a). The Foundation is obligated to contribute 12% of the basic compensation for all eligible employees subject to IRS and ERISA limitations. The Foundation also sponsors a 401(k) savings plan. Eligible participants, as defined, may make voluntary contributions into the savings plan. The Foundation is obligated to match 50% of participant contributions, not to exceed 3% of base compensation. For 2010 and 2009 the retirement and savings plan expense was $ 155,206 and $232,000.

Supplemental Schedule of Program Administrative and Investment Expenses

The F.B. Heron Foundation

Schedule of Program, Administrative and Investment Expenses

Year ended December 31, 2010

	Program	Administrative	Investment	Total
Salary and related costs	$ 948,646	$ 296,362	$ 297,554	$ 1,542,562
Consulting fees	264,651	183,320	56,946	504,917
Equipment rental and repair	9,826	3,544	2,738	16,108
Office expenses	20,143	7,264	5,614	33,021
Occupancy	210,250	75,828	58,594	344,672
Travel, meetings, and conferences	71,591	13,047	14,653	99,291
Telephone	10,089	3,639	2,812	16,540
Legal fees	11,656	45,982	23,735	81,373
Audit expenses	10,041	10,040	10,344	30,425
Insurance	15,889	5,730	4,428	26,047
Depreciation and amortization	16,381	5,908	4,565	26,854
Custody fees	-	-	30,151	30,151
Investment, management and advisory	-	-	522,018	522,018
	$ 1,589,163	$ 650,664	$ 1,034,152	$ 3,273,979

See independent auditors' report

The F.B. Heron Foundation

Schedule of Program, Administrative and Investment Expenses

Year ended December 31, 2009

	Program	Administrative	Investment	Total
Salary and related costs	$ 1,235,254	$ 563,253	$ 373,016	$ 2,171,523
Consulting fees	182,287	39,348	66,631	288,266
Equipment rental and repair	11,285	5,148	3,365	19,798
Office expenses	18,837	8,592	5,618	33,047
Occupancy	226,531	103,330	67,562	397,423
Travel, meetings, and conferences	64,446	7,435	9,827	81,708
Telephone	9,588	4,373	2,860	16,821
Legal fees	16,671	60,823	46,548	124,042
Audit expenses	10,041	10,040	10,344	30,425
Insurance	14,807	6,755	4,416	25,978
Depreciation and amortization	28,023	12,782	8,358	49,163
Custody fees	-	-	51,550	51,550
Investment, management and advisory	-	-	523,327	523,327
	$ 1,817,770	$ 821,879	$ 1,173,422	$ 3,813,071

See independent auditors' report