The F.B. Heron Foundation

Financial Statements

December 31, 2007 and 2006

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, 2007 and 2006, 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, 2007 and 2006, 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 2007 audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2007 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2007 basic financial statements taken as a whole.

O'Connor Davies Munns & Dobbins, LLP

New York, New York
April 16, 2008

The F.B. Heron Foundation

Statements of Financial Position

December 31, 2007 and 2006

	2007	2006
ASSETS		
Cash and cash equivalents	1,514,657	2,500,912
Traditional investments	245,111,104	238,664,076
Mission-related investments	69,733,542	65,093,288
Other assets	714,601	435,234
Property and equipment, net	111,567	164,803
	$ 317,185,471	$ 306,858,313
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 233,297	$ 152,838
Grants payable	8,826,500	4,540,000
Deferred Federal excise tax payable	380,383	417,648
Total Liabilities	9,440,180	5,110,486
Unrestricted net assets	307,745,291	301,747,827
	$ 317,185,471	$ 306,858,313

See notes to financial statements

The F.B. Heron Foundation

Statements of Activities

Years Ended December 31, 2007 and 2006

	2007	2006
NET INVESTMENT INCOME		
Interest, dividends and partnership earnings	$ 9,215,645	$ 7,953,753
Investment expenses	(1,589,083)	(1,448,409)
Current Federal excise tax	(482,000)	(336,836)
Net Investment Income	7,144,562	6,168,508
EXPENSES		
Program services		
Grants	11,209,295	10,623,610
Program expenses	2,069,108	1,941,194
Total Program Services	13,278,403	12,564,804
Administrative Expenses	493,225	444,427
Total Expenses	13,771,628	13,009,231
Change in net assests before appreciation in fair value of investments and net of deferred federal excise tax	(6,627,066)	(6,840,723)
Net appreciation in fair value of investments, net of deferred federal excise tax	12,624,530	32,009,207
Change in Net Assets	5,997,464	25,168,484
NET ASSETS		
Beginning of year	301,747,827	276,579,343
End of year	$ 307,745,291	$ 301,747,827

See notes to financial statements

The F.B. Heron Foundation

Statements of Cash Flows

Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 5,997,464	$ 25,168,484
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	53,237	61,851
Net appreciation in fair value of investments	(12,587,265)	(32,229,077)
Deferred Federal excise tax	(37,265)	219,870
Net change in operating assets and liabilities		
Other assets	(279,367)	31,834
Accounts payable and accrued expenses	80,459	51,312
Grants payable	4,286,500	1,522,500
Net Cash Used in Operating Activities	(2,486,237)	(5,173,226)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of traditional investments	(44,444,492)	(34,549,402)
Proceeds from traditional investments sold	49,960,564	45,690,764
Purchases of mission-related investments	(18,141,049)	(13,136,726)
Proceeds from mission-related investments sold or repaid	14,124,959	9,170,657
Net Cash Provided by Investing Activities	1,499,982	7,175,293
Net (Decrease) Increase in Cash and Cash Equivalents	(986,255)	2,002,067
CASH AND CASH EQUIVALENTS		
Beginning of year	2,500,912	498,845
End of year	$ 1,514,657	$ 2,500,912
SUPPLEMENTAL DISCLOSURE		
Federal excise tax paid	$ 528,025	$ 325,000

See notes to financial statements

1. Organization

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 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; reducing the barriers to full participation in the economy by providing quality child care; increasing access to capital; and employing comprehensive community development approaches with a strong focus on the wealth-creation strategies noted above.

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 activity 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.

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

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.

Investments

Investments (both traditional and mission-related), with the exception of program-related investments, are stated at fair value. For marketable securities, fair value is determined by the last sales price reported by a national securities exchange. For limited partnerships, fair value is the latest value reported by the partnerships adjusted for any cash transactions occurring between the reported date and the balance sheet date. Because of the inherent uncertainty of valuation, estimated values may differ significantly from the values that would have been used had a ready market for such entities existed. For insured deposits, fair value is the amount of the deposit. Program-related investments are stated at cost.

Grants

Grants are recorded when approved by the board of directors, 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.

Property and Equipment

Property and equipment are capitalized at cost and are being depreciated over seven years and five 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.

Fair Value of Financial Instruments

The fair value of investments has been determined as indicated above. The carrying amount of the Foundation's other financial instruments approximates fair value.

3. Traditional Investments

At December 31, 2007 and 2006, traditional investments consisted of the following:

	2007		2006	
	Fair Value	Cost	Fair Value	Cost
Invested cash and cash equivalents	$ 1,996,167	$ 1,996,167	$ 1,177,938	$ 1,177,938
Fixed-income securities	47,332,960	47,104,559	46,141,421	47,109,241
Common and preferred stock	195,781,977	160,230,762	191,344,717	151,186,108
	$ 245,111,104	$209,331,488	$238,664,076	$199,473,287

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 and 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 8%, generally payable on March 31 and September 30 of each year. Six PRIs are limited partnerships interests in community development venture funds and two are preferred stock in regulated community development banks. The Foundation expects to hold all PRIs to maturity.

At December 31, 2007 and 2006, mission-related investments consisted of the following:

4. Mission-Related Investments *(continued)*

	2007		2006	
	Fair value	Cost	Fair value	Cost
Invested cash and cash equivalents	$ 316,618	$ 316,618	$ 1,237,528	$ 1,237,528
Insured deposits in low income designated Credit Unions and Community Development Banks	6,000,000	6,000,000	5,800,000	5,800,000
Fixed-income securities	25,152,545	25,175,855	19,926,436	20,072,130
Common and preferred stock	12,153,259	10,501,035	11,681,563	10,193,999
Limited partnership interests	7,771,744	7,141,984	7,492,867	6,260,731
Program-related investments	18,339,376	18,339,376	18,954,894	18,954,894
	$ 69,733,542	$ 67,474,868	$ 65,093,288	$ 62,519,282

At December 31, 2007 and 2006, the Foundation had capital commitments of approximately $7,716,000 and $4,752,000, respectively, to mission-related limited partnerships.

The following summarizes changes in PRIs as of December 31, 2007 and 2006:

	2007	2006
Balance at beginning of year	$ 18,954,894	$ 17,576,044
Additions:		
Disbursements	2,292,400	4,000,000
Deductions:		
Collections	(2,907,918)	(2,621,150)
Balance at end of year	$ 18,339,376	$ 18,954,894

4. Mission-Related Investments *(continued)*

PRI principal repayments are scheduled as follows:

2008	$ 1,615,500
2009	2,423,500
2010	3,000,000
2011	2,522,976
2012	1,550,000
Thereafter	7,227,400
	$ 18,339,376

5. Property and Equipment

Property and equipment consisted of the following at December 31:

	2007	2006
Leasehold improvements	$ 446,255	$ 446,255
Furniture	120,581	120,581
Equipment	59,948	59,948
	626,784	626,784
Accumulated depreciation and amortization	(515,217)	(461,981)
	$ 111,567	$ 164,803

6. Grants Payable

The following summarizes changes in grants payable as of December 31:

	2007	2006
Balance at beginning of year	$ 4,540,000	$ 3,017,500
Grants authorized	11,209,295	10,623,610
Grants paid	(6,922,795)	(9,101,110)
Balance at end of year	$ 8,826,500	$ 4,540,000

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. Since the Foundation failed to meet the requirements for the reduced tax rate in 2007, current taxes are estimated at 2% of net investment income, as defined in the Code. In 2006, the Foundation also paid taxes at the 2% rate.

Deferred taxes are recorded on the unrealized appreciation of investments using the expected excise tax rate of 1%. For 2007 and 2006, deferred tax expense was $380,383 and $417,648.

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. The future minimum rental payments under this agreement are as follows:

2008	$ 325,900
2009	325,900
2010	220,000
	$ 871,800

Rent expense for the 2007 and 2006 was $348,258 and $336,987.

9. Retirement Plans

The Foundation sponsors a defined contribution retirement plan under Section 401(a) of the IRC in which all employees, as defined, are eligible to participate. The Foundation is obligated to contribute 12% of the basic compensation for all eligible employees. 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 2007 and 2006 the retirement and savings plan expense was $210,525 and $188,807.

During 2006, the Foundation established a qualified deferred compensation plan for the President. Contributions to the plan were $15,500 and $15,000 in 2007 and 2006.

During 2007, the Foundation established a non-qualified deferred compensation plan for the President. Contributions to this plan were $9,750.

SUPPLEMENTAL SCHEUDLE OF PROGRAM, ADMINISTRATIVE AND INVESTMENT EXPENSES

The F.B. Heron Foundation

Schedule of Program, Administrative and Investment Expenses

Year ended December 31, 2007

	Program	Administrative	Investment	Total
Salary and related costs	$ 1,350,633	$ 324,338	$ 468,248	$ 2,143,219
Consulting fees	238,637	31,409	58,276	328,322
Equipment rental and repair	24,272	5,779	8,475	38,526
Office expenses	43,107	10,265	15,056	68,428
Occupancy	232,044	55,249	81,032	368,325
Travel, meetings, and conferences	107,377	27,338	35,309	170,024
Telephone	11,391	2,712	3,978	18,081
Legal fees	2,673	15,202	10,528	28,403
Audit expenses	9,046	9,045	9,319	27,410
Insurance	16,389	3,902	5,723	26,014
Depreciation and amortization	33,539	7,986	11,712	53,237
Custody fees	-	-	83,852	83,852
Investment, management and advisory	-	-	797,575	797,575
	$ 2,069,108	$ 493,225	$ 1,589,083	$ 4,151,416

See independent auditors' report