The F.B. Heron Foundation

Financial Statements

December 31, 2009

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, 2009 and 2008, 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, 2009 and 2008, 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 4, 2010

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The F.B. Heron Foundation

Statements of Financial Position

December 31,

	2009	2008
ASSETS		
Cash and cash equivalents	$ 508,120	$ 6,925,110
Traditional investments	156,419,446	147,020,435
Mission-related investments	83,279,267	66,037,109
Other assets	633,994	622,979
Property and equipment, net	35,933	85,096
	$ 240,876,760	$ 220,690,729
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 165,251	$ 204,546
Grants payable	3,332,500	4,482,500
Total Liabilities	3,497,751	4,687,046
Unrestricted net assets	237,379,009	216,003,683
	$ 240,876,760	$ 220,690,729

See notes to financial statements

The F.B. Heron Foundation

Statements of Activities

Years Ended December 31,

	2009	2008
REVENUE		
Net investment income		
Interest, dividends and partnership earnings	$ 6,441,111	$ 6,382,047
Investment expenses	(1,173,422)	(1,679,528)
Current Federal excise tax	(50,000)	(50,000)
Net Investment Income	5,217,689	4,652,519
Program service revenue	1,650	46,281
Total Revenue	5,219,339	4,698,800
EXPENSES		
Program services		
Grants	9,807,050	10,719,155
Program expenses	1,817,770	1,983,522
Total Program Services	11,624,820	12,702,677
Administrative Expenses	821,879	688,381
Total Expenses	12,446,699	13,391,058
Change in Net Assets before Appreciation (Depreciation) in Fair Value of Investments, net of Deferred Federal Excise Tax	(7,227,360)	(8,692,258)
Net appreciation (depreciation) in fair value of investments, net of deferred federal excise tax	28,602,686	(83,049,350)
Change in Net Assets	21,375,326	(91,741,608)
NET ASSETS		
Beginning of year	216,003,683	307,745,291
End of year	$ 237,379,009	$ 216,003,683

See notes to financial statements

The F.B. Heron Foundation

Statements of Cash Flows

Years Ended December 31,

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 21,375,326	$ (91,741,608)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	49,163	49,163
Net (appreciation) depreciation in fair value of investments	(28,852,686)	83,429,733
Deferred Federal excise tax benefit	-	(380,383)
Net change in operating assets and liabilities		
Other assets	(11,015)	91,622
Accounts payable and accrued expenses	(39,295)	(28,751)
Grants payable	(1,150,000)	(4,344,000)
Net Cash from Operating Activities	(8,628,507)	(12,924,224)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of traditional investments	(75,686,670)	(196,689,560)
Proceeds from traditional investments sold	93,925,678	217,331,536
Purchases of mission-related investments	(34,667,186)	(10,406,959)
Proceeds from mission-related investments sold or repaid	18,639,695	8,122,350
Purchases of property and equipment	-	(22,690)
Net Cash from Investing Activities	2,211,517	18,334,677
Net Change in Cash and Cash Equivalents	(6,416,990)	5,410,453
CASH AND CASH EQUIVALENTS		
Beginning of year	6,925,110	1,514,657
End of year	$ 508,120	$ 6,925,110
SUPPLEMENTAL DISCLOSURE		
Federal excise tax paid	-	$ 90,000

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

Accounting Changes

In July 2009, the FASB Accounting Standards Codification (the ASC) became the single source of generally accepted accounting principles (GAAP) in the United States. The ASC did not change GAAP, however, it introduced a new structure to the accounting literature and changed references to accounting standards and other authoritative accounting guidance. Application of the Codification did not have an effect on the Foundation's financial condition, change in net assets or cash flows.

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.

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.

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. 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 statement of financial position 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.

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 4, 2010.

3. Traditional Investments

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

	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

3. Traditional Investments *(continued)*

	2008		
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Invested cash and cash equivalents	$ 3,641,662	$ -	$ 3,641,662
Fixed-income securities	705,116	44,643,221	45,348,337
Common and preferred stock	20,688,159	77,342,277	98,030,436
	$ 25,034,937	$ 121,985,498	$ 147,020,435

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 partnerships interests in community development venture funds, two are preferred stock in regulated community banks and one is a secondary capital investment is a low income credit union.

4. Mission-Related Investments *(continued)*

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

	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

	2008				
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	$ 36,557	$ -	$ -	$ -	$ 36,557
Insured deposits in low income designated Credit Unions and Community Development Banks	6,200,000	-	-	-	6,200,000
Common and preferred stock	7,917,812	-	-	-	7,917,812
Fixed-income securities	10,108,861	15,368,987	163,364	-	25,641,212
Limited partnership interests	-	-	7,877,639	-	7,877,639
Program-related investments	-	-	-	18,363,889	18,363,889
	$ 24,263,230	$ 15,368,987	$ 8,041,003	$ 18,363,889	$ 66,037,109

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 2009:

	Limited Partnership Interests	Fixed - Income Securities
Beginning balance	$ 7,877,639	$ 163,364
Total realized gains included in changes in net assets	838,575	-
Unrealized losses relating to instruments still held at the reporting date included in changes in net assets	(1,601,801)	-
Purchases, issuances and settlements	105,932	(94,760)
Ending balance	$ 7,220,345	$ 68,604

Information regarding Level 3 investments at December 31, 2009 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited Partnership Interests	$ 7,220,345	$ 5,390,000	*	*
Fixed Income Securities	68,604	-		
Total	$ 7,288,949	$ 5,390,000		

* The limited partnership interests are illiquid assets.

The following summarizes changes in PRIs for 2009 and 2008:

	2009	2008
Balance at beginning of year	$ 18,363,889	$ 18,339,376
Additions:		
Disbursements	4,794,273	2,040,013
Deductions:		
Collections	(2,615,420)	(1,665,500)
Allowance for uncollectability	(250,000)	(350,000)
Balance at end of year	$ 20,292,742	$ 18,363,889

4. Mission-Related Investments *(continued)*

PRI principal repayments before reserves are projected as follows:

2010	$ 3,303,092
2011	2,934,862
2012	1,954,058
2013	949,212
2014	1,720,374
Thereafter	10,031,144
	20,892,742
Less PRI Reserve	600,000
	$ 20,292,742

5. Property and Equipment

Property and equipment consisted of the following at December 31:

	2009	2008
Leasehold improvements	$ 446,255	$ 446,255
Furniture	120,581	120,581
Equipment	82,641	82,641
	649,477	649,477
Accumulated depreciation and amortization	(613,544)	(564,381)
	$ 35,933	$ 85,096

6. Grants Payable

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

	2009	2008
Balance at beginning of year	$ 4,482,500	$ 8,826,500
Grants authorized	9,807,050	10,719,155
Grants paid	(10,957,050)	(15,063,155)
Balance at end of year	$ 3,332,500	$ 4,482,500

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. Since the Foundation met the requirements for the reduced tax rate in 2009, current taxes are estimated at 1% of net investment income, as defined in the Code. In 2008, the Foundation paid taxes at the 1% rate.

No deferred taxes are recorded in 2009 or 2008 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. Future minimum rental payments under this agreement are $220,000.

Rent expense for 2009 and 2008 was $370,130 and $369,441.

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. 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 2009 and 2008 the retirement and savings plan expense was $ 232,000 and $238,225.

The Foundation maintains a qualified deferred compensation plan for the President. Contributions to the plan were $15,500 in 2009 and 2008. The Foundation also maintains a non-qualified deferred compensation plan for the President. Contributions to this plan were $7,750 and $9,750 in 2009 and 2008.

Supplemental Schedule of Program Administrative and Investment Expenses

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

The F.B. Heron Foundation

Schedule of Program, Administrative and Investment Expenses

Year ended December 31, 2008

	Program	Administrative	Investment	Total
Salary and related costs	$ 1,306,628	$ 439,090	$ 432,312	$ 2,178,030
Consulting fees	228,764	65,411	53,777	347,952
Equipment rental and repair	15,266	5,088	5,088	25,442
Office expenses	31,032	10,343	10,343	51,718
Occupancy	243,823	81,274	81,274	406,371
Travel, meetings, and conferences	77,190	14,967	17,328	109,485
Telephone	10,032	3,345	3,345	16,722
Legal fees	14,781	43,496	40,019	98,296
Audit expenses	10,045	10,045	10,350	30,440
Insurance	16,464	5,489	5,489	27,442
Depreciation and amortization	29,497	9,833	9,833	49,163
Custody fees	-	-	73,548	73,548
Investment, management and advisory	-	-	936,822	936,822
	$ 1,983,522	$ 688,381	$ 1,679,528	$ 4,351,431

See independent auditors' report