The F.B. Heron Foundation

Financial Statements

December 31, 2012 and 2011

Independent Auditors' Report

Board of Directors
The F.B. Heron Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of the F.B. Heron Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2012 and 2011, 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.

Auditor's 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 auditor's 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 auditor considers 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 the F.B. Heron Foundation as of December 31, 2012 and 2011 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.

O'CONNOR DAVIES, LLP
665 Fifth Avenue, New York, NY 10022 I Tel: 212.286.2600 I Fax: 212.286.4080 I www.odpkf.com

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of program, administrative and investment expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information on page 14 is fairly stated in all material respects in relation to the financial statements as a whole.

O'Connor Davies, LLP

New York, New York
May 20, 2013

The F.B. Heron Foundation

Statements of Financial Position

	December 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 3,674,265	$ 2,737,055
Investments allocated for mission	99,411,030	93,744,659
Other investments	156,889,214	143,477,671
Prepaid Federal excise taxes	67,525	37,525
Other assets	506,006	495,702
Property and equipment, net	-	4,539
	$ 260,548,040	$ 240,497,151
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 375,583	$ 167,324
Grants payable	1,852,925	1,340,000
Deferred rent	108,518	106,416
Deferred Federal excise tax	354,565	47,542
Total Liabilities	2,691,591	1,661,282
Unrestricted net assets	257,856,449	238,835,869
	$ 260,548,040	$ 240,497,151

See notes to financial statements

The F.B. Heron Foundation

Statement of Activities

	Year Ended December 31, 2012	Year Ended December 31, 2011
INVESTMENTS ALLOCATED FOR MISSION		
Revenue		
Interest dividends and partnership earnings	$ 2,466,568	$ 2,538,678
Realized gain	324,220	293,374
Change in unrealized gain, net of deferred excise tax	3,411,493	1,206,329
Program service fees	46,250	-
Current Federal excise tax	(35,000)	(45,000)
Investments Allocated for Mission Revenue, Net of	6,213,531	3,993,381
Expenses		
Program expenses	1,327,598	1,404,581
Administrative expenses	765,511	644,451
Investment expenses	853,665	626,946
Investments Allocated for Mission Expenses	2,946,774	2,675,978
Excess of Revenue over Expenses - Investments Allocated for Mission Related Before Grant Expense	3,266,757	1,317,403
Grants	5,779,593	6,339,100
Deficiency of Investments Allocated for Mission Revenue over Expenses	(2,512,836)	(5,021,697)
OTHER INVESTMENTS		
Revenue		
Interest dividends and partnership earnings	4,426,360	4,199,714
Realized gain	8,442,828	2,152,613
Change in unrealized gain, net of deferred excise tax	9,246,055	(11,957,117)
Current Federal excise tax	(240,000)	(125,000)
Other Investments Revenue, Net of Federal Excise Tax	21,875,243	(5,729,790)
Expenses		
Investment expenses	341,827	410,545
Excess (Deficiency) of Other Investments Revenue over Expenses	21,533,416	(6,140,335)
Change in Net Assets	19,020,580	(11,162,032)
NET ASSETS		
Beginning of year	238,835,869	249,997,901
End of year	$ 257,856,449	$ 238,835,869

See notes to financial statements

The F.B. Heron Foundation

Statements of Cash Flows

	Year Ended December 31, 2012	Year Ended December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 19,020,580	$ (11,162,032)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	4,539	4,539
Net (appreciation) depreciation in fair value of investments	(21,731,619)	8,413,396
Deferred Federal excise tax provision (benefit)	307,023	(108,595)
Amortization of deferred rent	2,102	2,103
Net change in operating assets and liabilities:		
Prepaid Federal excise taxes	(30,000)	(10,000)
Other assets	(10,304)	30,200
Accounts payable and accrued expenses	208,259	(59,088)
Grants payable	512,925	(1,865,000)
Net Cash from Operating Activities	(1,716,495)	(4,754,477)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of other investments	(18,653,475)	(37,928,827)
Proceeds from other investments sold	23,155,088	42,738,812
Purchases of investments allocated for mission	(16,639,589)	(13,301,937)
Proceeds from investments allocated for mission sold or repaid	14,791,681	14,943,967
Net Cash from Investing Activities	2,653,705	6,452,015
Net Change in Cash and Cash Equivalents	937,210	1,697,538
CASH AND CASH EQUIVALENTS		
Beginning of year	2,737,055	1,039,517
End of year	$ 3,674,265	$ 2,737,055
SUPPLEMENTAL DISCLOSURE		
Federal excise tax paid	$ 30,000	$ 180,000
Interest paid	$ 1,792	$ -

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 increase and maintain reliable employment, as well as those that advance systematic innovations to help communities be resilient to the changing nature of work. The Foundation makes grants and invests to support an enterprise's growth, or a change of business model that improves, preserves, or sustains the ability to increase employment and livelihood for people in the community.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) 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. Accordingly, 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.

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.

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

Investments Valuation

Investments (both investments allocated for mission and other investments), 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.

Programmatic Investments

Programmatic investments consist of 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 PRIs are considered below market rate loans. They are stated at cost, less any valuation allowance for discount or uncollectable amounts.

Property and Equipment

Property and equipment are stated 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 are amortized over the life of the lease, which is ten years.

Net Asset 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.

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 recognized when approved by the Board of Directors and/or President, unless conditions imposed on the grantee have not been fulfilled. Such conditional grants are recognized 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)*

Reclassification

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

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 2009.

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 May 20, 2013.

3. Investments Allocated for Mission

Investments allocated for mission 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).

The Foundation's PRI loans bear interest at below-market rates from 1% to 5%, generally payable on March 31 and September 30 of each year. PRI loans are individually monitored to determine net realizable value based on an evaluation of recovery. Management has reviewed the collectability of all PRI loans and deemed an allowance to be unnecessary. PRI equities consist of seven PRIs in limited partnership interests in community development ventures and real estate funds and one PRI in preferred stock in a regulated community bank.

3. Investments Allocated for Mission *(continued)*

The following are the classes and major categories of investments allocated for mission at December 31 grouped by the fair value of hierarchy for those investments measured at fair value on a recurring basis:

	2012			
	(Level 1)	(Level 2)	(Level 3)	Total
At fair value				
Insured deposits in low income designated				
Credit unions and community				
development banks	$ 2,850,000	$ -	$ -	$ 2,850,000
Common and preferred stock				
Information technology	2,141,622	-	-	2,141,622
Health care	1,860,152	-	-	1,860,152
Industrial	1,664,347	-	-	1,664,347
Other	6,719,354	-	1,000,000	7,719,354
Community investing commingled fund	-	15,821,666	-	15,821,666
Fixed-income securities				
US agency	-	20,953,343	-	20,953,343
Municipals	-	20,377,118	-	20,377,118
Corporate	-	1,515,584	-	1,515,584
Limited partnership interests	-	-	9,517,196	9,517,196
Total at fair value	$ 15,235,475	$ 58,667,711	$ 10,517,196	84,420,382
Program related investments, at cost, net				13,833,470
Invested cash and cash equivalents				1,157,178
Total investments allocated for mission				$ 99,411,030

	2011			
	(Level 1)	(Level 2)	(Level 3)	Total
At fair value				
Insured deposits in low income designated				
Credit unions and community				
development banks	$ 4,950,000	$ -	$ -	$ 4,950,000
Common and preferred stock				
Information technology	4,429,251	-	-	4,429,251
Health care	3,538,586	-	-	3,538,586
Industrial	2,816,426	-	-	2,816,426
Other	13,460,675	-	-	13,460,675
Fixed-income securities				
US agency	-	19,987,176	-	19,987,176
Municipals	-	18,327,566	-	18,327,566
Corporate	-	1,798,075	-	1,798,075
Limited partnership interests	-	-	8,103,403	8,103,403
Total at fair value	$ 29,194,938	$ 40,112,817	$ 8,103,403	77,411,158
Program related investments, at cost, net				14,911,521
Invested cash and cash equivalents				1,421,980
Total investments allocated for mission				$ 93,744,659

3. Investments Allocated for Mission *(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):

	2012			2011
	Preferred Stock	Limited Partnership Interests	Total	Limited Partnership Interests
Beginning balance	$ -	$ 8,103,403	$ 8,103,403	$ 7,345,535
Total realized losses included in changes in net assets	-	(1,751,833)	(1,751,833)	(230,647)
Unrealized gains relating to instruments still held at the reporting date included in changes in net assets	-	1,970,016	1,970,016	320,316
Sales	-	(751,989)	(751,989)	(259,152)
Distributions of public stock - level 1	-	(128,174)	(128,174)	(172,923)
Purchases, issuances and settlements	1,000,000	2,075,773	3,075,773	1,100,274
Ending balance	$ 1,000,000	$ 9,517,196	$ 10,517,196	$ 8,103,403

Information regarding Level 3 investments at December 31, 2012 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited Partnership Interests	$ 9,517,196	$ 3,156,153	*	*

* The limited partnership interests are illiquid assets.

The following summarizes changes in PRIs for 2012 and 2011:

	2012			2011		
	PRI Loans	PRI Equities	Total	PRI Loans	PRI Equities	Total
Balance at beginning of year	$ 12,148,825	$ 2,762,696	$ 14,911,521	$ 13,974,011	$ 3,247,168	$ 17,221,179
Additions:						
Disbursements	2,049,999	-	2,049,999	798,012	-	798,012
Deductions:						
Repayments	(2,910,233)	(67,817)	(2,978,050)	(2,529,909)	(134,472)	(2,664,381)
Writeoffs	-	-	-	(93,289)	-	(93,289)
	11,288,591	2,694,879	13,983,470	12,148,825	3,112,696	15,261,521
Valuation adjustment	-	(150,000)	(150,000)	-	(350,000)	(350,000)
Balance at end of year	$ 11,288,591	$ 2,544,879	$ 13,833,470	$ 12,148,825	$ 2,762,696	$ 14,911,521

3. Investments Allocated for Mission *(continued)*

PRI loan principal repayments at December 31, 2012 are projected as follows:

2013	$ 1,386,516
2014	866,965
2015	2,106,366
2016	3,893,830
2017	2,043,672
Thereafter	991,242
	$ 11,288,591

PRI equity investments will be redeemed over the next two to seven years depending on investment performance and activity.

4. Other Investments

The following are the classes and major categories of investments for those investments measured at fair value on a recurring basis at December 31 using Level 2 inputs in the fair value hierarchy:

	2012	2011
At fair value		
Fixed-income funds		
Long-term government/Credit bond	$ 9,111,763	$ 8,374,425
Intermediate credit term bond fund	15,609,381	7,608,110
Equity funds		
US large cap	55,862,541	58,841,086
US mid/small cap	13,549,433	13,142,414
Non-US developed markets	47,909,213	43,813,599
Non-US emerging markets	14,846,777	11,697,931
Total at fair value	156,889,108	143,477,565
At cost		
Invested cash and cash equivalents	106	106
Total other investments	$ 156,889,214	$ 143,477,671

5. Investments Stated at Fair Value

The following summarizes all assets stated at fair value at December 31:

	2012			
	(Level 1)	(Level 2)	(Level 3)	Total
Investments allocated for mission	$ 15,235,475	$ 58,667,711	$ 10,517,196	$ 84,420,382
Other investments	-	156,889,108	-	156,889,108
	$ 15,235,475	$ 215,556,819	$ 10,517,196	$ 241,309,490

	2011			
	(Level 1)	(Level 2)	(Level 3)	Total
Investments allocated for mission	$ 29,194,938	$ 40,112,817	$ 8,103,403	$ 77,411,158
Other investments	-	143,477,565	-	143,477,565
	$ 29,194,938	$ 183,590,382	$ 8,103,403	$ 220,888,723

6. Property and Equipment

Property and equipment consisted of the following at December 31:

	2012	2011
Leasehold improvements	$ 446,255	$ 446,255
Furniture	120,581	120,581
Equipment	39,043	82,641
	605,879	649,477
Accumulated depreciation and amortization	(605,879)	(644,938)
	$ -	$ 4,539

During 2012 the Foundation removed $43,598 of fully depreciated equipment from its books and records.

7. Grants Payable

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

	2012	2011
Balance at beginning of year	$ 1,340,000	$ 3,205,000
Grants authorized	5,779,593	6,339,100
Grants refunded	122	75,000
Grants paid	(5,266,790)	(8,279,100)
Balance at end of year	$ 1,852,925	$ 1,340,000

8. 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. 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 2011, the Foundation paid taxes at the 2% rate.

The Foundation records deferred excise taxes using the 2% rate. For 2012 and 2011 deferred excise taxes amounted to $354,565 and $47,542.

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.

9. Lease Commitment

The Foundation's office lease expires on December 31, 2020. 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:

2013	$ 310,837
2014	310,837
2015	310,837
2016	335,904
2017	335,904
2018-2020	1,007,714
	$ 2,612,033

Rent expense for 2012 and 2011 was $192,512 and $279,406.

10. 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 2012 and 2011, retirement and savings plan expense was $156,071 and $196,937.

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The F.B. Heron Foundation

Supplemental Schedule of Program
Administrative and Investment Expenses

The F.B. Heron Foundation

Schedule of Program, Administrative and Investment Expenses
Years Ended December 31,

	2012					2011				
	Investments Allocated for Mission			Other Investments		Investments Allocated for Mission			Other Investments	
	Program	Administrative	Investment	Investment	Total	Program	Administrative	Investment	Investment	Total
Salary and related costs	$ 820,886	$ 446,341	$ 330,138	$ 20,883	$ 1,618,248	$ 903,687	$ 440,780	$ 239,461	$ 115,446	$ 1,699,374
Consulting fees	261,656	180,283	62,548	1,681	506,168	235,663	54,497	29,507	2,795	322,462
Equipment rental and repair	14,149	7,696	5,692	360	27,897	12,561	6,116	3,335	1,600	23,612
Office expenses	27,358	14,905	11,006	696	53,965	19,930	11,830	5,291	2,538	39,589
Occupancy	105,657	57,467	42,506	2,689	208,319	157,591	76,728	41,833	20,070	296,222
Travel, meetings, and conferences	53,050	27,952	20,675	1,308	102,985	33,952	21,451	14,241	2,150	71,794
Telephone	8,306	4,517	3,341	211	16,375	9,498	4,624	2,521	1,210	17,853
Legal fees	612	334	25,670	16	26,632	5,220	10,178	10,020	-	25,418
Audit expenses	20,250	11,014	8,146	515	39,925	10,437	10,436	9,171	1,581	31,625
Interest expense and bank fees	-	6,477	-	-	6,477	-	-	-	-	
Insurance	13,372	7,273	5,379	340	26,364	13,628	6,635	3,618	1,736	25,617
Depreciation and amortization	2,302	1,252	926	59	4,539	2,414	1,176	641	308	4,539
Custody fees	-	-	25,927	-	25,927	-	-	25,762	-	25,762
Investment, management and advisory	-	-	311,711	313,069	624,780	-	-	241,545	261,111	502,656
	$1,327,598	$ 765,511	$ 853,665	$ 341,827	$ 3,288,601	$ 1,404,581	$ 644,451	$ 626,946	$ 410,545	$ 3,086,523

See independent auditors' report