The F.B. Heron Foundation

Financial Statements

December 31, 2008

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, 2008 and 2007, 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, 2008 and 2007, 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 2008 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 2008 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2008 basic financial statements taken as a whole.

O'Connor Davies Munns & Dobbins, LLP

New York, New York
May 28, 2009

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The F.B. Heron Foundation

Statements of Financial Position

December 31,

		2008		2007
ASSETS				
Cash and cash equivalents	$	6,925,110	$	1,514,657
Traditional investments		147,020,435		245,111,104
Mission-related investments		66,037,109		69,733,542
Other assets		622,979		714,601
Property and equipment, net		85,096		111,567
	$	220,690,729	$	317,185,471
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	$	204,546	$	233,297
Grants payable		4,482,500		8,826,500
Deferred Federal excise tax payable		-		380,383
Total Liabilities		4,687,046		9,440,180
Unrestricted net assets		216,003,683		307,745,291
	$	220,690,729	$	317,185,471

See notes to financial statements

The F.B. Heron Foundation

Statements of Activities

Years Ended December 31,

	2008	2007
NET INVESTMENT INCOME		
Interest, dividends and partnership earnings	$ 6,382,047	$ 9,215,645
Investment expenses	(1,679,528)	(1,589,083)
Current Federal excise tax	(50,000)	(482,000)
Net Investment Income	4,652,519	7,144,562
PROGRAM SERVICE REVENUE	46,281	-
EXPENSES		
Program services		
Grants	10,719,155	11,209,295
Program expenses	1,983,522	2,069,108
Total Program Services	12,702,677	13,278,403
Administrative Expenses	688,381	493,225
Total Expenses	13,391,058	13,771,628
Change in Net Assets Before (Depreciation) Appreciation in Fair Value of Investments and Net of Deferred Federal Excise Tax	(8,692,258)	(6,627,066)
Net (depreciation) appreciation in fair value of investments, net of deferred federal excise tax	(83,049,350)	12,624,530
Change in Net Assets	(91,741,608)	5,997,464
NET ASSETS		
Beginning of year	307,745,291	301,747,827
End of year	$ 216,003,683	$ 307,745,291

See notes to financial statements

The F.B. Heron Foundation

Statements of Cash Flows

Years Ended December 31,

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (91,741,608)	$ 5,997,464
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	49,163	53,237
Net depreciation (appreciation) in fair value of investments	83,429,733	(12,587,265)
Deferred Federal excise tax	(380,383)	(37,265)
Net change in operating assets and liabilities		
Other assets	91,622	(279,367)
Accounts payable and accrued expenses	(28,751)	80,459
Grants payable	(4,344,000)	4,286,500
Net Cash from Operating Activities	(12,924,224)	(2,486,237)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of traditional investments	(196,689,560)	(44,444,492)
Proceeds from traditional investments sold	217,331,536	49,960,564
Purchases of mission-related investments	(10,406,959)	(18,141,049)
Proceeds from mission-related investments sold or repaid	8,122,350	14,124,959
Purchases of property and equipment	(22,690)	-
Net Cash from Investing Activities	18,334,677	1,499,982
Net Change in Cash and Cash Equivalents	5,410,453	(986,255)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,514,657	2,500,912
End of year	$ 6,925,110	$ 1,514,657
SUPPLEMENTAL DISCLOSURE		
Federal excise tax paid	$ 90,000	$ 528,025

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 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)*

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 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.

Subsequent to year end, the credit and liquidity crisis in the United States continues to produce substantial volatility in the global financial markets. However, because the values of the Foundation's individual investments have and will fluctuate in response to changing market conditions, the amount of losses, if any, that will be recognized in subsequent periods, cannot be determined.

The Foundation adopted SFAS No. 157 "Fair Value Measurements" as of January 1, 2008, which, among other things, establishes a hierarchal framework for disclosure and measurement of investments at fair value. The hierarchal disclosure framework prioritizes and ranks the level of market price observations used in measuring investments at fair value. Market price observations are impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observations and a lesser degree of judgment used in measuring fair value. Investments measured and reported at fair value are classified and disclosed under SFAS 157 in one of the following categories:

Level I—Quoted prices are available in active markets for identical investments as of the reporting date.

Level II—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

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

Investments (continued)

Level III—Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, where possible, the value of the investment is assigned to the appropriate level within the fair value hierarchy or, if not easily allocated, it is assigned to the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

Withdrawal restrictions on certain of these funds may, at times, affect liquidity on a short-term or long-term basis. These types of financial instruments contain varying degrees of risk whereby changes in the fair value of the securities underlying the financial instrument or the cost of satisfying obligations is limited to the amount recognized in the statements of financial position.

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.

Property and Equipment

Property and equipment are capitalized at cost and are being depreciated over five years for computer – and communications – related purchases and seven years for furniture purchases. 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.

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

Accounting for Uncertainty in Income Taxes

The Foundation's current accounting policy is to provide liabilities for uncertain tax positions when a liability is probable and estimable. Management is not aware of any violation of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax.

3. Traditional Investments

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

	2008		
Description	Quoted Prices in Active Markets for Indentical 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

	2007		
Description	Quoted Prices in Active Markets for Indentical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Invested cash and cash equivalents	$ 1,996,239	$ -	$ 1,996,239
Fixed-income securities	-	47,332,887	47,332,887
Common and preferred stock	40,475,350	155,306,628	195,781,978
	$ 42,471,589	$ 202,639,515	$ 245,111,104

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 and three are preferred stock in regulated community development banks. The Foundation expects to hold all PRIs to maturity.

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

	2008				
Description	Quoted Prices in Active Markets for Indentical 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)*

	2007				
Description	Quoted Prices in Active Markets for Indentical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Excluded	Total
Invested cash and cash equivalents	$ 316,617	$ -	$ -	$ -	$ 316,617
Insured deposits in low income designated Credit Unions and Community Development Banks	6,000,000	-	-	-	6,000,000
Common and preferred stock	12,153,259	-	-	-	12,153,259
Fixed-income securities	9,338,171	15,544,604	269,771	-	25,152,546
Limited partnership interests	-	-	7,771,744	-	7,771,744
Program-related investments	-	-	-	18,339,376	18,339,376
	$ 27,808,047	$ 15,544,604	$ 8,041,515	$ 18,339,376	$ 69,733,542

	Level 3
Beginning balance	$ 8,041,515
Realized Gains in Earnings	52,836
Unrealized gains	(495,089)
Purchases, issuances and settlements	441,741
Ending balance	$ 8,041,003

At December 31, 2008 and 2007, the Foundation had capital commitments of approximately $6,764,000 and $7,716,000, respectively, to mission-related limited partnerships.

4. Mission-Related Investments *(continued)*

The following summarizes changes in PRIs for 2008 and 2007:

	2008	2007
Balance at beginning of year	$ 18,339,376	$ 18,954,894
Additions:		
Disbursements	2,040,013	2,292,400
Deductions:		
Collections	(1,665,500)	(2,907,918)
Allowance	(350,000)	-
Balance at end of year	$ 18,363,889	$ 18,339,376

PRI principal repayments before reserves are projected as follows:

2009	$ 2,323,500
2010	3,000,000
2011	2,550,000
2012	1,550,000
2013	400,000
Thereafter	8,890,389
	$ 18,713,889

5. Property and Equipment

Property and equipment consisted of the following at December 31:

	2008	2007
Leasehold improvements	$ 446,255	$ 446,255
Furniture	120,581	120,581
Equipment	82,641	59,948
	649,477	626,784
Accumulated depreciation and amortization	(564,381)	(515,217)
	$ 85,096	$ 111,567

6. Grants Payable

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

	2008	2007
Balance at beginning of year	$ 8,826,500	$ 4,540,000
Grants authorized	10,719,155	11,209,295
Grants paid	(15,063,155)	(6,922,795)
Balance at end of year	$ 4,482,500	$ 8,826,500

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 2008, current taxes are estimated at 1% of net investment income, as defined in the Code. In 2007, the Foundation paid taxes at the 2% rate.

No deferred taxes are recorded in 2008 since the fair value of investments was lower than the cost. For 2007 deferred tax was $380,383.

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 annual minimum rental payments under this agreement are as follows:

2009	$ 325,900
2010	220,000
	$ 545,900

Rent expense for the 2008 and 2007 was $369,441 and $348,258.

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 2008 and 2007 the retirement and savings plan expense was $238,225 and $210,525.

The Foundation maintains a qualified deferred compensation plan for the President. Contributions to the plan were $15,500 in 2008 and 2007. The Foundation also maintains a non-qualified deferred compensation plan for the President. Contributions to this plan were $9,750 in 2008 and 2007.

Supplemental Schedule of Program
Administrative and Investment Expenses

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