The F.B. Heron Foundation

Financial Statements

December 31, 2015 and 2014

Independent Auditors' Report

Board of Directors
The F.B. Heron Foundation

We have audited the accompanying financial statements of The F.B. Heron Foundation, which comprise the statements of financial position as of December 31, 2015 and 2014, 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.

Auditors' 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 auditors' 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.

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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, 2015 and 2014 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of program, administrative and investment expenses on page 14 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 audits 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 is fairly stated in all material respects in relation to the financial statements as a whole.

PKF O'Connor Davies, LLP

May 19, 2016

The F.B. Heron Foundation

Statements of Financial Position

	December 31	
	2015	2014
ASSETS		
Cash and cash equivalents	$ 6,529,405	$ 6,913,867
Investments allocated for mission	197,293,343	173,152,219
Other investments	68,939,459	107,586,171
Prepaid Federal excise taxes	87,067	73,525
Other assets	809,422	986,178
	$ 273,658,696	$ 288,711,960
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 595,087	$ 561,484
Grants payable	59,250	204,130
Deferred rent	114,828	112,726
Deferred Federal excise tax	197,561	432,766
Total Liabilities	966,726	1,311,106
Unrestricted net assets	272,691,970	287,400,854
	$ 273,658,696	$ 288,711,960

See notes to financial statements

The F.B. Heron Foundation

Statements of Activities

	Year Ended December 31 2015	Year Ended December 31 2014
INVESTMENTS ALLOCATED FOR MISSION		
Revenue		
Interest, dividends and partnership earnings	$ 3,969,841	$ 2,656,099
Realized gain	1,822,145	2,288,633
Unrealized (loss) gain, net of deferred excise tax	(5,929,932)	2,916,502
Program service fees (USCII license fee)	92,500	92,500
Current Federal excise tax	(104,018)	(91,000)
Net Revenue for Investments Allocated for Mission	(149,464)	7,862,734
Expenses		
Program expenses	3,515,126	3,539,222
Administrative expenses	1,227,186	1,341,191
Investment expenses	1,023,397	560,923
Total Expenses for Investments Allocated for Mission	5,765,709	5,441,336
(Deficiency) Excess of Revenue over Expenses for Investments Allocated for Mission	(5,915,173)	2,421,398
Grants authorized, net of refunded amount of $12,500 in 2014	5,695,030	8,387,056
(Deficiency) of Revenue over Expenses for Investments Allocated for Mission	(11,610,203)	(5,965,658)
OTHER INVESTMENTS		
Revenue		
Interest, dividends and partnership earnings	2,682,291	4,411,993
Realized gain	1,083,807	22,024,763
Unrealized loss, net of deferred excise tax	(6,571,405)	(22,143,211)
Current Federal excise tax	(77,440)	(539,000)
Net Revenue for Other Investments	(2,882,747)	3,754,545
Expenses		
Investment expenses	215,934	308,151
(Deficiency) of Revenue over Expenses for Other Investments	(3,098,681)	3,446,394
Change in Net Assets	(14,708,884)	(2,519,264)
NET ASSETS		
Beginning of year	287,400,854	289,920,118
End of year	$ 272,691,970	$ 287,400,854

See notes to financial statements

The F.B. Heron Foundation

Statements of Cash Flows

	Year Ended December 31 2015	Year Ended December 31 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (14,708,884)	$ (2,519,264)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	-	68,354
Realized and unrealized loss (gain) on investments	9,830,590	(4,724,917)
Deferred Federal excise tax	(235,205)	(361,770)
Writedown of PRI investment	-	28,801
Deferred rent	2,102	2,106
Net change in operating assets and liabilities		
Prepaid Federal excise taxes	(13,542)	(73,525)
Other assets	176,756	(223,064)
Accounts payable and accrued expenses	33,603	139,677
Federal excise tax payable	-	(72,475)
Grants payable	(144,880)	(46,870)
Net Cash from Operating Activities	(5,059,460)	(7,782,947)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of other investments	(2,682,396)	(4,411,995)
Proceeds from other investments sold	35,707,294	74,499,397
Purchases of investments allocated for mission	(44,318,800)	(92,493,637)
Proceeds from investments allocated for mission sold or repaid	15,968,900	35,870,346
Net Cash from Investing Activities	4,674,998	13,464,111
Net Change in Cash and Cash Equivalents	(384,462)	5,681,164
CASH AND CASH EQUIVALENTS		
Beginning of year	6,913,867	1,232,703
End of year	$ 6,529,405	$ 6,913,867
SUPPLEMENTAL DISCLOSURE		
Federal excise tax paid	$ 195,000	$ 756,000

See notes to financial statements

1. Organization

The F.B. Heron Foundation (doing business as "Heron" and referred to herein as 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.

Heron's mission is to help people and communities help themselves out of poverty. The Foundation works with a diverse set of investment strategies focused on fostering economic innovations and practices that lead to long-term economic opportunity and prosperity for all.

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 revenue 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 US GAAP 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.

During 2015, the Foundation adopted new US GAAP guidance which removed the requirements to categorize within the fair value hierarchy alternative investments where fair value is measured using the Net Asset Value ("NAV") per share as a practical expedient. Adoption of this guidance was applied retrospectively and had no effect on the carrying value of such investments.

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. For insured deposits, fair value is the amount of the deposit.

Program Related Investments

Program related investments (PRIs) defined in IRC 4944(c), have a primary purpose of advancing the mission of the Foundation without a significant purpose for 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 and equities. They are stated at cost, less any valuation allowance for discount or uncollectable amounts.

Property and Equipment

Property and equipment are stated at cost. The Foundation capitalized property and equipment costing more than $100,000. Depreciation was computed using the straight-line method over the estimated useful life of the assets. The estimated useful lives ranged from five to seven years. Leasehold improvements were amortized over the life of the original lease. There was no capitalized property and equipment at December 31, 2015 and 2014.

Net Asset Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Foundation's net assets are classified as permanently restricted, temporarily restricted or unrestricted. There were no temporarily or permanently restricted net assets at December 31, 2015 and 2014.

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Grants

Once a grant has been approved by the Board of Directors and/or President, and once any conditions imposed on the grantee have been fulfilled, the grant becomes payable.

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

Reclassification

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 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 recognition of disclosure.

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 19, 2016.

3. Investments Allocated for Mission

Investments allocated for mission advance the mission of the Foundation using the strategies articulated in Note 1. These include both risk-adjusted, market-rate investments that advance the mission as well as 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 at December 31, 2015 and 2014.

PRI equities consist of seven PRIs in limited partnership interests in community development ventures and real estate funds, one PRI in preferred stock in a regulated community bank and one direct equity investment. PRI equity balances are net of a $3,000,000 and $2,000,000 valuation reserve at December 31, 2015 and 2014.

3. Investments Allocated for Mission *(continued)*

The following are major categories of investments allocated for mission measured at fair value on a recurring basis at December 31, grouped by the fair value hierarchy, for those investments subject to categorization within such hierarchy:

	2015				
	(Level 1)	(Level 2)	(Level 3)	(Practical Expedient)	Total
At Fair Value					
Common and Preferred Stock					
Information technology	$ 14,593,436	$ -	$ -	$ -	$ 14,593,436
Consumer discretionary	12,075,233	-	-	-	12,075,233
Health care	12,000,026	-	-	-	12,000,026
Other	37,238,578	-	250,000	-	37,488,578
US community investing index commingled fund	-	24,433,669	-	-	24,433,669
Fixed-Income Securities					
US agency	-	26,789,274	-	-	26,789,274
Municipals	-	20,933,085	-	-	20,933,085
Corporate	-	22,250,817	-	-	22,250,817
Limited partnership interests	-	-	-	9,381,498	9,381,498
Total at Fair Value	$ 75,907,273	$ 94,406,845	$ 250,000	$ 9,381,498	179,945,616
Program related investments, at cost, net of $3,000,000 valuation reserve					14,288,633
Invested cash and cash equivalents, at cost					3,059,094
Total Investments Allocated for Mission					$ 197,293,343

	2014				
	(Level 1)	(Level 2)	(Level 3)	(Practical Expedient)	Total
At Fair Value					
Insured deposits in credit unions and community development banks	$ 250,000	$ -	$ -	$ -	$ 250,000
Common and Preferred Stock					
Information technology	13,862,130	-	-	-	13,862,130
Consumer discretionary	12,761,359	-	-	-	12,761,359
Health care	11,609,391	-	-	-	11,609,391
Other	37,646,581	-	2,000,000	-	39,646,581
US community investing index commingled fund	-	23,992,720	-	-	23,992,720
Fixed-Income Securities					
US agency	-	20,219,984	-	-	20,219,984
Municipals	-	22,118,029	-	-	22,118,029
Corporate	-	964,515	-	-	964,515
Limited partnership interests	-	-	-	9,296,304	9,296,304
Total at Fair Value	$ 76,129,461	$ 67,295,248	$ 2,000,000	$ 9,296,304	154,721,013
Program related investments, at cost, net of $2,000,000 valuation reserve					15,965,702
Invested cash and cash equivalents, at cost					2,465,504
Total Investments Allocated for Mission					$ 173,152,219

3. Investments Allocated for Mission *(continued)*

The following is a reconciliation of the beginning and ending balances for preferred stock assets:

	2015	2014
Beginning balance	$ 2,000,000	$ 1,000,000
Unrealized loss	(1,750,000)	-
Purchases, issuances and settlements	-	1,000,000
Ending balance	$ 250,000	$ 2,000,000

Information regarding limited partnership interests and preferred stock at December 31, 2015 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited partnership interests	$ 9,381,498	$ 8,497,963	*	*
Preferred stock	250,000	-	*	*
Total	$ 9,631,498	$ 8,497,963		

* Both the preferred stock and limited partnership interests are illiquid assets.

The following summarizes changes in PRIs for 2015 and 2014:

	2015			2014		
	PRI Loans	PRI Equities	Total	PRI Loans	PRI Equities	Total
Balance at beginning of year	$ 13,797,712	$ 2,167,990	$ 15,965,702	$ 14,824,687	$ 2,704,243	$ 17,528,930
Additions						
Disbursements	56,467	1,370,513	1,426,980	54,223	1,321,214	1,375,437
Deductions						
Repayments	(1,921,947)	(182,102)	(2,104,049)	(1,081,198)	(328,666)	(1,409,864)
Writeoffs	-	-	-	-	(28,801)	(28,801)
	11,932,232	3,356,401	15,288,633	13,797,712	3,667,990	17,465,702
Valuation adjustment	-	(1,000,000)	(1,000,000)	-	(1,500,000)	(1,500,000)
Balance at end of year	$ 11,932,232	$ 2,356,401	$ 14,288,633	$ 13,797,712	$ 2,167,990	$ 15,965,702

There is an additional $4,366,000 of unfunded commitment for equity PRI investments.

3. Investments Allocated for Mission *(continued)*

PRI loan principal repayments at December 31, 2015 are projected as follows:

2016	$ 3,792,228
2017	2,158,952
2018	862,491
2019	118,561
Thereafter	5,000,000
	$ 11,932,232

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

4. Other Investments

The following are the classes and major categories of other investments at December 31 measured at fair value on a recurring basis:

	2015	2014
At Fair Value		
Fixed-Income Funds		
Intermediate credit term bond fund	$ -	$ 25,445,444
Equity Funds		
US large cap	-	10,018,185
Non-US developed markets	52,916,484	53,277,134
Non-US emerging markets	16,022,973	18,845,300
Total at Fair Value	68,939,457	107,586,063
Invested cash and cash equivalents, at cost	2	108
Total Other Investments	$ 68,939,459	$ 107,586,171

5. Assets Stated at Fair Value

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

	2015				
	(Level 1)	(Level 2)	(Level 3)	(Practical Expedient)	Total
Investments allocated for mission	$ 75,907,273	$ 94,406,845	$ 250,000	$ 9,381,498	$ 179,945,616
Other investments	-	68,939,457	-	-	68,939,457
	$ 75,907,273	$ 163,346,302	$ 250,000	$ 9,381,498	$ 248,885,073

	2014				
	(Level 1)	(Level 2)	(Level 3)	(Practical Expedient)	Total
Investments allocated for mission	$ 76,129,461	$ 67,295,248	$ 2,000,000	$ 9,296,304	$ 154,721,013
Other investments	-	107,586,063	-	-	107,586,063
	$ 76,129,461	$ 174,881,311	$ 2,000,000	$ 9,296,304	$ 262,307,076

6. Grants Payable

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

	2015	2014
Balance at beginning of year	$ 204,130	$ 251,000
Grants authorized	5,695,030	8,399,556
Grants paid	(5,839,910)	(8,446,426)
Balance at end of year	$ 59,250	$ 204,130

There are an additional $2,150,000 of conditional grant payments at December 31, 2015 which will become payable once the appropriate conditions have been met.

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. 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.

The Foundation records deferred Federal excise taxes using the 2% rate. For 2015 and 2014 deferred Federal excise tax benefit amounted to $235,205 and $361,770.

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 is based on the Foundation's allocated share, and, on sale, average cost is used.

8. Lease Commitment

The Foundation's office lease expires on December 31, 2020. Future minimum rental payments under this agreement are as follows:

2016	$ 335,905
2017	335,905
2018	335,905
2019	335,905
2020	335,905
	$ 1,679,525

Rent expense for 2015 and 2014 was $342,009 and $330,042.

9. Retirement Plans

The Foundation sponsors a defined contribution retirement plan under IRC Section 401(a). Under the current plan, the Foundation contributes 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 2015 and 2014, retirement and savings plan expense was $286,106 and $266,250.

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The F.B. Heron Foundation

Supplementary Information

Years Ended December 31, 2015 and 2014

The F.B. Heron Foundation

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

	2015					2014				
	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	$ 1,783,790	$ 674,213	$ 436,732	$ 72,615	$ 2,967,350	$ 1,837,669	$ 781,417	$ 154,702	$ 107,264	$ 2,881,052
Consulting fees	635,119	11,052	19,659	1,190	667,020	587,310	27,113	36,027	3,722	654,172
Occupancy	219,189	82,846	53,665	8,923	364,623	230,308	97,932	19,388	13,443	361,071
Investment monitoring and advisory	223,120	78,461	50,824	8,450	360,855	179,581	76,362	15,118	10,482	281,543
Outsourced functions	-	239,902	-	-	239,902	-	241,981	-	-	241,981
Market data	187,362	-	-	-	187,362	235,828	-	-	-	235,828
Travel, meetings, and conferences	111,929	53,937	739	123	166,728	187,307	33,634	6,659	4,617	232,217
Public education/communications	145,053	-	-	-	145,053	107,083	-	-	-	107,083
Office expenses	143,834	32,026	20,745	3,449	200,054	42,827	12,909	2,259	1,566	59,561
Legal fees	6,676	30,115	1,141	-	37,932	7,395	15,932	19,485	-	42,812
Audit expenses	20,995	7,935	5,140	855	34,925	25,147	10,693	2,117	1,468	39,425
Equipment expenses	19,834	7,497	4,856	807	32,994	40,975	17,424	3,449	2,392	64,240
Insurance	18,225	6,889	4,462	742	30,318	14,192	6,035	1,195	828	22,250
Bank fees	-	2,313	-	-	2,313	-	1,220	-	-	1,220
Depreciation and amortization	-	-	-	-	-	43,600	18,539	3,670	2,545	68,354
Custody fees	-	-	52,603	-	52,603	-	-	33,162	-	33,162
Asset management	-	-	372,831	118,780	491,611	-	-	263,692	159,824	423,516
	$ 3,515,126	$ 1,227,186	$ 1,023,397	$ 215,934	$ 5,981,643	$ 3,539,222	$ 1,341,191	$ 560,923	$ 308,151	$ 5,749,487

See independent auditors' report