



**BOSTON FOUNDATION, INC.**

Consolidated Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)



KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## **Independent Auditors' Report**

The Board of Directors  
Boston Foundation, Inc.:

We have audited the accompanying consolidated financial statements of Boston Foundation, Inc. and its affiliates, which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boston Foundation, Inc. and its affiliates as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

December 18, 2014

**BOSTON FOUNDATION, INC.**

## Consolidated Statements of Financial Position

June 30, 2014 and 2013

(Dollars in thousands)

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 24,717	26,658
Program-related receivables and other assets	5,908	8,684
Contributions receivable, net	518	456
Investments, at fair value	971,648	859,227
Noncash donations held for sale	479	619
Fixed assets, net	424	572
Total assets	<u>\$ 1,003,694</u>	<u>896,216</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 6,486	6,803
Grants payable	9,267	11,966
Total liabilities	<u>15,753</u>	<u>18,769</u>
Net assets:		
Unrestricted	524,781	454,833
Temporarily restricted	241,158	205,925
Permanently restricted	222,002	216,689
Total net assets	<u>987,941</u>	<u>877,447</u>
Total liabilities and net assets	<u>\$ 1,003,694</u>	<u>896,216</u>

See accompanying notes to consolidated financial statements.

**BOSTON FOUNDATION, INC.**

## Consolidated Statement of Activities

Year ended June 30, 2014

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and investment activity:				
Contributions	\$ 106,387	106	5,398	111,891
Service fees	1,954	—	—	1,954
Interest and dividends, net of fees	2,870	2,734	—	5,604
Unrealized and realized net gains on investments and trusts	63,071	59,987	—	123,058
Reclassification of net assets	85	—	(85)	—
Net assets released from restrictions	27,594	(27,594)	—	—
Total revenues and investment activity	<u>201,961</u>	<u>35,233</u>	<u>5,313</u>	<u>242,507</u>
Expenses:				
Grants	110,566	—	—	110,566
Change in split-interest trusts	310	—	—	310
Program support	6,651	—	—	6,651
Operating expenses:				
Grantmaking and civic leadership	3,284	—	—	3,284
Development and donor services	4,253	—	—	4,253
Finance and administration	6,949	—	—	6,949
Total operating expenses	<u>14,486</u>	<u>—</u>	<u>—</u>	<u>14,486</u>
Total expenses	<u>132,013</u>	<u>—</u>	<u>—</u>	<u>132,013</u>
Change in net assets	69,948	35,233	5,313	110,494
Net assets, beginning of year	454,833	205,925	216,689	877,447
Net assets, end of year	<u>\$ 524,781</u>	<u>241,158</u>	<u>222,002</u>	<u>987,941</u>

See accompanying notes to consolidated financial statements.

**BOSTON FOUNDATION, INC.**  
Consolidated Statement of Activities  
Year ended June 30, 2013  
(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and investment activity:				
Contributions	\$ 122,842	5,972	1,668	130,482
Service fees	1,801	—	—	1,801
Interest and dividends, net of fees	7,075	3,730	—	10,805
Unrealized and realized net losses on investments and trusts	28,917	36,380	—	65,297
Reclassification of net assets	2,242	205	(2,447)	—
Net assets released from restrictions	35,274	(35,274)	—	—
Total revenues and investment activity	<u>198,151</u>	<u>11,013</u>	<u>(779)</u>	<u>208,385</u>
Expenses:				
Grants	105,365	—	—	105,365
Change in split-interest trusts	(546)	—	—	(546)
Program support	6,227	—	—	6,227
Operating expenses:				
Grantmaking and civic leadership	3,254	—	—	3,254
Development and donor services	3,751	—	—	3,751
Finance and administration	6,998	—	—	6,998
Total operating expenses	<u>14,003</u>	<u>—</u>	<u>—</u>	<u>14,003</u>
Total expenses	<u>125,049</u>	<u>—</u>	<u>—</u>	<u>125,049</u>
Change in net assets	73,102	11,013	(779)	83,336
Net assets, beginning of year	<u>381,731</u>	<u>194,912</u>	<u>217,468</u>	<u>794,111</u>
Net assets, end of year	<u>\$ 454,833</u>	<u>205,925</u>	<u>216,689</u>	<u>877,447</u>

See accompanying notes to consolidated financial statements.

**BOSTON FOUNDATION, INC.**  
Consolidated Statements of Cash Flows  
Years ended June 30, 2014 and 2013  
(Dollars in thousands)

	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Cash received from contributions and service fees	\$ 108,156	131,143
Interest and dividends received, net of fees	5,604	10,805
Annuity and beneficiary payments	(192)	(629)
Grants paid	(112,214)	(96,955)
Cash paid:		
For program expenses	(6,651)	(6,677)
To employees and suppliers	(14,529)	(13,559)
Net cash (used in) provided by operating activities	(19,826)	24,128
Cash flows from investing activities:		
Proceeds from sales of investments	129,099	175,646
Purchases of investments	(116,155)	(204,305)
Purchases of equipment	(62)	(276)
Net cash provided by (used in) investing activities	12,882	(28,935)
Cash flows from financing activities:		
Contributions to permanently restricted funds	5,313	1,668
Other changes in annuity and beneficiary payables	(310)	546
Net cash provided by financing activities	5,003	2,214
Net change in cash and cash equivalents	(1,941)	(2,593)
Cash and cash equivalents, beginning of year	26,658	29,251
Cash and cash equivalents, end of year	\$ 24,717	26,658
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	\$ 110,494	83,336
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	209	133
Change in annuity and beneficiary payables	(192)	(629)
Change in contributions receivable, net	(62)	(120)
Changes in other assets and liabilities, net	(1,904)	8,373
Contributions restricted for long-term investment	(5,313)	(1,668)
Unrealized and realized net (gains) losses on investments and trusts	(123,058)	(65,297)
Net cash (used in) provided by operating activities	\$ (19,826)	24,128

See accompanying notes to consolidated financial statements.

## **BOSTON FOUNDATION, INC.**

### Notes to Consolidated Financial Statements

June 30, 2014 and 2013

#### **(1) Description of the Boston Foundation**

##### **(a) Organization**

Founded in 1915, the Boston Foundation, Inc. (the Foundation) is one of the nation's oldest and largest community foundations – a major grantmaker, partner in philanthropy, provider of information, and civic leader addressing Greater Boston's most pressing challenges.

The Foundation is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from income taxes pursuant to Section 501(a) of the Code and qualifies as a public charity under Section 170(b)(1)(A)(vi) of the Code.

The Foundation has not taken any tax positions which would have a material effect, individually or in the aggregate, upon the Foundation's financial statements. The Foundation believes it has not taken any significant uncertain tax positions or any tax positions that would jeopardize the Foundation's tax-exempt status.

Effective January 1, 2012, The Philanthropic Initiative, Inc. merged with the Foundation, with the Foundation continuing as the surviving corporation.

##### **(b) Activity**

As Greater Boston's community foundation, the Foundation devotes its resources to building and sustaining a vital and prosperous city and region, where justice and opportunity are extended to everyone. The Foundation's primary purposes are threefold: to make charitable grants to qualified recipients; to assist donors with their philanthropic goals; and to be a civic leader, convener, and information provider in the Boston community. The Foundation receives support directly from the public. Due to the generosity of donors, the Foundation is able to serve as a major grantmaker in Greater Boston, supporting hundreds of not-for-profit organizations that are helping to build a strong and healthy community.

#### **(2) Summary of Significant Accounting Policies**

##### **(a) Basis of Presentation**

The accompanying consolidated financial statements, which are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP), have been prepared to focus on the Foundation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. The consolidated financial statements include the accounts of the Foundation and those of its affiliated supporting organizations, which are also 501(c)(3) exempt organizations. The total net assets of the supporting organizations were \$20,241 and \$17,761 as of June 30, 2014 and 2013, respectively. Inter-organizational transactions and balances have been eliminated.

##### **(b) Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of the dates of the consolidated financial statements and the



## **BOSTON FOUNDATION, INC.**

### Notes to Consolidated Financial Statements

June 30, 2014 and 2013

reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

(c) ***Classification of Net Assets***

The Foundation reports information regarding its financial position and activities in three classes of net assets based upon the existence or absence of donor-imposed restrictions, as follows:

- Unrestricted net assets have no donor-imposed or legal stipulations as to their use. Unrestricted net assets include donor-advised funds.
- Temporarily restricted net assets contain donor-imposed stipulations as to the timing of their availability or use for a particular purpose. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions.
- Permanently restricted net assets have donor-imposed stipulations that neither expire with the passage of time nor can be removed by actions of the Foundation and consist primarily of the historic dollar value of gifts to establish or add to the Foundation's donor-restricted endowment funds. Net assets of such funds in excess of their historic dollar value are classified as temporarily restricted net assets until appropriated by the Board of Directors (the Board) and spent in accordance with the standard of prudence imposed by state law.

The Articles of Organization of the Foundation include a variance power provision, which gives the Board the power to modify any restriction or condition placed on gifts, if in its sole judgment the Board determines that the restriction becomes, in effect, incapable of fulfillment due to the changing needs of the community. During 2014, a fund previously classified as permanently restricted was reclassified as unrestricted due to the release of restrictions previously imposed by the donor. During 2013, the Board utilized variance power to 1) grant out the balance of an advised fund to a not-for-profit organization, and 2) select a new eligible beneficiary for the annual distributions from a permanently restricted fund when the current named beneficiary became no longer eligible.

(d) ***Spending Policy***

Generally, the Foundation manages its funds using a total return concept, which emphasizes total investment return, including interest and dividends and realized and unrealized gains and losses. Annually the Foundation's Board determines the level of grantmaking based on two factors that serve to stabilize annual spending levels and preserve the real value of the endowment over time. In fiscal years 2014 and 2013, those factors are 70% of the prior year's spending, adjusted for inflation, plus 30% of a spending rate applied to the estimated fair value of its endowment. The discretionary endowment is made up of funds with no restrictions placed on the way income may be used. The designated endowment is composed of funds created for specifically named agencies or projects. The spending policy rates were as follows:

## BOSTON FOUNDATION, INC.

### Notes to Consolidated Financial Statements

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Discretionary endowment	6.4%	6.4%
Designated endowment	5.0	5.4
Endowed donor advised funds	5.4	5.4

For fiscal year 2015, the Board of Directors has approved the spending policy rate of 6.4% for its discretionary endowment and 5.0% for designated endowments and endowed donor advised funds.

*(e) Investments*

The investment goal of the Foundation is to invest its assets in a manner that will achieve a total rate of return sufficient to replace the assets spent for grants and expenses and recoup any value lost due to inflation. To manage risk, the Foundation strives to diversify its investments among various financial instruments and asset categories and uses multiple investment strategies and managers. Key investment decisions are made by the Board's Investment Committee, which has oversight responsibility for the Foundation's investment program. The Foundation's portfolio is mostly managed by outside investment managers.

Investments are reported at estimated fair value. If an investment is held directly by the Foundation and an active market with quoted prices exists, the Foundation reports the fair value as the market price of an identical security. Shares in mutual funds are based on share values reported by the funds as of the last business day of the fiscal year. The Foundation also holds shares or units in traditional institutional funds as well as in alternative investment funds involving private equity, venture capital, flexible capital, and real asset strategies. Flexible capital strategies involve funds whose managers have the authority to invest in multiple asset classes at their discretion, including the ability to invest long and short in the markets. Flexible capital funds may hold securities or other financial instruments for which a ready market exists and are priced accordingly. In addition, such funds may hold assets which require the estimation of fair values in the absence of readily determinable market values. Private equity, venture capital, and real asset funds generally hold assets that require the estimation of fair values in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, the fair values may differ significantly from the value that would have been used had a ready market for the investment existed and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

The Foundation has applied GAAP, which permits the use of net asset value (NAV) or its equivalent reported by each underlying alternative investment fund as a practical expedient to estimate the fair value of the investment. The flexible capital investments are generally redeemable under the original terms of the subscription agreements. However, it is possible that these redemption rights may be restricted by the funds in the future in accordance with the underlying fund agreements, as applicable. Changes in market conditions, the economic environment, or the funds' liquidity provisions may significantly impact the NAV of the funds, and consequently, the fair value of the Foundation's interest in such funds. Although certain investments may be sold in a secondary market, the secondary market is not active and individual transactions are not necessarily observable;

## **BOSTON FOUNDATION, INC.**

### Notes to Consolidated Financial Statements

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therefore, it is possible that if the Foundation were to sell its interest in a fund in the secondary market, the sale could occur at an amount materially different from the reported value. Other alternative investments (private equity, venture capital, and real assets) are not redeemable; they are liquidated over time as funds become available according to the terms of the partnership agreements.

Realized and unrealized investment gains or losses are determined by comparison of average asset cost to net proceeds received at the time of disposition and comparison of the difference between market values and average cost, respectively. Dividend and interest income is recognized when earned.

**(f) *Cash and Cash Equivalents***

Except for amounts included in the Foundation's investment pools, the Foundation records liquid investments purchased with remaining maturities of less than 90 days as cash equivalents.

**(g) *Contributions Receivable***

Contributions receivable consist of unconditional promises to give that are expected to be collected within one year.

**(h) *Fixed Assets***

The Foundation capitalizes expenditures over \$5 incurred to purchase office equipment, computer systems, furniture, and leasehold improvements. Depreciation is recognized over the estimated useful life of the assets, typically from three to five years, on a straight-line basis. Leasehold improvements are amortized over the lesser of their useful lives or the remaining term of the lease.

**(i) *Grants Expense***

The Foundation records grants as expenses when all conditions stipulated by the grant have been substantially met by the grantee. Grants issued with future payment dates and without substantive conditions are accrued and expensed when approved.

**(j) *Contributions and Bequests***

Contributions, including unconditional promises from donors, are recorded as revenue when received. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are shown as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Bequests generally are accrued as revenue when the respective will has been admitted to probate and all appeal periods have expired. Contributions to be received after one year are discounted at the appropriate rate commensurate with the risks and duration involved.

**(k) *Program Support***

Program support consists primarily of additional expenses incurred related to individual programs or programs in which the funding is shared by others. These expenses are separate and distinct from the Foundation's operating expenses. Examples of current programs are the Boston Indicators Project, StreetSafe Boston, the Skillworks Initiative and Success Boston.

## **BOSTON FOUNDATION, INC.**

### Notes to Consolidated Financial Statements

June 30, 2014 and 2013

**(l) Operating Expenses**

Operating expenses include salaries and benefits, rent, and other overhead expenses that are incurred in the operation of the Foundation overall and are not specifically attributable to a particular fund or program. An administrative fee ranging from 0.5% to 1.2% of the net asset balance by fund is charged to each donor advised, discretionary and designated fund to cover operating expenses. Fees between 1% and 20% of contributions received by fund are charged to initiative and similar funds depending upon the relative level of support provided by the Foundation's operating resources. In addition, certain specific operating expenses are charged against income earned on specific funds prior to the time grants are paid. The Foundation also charges an investment support fee of 0.15% to cover certain investment-related operating expenses.

**(m) Disclosures about the Fair Value of Other Assets and Liabilities**

The carrying values of the Foundation's cash and cash equivalents, receivables, other assets, accounts payable, and accrued liabilities approximated their fair values because they are stated at net realizable value or have relatively short-term maturities.

**(n) Fair Value**

GAAP defines fair value and requires certain disclosures about fair value measurements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. GAAP also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- Level 3 – inputs are derived from valuation methodologies, including pricing models, discounted cash flow models, and similar techniques, and are not based on market, exchange, dealer, or broker-traded transactions. In addition, Level 3 valuations incorporate assumptions and projections that are not observable in the market, and significant professional judgment is required in determining the fair value assigned to such assets or liabilities.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of the Foundation's interest therein, its classification of Level 2 or 3 is based on the Foundation's ability to redeem its interest at or near the date of the statement of financial position as opposed to whether valuation inputs are observable or unobservable. If the interest can be redeemed in the near term, the

## BOSTON FOUNDATION, INC.

### Notes to Consolidated Financial Statements

June 30, 2014 and 2013

investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risk, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

#### (3) Program-Related Receivables and Other Assets

The Foundation invests a portion of its funds in projects that advance its philanthropic purposes by providing loans, known as program-related "investments", to certain not-for-profit organizations. At June 30, 2014 and 2013, respectively, these loans, included in program-related receivables and other assets, totaled \$5,577 and \$8,288 net of unamortized discounts of \$1,246 and \$535 and allowance for possible losses of \$275 and \$453 in 2014 and 2013, respectively, with various repayment dates beginning in 2015 and ending in 2032.

In addition, the Foundation has a ten-year \$2,500 loan guarantee expiring in 2016 for the purpose of building or improving charter schools in the Massachusetts and a \$3,000 loan guarantee expiring in 2031 for the purpose of reducing the cash-funded reserves in credit projects that have a first mortgage financing from the Massachusetts Housing Partnership Fund Board. The Foundation's \$2,500 loan guarantee serves as a backup to guarantees made by other entities and the Foundation's \$3,000 guarantee is matched by the same amount from another foundation. As of June 30, 2014 and 2013, the Foundation's commitments have not been drawn. The Foundation believes the estimated fair value of the guarantees and any potential liability is not material.

#### (4) Investments

The Foundation maintains three investment pools as part of its Fund for the 21st Century for investing its assets as follows:

- **Balanced Plus Pool** – Approximately 45 investment management firms manage the assets in this pool. Approximately 20% of this pool is allocated to private partnerships holding interests in private equity, venture capital, real estate, timber, and energy. This asset mix is intended to produce the highest long-term investment return. The Foundation invests its endowment assets in this pool.
- **Balanced Pool** – Approximately 22 investment management firms manage the assets in this pool. This pool does not include private partnerships, which use strategies that are generally expected to yield higher returns over time, and accordingly, this asset allocation is expected to produce a slightly lower investment return. Typically, donor advised funds desiring a higher allocation to fixed income and limited exposure to illiquid investments are invested in this pool. This pool was established in February 2011.
- **Short-Term Pool** – This pool is invested in money market funds and U.S. Treasury bills with a weighted average maturity of less than 60 days. Typically, donor advised funds intending to avoid market exposure and to make grants in the near term are invested in this pool. This pool was established in January 2010.

## BOSTON FOUNDATION, INC.

### Notes to Consolidated Financial Statements

June 30, 2014 and 2013

The following table summarizes the Foundation's investments in the fair value hierarchy as of June 30, 2014:

	2014				Redemption or liquidation	Days' notice	Related unfunded commitment
	Level 1	Level 2	Level 3	Total			
Balanced plus pool:							
Global equities:							
Developed markets index	\$ 108,833	—	—	108,833	Daily	1	None
Developed markets	18,387	—	—	18,387	Daily	4	None
Developed markets	—	56,092	—	56,092	Monthly	30	None
Emerging markets	—	31,885	—	31,885	Monthly	30	None
Emerging markets index	—	60,723	—	60,723	Semi-monthly	3	None
Developed long/short	—	90,953	—	90,953	Quarterly	60	None
Total	<u>127,220</u>	<u>239,653</u>	<u>—</u>	<u>366,873</u>			
Flexible capital:							
Multi-strategy	—	—	150,420	150,420	(1)	N/A	None
Diversified fund of funds	—	—	44,543	44,543	(1)	N/A	None
Credit opportunities	—	—	5,666	5,666	(1)	N/A	None
Total	<u>—</u>	<u>—</u>	<u>200,629</u>	<u>200,629</u>			
Private equity and venture capital (2):							
	—	—	82,550	82,550	Illiquid	N/A	<u>\$ 31,642</u>
Real assets (3):							
Real estate	—	—	20,207	20,207	Illiquid	N/A	4,726
Timber	—	—	22,784	22,784	Illiquid	N/A	277
Energy	—	—	25,362	25,362	Illiquid	N/A	4,944
Total	<u>—</u>	<u>—</u>	<u>68,353</u>	<u>68,353</u>			<u>\$ 9,947</u>
Fixed income:							
Money market	30,586	—	—	30,586	Daily	1	None
U.S. Treasuries	29,989	—	—	29,989	Daily	1	None
U.S. TIPs (4)	—	17,537	—	17,537	Daily	4	None
Global fixed income	7,100	—	—	7,100	Daily	1	None
Global fixed income	—	6,991	—	6,991	Monthly	30	None
Total	<u>67,675</u>	<u>24,528</u>	<u>—</u>	<u>92,203</u>			
Total balanced plus pool	<u>194,895</u>	<u>264,181</u>	<u>351,532</u>	<u>810,608</u>			

## BOSTON FOUNDATION, INC.

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	2014				Redemption or liquidation	Days' notice	Related unfunded commitment
	Level 1	Level 2	Level 3	Total			
Balanced pool:							
Global equities:							
Developed markets index	\$ 6,278	—	—	6,278	Daily	1	None
Developed markets	3,836	—	—	3,836	Daily	4	None
Developed markets	—	5,613	—	5,613	Monthly	30	None
Emerging markets	—	1,839	—	1,839	Monthly	30	None
Emerging markets index	—	3,503	—	3,503	Semi-monthly	3	None
Developed long/short	—	5,247	—	5,247	Quarterly	60	None
Total	10,114	16,202	—	26,316			
Flexible capital:							
Multi-strategy	—	—	9,845	9,845	(1)	N/A	None
Diversified fund of funds	—	—	2,915	2,915	(1)	N/A	None
Credit opportunities	—	—	371	371	(1)	N/A	None
Total	—	—	13,131	13,131			
Fixed income:							
Money market	2,686	—	—	2,686	Daily	1	None
U.S. Treasuries	6,997	—	—	6,997	Daily	1	None
U.S. TIPs (4)	—	2,078	—	2,078	Daily	4	None
Global fixed income	539	—	—	539	Daily	1	None
Global fixed income	—	530	—	530	Monthly	30	None
Total	10,222	2,608	—	12,830			
Total balanced pool	20,336	18,810	13,131	52,277			
Short-Term Pool:							
Money market	2,458	—	—	2,458	Daily	1	None
U.S. Treasuries	56,331	—	—	56,331	Daily	1	None
Total short-term pool	58,789	—	—	58,789			
Other investments:							
Money market	332	—	—	332	Daily	1	None
Developed global equities	21,263	—	—	21,263	Daily	4	None
Global fixed income	8,678	—	—	8,678	Daily	1	None
Global equity index	—	5,048	—	5,048	Semi-monthly	3	None
Global fixed income	—	—	2,398	2,398	Illiquid	N/A	None
Developed global equities	—	—	4,499	4,499	Illiquid	N/A	None
Other private interests	—	—	7,756	7,756	Illiquid	N/A	None
Total other investments	30,273	5,048	14,653	49,974			
Total investments	\$ 304,293	288,039	379,316	971,648			

## **BOSTON FOUNDATION, INC.**

### Notes to Consolidated Financial Statements

June 30, 2014 and 2013

- (1) Flexible Capital (except credit opportunities that are not redeemable) represents minority ownership in investment vehicles that generally contain rolling lock-up provisions. Under such provisions, redemptions are generally possible every one to three years. A redemption request must be made in accordance with the notification terms of the underlying agreement. Investments of \$31,940 are redeemable quarterly and \$158,800 are redeemable in 1 – 5 years. However, certain, or all, of the additional related investment proceeds may not be received for a significantly longer period until underlying investments are sold (so called side-pockets). Side-pocket balances of \$23,020 are illiquid.
- (2) The Foundation's ownership interests in private equity and venture capital investments represent ownership interests in a variety of entities, typically as a minority limited partner. These investments are both directly in private equity and venture capital partnerships as well as in funds of funds that make these types of investments.
- (3) Real assets represent ownership interests in a variety of entities, including as a minority limited partner. These entities focus their investment activities on a type of asset, such as the ownership of real estate properties, timber assets, or oil and gas properties. The underlying investment vehicles often utilize leverage.
- (4) These securities are directly owned U.S. Treasury Inflation Protected Securities (TIPS). The markets for these securities are active and trading in these bonds typically occurs every day. However, as these markets are over the counter, pricing for all securities is not always available daily. As such, they have been classified in Level 2.

In addition, as of June 30, 2014 and 2013, the Foundation owns an interest in other noncash assets that were received as a donation. These assets are currently held for sale and are carried at an estimated fair value of \$479 and \$619, at June 30, 2014 and 2013, respectively.



## BOSTON FOUNDATION, INC.

### Notes to Consolidated Financial Statements

June 30, 2014 and 2013

The following table summarizes the Foundation's investments in the fair value hierarchy as of June 30, 2013:

	2013				Redemption or liquidation	Days' notice	Related unfunded commitment
	Level 1	Level 2	Level 3	Total			
Balanced Plus Pool:							
Global equities:							
Developed markets index	\$ 96,802	—	—	96,802	Daily	1	None
Developed markets	14,962	—	—	14,962	Daily	4	None
Developed markets	—	43,129	—	43,129	Monthly	30	None
Emerging markets	—	27,400	—	27,400	Monthly	30	None
Emerging markets index	—	51,239	—	51,239	Semi-monthly	3	None
Developed long/short	—	76,895	—	76,895	Quarterly	60	None
Total	<u>111,764</u>	<u>198,663</u>	<u>—</u>	<u>310,427</u>			
Flexible capital:							
Multi-strategy	—	—	123,034	123,034	(1)	N/A	None
Diversified fund of funds	—	—	35,388	35,388	(1)	N/A	None
Credit opportunities	—	—	8,935	8,935	(1)	N/A	None
Total	<u>—</u>	<u>—</u>	<u>167,357</u>	<u>167,357</u>			
Private equity and venture capital (2):	—	—	73,157	73,157	Illiquid	N/A	<u>\$ 36,823</u>
Real assets (3):							
Real estate	—	—	29,250	29,250	Illiquid	N/A	4,801
Timber	—	—	22,598	22,598	Illiquid	N/A	277
Energy	—	—	34,962	34,962	Illiquid	N/A	4,765
Total	<u>—</u>	<u>—</u>	<u>86,810</u>	<u>86,810</u>			<u>\$ 9,843</u>
Fixed income:							
Money market	9,581	—	—	9,581	Daily	1	None
U.S. Treasuries	31,984	—	—	31,984	Daily	1	None
U.S. TIPs (4)	—	17,843	—	17,843	Daily	4	None
Global fixed income	6,790	—	—	6,790	Daily	1	None
Global fixed income	—	6,733	—	6,733	Monthly	30	None
Total	<u>48,355</u>	<u>24,576</u>	<u>—</u>	<u>72,931</u>			
Total balanced plus pool	<u>160,119</u>	<u>223,239</u>	<u>327,324</u>	<u>710,682</u>			

## BOSTON FOUNDATION, INC.

### Notes to Consolidated Financial Statements

June 30, 2014 and 2013

	2013			Redemption or liquidation	Days' notice	Related unfunded commitment	
	Level 1	Level 2	Level 3				Total
Balanced Pool:							
Global equities:							
Developed markets index	\$ 3,957	—	—	3,957	Daily	1	None
Developed markets	2,223	—	—	2,223	Daily	4	None
Developed markets	—	3,287	—	3,287	Monthly	30	None
Emerging markets	—	1,120	—	1,120	Monthly	30	None
Emerging markets index	—	2,094	—	2,094	Semi-monthly	3	None
Developed long/short	—	3,143	—	3,143	Quarterly	60	None
Total	<u>6,180</u>	<u>9,644</u>	<u>—</u>	<u>15,824</u>			
Flexible capital:							
Multi-strategy	—	—	6,059	6,059	(1)	N/A	None
Diversified fund of funds	—	—	1,743	1,743	(1)	N/A	None
Credit opportunities	—	—	440	440	(1)	N/A	None
Total	<u>—</u>	<u>—</u>	<u>8,242</u>	<u>8,242</u>			
Fixed income:							
Money market	1,722	—	—	1,722	Daily	1	None
U.S. Treasuries	4,996	—	—	4,996	Daily	1	None
U.S. TIPs (4)	—	1,305	—	1,305	Daily	4	None
Global fixed income	318	—	—	318	Daily	1	None
Global fixed income	—	316	—	316	Monthly	30	None
Total	<u>7,036</u>	<u>1,621</u>	<u>—</u>	<u>8,657</u>			
Total balanced pool	<u>13,216</u>	<u>11,265</u>	<u>8,242</u>	<u>32,723</u>			
Short-Term Pool:							
Money market	14,311	—	—	14,311	Daily	1	None
U.S. Treasuries	58,996	—	—	58,996	Daily	1	None
Total short-term pool	<u>73,307</u>	<u>—</u>	<u>—</u>	<u>73,307</u>			
Other Investments:							
Money market	467	—	—	467	Daily	1	None
Developed global equities	12,800	—	—	12,800	Daily	4	None
Global fixed income	8,155	—	—	8,155	Daily	1	None
Global equity index	—	4,424	—	4,424	Semi-monthly	3	None
Global fixed income	—	—	2,286	2,286	Illiquid	N/A	None
Developed global equities	—	—	4,224	4,224	Illiquid	N/A	None
Other private interests	—	—	10,159	10,159	Illiquid	N/A	None
Total other investments	<u>21,422</u>	<u>4,424</u>	<u>16,669</u>	<u>42,515</u>			
Total investments	<u>\$ 268,064</u>	<u>238,928</u>	<u>352,235</u>	<u>859,227</u>			

- (1) Flexible Capital (except credit opportunities that are not redeemable) represents minority ownership in investment vehicles that generally contain rolling lock-up provisions. Under such provisions, redemptions are generally possible every one to three years. A redemption request must be made in accordance with the notification terms of the underlying agreement. Investments of \$25,052 are redeemable quarterly and \$119,721 are redeemable in 1 – 5 years. However, certain, or all, of the investment proceeds may not be received for a significantly longer period until underlying investments are sold (so called side pockets). Balances of \$30,826 are illiquid.

**BOSTON FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

- (2) The Foundation's ownership interests in private equity and venture capital investments represent ownership interests in a variety of entities, typically as a minority limited partner. These investments are both directly in private equity and venture capital partnerships as well as in funds of funds that make these types of investments.
- (3) Real assets represent ownership interests in a variety of entities, including as a minority limited partner. These entities focus their investment activities on a type of asset, such as the ownership of real estate properties, timber assets, or oil and gas properties. The underlying investment vehicles often utilize leverage.
- (4) These securities are directly owned U.S. Treasury Inflation Protected Securities (TIPS). The markets for these securities are active and trading in these bonds typically occurs every day. However, as these markets are over the counter, pricing for all securities is not always available daily. As such, they have been classified in Level 2.

***Level 3 Investment Activity***

The following table presents the Foundation's activity for the fiscal years ended June 30, 2014 and 2013 for investments classified in Level 3:

	<b>Flexible capital</b>	<b>Private equity and venture capital</b>	<b>Real assets</b>	<b>Other investments</b>	<b>Total</b>
Fair value as of July 1, 2012	\$ 150,861	77,672	96,621	11,529	336,683
Purchases and capital calls	15,000	8,537	3,806	5,060	32,403
Sales and distributions	(10,976)	(17,076)	(14,683)	(86)	(42,821)
Net realized and unrealized gains	20,714	4,024	1,066	166	25,970
Fair value as of June 30, 2013	\$ <u>175,599</u>	<u>73,157</u>	<u>86,810</u>	<u>16,669</u>	<u>352,235</u>
Fair value as of July 1, 2013	\$ 175,599	73,157	86,810	16,669	352,235
Purchases and capital calls	29,000	11,660	1,965	163	42,788
Sales and distributions	(15,528)	(20,575)	(18,845)	(2,377)	(57,325)
Net realized and unrealized gains (losses)	24,689	18,308	(1,577)	198	41,618
Fair value as of June 30, 2014	\$ <u>213,760</u>	<u>82,550</u>	<u>68,353</u>	<u>14,653</u>	<u>379,316</u>

There were no asset reclassifications in 2014 or 2013.

**BOSTON FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

***Liquidity***

Certain investments measured at NAV are redeemable with the funds or limited partnerships at NAV under the original terms of the subscription agreement and/or partnership agreements. The majority of such redemptions require 90 days or less written notice prior to the redemption period. The investments' fair values are aggregated below by redemption or liquidation period, availability, or sale in the case of marketable securities as of June 30:

	<u>2014</u>	<u>2013</u>
Daily	\$ 323,909	287,212
Semi-monthly	69,274	57,757
Monthly	102,951	81,985
Quarterly	128,138	80,038
1 to 5 years	<u>175,690</u>	<u>144,773</u>
Total redeemable investments	799,962	651,765
Illiquid	<u>171,686</u>	<u>207,462</u>
Total	\$ <u><u>971,648</u></u>	\$ <u><u>859,227</u></u>

***Investment Returns***

Investment returns for the years ended June 30 were as follows:

	<u>2014</u>	<u>2013</u>
Interest and dividends, net of fees	\$ 5,604	10,805
Unrealized and realized gains on investments and trusts	<u>123,058</u>	<u>65,297</u>
Total return	\$ <u><u>128,662</u></u>	\$ <u><u>76,102</u></u>

Interest and dividends are shown net of investment management and custody fees. Investment management and custody fees paid directly to the managers for the years ended June 30, 2014 and 2013 were \$2,770 and \$2,190, respectively. Additional investment fees that were not paid directly to the managers have been netted against the return on certain investments. The Foundation is not able to determine the amount of such fees.

Investment returns by investment pool for the years ended June 30 were as follows:

	<u>2014</u>	<u>2013</u>
Balance plus pool	\$ 108,611	68,718
Balance pool	6,466	1,851
Short term pool	36	75
Other investments	<u>13,549</u>	<u>5,458</u>
Total return	\$ <u><u>128,662</u></u>	\$ <u><u>76,102</u></u>

**BOSTON FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

***Commitments***

Private equity, venture capital, and real asset investments are generally made through limited partnerships. Under the terms of these agreements, the Foundation is obligated to remit additional funding periodically as capital calls are exercised by the manager. These partnerships have a limited existence, generally around 10 years, and such agreements may provide for annual extensions for the purpose of disposing of portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the term of a fund beyond its originally anticipated existence or may wind down the fund prematurely. The Foundation cannot anticipate such changes because they are based on unforeseen events, but should they occur they may result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital calls expected to be exercised in any particular year is uncertain.

Unfunded commitments at June 30 were as follows:

	<u>2014</u>	<u>2013</u>
Private equity and venture capital	\$ 31,642	36,823
Real assets	9,947	9,843
Total unfunded commitments	<u>\$ 41,589</u>	<u>46,666</u>

These amounts are generally payable within ten days of the receipt of a capital call notice. The Foundation has no control as to when a request for funding will be received. It is currently anticipated that the Foundation will be required to fund these commitments within the next three years, but the specific timing is ultimately subject to the discretion of the fund managers.

**(5) Endowment Net Assets**

Endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
As of June 30, 2014:				
Endowment funds	\$ (2,919)	222,265	222,002	441,348
As of June 30, 2013:				
Endowment funds	\$ (4,501)	174,123	216,689	386,311

GAAP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and requires comprehensive disclosures regarding donor-restricted endowment funds.

The Foundation's endowment for the years ended June 30, 2014 and 2013 consists of 232 and 231, respectively, individual funds established for a variety of purposes including donor-restricted endowment funds.

## **BOSTON FOUNDATION, INC.**

### Notes to Consolidated Financial Statements

June 30, 2014 and 2013

The Foundation is subject to UPMIFA as adopted by the Commonwealth of Massachusetts. Under UPMIFA, the Board of Directors has discretion to determine appropriate expenditures of a donor-restricted endowment fund in accordance with a robust set of guidelines about what constitutes prudent spending. UPMIFA permits the Foundation to appropriate for expenditure or accumulate so much of an endowment fund as the Foundation determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund is established. Seven criteria are to be used to guide the Foundation in its yearly expenditure decisions: 1) duration and preservation of the endowment fund; 2) the purposes of the Foundation and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the Foundation; and 7) the investment policy of the Foundation.

Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature. Under UPMIFA, the Board is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. There is an expectation that, over time, the permanently restricted amount will remain intact. This perspective is aligned with the accounting standards definition that permanently restricted funds are those that must be held in perpetuity even though the historic-dollar-value may be expended on a temporary basis. At June 30, 2014 and 2013, the fair value of certain of these individual funds was less than their historic dollar value by \$2,919 and \$4,501, respectively, due to investment losses. Unrestricted net assets have been charged for the deficiency caused by these losses.

The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets, until appropriated for spending by the Board of Directors.

**BOSTON FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2013	\$ (4,501)	174,123	216,689	386,311
Investment return:				
Investment income, net	—	2,623	—	2,623
Net realized and unrealized gains	—	57,457	—	57,457
Total investment return	—	60,080	—	60,080
Contributions received	—	—	5,398	5,398
Grants paid	(18,609)	—	—	(18,609)
Operating expenses	(5,247)	—	—	(5,247)
Transfers and reclassifications	85	13,415	(85)	13,415
Net assets released from restrictions	25,353	(25,353)	—	—
Endowment net assets, June 30, 2014	\$ <u>(2,919)</u>	<u>222,265</u>	<u>222,002</u>	<u>441,348</u>

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2012	\$ (4,828)	160,690	217,468	373,330
Investment return:				
Investment income, net	—	2,906	—	2,906
Net realized and unrealized gains	326	36,229	—	36,555
Total investment return	326	39,135	—	39,461
Contributions received	—	—	1,668	1,668
Grants paid	(21,294)	—	—	(21,294)
Operating expenses	(4,407)	—	—	(4,407)
Reclassification of net assets	—	—	(2,447)	(2,447)
Net assets released from restrictions	25,702	(25,702)	—	—
Endowment net assets, June 30, 2013	\$ <u>(4,501)</u>	<u>174,123</u>	<u>216,689</u>	<u>386,311</u>

**BOSTON FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

**(6) Fixed Assets**

Fixed assets consisted of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Office equipment, computer system, and furniture	\$ 1,526	1,611
Leasehold improvements	2,592	2,571
	<u>4,118</u>	<u>4,182</u>
Less accumulated depreciation	<u>(3,694)</u>	<u>(3,610)</u>
	<u>\$ 424</u>	<u>572</u>

Depreciation expense was \$209 and \$133 for the years ended June 30, 2014 and 2013, respectively.

**(7) Grant Commitments**

Grants payable of \$9,267 as of June 30, 2014 represent unconditional promises to other organizations. Grants scheduled to be paid after one year are discounted at a rate commensurate with the duration involved.

In addition, as of June 30, 2014, the Board of Directors had authorized the payment of certain grants in future periods, subject to certain conditions to be met by the grantees that have not yet met the conditions for accrual in the accompanying consolidated financial statements. Total grants subject to such conditions are as follows:

	<u>2014</u>
Grants subject to conditions to be met by external grantees	\$ 17,200
Grants subject to conditions to be met by internal grantees	<u>7,809</u>
Total grants subject to conditions to be met by grantees	<u>\$ 25,009</u>



**BOSTON FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

**(8) Lease Commitments**

The Foundation has a lease at 75 Arlington Street with an expiration date of September 30, 2018. In addition, in July 2012 the Foundation signed a lease for additional space at 420 Boylston Street, commencing on January 1, 2013, with an expiration date of September 30, 2018. The Foundation has calculated rent expense for the initial terms of these leases on the straight-line basis. Amounts currently expensed for which payment is not yet due are included in accounts payable and accrued liabilities in the consolidated statements of financial position. Rent expense was \$1,423 and \$1,347 for the years ended June 30, 2014 and 2013, respectively. Minimum annual rent payments before real estate taxes and operating expense escalations are:

	<u>Minimum annual rent payments</u>
Year:	
2015	\$ 1,393
2016	1,372
2017	1,382
2018	1,389
2019	347

**(9) Employee Benefit Plans**

The Foundation participates in a 403(b) defined contribution plan. The current amount contributed by the Foundation for eligible employees is 6% of annual gross salary up to the IRS allowed maximum. All employees are eligible for participation after one year of service. The total cost of the plan charged to the Foundation's operations amounted to \$409 and \$401 for the years ended June 30, 2014 and 2013, respectively.

The Foundation provides deferred compensation plans for its executives as approved by the Compensation Committee of the Board of Directors. The amount contributed was \$360 and \$320 for the years ended June 30, 2014 and 2013, respectively.

**BOSTON FOUNDATION, INC.**

## Notes to Consolidated Financial Statements

June 30, 2014 and 2013

**(10) Temporarily Restricted Net Assets**

Temporarily restricted net assets consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Unappropriated appreciation on endowment funds for:		
Discretionary purposes	\$ 170,698	138,530
Designated purposes	50,474	35,375
Donor advised	1,093	218
	<u>222,265</u>	<u>174,123</u>
Purpose restricted:		
Initiatives	—	1,498
Designated purpose	11,506	20,053
Field of interest	5,889	7,745
Scholarships	1,498	2,506
	<u>18,893</u>	<u>31,802</u>
Total	<u>\$ 241,158</u>	<u>205,925</u>

**(11) Permanently Restricted Net Assets**

Permanently restricted net assets consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Endowment funds for:		
Discretionary purposes	\$ 141,545	141,441
Designated purposes	62,487	61,398
Donor advised	17,970	13,850
Total	<u>\$ 222,002</u>	<u>216,689</u>

**BOSTON FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

**(12) Operating Expenses**

A summary of the Foundation's operating expenses for the years ended June 30 is as follows:

	<u>2014</u>	<u>2013</u>
Salary and benefits	\$ 9,340	8,669
Rent and related occupancy costs	1,587	1,509
Professional fees	1,349	1,641
Meetings and conference events and travel	558	833
Marketing	1,049	729
Technology	386	408
Office expense	217	214
	<u>\$ 14,486</u>	<u>14,003</u>

The Foundation's operating expenses as presented above include \$60 and \$21 of operating expenses of its supporting organizations for the years ended June 30, 2014 and 2013, respectively.

**(13) Subsequent Events**

Management has evaluated events subsequent to June 30, 2014 and through December 18, 2014, the date on which the financial statements were available to be issued.