



BOSTON FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)



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Independent Auditors' Report

The Board of Directors
Boston Foundation, Inc.:

We have audited the accompanying consolidated statements of financial position of Boston Foundation, Inc. (the Foundation) as of June 30, 2009 and 2008, and the related consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boston Foundation, Inc. as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 10, 2010

BOSTON FOUNDATION, INC.

Consolidated Statements of Financial Position

June 30, 2009 and 2008

(In thousands)

Assets	2009	2008
Cash and cash equivalents	\$ 5,166	2,272
Receivables for investments sold	297	270
Interest and dividends receivable	1,246	1,433
Program-related receivables and other assets	4,182	4,254
Contributions receivable, net	2,860	8,222
Investments, at fair value	667,013	896,221
Noncash donations held for sale	1,049	1,049
Fixed assets, net	793	1,115
Total assets	<u>\$ 682,606</u>	<u>914,836</u>
Liabilities and Net Assets		
Liabilities:		
Payables for investments purchased	\$ 474	403
Accounts payable and accrued liabilities	5,885	4,409
Line of credit	—	15,000
Long-term debt	801	1,015
Grants payable	5,504	6,222
Total liabilities	<u>12,664</u>	<u>27,049</u>
Net assets:		
Unrestricted	275,816	351,649
Temporarily restricted	183,757	323,250
Permanently restricted	210,369	212,888
Total net assets	<u>669,942</u>	<u>887,787</u>
Total liabilities and net assets	<u>\$ 682,606</u>	<u>914,836</u>

See accompanying notes to consolidated financial statements.

BOSTON FOUNDATION, INC.

Consolidated Statement of Activities

Year ended June 30, 2009

(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and investment activity:				
Contributions	\$ 70,574	7,845	3,144	81,563
Investment income, net of fees	3,419	5,391	—	8,810
Unrealized and realized net losses on investments and trusts	(81,029)	(112,246)	(1,971)	(195,246)
Reclassification of net assets	6,995	(3,303)	(3,692)	—
Net assets released from restrictions	37,180	(37,180)	—	—
	<u>37,139</u>	<u>(139,493)</u>	<u>(2,519)</u>	<u>(104,873)</u>
Total revenues and investment activity				
Expenses:				
Grants	95,928	—	—	95,928
Change in split-interest trusts	1,024	—	—	1,024
Program support	5,924	—	—	5,924
Operating expenses:				
Grantmaking and civic leadership	3,368	—	—	3,368
Development and donor services	1,366	—	—	1,366
Finance and administration	5,362	—	—	5,362
	<u>10,096</u>	<u>—</u>	<u>—</u>	<u>10,096</u>
Total operating expenses				
Total expenses	<u>112,972</u>	<u>—</u>	<u>—</u>	<u>112,972</u>
Change in net assets	(75,833)	(139,493)	(2,519)	(217,845)
Net assets, beginning of year	<u>351,649</u>	<u>323,250</u>	<u>212,888</u>	<u>887,787</u>
Net assets, end of year	\$ <u>275,816</u>	<u>183,757</u>	<u>210,369</u>	<u>669,942</u>

See accompanying notes to consolidated financial statements.

BOSTON FOUNDATION, INC.

Consolidated Statement of Activities

Year ended June 30, 2008

(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and gains:				
Contributions	\$ 90,436	7,050	6,598	104,084
Investment income, net of fees	17,665	15,943	—	33,608
Unrealized and realized net losses on investments and trusts	(13,548)	(25,495)	(1,045)	(40,088)
Net assets released from restrictions	29,389	(29,389)	—	—
Total revenues and investment activity	<u>123,942</u>	<u>(31,891)</u>	<u>5,553</u>	<u>97,604</u>
Expenses:				
Grants	78,664	—	—	78,664
Change in split-interest trusts	(1,542)	—	—	(1,542)
Program support	4,218	—	—	4,218
Operating expenses:				
Grantmaking and civic leadership	3,177	—	—	3,177
Development and donor services	1,350	—	—	1,350
Finance and administration	4,271	—	—	4,271
Total operating expenses	<u>8,798</u>	<u>—</u>	<u>—</u>	<u>8,798</u>
Total expenses	<u>90,138</u>	<u>—</u>	<u>—</u>	<u>90,138</u>
Change in net assets	33,804	(31,891)	5,553	7,466
Net assets, beginning of year	<u>317,845</u>	<u>355,141</u>	<u>207,335</u>	<u>880,321</u>
Net assets, end of year	<u>\$ 351,649</u>	<u>323,250</u>	<u>212,888</u>	<u>887,787</u>

See accompanying notes to consolidated financial statements.

BOSTON FOUNDATION, INC.
Consolidated Statements of Cash Flows
Years ended June 30, 2009 and 2008
(In thousands)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from contributions	\$ 83,782	78,085
Interest and dividends received, net of fees	8,969	34,042
Grants paid	(96,646)	(80,072)
Cash paid:		
For program expenses	(7,030)	(3,903)
To employees and suppliers	(8,590)	(9,431)
Net cash (used) provided by operating activities	<u>(19,515)</u>	<u>18,721</u>
Cash flows from investing activities:		
Proceeds from sales of investments	272,205	263,959
Purchases of investments	(237,618)	(302,737)
Proceeds from disposal of equipment	39	—
Purchases of equipment	(147)	(81)
Net cash provided (used) by investing activities	<u>34,479</u>	<u>(38,859)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	3,144	5,549
Proceeds for line of credit	—	15,000
Payments on line of credit	(15,000)	—
Payments on secured term loan	(214)	(260)
Net cash (used) provided by financing activities	<u>(12,070)</u>	<u>20,289</u>
Net change in cash	2,894	151
Cash and cash equivalents, beginning of year	<u>2,272</u>	<u>2,121</u>
Cash and cash equivalents, end of year	<u>\$ 5,166</u>	<u>2,272</u>
Reconciliation of change in net assets to net cash (used) provided by operating activities:		
Change in net assets	\$ (217,845)	7,466
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	391	370
Noncash contributions	—	(21,049)
Change in contributions receivable, net	5,362	(446)
Changes in other assets and liabilities, net	475	(2,159)
Contributions restricted for long-term investment	(3,144)	(5,549)
Unrealized and realized net losses on investments and trusts	195,246	40,088
Net cash (used) provided by operating activities	<u>\$ (19,515)</u>	<u>18,721</u>
Supplemental data:		
Cash paid for interest	\$ 42	56
Noncash contributions	—	21,049

See accompanying notes to consolidated financial statements.

BOSTON FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

(In thousands)

(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 grant maker, 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.

(b) Activity

As Greater Boston's community foundation, the Foundation devotes its resources to building and sustaining a vital, 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 its support directly from the public. Due to the generosity of donors, the Foundation is able to serve as a major grant maker in Greater Boston, supporting hundreds of nonprofit 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. The total net assets of the supporting organizations were \$19,723 and \$26,197 as of June 30, 2009 and 2008, respectively. Inter-organizational transactions and balances have been eliminated.

(b) Use of Estimates

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

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Notes to Consolidated Financial Statements

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(In thousands)

(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 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 and spent in accordance with the standard of prudence imposed by state law. At June 30, 2009, the fair value of certain of these individual funds was less than their historic dollar value by \$6,775 due to investment losses. Unrestricted net assets have been charged for the deficiency caused by these losses.

The Articles of Organization of the Foundation include a variance power provision which gives the Board of Directors 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 the years ended June 30, 2009 and 2008, the Board did not modify any restrictions or conditions placed on gifts subject to its variance power.

(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 of Directors determines the level of grant making based on two factors that serve to stabilize annual spending levels and preserve the real value of the endowment over time. In fiscal years 2009 and 2008, those factors are 70% of the prior year's spending, adjusted for inflation, plus 30% of a spending rate at 6% of the estimated fair value of its discretionary endowment and 5.4% of the estimated fair value of its designated 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.

(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 of directors' Investment Committee, which has oversight

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(In thousands)

responsibility for the Foundation's investment program. The Foundation's portfolio is managed by outside investment managers who invest according to the investment policy established by the Investment Committee.

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 hedge strategies, private equity, venture capital, flexible capital and real asset strategies. Hedge 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. Funds with hedge strategies generally 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 which 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 the accounting guidance in Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12), 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. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements or operations of the underlying assets. 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. It is therefore 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.

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.

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(In thousands)

At June 30, 2009 and 2008, the Foundation held a minority interest in a limited partnership consisting of certain noncash assets. The interest was received in fiscal 2008 as a donation, currently is held for sale, and is carried as part of investments at an estimated fair value of \$5,000 at June 30, 2009 which has been determined considering market appraisals, liquidity, and other relevant factors. In addition, as of June 30, 2009 and 2008, 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 \$1,049.

(f) Fixed Assets

The Foundation capitalizes all expenditures over \$1 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.

(g) Grants Expense

The Foundation records grants as expenses when all conditions stipulated by the grant have been substantially met by the grantee.

(h) 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.

(i) 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, and the Skillworks Initiative.

(j) 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 is charged to each fund to cover operating expenses ranging from 0.5% to 1.0% of a fund's estimated fair value. 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 certain funds an investment support fee of 0.12% to cover certain investment-related operating expenses.

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(In thousands)

(k) *Disclosures about the Fair Value of Financial Instruments*

In accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures About the Fair Value of Financial Instruments*, the Foundation determined that the fair values of its financial instruments not carried at fair value, including cash, receivables, payables, and debt were substantially equivalent to their carrying values as of June 30, 2009 and 2008 because of their relatively short-term nature.

(l) *Recently Adopted Accounting Pronouncements*

Effective July 1, 2008, the Foundation adopted the recognition and disclosure provisions of SFAS No. 157, *Fair Value Measurements*, as amended (SFAS 157). SFAS 157 defines fair value and expands 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. SFAS 157 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 – unobservable inputs are used when little or no market data is available.

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. Because the Foundation uses net asset values reported by fund managers as a practical expedient to estimate the fair values of its investments held through limited partnerships and other funds, classification of these investments within the fair value hierarchy is based on the Foundation's ability to timely redeem its interest rather than on inputs used. The adoption of SFAS 157 did not have a material impact on the Foundation's financial position, change in net assets or cash flows, but it did significantly expand fair value disclosures. See (e) above and note 5 for further discussion.

In May 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes principles and requirements for subsequent events and applies to the accounting for and disclosure of subsequent events not addressed in other applicable GAAP. SFAS 165 was effective for periods ending after June 15, 2009 and accordingly management has evaluated events subsequent to June 30, 2009 and through March 10, 2010, the date on which the financial statements were available to be issued. The adoption of this statement did not have a material effect on the Foundation's financial position, changes in net assets, or cash flows.

Effective July 1, 2008, the Foundation adopted the provisions of FASB Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an*

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(In thousands)

Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds (FSP 117-1). FSP 117-1 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 also requires disclosures about endowment funds, including donor-restricted endowment funds (see note 6). On July 2, 2009, UPMIFA was adopted by the Commonwealth of Massachusetts with an effective date of June 30, 2009. The new law updates the fundamental investment principles contained in the prior law in Massachusetts, the Uniform Management of Institutional Funds Act (UMIFA or the Act), by providing precise standards to establish investment policies in a prudent manner by establishing a duty to minimize cost, diversify the investments, investigate facts relevant to the investment of the fund, consider tax consequences of investment decisions and to ensure that investment decisions be made in light of the fund's entire portfolio as a part of an investment strategy having risk and return objectives reasonably suited to the fund and to the organization. UPMIFA also permits the Foundation to accumulate for expenditure 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, thereby eliminating the restriction that a fund could not be spent below its historical dollar value. Seven criteria are to be used to guide the Foundation in its yearly expenditure decisions: 1) duration and preservation of the endowment funds; 2) the purposes of the Foundation and the endowment funds; 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.

UPMIFA is effective as of June 30, 2009 and governs decisions made or actions taken on or after that date. The Act had no impact on the classification or presentation of net assets in the financial statements as required by FSP 117-1. However, in the course of adopting FSP 117-1, the Foundation determined that \$3,347 of net assets related to donor-restricted endowment funds that were previously classified as unrestricted should be reclassified to temporarily restricted net assets, which change has been reflected in the 2009 statement of activities. In addition, as part of the review undertaken in the implementation of UPMIFA, the Foundation determined that \$3,692 of funds that had been previously classified as permanently restricted net assets should be reclassified to unrestricted net assets and such change has been reflected in the 2009 statement of activities.

(m) Reclassifications

Certain 2008 information has been reclassified to conform to the 2009 presentation.

(3) Program-Related Receivables and Other

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, 2009 and 2008, these loans totaled \$3,817 and \$3,375 with various repayment dates beginning in 2013 and ending in 2018. The Foundation has also entered into a \$2,000 program-related investment to provide loans to local organizations whose goal is the purchase and rehabilitation of recently foreclosed residential properties. As of June 30 2009 and 2008, no funds had been advanced. In addition, the Foundation has a ten-year loan guarantee expiring in 2016, in the amount of \$2,500 for the purpose of building or improving

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charter schools in the Massachusetts. The Foundation's loan guarantee serves as a back-up to guarantees made by other entities. As of June 30, 2009 and 2008, the Foundation's commitment has not been drawn, and therefore, the Foundation believes the estimated fair value of the guarantee and any potential liability is zero.

(4) Contributions Receivable

Contributions receivable as of June 30, 2009 and 2008 consisted of the Foundation's remainder interest in charitable remainder trusts.

The Foundation's net interest in charitable remainder trusts as of June 30, 2009 and 2008 was \$2,860 and \$8,222 respectively. None of the charitable remainder trusts are currently under the control of the Foundation. The Foundation's net interest in these charitable remainder trusts represents the estimated fair value of assets in the trusts less the present value, if any, of payments expected to be made to other beneficiaries. In certain instances, the Foundation also receives a portion of the current income earned by these trusts.

(5) Investments

The following table summarizes the Foundation's investments in the SFAS 157 fair value hierarchy as of June 30, 2009, with comparative totals as of June 30, 2008:

	2009				2008
	Level 1	Level 2	Level 3	Total	Total
Equities	\$ 65,383	209,209	9,957	284,549	342,877
Fixed income	75,566	19,215	—	94,781	152,386
Private equity and venture capital	—	—	61,904	61,904	77,463
Real assets	—	—	110,618	110,618	169,047
Flexible capital	—	—	109,932	109,932	127,339
Short-term cash equivalents	229	—	—	229	7,109
Minority interest in a limited partnership	—	—	5,000	5,000	20,000
Total investments	\$ <u>141,178</u>	<u>228,424</u>	<u>297,411</u>	<u>667,013</u>	<u>896,221</u>

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. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investment 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.

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(In thousands)

The following table presents the Foundation's activity for the fiscal year ended June 30, 2009 for investments classified in Level 3:

	<u>Equity</u>	<u>Private equity and venture capital</u>	<u>Real assets</u>	<u>Flexible capital</u>	<u>Limited Partnership</u>	<u>Total</u>
Fair value as of July 1, 2008	\$ 12,460	76,506	134,395	116,768	20,000	360,129
Contributions	—	6,309	15,063	19,000	—	40,372
Distributions	—	(3,312)	(3,309)	(9,948)	—	(16,569)
Net realized and unrealized losses	(2,503)	(17,599)	(35,531)	(15,888)	(15,000)	(86,521)
Fair value as of June 30, 2009	<u>\$ 9,957</u>	<u>61,904</u>	<u>110,618</u>	<u>109,932</u>	<u>5,000</u>	<u>297,411</u>

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, 2009:

Daily	\$ 147,327
Monthly	152,743
Quarterly	63,252
Semi-annually	6,280
Annually	—
Total liquid investments	<u>369,602</u>
Illiquid	<u>297,411</u>
Total	<u>\$ 667,013</u>

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

	<u>2009</u>	<u>2008</u>
Interest and dividends, net of fees	\$ 8,810	33,608
Unrealized and realized losses on investments and trusts	(195,246)	(40,088)
Total return	<u>\$ (186,436)</u>	<u>(6,480)</u>

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 or liquidity calls are exercised by the manager. These partnerships have a limited existence,

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(In thousands)

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 or liquidity calls expected to be exercised in any particular future year is uncertain.

Unfunded investment commitments associated with the above investments total \$74,960 as of June 30, 2009. 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.

In June 2009, the Foundation entered into an agreement with Bank of America for an unsecured revolving line of credit not to exceed \$15,000, which expired on October 31, 2009 and was not renewed. This loan was used to fund various investments and capital calls. The interest rate on the loan was prime minus 25 basis points. At June 30, 2009, no balance was drawn on this line of credit.

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, 2009 and 2008 were \$2,251 and \$3,928, respectively. There were additional investment fees that were not paid directly to the managers but rather are netted against the return on certain investments. The Foundation is not able to determine the amount of such fees.

(6) 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 June 30, 2009:				
Endowment funds	\$ (6,775)	154,482	210,369	358,076
As of June 30, 2008:				
Endowment funds	\$ 3,348	286,232	212,888	502,468

BOSTON FOUNDATION, INC.

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(In thousands)

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2008	\$ 3,347	286,232	212,888	502,467
Investment return:				
Investment income, net	—	4,860	—	4,860
Net realized and unrealized losses	<u>(4,881)</u>	<u>(105,881)</u>	<u>(1,971)</u>	<u>(112,733)</u>
Total investment return	(4,881)	(101,021)	(1,971)	(107,873)
Contributions received	—	—	3,144	3,144
Grants paid	(20,747)	—	—	(20,747)
Operating expenses	(4,537)	—	—	(4,537)
Reclassification of net assets	(5,241)	(5,445)	(3,692)	(14,378)
Net assets released from restrictions	<u>25,284</u>	<u>(25,284)</u>	<u>—</u>	<u>—</u>
Endowment net assets, June 30, 2009	\$ <u>(6,775)</u>	<u>154,482</u>	<u>210,369</u>	<u>358,076</u>

Changes in endowment net assets for the year ended June 30, 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2007	\$ —	318,123	207,335	525,458
Investment return:				
Investment income, net	—	14,644	—	14,644
Net realized and unrealized losses	<u>—</u>	<u>(23,251)</u>	<u>—</u>	<u>(23,251)</u>
Total investment return	—	(8,607)	—	(8,607)
Contributions received	—	—	6,598	6,598
Grants paid	(15,520)	—	—	(15,520)
Change in split-interest trusts	—	—	(1,045)	(1,045)
Operating expenses	(4,416)	—	—	(4,416)
Net assets released from restrictions	<u>23,284</u>	<u>(23,284)</u>	<u>—</u>	<u>—</u>
Endowment net assets, June 30, 2008	\$ <u>3,348</u>	<u>286,232</u>	<u>212,888</u>	<u>502,468</u>

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(In thousands)

(7) Permanently Restricted Net Assets

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

	<u>2009</u>	<u>2008</u>
Endowment funds for:		
Discretionary purposes	\$ 107,510	110,045
Designated purposes	<u>102,859</u>	<u>102,843</u>
Total	\$ <u>210,369</u>	<u>212,888</u>

(8) Fixed Assets

Fixed assets consisted of the following as of June 30:

	<u>2009</u>	<u>2008</u>
Office equipment, computer system, and furniture	\$ 837	892
Leasehold improvements	<u>2,411</u>	<u>2,390</u>
	3,248	3,282
Less accumulated depreciation	<u>(2,455)</u>	<u>(2,167)</u>
	\$ <u>793</u>	<u>1,115</u>

Depreciation expense was \$391 and \$370 for the years ended June 30, 2009 and 2008, respectively.

(9) Long-Term Debt

In order to finance the construction of leasehold improvements and other costs related to its office relocation in fiscal year 2002, the Foundation entered into a \$2,403 ten-year secured term loan with Wainwright Bank. Under the terms of the loan, monthly interest payments are made based on the prime rate, which was 2.75% and 4.5% at June 30, 2009 and 2008, respectively. The loan matures in December 2011. Future minimum payments are as follows:

	<u>Amount due</u>
Fiscal year:	
2010	\$ 297
2011	126
2012	<u>378</u>
Total	\$ <u>801</u>

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(10) Grant Commitments

Grants payable of \$5,504 and \$6,222 as of June 30, 2009 and 2008, respectively, 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, 2009 and 2008, 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>2009</u>	<u>2008</u>
Approval of strategic plans	\$ 1,323	1,050
Matching requirements	1,461	721
	<u>\$ 2,784</u>	<u>1,771</u>

(11) Lease Commitment

The Foundation entered into a ten-year lease for new office space effective September 2001. Minimum annual rent payments before real estate taxes and operating expense escalations for fiscal years 2007 through 2010 are \$1,239. The Foundation has calculated rent expense for the initial term of the office space lease 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 \$1,042 and \$1,356 for the years ended June 30, 2009 and 2008, respectively.

In February 2010, the Foundation signed an extension of the current lease to an expiration date of September 30, 2018. Minimum annual rent payments before real estate taxes and operating expense escalations are \$755 for fiscal 2011; \$1,007 for fiscal 2012 through 2018; and \$252 for fiscal 2019.

(12) Employee Benefit Plans

The Foundation participates in a 403(b) defined contribution plan. The amount contributed by the Foundation for eligible employees is 6% of annual gross salary. 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 \$355 and \$227 for the years ended June 30, 2009 and 2008, respectively.

The Foundation provides deferred compensation plans for its executives as approved by the Compensation Committee of the Board of Directors. The amounts contributed were \$222 and \$230 for the years ended June 30, 2009 and 2008, respectively.

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(In thousands)

(13) Operating Expenses

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

	<u>2009</u>	<u>2008</u>
Salary and benefits	\$ 6,261	5,326
Rent and related occupancy costs	1,731	1,678
Professional fees	958	421
Meetings and conferences events and travel	402	520
Marketing	331	511
Technology	237	180
Office expense	176	162
	<u>\$ 10,096</u>	<u>8,798</u>