



**BOSTON FOUNDATION, INC.**

Consolidated Financial Statements

June 30, 2019 and 2018

(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, 2019 and 2018, 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, 2019 and 2018, 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**

November 14, 2019

**BOSTON FOUNDATION, INC.**

Consolidated Statements of Financial Position

June 30, 2019 and June 30, 2018

(Dollars in thousands)

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 4,703	6,088
U.S. Treasuries	25,061	25,157
Contributions receivable, net	306	951
Program-related receivables, net	17,011	10,629
Investments, at fair value	1,241,062	1,209,800
Other assets	950	1,029
Fixed assets, net	4,222	4,003
Total assets	\$ <u>1,293,315</u>	<u>1,257,657</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 7,898	7,817
Grants payable	2,663	2,091
Total liabilities	<u>10,561</u>	<u>9,908</u>
Net assets:		
Without donor restrictions		
Undesignated	808,646	772,010
Designated by the Board for endowment	25,627	25,437
Total without donor restrictions	834,273	797,447
With donor restrictions	448,481	450,302
Total net assets	<u>1,282,754</u>	<u>1,247,749</u>
Total liabilities and net assets	\$ <u>1,293,315</u>	<u>1,257,657</u>

See accompanying notes to consolidated financial statements.

**BOSTON FOUNDATION, INC.**

## Consolidated Statement of Activities

Year ended June 30, 2019

(Dollars in thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues and investment activity:			
Contributions	\$ 149,833	1,109	150,942
Service fees	2,461	—	2,461
Investment returns, net	37,224	21,710	58,934
Net assets released from restrictions	24,640	(24,640)	—
Total revenues	214,158	(1,821)	212,337
Expenses:			
Grants	152,767	—	152,767
Change in split interest	248	—	248
Salary and benefits	13,824	—	13,824
Professional fees	4,602	—	4,602
Meetings, conferences and travel	2,249	—	2,249
Marketing	753	—	753
Office expenses	202	—	202
Technology	592	—	592
Occupancy	2,095	—	2,095
Total expenditures	177,332	—	177,332
Change in net assets	36,826	(1,821)	35,005
Net assets, beginning of year	797,447	450,302	1,247,749
Net assets, end of year	\$ 834,273	448,481	1,282,754

See accompanying notes to consolidated financial statements.

**BOSTON FOUNDATION, INC.**

## Consolidated Statement of Activities

Year ended June 30, 2018

(Dollars in thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues and investment activity:			
Contributions	\$ 198,222	4,512	202,734
Service fees	2,248	—	2,248
Investment returns, net	52,619	35,926	88,545
Net assets released from restrictions	24,515	(24,515)	—
Total revenues	<u>277,604</u>	<u>15,923</u>	<u>293,527</u>
Expenses:			
Grants	130,105	—	130,105
Change in split interest	(154)	—	(154)
Salary and benefits	12,675	—	12,675
Professional fees	3,612	—	3,612
Meetings, conferences and travel	1,206	—	1,206
Marketing	761	—	761
Office expenses	212	—	212
Technology	871	—	871
Occupancy	2,399	—	2,399
Total expenditures	<u>151,687</u>	<u>—</u>	<u>151,687</u>
Change in net assets	125,917	15,923	141,840
Net assets, beginning of year, as restated	<u>671,530</u>	<u>434,379</u>	<u>1,105,909</u>
Net assets, end of year	<u>\$ 797,447</u>	<u>450,302</u>	<u>1,247,749</u>

See accompanying notes to consolidated financial statements.

**BOSTON FOUNDATION, INC.**  
Consolidated Statements of Cash Flows  
Years ended June 30, 2019 and 2018  
(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from contributions and service fees	\$ 152,066	192,985
Interest and dividends received, net of fees	15,548	11,552
Annuity and beneficiary payments	(280)	(243)
Grants paid	(152,195)	(130,181)
Cash paid:		
For program expenses	(5,846)	(4,987)
To employees and suppliers	(18,746)	(15,407)
Net cash provided by (used in) operating activities	<u>(9,453)</u>	<u>53,719</u>
Cash flows from investing activities:		
Proceeds from sales of investments	299,373	333,112
Purchases of investments	(291,760)	(388,811)
Purchases of fixed assets	(654)	(1,890)
Net cash provided by (used in) investing activities	<u>6,959</u>	<u>(57,589)</u>
Cash flows from financing activities:		
Contributions restricted for long term investments	1,109	4,459
Net cash provided by financing activities	<u>1,109</u>	<u>4,459</u>
Net change in cash and cash equivalents	(1,385)	589
Cash and cash equivalents, beginning of year	<u>6,088</u>	<u>5,499</u>
Cash and cash equivalents, end of year	<u>\$ 4,703</u>	<u>6,088</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ 35,005	141,840
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	435	382
Change in annuity and beneficiary payables	45	(382)
Change in grants payable	572	(76)
Change in contributions receivable, net	645	595
Contributions of investments	(238)	(7,242)
Changes in other assets and liabilities, net	(758)	542
Contributions restricted for long-term investment	(1,109)	(4,459)
Unrealized and realized net gain on investments and trusts	(44,050)	(77,481)
Net cash provided by (used in) operating activities	<u>\$ (9,453)</u>	<u>53,719</u>
Supplemental disclosure of noncash investing activity:		
Change in accounts payable from fixed asset additions	\$ —	(1,186)

See accompanying notes to consolidated financial statements.

## **BOSTON FOUNDATION, INC.**

### Notes to Consolidated Financial Statements

June 30, 2019 and 2018

#### **(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 consolidated 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.

The Philanthropic Initiative, Inc. (TPI), an internationally recognized provider of customized philanthropic consulting, operates as a distinct unit of the Foundation.

##### **(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.

##### **(c) Financial Operating Model**

The Foundation maintains the following groups of funds:

###### *(i) Without Donor Restrictions*

**Operating funds** include the core operating activities of the Foundation and its life annuities. The core operating activities of the Foundation are funded primarily by administrative fees allocated from other fund categories based upon balances. Other sources include the Foundation's annual Civic Leadership Campaign, service fees and income derived from investment of available cash balances. The Foundation's Board of Directors (the Board) approves the operating budget annually.

**Donor advised funds (DAFs)** represent donations received for which the donor specifies one or more individuals to serve as the advisor to the fund. Fund advisors can then recommend the investment of the fund in one of the Foundation's three investment pools or in other selected investment alternatives. The fund advisor also can recommend the distribution of grants to eligible charities. Grant recommendations submitted by fund advisors are paid weekly from the three investment pools after review and approval by the Foundation's management. Requests to invest

## BOSTON FOUNDATION, INC.

### Notes to Consolidated Financial Statements

June 30, 2019 and 2018

in alternative investments generally result in agreements that limit the availability of funds for immediate grantmaking. Administrative fees are charged to DAFs quarterly based upon the greater of the average daily balance of the prior quarter or the balance at the end of the prior quarter. A pass-through fee is applied when the volume of grants paid exceeds the average daily balance.

**Program funds** represent resources allocated for the Foundation's programmatic and discretionary grantmaking activities and include the balance of funds designated by the Foundation's Board of Directors (Board) for endowment. Additional liquid resources are released each year due to the application of spending policy calculations to fund expenditures of about the same amount. The resources of these funds are distributed as grants and for direct programmatic expenses as approved by the Board.

**Other funds** include those received by the Foundation with donor intended restrictions, but for the application of variance power which results in these funds being reflected as funds without donor restrictions. Distributable income from designated endowment funds based upon applying the Foundation's spending policy formula is allocated from endowment balances annually. Grants and expenses are paid in accordance with the wishes of the donors.

**Supporting Organizations** are separate, but controlled by the Foundation, charities and are considered funds without donor restrictions due to the control retained by the Foundation through the appointment of the directors of each organization. Grants and expenditures are approved by the directors of each entity.

(ii) *With Donor Restrictions*

**Endowment funds** have been restricted by the donor to be held in perpetuity. Annually a spending policy formula is applied to the invested balance of each fund to determine the amount that is grantable. The formula referred to as the "Yale Mode" combines the prior year spending amount incremented by inflation and weighted at 70% and the invested balance as of December 31 multiplied by the Board approved annual spending policy rate weighted at 30%. These calculated amounts are transferred from the invested balance to the grantmaking balance in each fund as of July 1. Administrative fees at 1.2% for discretionary and 0.95% for designated funds are calculated based upon the average of the total fund balances as of the eight quarters ending December 31 and these amounts are then transferred to the relevant program and other funds.

## (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) tax-exempt organizations. Inter-organizational transactions and balances have been eliminated in consolidation. Dollar amounts presented in the accompanying footnotes are in thousands unless otherwise noted.



**BOSTON FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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

**(c) Recent Accounting Pronouncements**

During 2019, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958); Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of underwater endowment funds as a reduction in net assets with donor restrictions; and enhanced disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and availability of resources, and expenses by both their natural and functional classifications.

A summary of net asset reclassifications resulting from the adoption of ASU 2016-14 as of June 30, 2017 is as follows:

Net assets classifications	Without donor restrictions	With donor restrictions	Total net assets
As previously presented:			
Unrestricted	\$ 649,338	—	649,338
Temporarily restricted	18,505	201,026	219,531
Permanently restricted	—	237,040	237,040
Net assets as previously presented	667,843	438,066	1,105,909
Reclassification to implement ASU 2016-14:			
Underwater endowments	3,687	(3,687)	—
Net assets, as restated	\$ 671,530	434,379	1,105,909

Net assets of \$18,505 representing funds that had been previously reported as Temporary Restricted were reclassified as net assets without restrictions as it was determined the funds are subject to the Foundation's variance power which is more fully described below.

Certain other amounts as disclosed in the prior year have been reclassified to conform to the current year presentation.

## **BOSTON FOUNDATION, INC.**

### Notes to Consolidated Financial Statements

June 30, 2019 and 2018

#### **(d) Classification of Net Assets**

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

- Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the Board of Directors.
- Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activity. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Contributions and endowment investment earnings subject to donor-imposed restrictions are reported as increases in net assets with donor restrictions.

The Articles of Organization of the Foundation include a variance power provision, which gives the Board the power to modify a purpose-related restriction or condition placed on gifts, if in its sole judgment the Board determines that it is unwise or impracticable to apply the funds available to the purposes indicated by the donor. As a result of this variance power provision, the Foundation classifies for financial reporting purposes all funds received, except those funds with perpetual time restrictions (endowment funds), as net assets without restrictions, regardless of donor intended purpose restrictions. During 2019, the Board utilized variance power once in order to replace a beneficiary hospital with another conducting work more closely matching the fund's stated purpose. During 2018, the Board did not utilize variance power.

#### **(e) Board Designated**

From time to time the Board has designated funds received to be maintained to function as endowment. The Foundation annually applies its discretionary endowment spending policy calculation to determine the amount available for discretionary grantmaking within its Program activities. At any time, the Board may decide to expend some or all of these funds for any purpose.

## BOSTON FOUNDATION, INC.

### Notes to Consolidated Financial Statements

June 30, 2019 and 2018

#### (f) *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 components that serve to stabilize annual spending levels and preserve the value of the endowment over time. In fiscal years 2019 and 2018, 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 and funds identified for utilization in broad fields of interest. The designated endowment is composed of funds created for specifically named agencies or projects. The spending policy rates were as follows:

	<u>2019</u>	<u>2018</u>
Discretionary endowment	5.75 %	6.00 %
Designated endowment	5.00	5.00
Endowed donor advised funds	5.00	5.00

For underwater funds, where the current market value is less than the aggregate gifts to the fund, the rates for fiscal years 2019 and 2018 were 1% less than the above rates.

For fiscal year 2020, the Board has approved the spending policy rate of 5.5% for its discretionary endowment and 5.0% for designated endowments and endowed donor advised funds, except for underwater funds where the spending rates are 4.5% and 4.0%, respectively.

#### (g) *Cash and Cash Equivalents*

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

#### (h) *Fair Value Measurements*

Investments are reported at estimated 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 conducted by independent third parties, 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.

## **BOSTON FOUNDATION, INC.**

### Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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.

The majority of the Foundation's investments are held in entities for which fair value is estimated using net asset value (NAV) as reported by the fund manager as a practical expedient, unless it is probable that the investment will be sold for a different amount from NAV. As of June 30, 2019 and 2018, the Foundation had no plans or intention to sell investments at amounts different from NAV. Such NAV-measured investments are not categorized in the fair value hierarchy. Although the Foundation's managers adhere to fair value accounting as required by the Financial Accounting Standards Board Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements and Disclosures*, because of the inherent uncertainties in valuation assumption, the estimated fair values for investments may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, earnings of the underlying holdings, projected cash flows, recent sales prices, and other pertinent information.

The NAVs or their equivalent, as estimated and reported by the investment managers, are reviewed by the Foundation's Treasurer, Chief Investment Officer, and its investment consultant.

#### **(i) U.S. Treasuries**

The U.S. Treasuries are carried at fair value and classified in Level 1 of the fair value hierarchy. The Treasuries have maturities laddered through 2031.

The total of cash and cash equivalents and U.S. Treasuries are resources available to meet the Foundation's current operating needs.

#### **(j) Contributions Receivable**

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

#### **(k) Fixed Assets**

The Foundation capitalizes expenditures over \$10 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.

#### **(l) 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 by the Board of Directors or committed to grantees. Grants scheduled to be paid after one year are discounted at a rate commensurate with the duration involved.

## **BOSTON FOUNDATION, INC.**

### Notes to Consolidated Financial Statements

June 30, 2019 and 2018

#### **(m) Contributions and Bequests**

Contributions, including unconditional promises from donors, are recorded as revenue at fair value when received. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are shown as increases in net assets with donor restrictions. 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.

#### **(n) Administrative Fees**

Administrative fees include a variety of support fees, investment oversight fees and overhead recovery fees. Support fees of 0.95% to 1.2% of the net asset balance by fund are charged to each designated and discretionary fund to cover operating expenses. Support fees for DAFs are charged on a sliding scale based upon fund balance beginning at 1% on the first \$500 of fund balance. Investment oversight fees are charged based upon the invested balance of each fund ranging from 0.15% to 0.19%. For some funds, an allocation of overhead is charged based upon a percentage (20% to 40%) of directly charged personnel costs.

#### **(3) Program-Related Receivables**

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, 2019 and 2018, these loans, included in program-related receivables, net of unamortized discounts of \$2,621 and \$1,322, totaled \$15,761 and \$10,629, respectively, with various repayment dates beginning in 2020 and ending in 2032. As of June 30, 2019, commitments to fund additional loans total \$4,202.

The Foundation also invests a portion of its funds in minority business enterprises to enhance organizational capacity to build scale, thereby providing relief for the poor, lessening neighborhood tensions, eliminating prejudice and discrimination and combatting community deterioration and juvenile delinquency. As of June 30, 2019 these loans totaled \$1,250 with interest rates of 5%-6% and maturities of 5-10 years through 2028.

In addition, the Foundation has a \$4,000 loan guarantee expiring in 2021 for the purpose of building or improving charter schools in Massachusetts that have been funded by the Massachusetts Development Finance Agency 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 \$4,000 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, 2019 and 2018, the Foundation’s guarantees have not been drawn. The Foundation believes the estimated fair value of the guarantees and any potential liability is not material.

**BOSTON FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

**(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 43 investment management firms manage the assets in this pool. 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 29 investment management firms manage the assets in this pool. This pool includes a 25% allocation to U.S. Treasury bonds and does not include private equity and venture capital. Accordingly, this asset allocation is expected to produce a slightly lower investment return than the Balance Plus Pool. Donor advised funds desiring a higher allocation to U.S. Treasury bonds and limited exposure to illiquid investments are invested in this pool.
- **Short-Term Pool** – This pool is invested in money market funds and U.S. Treasury bills with remaining maturities at the time of purchase of between July 5, 2019 and December 19, 2019.

The following tables summarize the Foundation's investments in the fair value hierarchy as of June 30, 2019 and 2018:

	June 30, 2019				
	Investments measured at NAV	Investments classified in fair value hierarchy			Total
		Level 1	Level 2	Level 3	
Global equities	\$ 430,769	88,416	—	—	519,185
Flexible capital	244,961	—	—	—	244,961
Private equity and venture capital	122,108	—	—	—	122,108
Real assets:					
Real estate	68,385	21,519	—	—	89,904
Timber	8,870	—	—	—	8,870
Energy	9,141	—	—	—	9,141
	<u>86,396</u>	<u>21,519</u>	<u>—</u>	<u>—</u>	<u>107,915</u>
Fixed income:					
Money markets	—	17,999	—	—	17,999
U.S. Treasuries	—	145,394	—	—	145,394
U.S. TIPS	—	—	31,379	—	31,379
	<u>—</u>	<u>163,393</u>	<u>31,379</u>	<u>—</u>	<u>194,772</u>
Other investments	5,001	30,558	—	16,562	52,121
Total investments	<u>\$ 889,235</u>	<u>303,886</u>	<u>31,379</u>	<u>16,562</u>	<u>1,241,062</u>

**BOSTON FOUNDATION, INC.**

Notes to Consolidated Financial Statements

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	June 30, 2018				
	Investments measured at NAV	Investments classified in fair value hierarchy			Total
		Level 1	Level 2	Level 3	
Global equities	\$ 397,607	75,361	—	—	472,968
Flexible capital	245,424	—	—	—	245,424
Private equity and venture capital	108,249	—	—	—	108,249
Real assets:					
Real estate	58,337	19,937	—	—	78,274
Timber	17,209	—	—	—	17,209
Energy	14,206	843	—	—	15,049
	<u>89,752</u>	<u>20,780</u>	<u>—</u>	<u>—</u>	<u>110,532</u>
Fixed income:					
Money markets	—	43,988	—	—	43,988
U.S. Treasuries	—	159,588	—	—	159,588
U.S. TIPS	—	—	29,986	—	29,986
	<u>—</u>	<u>203,576</u>	<u>29,986</u>	<u>—</u>	<u>233,562</u>
Other investments	<u>5,034</u>	<u>17,483</u>	<u>—</u>	<u>16,548</u>	<u>39,065</u>
Total investments	<u>\$ 846,066</u>	<u>317,200</u>	<u>29,986</u>	<u>16,548</u>	<u>1,209,800</u>

**(a) Level 3 Investment Activity**

The following table presents the Foundation's activity for investments classified in Level 3 for the fiscal years ended June 30, 2019 and 2018:

	<u>Other investments</u>
Fair value as of July 1, 2017	\$ 23,136
Purchases	230
Sales and distributions	(17,400)
New contributed investments	6,258
Net realized and unrealized gains	<u>4,324</u>
Fair value as of June 30, 2018	<u>\$ 16,548</u>
Fair value as of June 30, 2018	\$ 16,548
Purchases	6,671
Sales and distributions	(6,912)
New contributed investments	—
Net realized and unrealized gains	<u>255</u>
Fair value as of June 30, 2019	<u>\$ 16,562</u>

There were no transfers between levels in 2019 or 2018.

**BOSTON FOUNDATION, INC.**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

**(b) Investment Liquidity**

Investment fair values are aggregated below by redemption or liquidation period, availability, or sale in the case of marketable securities. Certain investments are redeemable at NAV under the original terms of the subscription agreement and entity agreements. The majority of such redemptions require 90 days or more written notice prior to the redemption period.

	June 30, 2019					Total
	Daily	Monthly	Quarterly	1 to 5 years	Illiquid	
Balanced Plus Pool:						
Money markets	\$ 10,127	—	—	—	—	10,127
U.S. Treasuries	64,117	—	—	—	—	64,117
U.S. TIPS	28,736	—	—	—	—	28,736
Global equities	83,891	228,787	179,935	—	—	492,613
Flexible capital	—	—	20,273	182,514	25,438	228,225
Private equity and venture capital	—	—	—	—	122,108	122,108
Real assets	19,581	14,635	48,793	—	18,043	101,052
	<u>206,452</u>	<u>243,422</u>	<u>249,001</u>	<u>182,514</u>	<u>165,589</u>	<u>1,046,978</u>
Balanced Pool:						
Money markets	1,918	—	—	—	—	1,918
U.S. Treasuries	11,668	—	—	—	—	11,668
U.S. TIPS	2,643	—	—	—	—	2,643
Global equities	4,525	12,341	9,706	—	—	26,572
Flexible capital	—	—	1,487	13,384	1,865	16,736
Real assets	1,938	1,381	3,544	—	—	6,863
	<u>22,692</u>	<u>13,722</u>	<u>14,737</u>	<u>13,384</u>	<u>1,865</u>	<u>66,400</u>
Short-Term Pool:						
Money markets	5,954	—	—	—	—	5,954
U.S. Treasuries	69,609	—	—	—	—	69,609
	<u>75,563</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>75,563</u>
Other investments	<u>30,558</u>	<u>5,001</u>	<u>—</u>	<u>—</u>	<u>16,562</u>	<u>52,121</u>
Total investments	<u>\$ 335,265</u>	<u>262,145</u>	<u>263,738</u>	<u>195,898</u>	<u>184,016</u>	<u>1,241,062</u>



**BOSTON FOUNDATION, INC.**

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	June 30, 2018					
	Daily	Monthly	Quarterly	1 to 5 years	Illiquid	Total
Balanced Plus Pool:						
Money markets	\$ 12,250	—	—	—	—	12,250
U.S. Treasuries	57,369	—	—	—	—	57,369
U.S. TIPS	27,244	—	—	—	—	27,244
Global equities	71,084	220,913	154,130	—	—	446,127
Flexible capital	—	—	19,416	180,895	28,047	228,358
Private equity and venture capital	—	—	—	—	108,249	108,249
Real assets	18,052	13,456	38,934	—	33,116	103,558
	<u>185,999</u>	<u>234,369</u>	<u>212,480</u>	<u>180,895</u>	<u>169,412</u>	<u>983,155</u>
Balanced Pool:						
Money markets	1,993	—	—	—	—	1,993
U.S. Treasuries	12,650	—	—	—	—	12,650
U.S. TIPS	2,742	—	—	—	—	2,742
Global equities	4,277	13,291	9,273	—	—	26,841
Flexible capital	—	—	1,451	13,519	2,096	17,066
Real assets	2,728	1,409	2,837	—	—	6,974
	<u>24,390</u>	<u>14,700</u>	<u>13,561</u>	<u>13,519</u>	<u>2,096</u>	<u>68,266</u>
Short-Term Pool:						
Money markets	29,745	—	—	—	—	29,745
U.S. Treasuries	89,569	—	—	—	—	89,569
	<u>119,314</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>119,314</u>
Other investments	<u>17,483</u>	<u>5,034</u>	<u>—</u>	<u>—</u>	<u>16,548</u>	<u>39,065</u>
Total investments	\$ <u>347,186</u>	<u>254,103</u>	<u>226,041</u>	<u>194,414</u>	<u>188,056</u>	<u>1,209,800</u>

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**(c) Investment Returns**

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

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 15,674	11,831
Unrealized and realized gains (losses) on investments	44,050	77,481
Investment management expense	<u>(790)</u>	<u>(767)</u>
Total return	<u>\$ 58,934</u>	<u>88,545</u>

Interest and dividends are shown net of third-party investment management and custody fees. Investment management and custody fees paid directly to the managers for the years ended June 30, 2019 and 2018 were \$6,337 and \$5,401, respectively. Income taxes paid of \$164 and \$71 resulting from investment returns for the years ended June 30, 2019 and 2018, respectively, have been netted in investment returns of the invested pools that generated the taxable investment income. Investment management expenses of \$790 and \$767 for the years ended June 30, 2019 and 2018, respectively, representing external and direct internal investment management expenses, have been allocated as a reduction of investment returns.

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

	<u>2019</u>	<u>2018</u>
Balanced Plus Pool	\$ 53,698	77,593
Balanced Pool	3,384	4,315
Short-Term Pool	2,079	1,260
Other investments	(991)	4,836
U.S. Treasuries	<u>764</u>	<u>541</u>
Total return	<u>\$ 58,934</u>	<u>88,545</u>

**(d) 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 ranging from 10 to 20 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.

**BOSTON FOUNDATION, INC.**

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Unfunded commitments at June 30 were as follows:

	<u>2019</u>	<u>2018</u>
Private equity and venture capital	\$ 83,146	53,439
Real assets	<u>2,029</u>	<u>2,081</u>
Total unfunded commitments	<u>\$ 85,175</u>	<u>55,520</u>

The above 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) Liquidity and Availability**

Financial assets (excluding fixed assets) available for expenditure within one year of the consolidated statement of financial position dated as of June 30, 2019 are identified below by fund category. Investments managed by pool are displayed based upon the portion of each pool allocated by individual fund within each fund category. The illiquid portion of each pool and the future capital call commitments have been allocated across the fund types in proportion to the total amounts invested by pool. The projected annual release of time restrictions resulting from the application of the Foundation's spending policy methodology has been displayed as an addition of available resources to meet future cash flow requirements. Other sources to meet future cash flow requirements including investment returns, service fees and contributions have not been projected as they are not readily estimable.

Prior year total expenditures as an estimate of future cash flows by fund category are combined with liabilities and remaining unfunded capital commitments to provide an estimate of the future one-year cash needs by fund category.

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Notes to Consolidated Financial Statements

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The Foundation's endowment funds are restricted for specific purposes and are not available for general expenditures but are included in the schedule below to reflect full activities of the organization.

	Foundation activities – June 30, 2019							Endowment (with donor restrictions)	Total
	Without donor restrictions								
	Operating	Donor advised	Program	Other	Supporting orgs.	Total available			
Cash, cash equivalents and treasuries	\$ 9,733	3,534	13,659	2,608	230	29,764	—	29,764	
Investments:									
Balance plus	2,133	518,890	32,128	39,837	18,157	611,145	435,833	1,046,978	
Balanced	—	65,622	—	778	—	66,400	—	66,400	
Short term	—	67,048	3,638	4,877	—	75,563	—	75,563	
Other Investments	2,107	34,583	—	6,778	340	43,808	8,313	52,121	
Program Related Investments	—	9,908	1,267	1,525	—	12,700	4,311	17,011	
Other	759	5	7	—	1	772	484	1,256	
<b>Total financial assets</b>	<b>14,732</b>	<b>699,590</b>	<b>50,699</b>	<b>56,403</b>	<b>18,728</b>	<b>840,152</b>	<b>448,941</b>	<b>1,289,093</b>	
Illiquid assets:									
Balanced plus	337	82,067	5,081	6,301	2,872	96,658	68,931	165,589	
Balanced	—	1,843	—	22	—	1,865	—	1,865	
Other investments	2,101	10,815	—	—	340	13,256	3,306	16,562	
<b>Total illiquid assets</b>	<b>2,438</b>	<b>94,725</b>	<b>5,081</b>	<b>6,323</b>	<b>3,212</b>	<b>111,779</b>	<b>72,237</b>	<b>184,016</b>	
Annual release of time restrictions	82	951	14,204	4,777	—	20,014	(20,014)	—	
Liquid assets available for future expenditures	\$ <u>12,376</u>	<u>605,816</u>	<u>59,822</u>	<u>54,857</u>	<u>15,516</u>	<u>748,387</u>	<u>356,690</u>	<u>1,105,077</u>	
Liabilities	\$ 6,821	6	2,980	268	8	10,083	478	10,561	
Expected future year expenditures based upon current year	17,676	121,629	22,644	14,127	1,256	177,332	—	177,332	
Outstanding investment capital calls	174	42,213	2,614	3,241	1,477	49,719	35,456	85,175	
Estimated expenditures	\$ <u>24,671</u>	<u>163,848</u>	<u>28,238</u>	<u>17,636</u>	<u>2,741</u>	<u>237,134</u>	<u>35,934</u>	<u>273,068</u>	
Percent of liquid assets available for expenditure vs. estimated expenditures	50 %	370 %	212 %	311 %	566 %	316 %	993 %	405 %	

In each fund category above, except for Operating Funds, the liquid assets available within one year for future expenditures exceed the estimated future one-year cash needs. For Operating Funds the annual revenues of these funds approximate the annual expenditures.

**BOSTON FOUNDATION, INC.**

Notes to Consolidated Financial Statements

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**(6) Endowment Assets**

The Foundation's endowment as of June 30, 2019 and 2018, respectively, consists of 263 and 262 individual funds established for a variety of purposes. Endowment net assets consist of the following grouped by the fund type that determines how the annual spendable amounts may be utilized:

	<u>Board designated</u>	<u>With donor restrictions</u>	<u>Total</u>
As of June 30, 2019:			
Discretionary purpose funds:			
General purpose	\$ —	213,952	213,952
Field of interest	—	88,974	88,974
Board designated as program endowment	<u>25,627</u>	<u>—</u>	<u>25,627</u>
Total discretionary purpose funds	25,627	302,926	328,553
Designated funds	—	116,690	116,690
Endowed donor advised funds	<u>—</u>	<u>28,865</u>	<u>28,865</u>
Total endowment funds	<u>\$ 25,627</u>	<u>448,481</u>	<u>474,108</u>

	<u>Board designated</u>	<u>With donor restrictions</u>	<u>Total</u>
As of June 30, 2018:			
Discretionary purpose funds:			
General purpose	\$ —	216,251	216,251
Field of interest	—	89,207	89,207
Board designated as program endowment	<u>25,437</u>	<u>—</u>	<u>25,437</u>
Total discretionary purpose funds	25,437	305,458	330,895
Designated funds	—	116,273	116,273
Endowed donor advised funds	<u>—</u>	<u>28,571</u>	<u>28,571</u>
Total endowment funds	<u>\$ 25,437</u>	<u>450,302</u>	<u>475,739</u>

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 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

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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 gift 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 donor-restricted endowment funds are those that must be held in perpetuity even though the historic-gift-value may be expended.

At June 30, 2019 and 2018, the fair value of individual funds less than their historic gift value (underwater funds) are as follows:

	<u>2019</u>	<u>2018</u>
Fair value of underwater endowment funds	\$ 16,357	20,066
Original endowment gift amount	<u>20,115</u>	<u>23,764</u>
Deficiencies of underwater endowment funds	<u>\$ (3,758)</u>	<u>(3,698)</u>

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	<u>Board designated</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2018	\$ 25,437	450,302	475,739
Contributions received	—	1,109	1,109
Investment returns, net	1,270	21,710	22,980
Net assets released from restriction	<u>(1,080)</u>	<u>(24,640)</u>	<u>(25,720)</u>
Endowment net assets, June 30, 2019	<u>\$ 25,627</u>	<u>448,481</u>	<u>474,108</u>

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	<u>Board designated</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2017	\$ 15,264	434,379	449,643
Contributions received	10,000	4,512	14,512
Investment returns, net	1,503	35,926	37,429
Net assets released from restriction	<u>(1,330)</u>	<u>(24,515)</u>	<u>(25,845)</u>
Endowment net assets, June 30, 2018	<u>\$ 25,437</u>	<u>450,302</u>	<u>475,739</u>

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**(7) Net Assets**

Net assets without donor restrictions consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Undesignated:		
Operating	\$ 12,102	11,947
Donor advised	699,584	664,000
Program	22,104	19,151
Other	56,135	57,933
Supporting organizations	18,721	18,979
Total undesignated	<u>808,646</u>	<u>772,010</u>
Board designated as program endowment	<u>25,627</u>	<u>25,437</u>
Total without donor restrictions	<u>\$ 834,273</u>	<u>797,447</u>

Net assets with donor restrictions consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
General purpose	\$ 213,952	216,251
Field of interest	88,974	89,207
Designated purposes	116,690	116,273
Endowed donor advised funds	28,865	28,571
Total with donor restrictions	<u>\$ 448,481</u>	<u>450,302</u>

**(8) Fixed Assets**

Fixed assets consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Office equipment, computer system, and furniture	\$ 1,325	1,154
Leasehold improvements	4,080	3,597
	5,405	4,751
Less accumulated depreciation	<u>(1,183)</u>	<u>(748)</u>
	<u>\$ 4,222</u>	<u>4,003</u>

Depreciation expense was \$435 and \$382 for the years ended June 30, 2019 and 2018, respectively.

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**(9) Grant Commitments**

Grants payable of \$2,663 and \$2,091 as of June 30, 2019 and 2018, respectively, represent unconditional promises to other organizations. In addition, as of June 30, 2019 and 2018, 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. Grants subject to such conditions totaled \$7,575 and \$14,274, respectfully.

**(10) Lease Commitments**

The Foundation occupies leased space at 75 Arlington Street. In October 2016, the Foundation amended its lease of the 75 Arlington space to enable moving from the tenth floor to newly renovated space on the third floor with occupancy effective in fiscal 2018 through September 2030.

The Foundation entered into a sublease at 75 Arlington Street, seventh floor, on June 26, 2017 with a commencement date of December 15, 2017 and continuing through October 31, 2026.

The Foundation has calculated rent expense for the initial and amended terms of these leases on the straight-line basis. Amounts currently expensed for which payment is not yet due of \$975 are included in accounts payable and accrued liabilities in the June 30, 2019 consolidated statements of financial position. Base rent expense was \$1,422 and \$1,994 for the years ended June 30, 2019 and 2018, respectively. Minimum annual rent payments before real estate taxes and operating expense escalations are as follows:

<u>Fiscal year</u>	<u>75 Arlington</u>	<u>75 Arlington</u>
	<u>3rd Floor</u> <u>Minimum</u> <u>annual rent</u> <u>payments</u>	<u>7th floor</u> <u>Minimum</u> <u>annual rent</u> <u>payments</u>
2020	\$ 1,255	186
2021	1,281	190
2022	1,306	194
2023	1,331	198
Thereafter	10,413	707
Total	\$ 15,586	1,475

**(11) Employee Benefit Plans**

The Foundation sponsors 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 to participate after one year of service. The total cost of the plan charged to the Foundation's operations amounted to \$549 and \$517 for the years ended June 30, 2019 and 2018, 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 \$224 and \$226 for the years ended June 30, 2019 and 2018, respectively.



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**(12) Functional Expenses**

A summary of the Foundation's functional expenses for funds without donor restrictions for the year ended June 30, 2019 is as follows:

	<u>Operating</u>	<u>Donor advised</u>	<u>Program</u>	<u>Other</u>	<u>Supporting orgs.</u>	<u>Total</u>
Grants	\$ 97	121,397	16,798	13,674	801	152,767
Change in split interest	248	—	—	—	—	248
Salary and benefits	12,268	—	1,088	209	259	13,824
Professional fees	1,121	122	3,111	103	145	4,602
Meetings, conferences and travel	682	53	1,341	129	44	2,249
Marketing	465	7	278	2	1	753
Office expenses	167	5	19	9	2	202
Technology	548	41	1	1	1	592
Occupancy	2,080	4	8	—	3	2,095
Total expenditures	\$ <u>17,676</u>	<u>121,629</u>	<u>22,644</u>	<u>14,127</u>	<u>1,256</u>	<u>177,332</u>

Functional expenses for funds without donor restrictions for the year ended June 30, 2018 is as follows:

	<u>Operating</u>	<u>Donor advised</u>	<u>Program</u>	<u>Other</u>	<u>Supporting orgs.</u>	<u>Total</u>
Grants	\$ 121	96,179	18,245	13,923	1,637	130,105
Change in split interest	(154)	—	—	—	—	(154)
Salary and benefits	10,751	—	1,571	149	204	12,675
Professional fees	784	208	2,565	27	28	3,612
Meetings, conferences and travel	739	4	367	45	51	1,206
Marketing	474	51	233	1	2	761
Office expenses	168	7	31	5	1	212
Technology	508	362	—	—	1	871
Occupancy	2,175	—	220	—	4	2,399
Total expenditures	\$ <u>15,566</u>	<u>96,811</u>	<u>23,232</u>	<u>14,150</u>	<u>1,928</u>	<u>151,687</u>

**(13) Subsequent Events**

Management has evaluated events subsequent to June 30, 2019 and through November 14, 2019, the date on which the consolidated financial statements were available to be issued.