KPMG

BOSTON FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2017 and 2016

(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, 2017 and 2016, 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 audit. We conducted our audit 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, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

December 14, 2017

BOSTON FOUNDATION, INC.

Consolidated Statements of Financial Position

June 30, 2017 and 2016

(Dollars in thousands)

Assets		**2017**	**2016**
Cash and cash equivalents	$	5,499	5,500
U.S. Treasuries		20,891	23,132
Program-related receivables and other assets		10,374	8,823
Contributions receivable, net		1,546	2,136
Investments, at fair value		1,072,981	927,453
Noncash donations held for sale		314	397
Fixed assets, net		3,681	297
Total assets	$	1,115,286	967,738
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	7,210	5,876
Grants payable		2,167	1,220
Total liabilities		9,377	7,096
Net assets:			
Unrestricted		649,338	530,956
Temporarily restricted		219,531	196,418
Permanently restricted		237,040	233,268
Total net assets		1,105,909	960,642
Total liabilities and net assets	$	1,115,286	967,738

See accompanying notes to consolidated financial statements.

BOSTON FOUNDATION, INC.

Consolidated Statement of Activities

Year ended June 30, 2017

(Dollars in thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and investment activity:					
Contributions	$	189,985	8	3,772	193,765
Service fees		2,043	—	—	2,043
Interest and dividends, net of fees		4,949	3,236	—	8,185
Unrealized and realized net gains on investments and trusts		52,942	47,419	—	100,361
Net assets released from restrictions		27,550	(27,550)	—	—
Total revenues and investment activity		277,469	23,113	3,772	304,354
Expenses:					
Grants		137,247	—	—	137,247
Change in split-interest trusts		(134)	—	—	(134)
Program support		5,461	—	—	5,461
Operating expenses:					
Grantmaking and civic leadership		3,005	—	—	3,005
Development and donor services		4,181	—	—	4,181
Finance and administration		9,327	—	—	9,327
Total operating expenses		16,513	—	—	16,513
Total expenses		159,087	—	—	159,087
Change in net assets		118,382	23,113	3,772	145,267
Net assets, beginning of year		530,956	196,418	233,268	960,642
Net assets, end of year	$	649,338	219,531	237,040	1,105,909

See accompanying notes to consolidated financial statements.

BOSTON FOUNDATION, INC.

Consolidated Statement of Activities

Year ended June 30, 2016

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and investment activity:				
Contributions	$ 103,125	39	4,005	107,169
Service fees	1,582	—	—	1,582
Interest and dividends, net of fees	4,453	2,763	—	7,216
Unrealized and realized net losses on investments and trusts	(8,947)	(8,933)	—	(17,880)
Reclassification of net assets	565	35	(600)	—
Net assets released from restrictions	26,047	(26,047)	—	—
Total revenues and investment activity	126,825	(32,143)	3,405	98,087
Expenses:				
Grants	101,862	—	—	101,862
Change in split-interest trusts	68	—	—	68
Program support	5,742	—	—	5,742
Operating expenses:				
Grantmaking and civic leadership	3,683	—	—	3,683
Development and donor services	3,886	—	—	3,886
Finance and administration	7,895	—	—	7,895
Total operating expenses	15,464	—	—	15,464
Total expenses	123,136	—	—	123,136
Change in net assets	3,689	(32,143)	3,405	(25,049)
Net assets, beginning of year	527,267	228,561	229,863	985,691
Net assets, end of year	$ 530,956	196,418	233,268	960,642

See accompanying notes to consolidated financial statements.

BOSTON FOUNDATION, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(Dollars in thousands)

		2017	2016
Cash flows from operating activities:			
Cash received from contributions and service fees	$	179,597	104,217
Interest and dividends received, net of fees		7,894	6,763
Annuity and beneficiary payments		(246)	(244)
Grants paid		(136,038)	(101,004)
Cash paid:			
For program expenses		(5,461)	(5,742)
To employees and suppliers		(15,884)	(15,046)
Net cash provided by (used in) operating activities		29,862	(11,056)
Cash flows from investing activities:			
Proceeds from sales of investments		256,666	271,600
Purchases of investments		(287,834)	(283,726)
Purchases of fixed assets		(2,467)	(88)
Net cash used in investing activities		(33,635)	(12,214)
Cash flows from financing activities:			
Contributions to permanently restricted funds		3,772	4,005
Net cash provided by financing activities		3,772	4,005
Net change in cash and cash equivalents		(1)	(19,265)
Cash and cash equivalents, beginning of year		5,500	24,765
Cash and cash equivalents, end of year	$	5,499	5,500
Reconciliation of change in net assets to net cash used in operating activities:			
Change in net assets	$	145,267	(25,049)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation		269	225
Change in annuity and beneficiary payables		(298)	(323)
Change in grants payable		947	552
Change in contributions receivable, net		590	(528)
Contributions of investments		(13,110)	—
Changes in other assets and liabilities, net		330	192
Contributions restricted for long-term investment		(3,772)	(4,005)
Unrealized and realized net (gain) loss on investments and trusts		(100,361)	17,880
Net cash provided by (used in) operating activities	$	29,862	(11,056)
Supplemental disclosure of noncash investing activity:			
Change in accounts payable from fixed asset additions	$	1,186	—

See accompanying notes to consolidated financial statements.

(1) Description of the Boston Foundation

(a) Organization

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

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

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

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

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements, which are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP), have been prepared to focus on the Foundation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. The consolidated financial statements include the accounts of the Foundation and those of its affiliated supporting organizations, which are also 501(c)(3) exempt organizations. The total net assets of the supporting organizations were $22,456 and $19,897 as of June 30, 2017 and 2016, respectively. Inter-organizational transactions and balances have been eliminated in consolidation.

(Continued)

(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) Classification of Net Assets

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

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

The Articles of Organization of the Foundation include a variance power provision, which gives the Board the power to modify any purpose-related 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 2017, the Board did not utilize variance power. During 2016, the Board utilized variance power to 1) grant out the $12 balance of a scholarship fund to a not-for-profit organization’s scholarship program, 2) extend the terms of a designated fund to include conservation of any public art, 3) to grant out a $12 fund balance to a not-for-profit, and 4) to grant out a $3 fund balance to a not-for-profit.

(Dollars in thousands)

(d) Spending Policy

Generally, the Foundation manages its funds using a total return concept, which emphasizes total investment return, including interest and dividends and realized and unrealized gains and losses. Annually the Foundation's Board determines the level of grantmaking based on two components that serve to stabilize annual spending levels and preserve the value of the endowment over time. In fiscal years 2017 and 2016, 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:

	2017	2016
Discretionary endowment	6.4 %	6.4 %
Designated endowment	5.0	5.0
Endowed donor advised funds	5.0	5.0

For fiscal year 2018, the Board of Directors has approved the spending policy rate of 6.0% for its discretionary endowment and 5.0% for designated endowments and endowed donor advised funds, except for underwater funds where the current market value is less than the aggregate gifts to the fund. For these underwater funds, the fiscal year 2018 spending rates are 5.0% and 4.5%, respectively.

(e) 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.

(f) 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, including pricing models, discounted cash flow models, and similar techniques, and are not based on market, exchange, dealer, or broker-traded transactions. In addition, Level 3 valuations incorporate assumptions and projections that are not observable in the market, and significant professional judgment is required in determining the fair value assigned to such assets or liabilities.

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

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, 2017 and 2016, 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.

(g) U.S. Treasuries

In fiscal year 2016, the Foundation began investing available cash and cash equivalents in U.S. Treasuries. The total of cash and cash equivalents and U.S. Treasuries represent the Foundation's resources available to meet current operating needs. The U.S. Treasuries are carried at fair value and classified in Level 1 of the fair value hierarchy. The Treasuries have maturities at the date of purchase from one to five years.

(h) Contributions Receivable

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

(i) Fixed Assets

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

(j) 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.

(Continued)

(k) 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 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.

(l) Program Support

Program support consists primarily of additional expenses incurred related to individual programs or programs for 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, the Skillworks Initiative and Success Boston.

(m) Operating Expenses

Operating expenses include salaries and benefits, rent, and other overhead expenses that are incurred in the operation of the Foundation overall and are not specifically attributable to a particular fund or program. An administrative fee ranging from 0.5% to 1.2% of the net asset balance by fund is charged to each donor advised, discretionary and designated fund to cover operating expenses. 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 and Other Assets

The Foundation invests a portion of its funds in projects that advance its philanthropic purposes by providing loans, known as "program-related investments", to certain not-for-profit organizations. At June 30, 2017 and 2016, these loans, included in program-related receivables and other assets net of unamortized discounts of $1,373 and $1,397, totaled $9,906 and $8,442, respectively, with various repayment dates beginning in 2018 and ending in 2032.

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, 2017 and 2016, 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.

(4) U.S. Treasuries

As of June 30, 2017, U.S. Treasuries with a par value of $21,000 mature between one and five years. As of June 30, 2016, U.S. Treasuries with a par value of $10,000 mature within one year, and $13,000 mature between one and five years. The net premium and unrealized gain on the notes was $120 as of June 30, 2017 and $165 as of June 30, 2016.

(Dollars in thousands)

(5) 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 56 investment management firms manage the assets in this pool. Approximately 20% of this pool is allocated to private partnerships holding interests in private equity, venture capital, real estate, timber, and energy assets. 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 does not include private partnerships, which use strategies that are generally expected to yield higher returns over time, and accordingly, this asset allocation is expected to produce a slightly lower investment return. Typically, donor advised funds desiring a higher allocation to 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. Typically, donor advised funds intending to avoid equity market exposure and to make grants in the near term are invested in this pool.

The following table summarizes the Foundation’s investments in the fair value hierarchy as of June 30, 2017:

	June 30, 2017				
	Investments measured at NAV	Investments classified in fair value hierarchy			
		Level 1	Level 2	Level 3	Total
Global equities	$ 359,788	69,092	—	—	428,880
Flexible capital	226,996	—	—	—	226,996
Private equity and venture capital	99,309	—	—	—	99,309
Real assets:					
Real estate	37,453	7,849	—	—	45,302
Timber	17,890	—	—	—	17,890
Energy	14,774	2,587	—	—	17,361
	70,117	10,436	—	—	80,553
Fixed income:					
Money markets	—	39,577	—	—	39,577
U.S. Treasuries	—	124,591	—	—	124,591
U.S. TIPS	—	—	26,600	—	26,600
	—	164,168	26,600	—	190,768
Other investments	—	23,339	—	23,136	46,475
Total investments	$ 756,210	267,035	26,600	23,136	1,072,981

(Dollars in thousands)

The following table summarizes the Foundation's investments in the fair value hierarchy as of June 30, 2016:

	June 30, 2016				
	Investments measured at NAV	Investments classified in fair value hierarchy: Level 1	Level 2	Level 3	Total
Global equities	$ 279,389	80,170	—	—	359,559
Flexible capital	213,816	—	—	—	213,816
Private equity and venture capital	90,816	—	—	—	90,816
Real assets:					
Real estate	32,490	6,880	—	—	39,370
Timber	18,650	—	—	—	18,650
Energy	12,315	2,353	—	—	14,668
	63,455	9,233	—	—	72,688
Fixed income:					
Money markets	—	27,036	—	—	27,036
U.S. Treasuries	—	104,798	—	—	104,798
U.S. TIPS	—	—	23,684	—	23,684
	—	131,834	23,684	—	155,518
Other investments	4,145	22,384	—	8,527	35,056
Total investments	$ 651,621	243,621	23,684	8,527	927,453

(Dollars in thousands)

(a) Level 3 Investment Activity

The following table presents the Foundation's activity for the fiscal years ended June 30, 2017 and 2016 for investments classified in Level 3:

		Other investments
Fair value as of July 1, 2015	$	8,307
Purchases		510
Sales and distributions		(747)
Net realized and unrealized gains		457
Fair value as of June 30, 2016	$	8,527
Fair value as of July 1, 2016	$	8,527
Purchases		250
Sales and distributions		(4,033)
Transfer from NAV of contributed investments		4,145
New contributed investments		13,110
Net realized and unrealized gains		1,137
Fair value as of June 30, 2017	$	23,136

There were no transfers between levels in 2016.

(Dollars in thousands)

(b) 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, 2017					
	Daily	**Monthly**	**Quarterly**	**1 to 5 years**	**Illiquid**	**Total**
Balanced Plus Pool:						
Money markets	$ 14,884	—	—	—	—	14,884
U.S. Treasury notes	49,744	—	—	—	—	49,744
U.S. TIPS	24,044	—	—	—	—	24,044
Global equities	64,925	201,929	136,160	—	—	403,014
Flexible capital	—	—	18,544	165,144	27,080	210,768
Private equity and venture capital	—	—	—	—	99,309	99,309
Real assets	7,324	21,532	7,604	—	38,254	74,714
	160,921	223,461	162,308	165,144	164,643	876,477
Balanced Pool:						
Money markets	3,462	—	—	—	—	3,462
U.S. Treasury notes	10,036	—	—	—	—	10,036
U.S. TIPS	2,556	—	—	—	—	2,556
Global equities	4,167	12,960	8,739	—	—	25,866
Flexible capital	—	—	1,428	12,716	2,085	16,229
Real assets	3,112	2,251	475	—	—	5,838
	23,333	15,211	10,642	12,716	2,085	63,987
Short-Term Pool:						
Money markets	21,231	—	—	—	—	21,231
U.S. Treasuries	64,811	—	—	—	—	64,811
	86,042	—	—	—	—	86,042
Other investments	23,339	—	—	—	23,136	46,475
Total investments	$ 293,635	238,672	172,950	177,860	189,864	1,072,981

(Dollars in thousands)

(c) Investment Returns

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

		2017	2016
Interest and dividends, net of fees	$	8,185	7,216
Unrealized and realized net gains (losses) on investments and trusts		100,361	(17,880)
Total return	$	108,546	(10,664)

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, 2017 and 2016 were $4,627 and $4,354, respectively. Additional investment fees that were not paid directly to the managers have been netted against the return on certain investments. It is not practical to determine the amounts of such fees.

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

		2017	2016
Balanced Plus Pool	$	98,213	(11,592)
Balanced Pool		5,529	(558)
Short-Term Pool		389	162
Other investments		4,064	1,148
U.S. Treasuries		351	176
Total return	$	108,546	(10,664)

(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 around 10 years, and such agreements may provide for annual extensions for the purpose of disposing of portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund’s strategy, and other factors, a manager may extend the term of a fund beyond its originally anticipated existence or may wind down the fund prematurely. The Foundation cannot anticipate such changes because they are based on unforeseen events, but should they occur they may result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital calls expected to be exercised in any particular year is uncertain.

(Dollars in thousands)

Unfunded commitments at June 30 were as follows:

		2017	2016
Private equity and venture capital	$	48,190	59,589
Real assets		3,698	6,976
Total unfunded commitments	$	51,888	66,565

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.

(6) Endowment Net Assets

Endowment net assets consist of the following:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
As of June 30, 2017:					
Endowment funds	$	2,272	201,026	237,040	440,338
As of June 30, 2016:					
Endowment funds	$	406	179,002	233,268	412,676

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

The Foundation’s endowment as of June 30, 2017 and 2016, respectively, consists of 255 and 251 individual funds established for a variety of purposes, including 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 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.

(Continued)

(Dollars in thousands)

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 permanently restricted funds are those that must be held in perpetuity even though the historic-gift-value may be expended on a temporary basis. At June 30, 2017 and 2016, the fair value of certain of these individual funds was less than their historic gift value (underwater funds) by $3,687 and $4,736, respectively, due to investment losses. Unrestricted net assets have been charged for the deficiency caused by these losses.

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

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2016	$	406	179,002	233,268	412,676
Investment return:					
Interest and dividends, net		58	3,050	—	3,108
Realized and unrealized net gains		—	45,461	—	45,461
Total investment return		58	48,511	—	48,569
Contributions received		—	—	3,772	3,772
Grants paid		(19,173)	—	—	(19,173)
Change in split interests		61	—	—	61
Operating expenses		(5,567)	—	—	(5,567)
Change in underwater funds		1,049	(1,049)	—	—
Net assets released from restrictions		25,438	(25,438)	—	—
Endowment net assets, June 30, 2017	$	2,272	201,026	237,040	440,338

(Continued)

(Dollars in thousands)

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2015	$ 1,372	209,812	229,863	441,047
Investment return:				
Investment income, net	35	2,622	—	2,657
Realized and unrealized net losses	—	(8,567)	—	(8,567)
Total investment return	35	(5,945)	—	(5,910)
Contributions received	—	—	4,005	4,005
Grants paid	(20,335)	—	—	(20,335)
Operating expenses	(5,559)	—	—	(5,559)
Transfers and reclassifications	(7)	35	(600)	(572)
Change in underwater funds	(1,312)	1,312	—	—
Net assets released from restrictions	26,212	(26,212)	—	—
Endowment net assets, June 30, 2016	$ 406	179,002	233,268	412,676

(7) Fixed Assets

Fixed assets consisted of the following as of June 30:

	2017	2016
Office equipment, computer system, and furniture	$ 901	1,397
Leasehold improvements	3,146	2,830
	4,047	4,227
Less accumulated depreciation	(366)	(3,930)
	$ 3,681	297

Depreciation expense was $269 and $225 for the years ended June 30, 2017 and 2016, respectively. In connection with the early lease amendment for new office space, fixed assets with a gross value of $3,833 were retired as of June 30, 2017, including the $100 remaining net carrying value of abandoned leasehold improvements. New leasehold improvements when completed are estimated to aggregate $4,500, and will

(Continued)

(Dollars in thousands)

be amortized over the remaining amended lease term. Please refer to note 9 for more detail on the lease amendment.

(8) Grant Commitments

Grants payable of $2,167 and $1,220 as of June 30, 2017 and 2016, respectively, represent unconditional promises to other organizations. In addition, as of June 30, 2017 and 2016, 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:

		2017	2016
Grants subject to conditions to be met by external grantees	$	13,638	16,593
Grants subject to conditions to be met by internal grantees		5,976	6,553
Total grants subject to conditions to be met by grantees	$	19,614	23,146

(9) Lease Commitments

The Foundation occupies leased space at 75 Arlington and 420 Boylston Streets in Boston. 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 lease at 420 Boylston Street continues until September 2018.

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 are included in accounts payable and accrued liabilities in the June 30, 2017 consolidated statements of financial position. Base rent expense was $1,607 and $1,363 for the years ended June 30, 2017 and 2016, respectively. Minimum annual rent payments before real estate taxes and operating expense escalations are as follows:

		75 Arlington	420 Boylston
Fiscal year		Minimum annual rent payments	Minimum annual rent payments
2018	$	1,019	370
2019		1,181	93
2020		1,255	—
2021		1,281	—
2022		1,306	—
Thereafter		11,744	—

(Dollars in thousands)

(10) 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 $491 and $428 for the years ended June 30, 2017 and 2016, 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 $211 and $226 for the years ended June 30, 2017 and 2016, respectively.

(11) Temporarily Restricted Net Assets

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

		2017	2016
Unappropriated appreciation on endowment funds for:			
Discretionary purposes	$	151,228	137,593
Designated purposes		47,368	40,362
Endowed donor advised funds		2,430	1,047
		201,026	179,002
Purpose restricted:			
Designated purpose		11,128	10,421
Field of interest		5,983	5,666
Scholarships		1,394	1,329
		18,505	17,416
Total	$	219,531	196,418

(12) Permanently Restricted Net Assets

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

		2017	2016
Endowment funds for:			
Discretionary purposes	$	149,718	149,098
Designated purposes		64,130	63,483
Endowed donor advised funds		23,192	20,687
Total	$	237,040	233,268

(Continued)

(Dollars in thousands)

(13) Operating Expenses

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

		2017	2016
Salary and benefits	$	11,133	10,079
Professional fees		1,529	1,491
Meetings, conference events and travel		797	1,097
Marketing		594	583
Office expense		198	194
Technology		772	413
Rent and related occupancy costs		1,490	1,607
	$	16,513	15,464

The Foundation's operating expenses as presented above include $35 and $46 of operating expenses of its supporting organizations for the years ended June 30, 2017 and 2016, respectively.

(14) Subsequent Events

Management has evaluated events subsequent to June 30, 2017 and through December 14, 2017, the date on which the consolidated financial statements were available to be issued.