



**FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

BARR FOUNDATION

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December 31, 2016 and 2015

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Independent Auditor's Report

To the Board of Trustees of
Barr Foundation:

Report on the Financial Statements

We have audited the accompanying financial statements of Barr Foundation (a Massachusetts charitable trust, not for profit) (the Foundation) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Barr Foundation as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alexander, Cronson, Penning & Co., P.C.

Boston, Massachusetts
December 5, 2017

(000 Omitted)

BARR FOUNDATION

Statements of Financial Position
December 31, 2016 and 2015

Assets	2016	2015
Current Assets:		
Cash and cash equivalents	\$ 24,654	\$ 21,990
Other receivables	5,865	743
Prepaid expenses	261	560
Taxes receivable	2,128	1,924
	<hr/>	<hr/>
Total current assets	32,908	25,217
Investments, at fair value	1,621,495	1,591,233
Property and Equipment, net	395	21
	<hr/>	<hr/>
Total assets	<u>\$ 1,654,798</u>	<u>\$ 1,616,471</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 573	\$ 1,055
Payable to related party	1,392	734
	<hr/>	<hr/>
Total current liabilities	1,965	1,789
Deferred Federal Excise Taxes	9,654	9,063
	<hr/>	<hr/>
Total liabilities	11,619	10,852
Unrestricted Net Assets	1,643,179	1,605,619
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 1,654,798</u>	<u>\$ 1,616,471</u>

(000 Omitted)

BARR FOUNDATION

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Investment Activity:		
Investment income	\$ 6,317	\$ 7,998
Net unrealized and realized gains on investments	<u>115,658</u>	<u>51,114</u>
Net investment activity	<u>121,975</u>	<u>59,112</u>
Expenses:		
Grants awarded	71,871	55,127
Management and general	11,001	8,084
Current provision for taxes	952	6,007
Deferred federal excise taxes	<u>591</u>	<u>(1,169)</u>
Total expenses	<u>84,415</u>	<u>68,049</u>
Changes in unrestricted net assets	37,560	(8,937)
Unrestricted Net Assets:		
Beginning of year	<u>1,605,619</u>	<u>1,614,556</u>
End of year	<u>\$ 1,643,179</u>	<u>\$ 1,605,619</u>

BARR FOUNDATION
 Statements of Cash Flows
 For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Changes in unrestricted net assets	\$ 37,560	\$ (8,937)
Adjustments to reconcile changes in unrestricted net assets to net cash used in operating activities:		
Depreciation	41	13
Net unrealized and realized gains on investments	(115,658)	(51,114)
Deferred federal excise taxes	591	(1,169)
Changes in operating assets and liabilities:		
Other receivables	-	3
Prepaid expenses	299	(511)
Taxes receivable	(204)	309
Accounts payable and accrued expenses	(482)	(36)
Payable to related party	658	662
	<u>(77,195)</u>	<u>(60,780)</u>
Net cash used in operating activities		
Cash Flows from Investing Activities:		
Other receivables	(5,122)	(743)
Purchase of property and equipment	(415)	-
Purchase of marketable securities	(24,992)	(26,649)
Purchase of limited liquidity investments	(38,354)	(76,711)
Proceeds from sale of marketable securities	69,827	88,656
Receipts from and liquidation of limited liquidity investments	78,915	74,982
	<u>79,859</u>	<u>59,535</u>
Net cash provided by investing activities		
Net Change in Cash and Cash Equivalents	2,664	(1,245)
Cash and Cash Equivalents:		
Beginning of year	<u>21,990</u>	<u>23,235</u>
End of year	<u>\$ 24,654</u>	<u>\$ 21,990</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for taxes	<u>\$ 1,156</u>	<u>\$ 5,623</u>
Securities distributed from limited liquidity investments	<u>\$ 3,381</u>	<u>\$ 2,317</u>

BARR FOUNDATION

Notes to Financial Statements
December 31, 2016 and 2015
(000 Omitted)

1. ORGANIZATION AND TAX STATUS

The Barr Foundation (the Foundation) was formed on December 12, 1987, as a non-operating private foundation. Unrestricted contributions may be accepted by the Foundation at the discretion of the Board of Trustees. Donations are made to charitable organizations also at the discretion of the Board of Trustees.

The Foundation is exempt from Federal income taxes as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (the Code). The Foundation is also exempt from state income taxes. Donors may deduct contributions made to the Foundation within the requirements of the Code. The Code imposes an excise tax on private foundations equal to 2% of the net investment income (principally interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income). The tax is reduced to 1% when a foundation meets certain distribution requirements under Section 4940(e) of the Code (see Note 4). Certain income defined as unrelated business income by the Code may be subject to ordinary trust income tax rates.

2. SIGNIFICANT ACCOUNTING POLICIES

The Foundation prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Foundation. The Foundation has no donor-restricted resources.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid fixed term securities with initial maturities of three months or less.

Other Receivables

Other receivables primarily consist of accrued investment income and distributions receivable. Distributions receivable was \$5,865 and \$743 as of December 31, 2016 and 2015, respectively.

BARR FOUNDATION

Notes to Financial Statements
December 31, 2016 and 2015
(000 Omitted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

Property and equipment having a value of \$5,000 or more and a useful life of at least three years are capitalized. Purchased property and equipment are recorded at cost. Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

Furniture, fixtures and equipment	7 years
Software	3 years
Computer equipment	3 years

Fair Value Measurements

The Foundation follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Foundation would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Foundation uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Foundation. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

BARR FOUNDATION

Notes to Financial Statements
December 31, 2016 and 2015
(000 Omitted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Investments

The Foundation records investments in marketable securities at fair market value. These investments consist of highly liquid securities such as money market funds and bank deposit agreements. Limited liquidity investments are stated at estimated fair value. Limited liquidity investments are primarily made under agreements to participate in limited partnerships or limited liability companies (LLC) and are generally subject to certain withdrawal restrictions. In accordance with standards pertaining to *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, the Foundation uses each fund's net asset value per share to calculate and report the fair value of these investments. Values for these partnerships and LLCs, which may invest in both marketable and non-marketable securities, are determined by the Foundation's management based on information provided by each partnership's general partner or LLC's managing member and may be based on historical cost, appraisals, market values discounted for concentration of ownership, or other estimates. Because of the inherent uncertainty of valuing the investments in such partnerships and LLCs and uncertainty of the value of the underlying investments held by the partnerships and LLCs, the Foundation's estimate of fair value may differ significantly from the values that would have been used had a readily available market value for the investments existed, and that difference may be material. If a valuation was not available from the general partner or managing member as of year-end, the financial statements report the most recent prior valuation updated by subsequent capital calls and distributions. The Foundation believes that the carrying amount of its limited liquidity partnership and LLC investments is a reasonable estimate of fair value as of December 31, 2016 and 2015.

All Other Assets and Liabilities

The carrying value of all other assets and liabilities does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

Investments

Interest and dividends are recorded when earned. Gains and losses are recognized as incurred upon sales or based on market value changes during the period (see Note 3).

Grants Awarded

The Foundation recognizes grants once the Board of Trustees approves the grants and all significant conditions are met. The Foundation paid grants totaling \$71,871 and \$55,127 during the years ended December 31, 2016 and 2015, respectively. In addition, the Trustees of the Foundation have made conditional commitments (see Note 8).

Subsequent Events

Subsequent events have been evaluated through December 5, 2017, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

BARR FOUNDATION

Notes to Financial Statements
 December 31, 2016 and 2015
 (000 Omitted)

3. INVESTMENTS

Investments (see Note 2) consist of the following at December 31:

<u>Investment Type</u>	2016			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Limited Liquidity:				
Absolute Return:				
Global *	\$ 19,823	\$ -	\$ -	\$ 864,868
International *	-	-	-	58,892
Total Absolute Return	<u>19,823</u>	<u>-</u>	<u>-</u>	<u>923,760</u>
Private Equity:				
Buyout *	-	-	-	19,611
Growth *	-	-	-	123,270
Real Assets *	-	-	-	99,100
Venture *	-	-	-	289,846
Total Private Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>531,827</u>
Total Limited Liquidity	<u>19,823</u>	<u>-</u>	<u>-</u>	<u>1,455,587</u>
Other Investments:				
U.S. Equities	34,363	-	-	34,363
Mutual Funds	<u>131,545</u>	<u>-</u>	<u>-</u>	<u>131,545</u>
Total Other Investments	<u>165,908</u>	<u>-</u>	<u>-</u>	<u>165,908</u>
Total Investments	<u>\$ 185,731</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,621,495</u>
<u>Investment Type</u>	2015			<u>Total</u>
Limited Liquidity:				
Absolute Return:				
Global *	\$ 19,871	\$ -	\$ -	\$ 817,760
International *	-	-	-	68,201
Total Absolute Return	<u>19,871</u>	<u>-</u>	<u>-</u>	<u>885,961</u>
Private Equity:				
Buyout *	-	-	-	17,287
Growth *	-	-	-	124,604
Real Assets *	-	-	-	107,137
Venture *	-	-	-	274,920
Total Private Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>523,948</u>
Total Limited Liquidity	<u>19,871</u>	<u>-</u>	<u>-</u>	<u>1,409,909</u>
Other Investments:				
U.S. Equities	49,808	-	-	49,808
Mutual Funds	<u>131,516</u>	<u>-</u>	<u>-</u>	<u>131,516</u>
Total Other Investments	<u>181,324</u>	<u>-</u>	<u>-</u>	<u>181,324</u>
Total Investments	<u>\$ 201,195</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,591,233</u>

BARR FOUNDATION

Notes to Financial Statements
December 31, 2016 and 2015
(000 Omitted)

3. INVESTMENTS (Continued)

* In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Net realized and unrealized gains on investments consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Net realized gain	\$ 80,035	\$ 109,610
Net unrealized gains (losses)	<u>35,623</u>	<u>(58,496)</u>
Total net gains on investments	<u>\$ 115,658</u>	<u>\$ 51,114</u>

Investment management fees paid directly to managers are included in management and general expenses in the accompanying statements of activities and changes in net assets. Additional investment fees that were not paid directly to the managers have been netted against the return on certain investments. Investments are not insured and are subject to ongoing market fluctuations. Investments are classified as non-current assets regardless of instrument liquidity.

As of December 31, 2016 and 2015, the Foundation was committed to contribute approximately \$188,813 and \$129,790, respectively, in additional capital to limited liquidity investments throughout the terms of those investments, normally not to exceed ten years.

4. PROVISION FOR TAXES

The current provision for taxes consists of a Federal excise tax on net investment income and Federal and state taxes on unrelated business income tax (UBIT) as follows:

	<u>2016</u>	<u>2015</u>
Excise tax	\$ 1,543	\$ 3,357
UBIT tax (refunds)	<u>(591)</u>	<u>2,650</u>
Current provision for taxes	<u>\$ 952</u>	<u>\$ 6,007</u>

The UBIT benefit denoted are attributable to the fact that due to the timing of available tax information for some investments, the Foundation has elected to account for its UBIT activity for a given fiscal year in the subsequent fiscal year.

The Foundation also records a deferred tax provision based on the change in unrealized appreciation on investments. The provision for deferred taxes of \$591 and \$(1,169) for 2016 and 2015, respectively, is based on the statutory excise tax rate of 2%, though the Foundation may qualify for a reduced rate of 1% by meeting certain thresholds related to charitable distributions. Such reductions are reflected as credits to the deferred tax provision in the year the reduced rate applies.

BARR FOUNDATION

Notes to Financial Statements
December 31, 2016 and 2015
(000 Omitted)

4. PROVISION FOR TAXES (Continued)

The Foundation accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The Foundation has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at December 31, 2016 and 2015.

Taxes receivable consist of overpayments of Federal excise tax and Federal and state taxes on UBIT as follows:

	<u>2016</u>	<u>2015</u>
UBIT	\$ 1,221	\$ 474
Excise tax	<u>907</u>	<u>1,450</u>
Taxes receivable	<u>\$ 2,128</u>	<u>\$ 1,924</u>

5. LINE OF CREDIT

In December 2016, the Foundation converted a prior line of credit agreement in the amount of \$30 million to a revolving demand note, both of which were secured by certain investments of the Foundation. The revolving demand note bears interest at the ninety-day London Interbank Offered Rate (LIBOR) (0.98% at December 31, 2016), plus 2.5%, and borrowings are due on demand. Borrowings under the prior line of credit agreement were due at maturity, and interest was payable monthly at the ninety-day LIBOR (0.54% at December 31, 2015), plus 2.5%. As of December 31, 2016 and 2015, there were no outstanding balances under these agreements. The Foundation must maintain certain financial ratios and covenants under these agreements. The Foundation was in compliance with these financial ratios and covenants at December 31, 2016 and 2015.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Furniture, fixtures and equipment	\$ 451	\$ 243
Software	55	76
Computer equipment	<u>15</u>	<u>15</u>
	521	334
Less - accumulated depreciation	<u>126</u>	<u>313</u>
	<u>\$ 395</u>	<u>\$ 21</u>

BARR FOUNDATION

Notes to Financial Statements
December 31, 2016 and 2015
(000 Omitted)

7. RELATED PARTY TRANSACTIONS

The Foundation purchases personnel services for grant making activities, administrative functions and investment management from disqualified persons, as defined by the Code. These amounts are recorded as expenses in the accompanying financial statements as incurred.

The Foundation receives use of its office space free of rent and other facilities charges from these same disqualified persons. The estimated fair value of the annual rent and other building charges for 2016 and 2015 was \$581 and \$453, respectively. These amounts are not recorded as income or expense of the Foundation.

The Trustees of the Foundation serve as trustees or advisors for a number of charitable organizations to which the Foundation makes gifts from time-to-time.

8. COMMITMENTS AND CONTINGENCIES

As of December 31, 2016 and 2015, the Trustees of the Foundation have approved and made conditional commitments for grants totaling \$39,026 and \$47,092, respectively. These amounts are scheduled for payment through 2020 if conditions for payment are met.

During 2012, the Foundation entered into a loan guaranty whereby it is a guarantor of the principal and accrued interest (Guaranteed Obligation) on amounts loaned, up to a maximum amount of \$1.5 million. This guaranty terminates upon the earlier of payment in full of the Guaranteed Obligation or October 5, 2019, the Guarantee Termination Date. As of December 31, 2016, there were no obligations outstanding on this guaranty.

9. CONCENTRATION OF CREDIT RISK

The Foundation maintains a portion of its cash and cash equivalents balances at a financial institution in Massachusetts. At times, balances may exceed the maximum amount of insurance provided by the Federal Deposit Insurance Corporation. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on its cash balances.

10. RECLASSIFICATION

Certain amounts in the 2015 financial statements have been reclassified to conform with the 2016 presentation.