Barr Foundation

FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

BARR FOUNDATION

Contents
December 31, 2017 and 2016

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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) which comprise the statements of financial position as of December 31, 2017 and 2016, 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, 2017 and 2016, 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, Aronson, Finning & Co., P.C.

Boston, Massachusetts
December 4, 2018

(000 Omitted)

BARR FOUNDATION

Statements of Financial Position
December 31, 2017 and 2016

Assets	**2017**	**2016**
Current Assets:		
Cash and cash equivalents	$ 48,448	$ 24,654
Other receivables	78	5,865
Prepaid expenses	105	261
Taxes receivable	3,316	2,128
Total current assets	51,947	32,908
Investments, at fair value	1,734,192	1,621,495
Property and Equipment, net	422	395
Total assets	$ 1,786,561	$ 1,654,798
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 696	$ 573
Payable to related party	1,515	1,392
Total current liabilities	2,211	1,965
Deferred Federal Excise Taxes	5,582	9,654
Total liabilities	7,793	11,619
Unrestricted Net Assets	1,778,768	1,643,179
Total liabilities and net assets	$ 1,786,561	$ 1,654,798

The accompanying notes are an integral part of these statements.

(000 Omitted)

BARR FOUNDATION

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2017 and 2016

	2017	2016
Investment Activity:		
Investment income	$ 4,867	$ 6,317
Net unrealized and realized gains on investments	207,171	115,658
Net investment activity	212,038	121,975
Contributions	5,000	-
Expenses:		
Grants awarded	73,072	71,871
Management and general	11,539	10,414
Investment management fees	667	587
Current provision for taxes	243	952
Deferred federal excise taxes	(4,072)	591
Total expenses	81,449	84,415
Changes in unrestricted net assets	135,589	37,560
Unrestricted Net Assets:		
Beginning of year	1,643,179	1,605,619
End of year	$ 1,778,768	$ 1,643,179

(000 Omitted)

BARR FOUNDATION

Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Changes in unrestricted net assets	$ 135,589	$ 37,560
Adjustments to reconcile changes in unrestricted net assets to net cash used in operating activities:		
Depreciation	81	41
Donated securities	(5,000)	-
Net unrealized and realized gains on investments	(207,171)	(115,658)
Deferred federal excise taxes	(4,072)	591
Changes in operating assets and liabilities:		
Prepaid expenses	156	299
Taxes receivable	(1,188)	(204)
Accounts payable and accrued expenses	123	(482)
Payable to related party	123	658
Net cash used in operating activities	(81,359)	(77,195)
Cash Flows from Investing Activities:		
Other receivables	5,787	(5,122)
Purchase of property and equipment	(108)	(415)
Purchase of marketable securities	(43,221)	(24,992)
Purchase of limited liquidity investments	(65,748)	(38,354)
Proceeds from sale of marketable securities	111,607	69,827
Receipts from and liquidation of limited liquidity investments	96,836	78,915
Net cash provided by investing activities	105,153	79,859
Net Change in Cash and Cash Equivalents	23,794	2,664
Cash and Cash Equivalents:		
Beginning of year	24,654	21,990
End of year	$ 48,448	$ 24,654
Supplemental Disclosure of Cash Flow Information:		
Cash paid for taxes	$ 1,494	$ 1,156
Securities distributed from limited liquidity investments	$ 3,698	$ 3,381

The accompanying notes are an integral part of these statements.

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 $78 and $5,865 as of December 31, 2017 and 2016, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

Property and equipment having a value of $5 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.

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 *Fair Value Measurements of 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 limited 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 limited 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 limited partnerships and LLCs and uncertainty of the value of the underlying investments held by the limited 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 investments is a reasonable estimate of fair value as of December 31, 2017 and 2016.

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 $73,072 and $71,871 during the years ended December 31, 2017 and 2016, respectively. In addition, the Trustees of the Foundation have made conditional commitments (see Note 8).

Subsequent Events

Subsequent events have been evaluated through December 4, 2018, 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.

(000 Omitted)

3. INVESTMENTS

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

Investment Type	2017 Level 1	Level 2	Level 3	Total
Limited Liquidity:				
Absolute Return:				
Global *	$ 25,425	$ -	$ -	$ 924,904
International *	-	-	-	83,697
Total Absolute Return	25,425	-	-	1,008,601
Private Equity:				
Buyout *	-	-	-	19,820
Growth *	-	-	-	149,942
Real Assets *	-	-	-	96,206
Venture *	-	-	-	334,502
Total Private Equity	-	-	-	600,470
Total Limited Liquidity	25,425	-	-	1,609,071
Other Investments:				
U.S. Equities	12,000	-	-	12,000
Mutual Funds	113,121	-	-	113,121
Total Other Investments	125,121	-	-	125,121
Total Investments	$ 150,546	$ -	$ -	$ 1,734,192

Investment Type	2016 Level 1	Level 2	Level 3	Total
Limited Liquidity:				
Absolute Return:				
Global *	$ 19,823	$ -	$ -	$ 864,868
International *	-	-	-	58,892
Total Absolute Return	19,823	-	-	923,760
Private Equity:				
Buyout *	-	-	-	19,611
Growth *	-	-	-	123,270
Real Assets *	-	-	-	99,100
Venture *	-	-	-	289,846
Total Private Equity	-	-	-	531,827
Total Limited Liquidity	19,823	-	-	1,455,587
Other Investments:				
U.S. Equities	34,363	-	-	34,363
Mutual Funds	131,545	-	-	131,545
Total Other Investments	165,908	-	-	165,908
Total Investments	$ 185,731	$ -	$ -	$ 1,621,495

(000 Omitted)

3. INVESTMENTS (Continued)

* In accordance with ASC Topic, *Fair Value Measurements*, 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 statements of financial position.

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

	2017	2016
Net realized gains	$ 125,251	$ 80,035
Net unrealized gains	81,920	35,623
Total net gains on investments	$ 207,171	$ 115,658

Investment management fees paid directly to managers totaled $667 and $587 for 2017 and 2016, respectively. 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, 2017 and 2016, the Foundation was committed to contribute $123,038 and $188,813, 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:

	2017	2016
Excise tax	$ 322	$ 1,543
UBIT tax refunds	(79)	(591)
Current provision for taxes	$ 243	$ 952

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 for 2016 was based on the statutory excise tax rate of 2%. The provision for deferred taxes of $(4,072) for 2017 was based on the reduced rate of 1%, as a result of meeting certain thresholds related to charitable distributions. Such reductions were reflected as credits to the deferred tax provision in the year the reduced rate applies.

(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, 2017 and 2016.

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

	2017	2016
Excise tax	$ 2,036	$ 907
UBIT	1,280	1,221
Taxes receivable	$ 3,316	$ 2,128

5. LINE OF CREDIT

The Foundation has available up to $30 million under a revolving demand note, which is secured by certain investments of the Foundation. The revolving demand note bears interest at the ninety-day London Interbank Offered Rate (LIBOR) (1.61% and 0.98% at December 31, 2017 and 2016, respectively), plus 2.5%, and borrowings are due on demand. As of December 31, 2017 and 2016, there were no outstanding balances under this agreement. The Foundation must maintain certain financial ratios and covenants under this agreement. The Foundation was in compliance with these financial ratios and covenants at December 31, 2017 and 2016.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2017	2016
Furniture, fixtures and equipment	$ 560	$ 451
Software	37	55
Computer equipment	-	15
	597	521
Less - accumulated depreciation	175	126
	$ 422	$ 395

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. Payments to related parties totaled $5,792 and $4,839 for the years ended December 31, 2017 and 2016, respectively. Amounts due to related parties were $1,515 and $1,392 as of December 31, 2017 and 2016, respectively.

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 2017 and 2016 was $608 and $581, 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. The Foundation's co-founding trustees contributed $5,000 to the Foundation during 2017.

8. COMMITMENTS AND CONTINGENCIES

As of December 31, 2017 and 2016, the Trustees of the Foundation have approved and made conditional commitments for grants totaling $48,227 and $39,026, 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, 2017, 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.