

**HEADWATERS FOUNDATION FOR JUSTICE**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2010**

**HEADWATERS FOUNDATION FOR JUSTICE  
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# LarsonAllen<sup>®</sup> LLP

CPAs, Consultants & Advisors  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Headwaters Foundation for Justice  
Minneapolis, Minnesota

We have audited the accompanying statement of financial position of Headwaters Foundation for Justice as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Headwaters Foundation for Justice as of June 30, 2010 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*LarsonAllen LLP*  
**LarsonAllen LLP**

Minneapolis, Minnesota  
August 17, 2010

**HEADWATERS FOUNDATION FOR JUSTICE**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2010**

**ASSETS**

Cash and Cash Equivalents	\$	452,635
Pledges Receivable, Less Allowance of \$34,592		237,113
Prepaid Expenses and Other		9,554
Property and Equipment, Net		11,361
Investments		1,943,168
Program Related Investments		200,000
Interest in the Net Assets of The Minneapolis Foundation		<u>682,531</u>
Total Assets	\$	<u><u>3,536,362</u></u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts Payable	\$	16,873
Fiscal Agency Payable		1,012
Accrued Expenses		28,319
Grants Payable		10,000
Tenant Security Deposits		<u>2,207</u>
Total Liabilities		58,411

**NET ASSETS**

Unrestricted:		
Undesignated		353,362
Accumulated Endowment Losses		<u>(920,072)</u>
Total Unrestricted Net Assets		(566,710)
Temporarily Restricted		314,541
Permanently Restricted		<u>3,730,120</u>
Total Net Assets		<u><u>3,477,951</u></u>
Total Liabilities and Net Assets	\$	<u><u>3,536,362</u></u>

See accompanying Notes to Financial Statements.

**HEADWATERS FOUNDATION FOR JUSTICE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Contributions and Grants	\$ 566,491	\$ 236,441	\$ 1,575	\$ 804,507
Contributions-Donor Advised Funds	95,025	-	-	95,025
Increase in Allowance for Uncollectible Pledges	-	-	(34,449)	(34,449)
Program Revenue	4,825	-	-	4,825
Investment Income	335,211	-	-	335,211
Change in Beneficial Interests in				
The Minneapolis Foundation Fund	41,049	-	-	41,049
Other Operating Revenue	38,375	-	-	38,375
Net Assets Released from Restriction	<u>252,520</u>	<u>(252,520)</u>	<u>-</u>	<u>-</u>
Total Revenues, Gains and Other Support	1,333,496	(16,079)	(32,874)	1,284,543
<b>EXPENSES</b>				
Program Services	903,541	-	-	903,541
Supporting Services:				
Management and General	141,020	-	-	141,020
Fund Development	<u>160,059</u>	<u>-</u>	<u>-</u>	<u>160,059</u>
Total Supporting Services	<u>301,079</u>	<u>-</u>	<u>-</u>	<u>301,079</u>
Total Expenses for Current Operations	<u>1,204,620</u>	<u>-</u>	<u>-</u>	<u>1,204,620</u>
<b>CHANGE IN NET ASSETS</b>	128,876	(16,079)	(32,874)	79,923
Net Assets - Beginning of Year	<u>(695,586)</u>	<u>330,620</u>	<u>3,762,994</u>	<u>3,398,028</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ (566,710)</u>	<u>\$ 314,541</u>	<u>\$ 3,730,120</u>	<u>\$ 3,477,951</u>

See accompanying Notes to Financial Statements.

**HEADWATERS FOUNDATION FOR JUSTICE  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2010**

	Program Services				Supporting Services			
	Grantmaking	Capacity Building	Education/Communication	Total Program Services	Management and General	Fund Development	Total Supporting Services	Total
Salaries	\$ 69,535	\$ 77,416	\$ 53,217	\$ 200,168	\$ 87,378	\$ 84,538	\$ 171,916	\$ 372,084
Payroll Taxes	5,794	6,450	4,434	16,678	7,280	7,044	14,324	31,002
Employee Benefits	16,301	17,338	13,000	46,639	19,039	18,268	37,307	83,946
Consultants	1,464	39,047	11,065	51,576	1,672	6,979	8,651	60,227
Accountants	3,278	3,439	2,645	9,362	3,743	3,582	7,325	16,687
Office Expenses	2,840	5,526	10,646	19,012	3,164	9,237	12,401	31,413
Information Technology	1,207	2,380	1,018	4,605	1,378	1,343	2,721	7,326
Occupancy	2,573	2,700	2,077	7,350	2,939	2,813	5,752	13,102
Travel	4,318	4,259	1,030	9,607	1,032	1,999	3,031	12,638
Conference Conventions and Meetings	5,425	28,779	12,142	46,346	796	11,251	12,047	58,393
Depreciation and Amortization	7,247	7,602	5,847	20,696	8,275	7,920	16,195	36,891
Insurance	941	987	759	2,687	1,075	1,028	2,103	4,790
Memberships	3,913	3,056	2,351	9,320	3,179	3,201	6,380	15,700
Other Expense	2,486	377	832	3,695	70	856	926	4,621
Total Expenses before Grants	127,322	199,356	121,063	447,741	141,020	160,059	301,079	748,820
Grants (Net of Partnership Funds Grants)	355,000	-	-	355,000	-	-	-	355,000
Donor Advised Funds Grants	100,800	-	-	100,800	-	-	-	100,800
Total Grants	455,800	-	-	455,800	-	-	-	455,800
Total Expenses	\$ 583,122	\$ 199,356	\$ 121,063	\$ 903,541	\$ 141,020	\$ 160,059	\$ 301,079	\$ 1,204,620
Percentages	48%	17%	10%	75%	12%	13%	25%	100%

See accompanying Notes to Financial Statements.

**HEADWATERS FOUNDATION FOR JUSTICE  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2010**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets	\$ 79,923
Adjustment to Reconcile Change in Net Assets to Net Change in Cash from Operating Activities:	
Depreciation and Amortization	36,891
Net Realized and Unrealized Gains on Investments	(328,204)
Change in Beneficial Interest in Minneapolis Foundation	(46,004)
Increase in Allowance for Uncollectible Pledges	34,449
(Increase) Decrease in Assets:	
Pledges Receivable	144,452
Prepaid Expenses and Other	(2,013)
Increase (Decrease) in Liabilities:	
Accounts Payable	14,130
Fiscal Agency payable	(922)
Accrued Expenses	13,107
Tenant Security Deposits	521
Net Cash Used by Operating Activities	(53,670)

**CASH FLOW FROM INVESTING ACTIVITIES**

Sale of Property and Equipment	1,265
Increase in Program Related Investments	(200,000)
Purchase of Investments	(76,738)
Proceeds from Sale of Investments	418,822
Net Cash Provided by Investing Activities	143,349

**NET CHANGE IN CASH AND CASH EQUIVALENTS**

89,679

Cash and Cash Equivalents - Beginning of Year

362,956

**CASH AND CASH EQUIVALENTS - END OF YEAR**

\$ 452,635

*See accompanying Notes to Financial Statements.*

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Headwaters Foundation for Justice (The “Organization”) is a community foundation that serves as a catalyst for social, racial, economic and environmental justice. Through community-led grantmaking, technical assistance to nonprofits, donor education and community engagement, Headwaters supports grassroots groups addressing the root causes of injustice.

**Description of Program Services**

Grantmaking – This program includes the process of grantee outreach, proposal review, grant tracking, record keeping, grants evaluation and internal grants management. Grantmaking programs include the Social Change Fund, which supports grassroots organizations throughout Minnesota; the Fund of the Sacred Circle, which supports work within Native American communities in Minnesota and Wisconsin; and Donor Advised Funds that provide support to individual philanthropic interests.

Capacity Building – This program includes training, convening, and resources to help organizations and their leaders develop core skills, deepen political analysis, and build organizational effectiveness and sustainability for long-term impact. Capacity building goes hand in hand with grantmaking—supporting grantees and other grassroots groups so that they have the tools to be more effective in advancing their mission.

Education and Communication – This program includes activities and publications that deepen understanding of social justice and grassroots organizations, and expand awareness of social change philanthropy. Headwaters offers donor education programs to encourage individuals to engage, invest in and give strategically to social justice philanthropy. Web, email, multi-media and print communications provide a direct complement to community education efforts.

**Basis of Presentation**

The Organization’s financial statements are presented using the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, revenues and gains and losses are classified based on the existence or absence of donor imposed restriction. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

**Unrestricted** – Those resources over which the board of directors has discretionary control. Designated amounts represent those net assets that the board has set aside for a particular purpose.

**Temporarily Restricted** – Those resources subject to donor imposed restrictions that are satisfied by actions of the Organization or passage of time.

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (Continued)**

**Permanently Restricted** – Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. The donors of these resources permitted the Organization to use all or part of the income earned, including capital appreciation on related investments, for unrestricted or temporarily restricted purposes. Permanently restricted net assets include the original contributions related to the General Endowment Fund, the Fund of the Sacred Circle and the Headwaters Foundation for Justice Fund of The Minneapolis Foundation.

**Cash and Cash Equivalents**

For purposes of the Statements of Cash Flows, the Organization considers cash on hand and on deposit in banks, short-term and highly liquid investments to be cash equivalents. Money market investment funds held for endowment purposes are excluded from this classification. At times the balance of deposits may exceed federally insured limits.

**Investments**

Headwaters Foundation for Justice reports its investments at fair value, based on quoted market prices. Donated investments are recorded at their fair value on the date of donation. Investment income and realized and unrealized gains and losses are reflected on the Statements of Activities as investment income or loss.

**Endowment Distribution Policy**

The Organization uses total return concept in determining allowable distributions from the Endowment Funds, as follows:

**General Endowment Fund and Fund of the Sacred Circle**

Distributions are determined based on the Fund's average investment balance over 16 trailing quarters, using a distribution rate of 5% per annum.

**Headwaters Foundation for Justice Fund of The Minneapolis Foundation**

Headwaters may request distributions from the Fund. Distributions from the Fund will be at the discretion of The Minneapolis Foundation's Board of Trustees, but the Organization will have the right to submit its recommendations with respect to distributions of income from the Fund. The Foundation's current policy is to distribute 4% of the trailing twelve quarter average fair market value of the Fund.

**Interest in the Net Assets of The Minneapolis Foundation**

The Organization has an interest in the net assets of The Minneapolis Foundation Fund. Accounting for the benefits of the fund follows the provisions of Statement of Financial Accounting Standards relating to the *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*.

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Interest in the Net Assets of The Minneapolis Foundation (Continued)**

The Minneapolis Foundation holds a fund for the benefit of the Foundation. The fund has two components; transfers to the fund by the Organization and matching contributions to the fund by The Minneapolis Foundation. Funds transferred to the fund by the Organization are recognized as an asset at the estimated fair market value by the Organization and are classified as permanently restricted. Matching funds from The Minneapolis Foundation are recognized as an asset of The Minneapolis Foundation and are not reflected on the Statements of Financial Position of the Organization. Annual distributions related to this portion of the fund are reported as contributions to the Organization in the period received and are recorded as temporarily restricted for grantmaking to indigenous-led Organizations in Minnesota and Wisconsin. Annual adjustments to the fair values of the amounts reported as assets are recognized as gains or losses and affect unrestricted net assets.

**Fair Value of Measurement**

Fair Value Measurement standards established a framework for measuring fair value, a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements.

The Foundation accounts for its investments at fair value. The Foundation has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the Statements of Financial Position are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

*Level 2* – Financial assets and liabilities are valued using inputs quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes private collateralized mortgage obligations, municipal bonds, and corporate debt securities.

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value of Measurement (Continued)**

*Level 3* – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes private equity, venture capital, hedge funds and real estate.

**Program-Related Investments**

Program-related investments consist of notes receivable from organizations that conduct activities that fulfill the charitable purposes of the Foundation. Program-related investments are initially recorded on the statement of financial position at cost when approved. Uncollected interest earned on these notes receivable is recorded as earned accrued interest receivable. Program-related investments are recoverable over periods ranging up to 15 years. Should the lender fail to make progress towards their program goals the Foundation can require repayment. In the event that a program-related investment is subsequently determined to be uncollectible or the value is permanently impaired, the Foundation may record the uncollectible amount as a grant appropriation or record an impairment reserve.

**Endowment Funds**

*Interpretation of Relevant Law* – In approving endowment, spending and related policies, as part of the prudent and diligent discharge of its duties, The board of directors of the Foundation has relied upon the actions, reports, information, advice and counsel taken or provided by its duly constituted committees, the duly appointed officers the Foundation, and legal counsel, and in doing so has interpreted the law to require the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor direction to the contrary.

As a result of this interpretation, 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 to the fund in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Endowment Funds (Continued)**

*Funds with Deficiencies* – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with Generally Accepted Accounting Principles, deficiencies of this nature are reported in unrestricted net assets. Deficiencies result from unfavorable market fluctuations that may occur throughout the life of the investment and continued appropriation for certain programs deemed prudent by the board of directors.

*Spending Policy and the Relationship of the Investment Objectives to the Spending Policy* – The Organization uses a total return concept in determining allowable distributions from the Endowment Funds, as follows:

*General Endowment Fund and Fund of the Sacred Circle:* Distributions are determined based on the Fund's average investment balance over 12 trailing quarters, using a distribution rate of 5% per annum.

*Headwaters Foundation for Justice Fund of The Minneapolis Foundation:* Headwaters may request distributions from the Fund. Distributions from the Fund will be at the discretion of The Minneapolis Foundation's Board of Trustees, but the Organization will have the right to submit its recommendations with respect to distributions of income from the Fund. The Foundation's current policy is to distribute 4% of the trailing twelve-quarter average fair market value of the Fund.

*Return Objectives and Risk Parameters* – The Organization has adopted investment and spending policies that attempt to provide growth of principal value to support future income needs. The secondary objective is to provide current income during the formative years of the endowment. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period as well as board-designated funds.

Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index or the statistical universe for similar funds while assuming a moderate level of investment risk.

*Strategies Employed for Achieving Objectives* - To Satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pledges Receivable**

Pledges receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the outstanding balances, it has concluded that realization losses on balance outstanding at year-end will be immaterial. Allowance for the year ended June 30, 2010 was \$34,592.

**Revenue Recognition**

Contributions, including unconditional promises to give, are recognized as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donor restricted support is reported as an increase in the temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. The Organization has elected to present temporarily restricted contributions, when restrictions are fulfilled in the same time period as received, within the unrestricted net asset class.

Contributions restricted for the acquisition of long-lived assets are considered released from restriction on a straight-line basis over the estimated useful lives of the assets acquired.

**Property and Equipment**

Property, which consists of leasehold improvements, and equipment, which consists of office furniture and equipment, is stated at cost, if purchased or fair value at date of acquisition for donated property. Depreciation on equipment is computed using the straight line method over an estimated useful life of three to five year. Amortization of property is computed over the term of the lease. When assets are retired or otherwise disposed of, the recorded value and related accumulated depreciation or amortization is removed from the accounts and any resulting gain or loss is reflected as revenue or expense for the period.

Equipment purchased at a cost of less than \$1,000 is expensed when acquired.

**Grants**

Grants are recognized as expenses when approved by the board of directors. Refunds and revisions of grants may occur when grant program needs are less than the awarded amount or the grantee does not meet grant requirements.

**In-Kind Contributed Material and Services**

Contributions of donated non-cash assets are recorded at their fair values in the period received. Donated services are recognized as contributions if the services require specialized skills, are performed by persons with those skills and would otherwise be purchased.

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Functional Allocation of Expenses**

The expenses incurred to provide the various programs and other activities have been summarized on a functional basis in the Statements of Functional Expenses. Except for certain expenses allocated directly, expenses are allocated among the program and supporting services categories based upon estimate of time expended by employees in each functional area.

**Fiscal Agency Transactions**

The Organization serves, at times, as a fiscal agent for other organizations. Cash receipts and disbursements related to fiscal agency relationships are recorded as increases or decreases in the related liability account.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**Tax Exempt Status**

The Foundation is tax-exempt under Section 501(c)(3) of the Internal Revenue Code (IRC) and Minnesota Statute 290.05. It is classified as an organization that is not a private foundation under Section 509(a)(2) of the IRC and contributions by donors are tax deductible.

The Foundation has adopted guidance in the income tax standard regarding the recognition of uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. During 2010, the Foundation did not have any uncertain tax positions.

The Foundation's tax returns are subject to review and examination by federal and state authorities. The tax returns for the years 2006 through 2010 are open to examination by federal and state authorities.

**Subsequent Events**

The Foundation has evaluated subsequent events from the statement of financial position date through August 17, 2010, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 2 PLEDGES RECEIVABLE**

Pledges receivable are summarized as follows at June 30, 2010:

Pledges Receivable	\$ 272,789
Less: Unamortized Discount	<u>(1,084)</u>
Net Pledges Receivable before Allowance	271,705
Allowance	<u>(34,592)</u>
Net Pledges Receivable	<u><u>\$ 237,113</u></u>

Multi year commitments were discounted to present value using imputed interest rates of 3.0%, 3.5% and 3.8%.

At June 30, 2010, pledge receivables were scheduled to be received as follows:

	<u>Total</u>	<u>Allowance and Unamortized Discount</u>	<u>Net Discounted Pledges Receivable</u>
In Less than One Year	\$ 242,663	\$ (34,592)	\$ 208,071
In One to Five Years	30,126	(1,084)	29,042
Total	<u><u>\$ 272,789</u></u>	<u><u>\$ (35,676)</u></u>	<u><u>\$ 237,113</u></u>

**NOTE 3 INVESTMENTS**

Investments consist of the following at June 30, 2010:

Cash and Cash Equivalents	\$ 153,459
U.S. Treasury Securities	274,592
Equity Mutual Funds	<u>1,515,117</u>
	<u><u>\$ 1,943,168</u></u>

Net investment return consisted of the following for the year ended June 30, 2010:

Investment Income	\$ 7,007
Net Realized Gains	3,934
Change in Net Unrealized Gains	<u>324,270</u>
Net Investment Return	<u><u>\$ 335,211</u></u>

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 4 PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30, 2010:

Leasehold Improvements	\$ 113,442
Office Furniture and Equipment	<u>145,755</u>
Totals	259,197
Accumulated Depreciation and Amortization	<u>(247,836)</u>
Net Property and Equipment	<u><u>\$ 11,361</u></u>

Depreciation and amortization expense totaled \$36,891 for the year ended June 30, 2010.

**NOTE 5 FAIR VALUE MEASUREMENTS**

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Foundation values all other assets and liabilities refer to Note 1 – Summary of Significant Accounting Policies.

Assets measured at fair value on a recurring basis as of June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
U.S. Treasury Securities	\$ 274,592	\$ -	\$ -	\$ 274,592
Equity Mutual Funds	1,515,117	-	-	1,515,117
Interest in the Net Assets of				
The Minneapolis Foundation	-	-	682,531	682,531
Total	<u>\$ 1,789,709</u>	<u>\$ -</u>	<u>\$ 682,531</u>	<u>\$ 2,472,240</u>

The following table presents the changes in the fair value of the Interest in the Net Assets of The Minneapolis Foundation, Level 3 financial assets for the year ended June 30, 2010:

Balance at the Beginning of the Year	\$ 658,587
Change in Beneficial Interests in	
The Minneapolis Foundation Fund	41,049
Distributions	<u>(17,105)</u>
Balance at the End of the Year	<u><u>\$ 682,531</u></u>

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 6 PROGRAM-RELATED INVESTMENTS**

Program-related investments consist of the following at June 30, 2010:

Community Reinvestment Fund, Matures in September 2013	\$ 100,000
Non-profit Assistance Fund, Matures in September 2012	100,000
Total	<u>\$ 200,000</u>

**NOTE 7 ENDOWMENT COMPOSITION AND CHANGES TO ENDOWMENT NETS ASSETS**

Endowment net assets consisted of the following as of June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
General Endowment	\$ (582,373)	\$ -	\$ 2,561,919	\$ 1,979,546
Fund of the Sacred Circle	(64,295)	-	249,843	185,548
Interest in the Net Assets of The Minneapolis Foundation	(273,404)	-	918,358	644,954
Total	<u>\$ (920,072)</u>	<u>\$ -</u>	<u>\$ 3,730,120</u>	<u>\$ 2,810,048</u>

Changes in net assets consisted of the following for the years ended June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Investments July 1, 2009	\$ (1,148,701)	\$ -	\$ 3,762,994	\$ 2,614,293
Investment Return:				
Investment Income	329,685	-	-	329,685
Increase in Interest in Net Assets of the Minneapolis Foundation	41,049	-	-	41,049
Total Investment Return/Loss	<u>370,734</u>	<u>-</u>	<u>-</u>	<u>370,734</u>
Contributions	-	-	1,575	1,575
Increase in Allowance for Uncollectible Pledges	-	-	(34,449)	(34,449)
Appropriations of Endowment Assets for Expenditure	(142,105)	-	-	(142,105)
Endowment Investments June 30, 2010	<u>\$ (920,072)</u>	<u>\$ -</u>	<u>\$ 3,730,120</u>	<u>\$ 2,810,048</u>

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**NOTE 8 NET ASSETS**

**Temporarily Restricted**

Temporarily restricted net assets consisted of the following at June 30, 2010:

Environmental Justice	\$ 75,000
Capacity Building	96,000
African American Leadership Forum	105,000
Restricted for Time	38,541
Total	<u>\$ 314,541</u>

**Restrictions Released**

Net assets restrictions were released as a result of the following conditions being met as of June 30, 2010:

Time	\$ 12,520
Purpose:	
Capacity Building	65,000
Environmental Justice	150,000
Social Change Fund	25,000
Total	<u>\$ 252,520</u>

**Permanently Restricted**

Net assets were permanently restricted in the following endowment funds as of June 30, 2010

General Endowment	\$ 2,561,919
Fund of the Sacred Circle	249,843
Headwaters Foundation for Justice	
Fund of the Minneapolis Foundation	918,358
Total	<u>\$ 3,730,120</u>

**NOTE 9 DONOR ADVISED FUNDS**

The Organization held donor advised funds amounting to \$185,272 as of June 30, 2010. Donors of the funds have the right to advise the Organization related to grants from the funds; however, the Organization's Board of Directors retains the right to direct the grants. The donor advised funds are included within unrestricted net assets on the Statement of Financial Position.

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**NOTE 10 ALLOCATION OF JOINT COSTS**

During the year ended June 30, 2010, the Organization conducted activities that included appeals for contributions and incurred joint costs of \$77,015. These activities included the Allied for Justice Celebration and the annual report.

Joint costs were as follows:

	<u>Allies for Justice</u>	<u>Annual Report</u>	<u>Totals</u>
Education and Communication	\$ 26,986	\$ 18,435	\$ 45,421
Fund Development	26,986	4,609	31,594
Totals	<u>\$ 53,971</u>	<u>\$ 23,044</u>	<u>\$ 77,015</u>

**NOTE 11 RETIREMENT PLAN**

Employees of the Organization meeting certain eligibility requirements are eligible to participate in a contributory 401(k) retirement plan whereby the Organization contributes 5% of the participants' compensation. Contributions to the plan were \$19,800 for the year ended June 30, 2010.

**NOTE 12 OPERATING LEASES**

The Organization leases office space under a lease that called for rent of \$4,654 per month through June 30, 2010. The Organization has subleased portions of office space to three sub-lessees under agreements with expiration dates which ranged from December 31, 2009 to June 30, 2010.

Rent expense totaled \$13,071, net of sublease income of \$40,234, for the year ended June 30 2010.

The foundation signed a new lease in June 2010 which takes effect on July 1, 2010. As of June 30, 2010, future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 35,216
2012	46,472
2013	47,728
2014	48,984
2015	50,240
Total	<u>\$ 228,640</u>

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**NOTE 12 OPERATING LEASES (CONTINUED)**

As of June 30, 2010, future minimum lease payments of the subleases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 25,332
2012	23,967
2013	9,121
2014	9,361
2015	10,561
Total	<u>\$ 78,342</u>

**NOTE 13 CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject Headwaters Foundation for Justice to concentrations of credit risk consist principally of temporary cash investments and pledges receivable. The Organization places its temporary cash investments with high quality financial institutions and seeks to limit the amount of credit exposure to any one financial institution.

**NOTE 14 INTEREST IN THE NET ASSETS OF THE MINNEAPOLIS FOUNDATION FUND**

The Organization has established a fund with The Minneapolis Foundation (Foundation), under terms of the agreement and Memorandum of Understanding. The Minneapolis Foundation has established a separate fund known as the "Headwaters Foundation for Justice Fund" (the Fund). Amounts contributed by the Organization to the Fund will be matched, up to \$750,000, by contributions to the Fund from the Foundation. The Fund will be used by the Foundation in carrying out its charitable purposes, especially with respect to funding social justice programs as reflected by Headwaters' existing and historical grantmaking and capacity building programs and initiatives. As previously mentioned in Note 1, distributions from the Fund will be at the discretion of the Foundation's Board of Trustees, but the Organization will have the right to submit its recommendations with respect to distributions of income from the Fund. The value of the underlying assets of the Fund, including the portion contributed by The Minneapolis Foundation, was \$1,365,541 at June 30, 2010.

The plan governing the administration of the Fund indicates the Foundation's Board of Trustees has the power to modify or eliminate any restriction, condition, limitation or trust imposed with respect to the Fund, if, in the sole judgment of the Board of Trustees, such restriction, condition, limitation or trust becomes necessary, incapable of fulfillment or inconsistent with the charitable needs of the community served by the Foundation.