

Headwaters Foundation for Justice

Financial Statements and
Independent Auditor's Report

June 30, 2009 and 2008

Headwaters Foundation for Justice

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Independent Auditors' Report

To the Board of Directors
Headwaters Foundation for Justice
Minneapolis, Minnesota

We have audited the accompanying statements of financial position of Headwaters Foundation for Justice as of June 30, 2009 and 2008, and the related statements of unrestricted activities, changes in net assets, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of Headwaters Foundation for Justice's management. 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 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 our audits provide 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, 2009 and 2008, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Wilkerson, Guthmann & Johnson, Ltd.

Saint Paul, Minnesota
September 3, 2009

Headwaters Foundation for Justice

Statements of Financial Position

<i>June 30,</i>	2009	2008
ASSETS		
Cash and Cash Equivalents	\$ 362,956	\$ 466,046
Pledges Receivable	416,014	97,434
Prepaid Expenses and Other	7,541	6,836
Property and Equipment, Net	49,517	98,542
Investments	1,934,988	2,855,293
Beneficial Interests in The Minneapolis Foundation Fund	658,587	458,235
Total Assets	\$ 3,429,603	\$ 3,982,386
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts Payable	\$ 2,743	\$ 20,218
Fiscal Agency Payable	1,934	1,934
Accrued Expenses	15,212	16,881
Grants Payable	10,000	10,000
Tenant Security Deposits	1,686	1,686
Total Liabilities	31,575	50,719
Net Assets		
Unrestricted:		
Undesignated	453,115	509,877
Board Designated		15,824
Accumulated Endowment (Losses)	(1,148,701)	(442,721)
Total Unrestricted Net Assets	(695,586)	82,980
Temporarily Restricted	330,620	86,501
Permanently Restricted	3,762,994	3,762,186
Total Net Assets	3,398,028	3,931,667
Total Liabilities and Net Assets	\$ 3,429,603	\$ 3,982,386

Headwaters Foundation for Justice

Statements of Unrestricted Activities

<i>Years Ended June 30,</i>	2009	2008
Revenue and Support for Current Operations		
Contributions and Grants	\$ 677,961	\$ 842,766
Contributions - Donor Advised Funds	91,695	171,167
Other Operating Revenue	22,972	273,184
Distributions from Accumulated Earnings on Endowment Funds	140,240	153,270
Total Revenue and Support for Current Operations	932,868	1,440,387
Net Assets Released from Restriction	76,500	176,360
Total Revenue and Support and Net Assets Released from Restriction	1,009,368	1,616,747
Expenses for Current Operations		
Program Services	694,554	1,372,049
Supporting Services:		
Management and General	216,144	115,273
Fund Development	180,421	171,405
Total Supporting Services	396,565	286,678
Total Expenses for Current Operations	1,091,119	1,658,727
Change in Net Assets from Current Operations	(81,751)	(41,980)
Other Income (Expense)		
Investment (Loss)	(474,677)	(413,582)
Change in Beneficial Interests in The Minneapolis Foundation Fund	(81,898)	(26,317)
Distributions from Accumulated Earnings on Endowment Funds	(140,240)	(153,270)
Total Other Income (Expense)	(696,815)	(593,169)
Change in Unrestricted Net Assets	\$ (778,566)	\$ (635,149)

Headwaters Foundation for Justice

Statements of Changes in Net Assets

Years Ended June 30, 2009 and 2008

	Unrestricted	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Totals
Net Assets, July 1, 2007	\$ 705,586	\$ 12,543	\$ 206,361	\$ 3,742,381	\$ 4,666,871
Support and Revenue	1,425,387	15,000	56,500	19,805	1,516,692
Expenses for Current Operations	(1,647,008)	(11,719)			(1,658,727)
Other Income (Expense)	(593,169)				(593,169)
Released from Restriction	176,360		(176,360)		
Change in Net Assets	<u>(638,430)</u>	<u>3,281</u>	<u>(119,860)</u>	<u>19,805</u>	<u>(735,204)</u>
Net Assets, June 30, 2008	67,156	15,824	86,501	3,762,186	3,931,667
Support and Revenue	902,612	30,256	320,619	808	1,254,295
Expenses for Current Operations	(1,045,039)	(46,080)			(1,091,119)
Other Income (Expense)	(696,815)				(696,815)
Released from Restriction	76,500		(76,500)		
Change in Net Assets	<u>(762,742)</u>	<u>(15,824)</u>	<u>244,119</u>	<u>808</u>	<u>(533,639)</u>
Net Assets, June 30, 2009	\$ (695,586)	\$ -	\$ 330,620	\$ 3,762,994	\$ 3,398,028

Headwaters Foundation for Justice

Statements of Cash Flows

<i>Years Ended June 30,</i>	2009	2008
Cash Flows from Operating Activities		
Change in Net Assets	\$ (533,639)	\$ (735,204)
Adjustments to Reconcile Change in Net Assets to Net Change in Cash from Operating Activities:		
Depreciation and Amortization	49,025	44,834
Net Realized and Unrealized Losses on Investments	543,283	528,962
Loss on Interest in The Minneapolis Foundation Fund	81,898	26,317
Changes in Operating Assets and Liabilities:		
Pledges Receivable	(318,580)	122,686
Prepaid Expenses and Other	(705)	5,574
Accounts Payable	(17,475)	11,342
Fiscal Agency Payable		1,934
Accrued Expenses	(1,669)	6,202
Grants Payable		10,000
Tenant Security Deposits		(798)
Total Adjustments	<u>335,777</u>	<u>757,053</u>
Cash Provided by (Used in) Operating Activities	<u>(197,862)</u>	<u>21,849</u>
Cash Flows from Investing Activities		
Purchase of Property and Equipment		(26,009)
Purchase of Investments	(462,003)	(166,116)
Proceeds from Sale of Investments	839,025	302,928
Cash Provided by Investing Activities	<u>377,022</u>	<u>110,803</u>
Cash Flows from Financing Activities		
Net Payment to The Minneapolis Foundation	(282,250)	(16,400)
Cash Used in Financing Activities	<u>(282,250)</u>	<u>(16,400)</u>
Net Change in Cash and Cash Equivalents	<u>(103,090)</u>	<u>116,252</u>
Cash and Cash Equivalents, Beginning of Year	466,046	349,794
Cash and Cash Equivalents, End of Year	\$ 362,956	\$ 466,046

Headwaters Foundation for Justice

Statement of Functional Expenses

For Year Ended June 30, 2009 (with comparative totals for 2008)

	2009							2008	
	Program Services				Supporting Services			Total	Total
	Grantmaking	Capacity Building	Education/Communication	Total Program Services	Management & General	Fund Development	Total Supporting Services		
Salaries	\$ 68,580	\$ 47,320	\$ 46,685	\$ 162,585	\$ 142,790	\$ 77,077	\$ 219,867	\$ 382,452	\$ 336,155
Payroll Taxes	5,619	3,877	3,825	13,321	11,700	6,315	18,015	31,336	27,465
Employee Benefits	11,854	8,074	7,968	27,896	18,310	13,352	31,662	59,558	79,497
Total Personnel Costs	86,053	59,271	58,478	203,802	172,800	96,744	269,544	473,346	443,117
Events/Conferences/Meetings	3,167	8,225	8,410	19,802	720	10,153	10,873	30,675	60,547
Consultants	5,258	11,134	5,987	22,379	7,458	35,351	42,809	65,188	155,641
Publications/Printing & Copying	1,467	656	1,404	3,527	1,291	3,157	4,448	7,975	18,676
Occupancy	3,024	2,049	2,023	7,096	4,031	3,409	7,440	14,536	17,851
Membership	3,786	2,566	2,533	8,885	5,048	4,269	9,317	18,202	19,370
Travel/Development/Resources	4,631	2,682	929	8,242	1,795	2,764	4,559	12,801	18,044
Depreciation and Amortization	10,198	6,910	6,822	23,930	13,597	11,498	25,095	49,025	44,834
Postage	838	568	728	2,134	1,117	5,987	7,104	9,238	10,346
Professional Service	2,910	1,972	1,947	6,829	3,880	3,281	7,161	13,990	11,870
Telephone	844	572	565	1,981	1,125	952	2,077	4,058	3,488
Miscellaneous	1,800		38	1,838	76	64	140	1,978	6,311
Supplies	662	395	419	1,476	674	651	1,325	2,801	3,235
Insurance	461	313	309	1,083	615	520	1,135	2,218	5,247
Repairs/Maintenance	1,111	753	743	2,607	1,481	1,252	2,733	5,340	10,866
Bank Fees	327	222	219	768	436	369	805	1,573	19,463
Total Expenses Before Grants	126,537	98,288	91,554	316,379	216,144	180,421	396,565	712,944	848,906
Grants (Net of Donor Advised Grants)	293,500			293,500				293,500	564,046
Donor Advised Grants	84,675			84,675				84,675	245,775
Total Grants	378,175			378,175				378,175	809,821
Total Expenses	\$ 504,712	\$ 98,288	\$ 91,554	\$ 694,554	\$ 216,144	\$ 180,421	\$ 396,565	\$ 1,091,119	\$ 1,658,727
Percentages	46%	9%	8%	63%	20%	17%	37%	100%	100%

The accompanying notes are an integral part of the financial statements.

Headwaters Foundation for Justice

Statement of Functional Expenses

For Year Ended June 30, 2008

	Program Services				Total Program Services	Supporting Services			Total
	Grantmaking	Capacity Building	Education/ Communication	Walk for Justice		Management & General	Fund Development	Total Supporting Services	
Salaries	\$ 96,241	\$ 49,016	\$ 28,004	\$ 30,289	\$ 203,550	\$ 57,217	\$ 75,388	\$ 132,605	\$ 336,155
Payroll Taxes	7,863	4,005	2,288	2,475	16,631	4,675	6,159	10,834	27,465
Employee Benefits	23,780	11,761	5,890	7,392	48,823	14,515	16,159	30,674	79,497
Total Personnel Costs	127,884	64,782	36,182	40,156	269,004	76,407	97,706	174,113	443,117
Events/Conferences/Meetings	5,173	15,283	15,679	9,912	46,047	526	13,974	14,500	60,547
Consultants	68,683	22,159	20,806	7,510	119,158	12,916	23,567	36,483	155,641
Publications/Printing & Copying	959	1,893	9,429	1,480	13,761	589	4,326	4,915	18,676
Occupancy	5,399	2,651	1,279	1,674	11,003	3,319	3,529	6,848	17,851
Membership	6,558	2,728	1,316	1,722	12,324	3,415	3,631	7,046	19,370
Travel/Development/Resources	7,546	2,821	745	958	12,070	1,899	4,075	5,974	18,044
Depreciation and Amortization	13,564	6,659	3,212	4,203	27,638	8,334	8,862	17,196	44,834
Postage	883	702	3,564	1,032	6,181	543	3,622	4,165	10,346
Professional Service	3,591	1,763	850	1,113	7,317	2,206	2,347	4,553	11,870
Telephone	1,056	518	250	327	2,151	648	689	1,337	3,488
Miscellaneous	4,033	368	482	251	5,134	414	763	1,177	6,311
Supplies	1,067	417	201	473	2,158	522	555	1,077	3,235
Insurance	1,588	779	376	492	3,235	975	1,037	2,012	5,247
Repairs/Maintenance	3,287	1,614	778	1,019	6,698	2,020	2,148	4,168	10,866
Bank Fees	878	431	208	16,832	18,349	540	574	1,114	19,463
Total Expenses Before Grants	252,149	125,568	95,357	89,154	562,228	115,273	171,405	286,678	848,906
Grants (Net of Donor Advised Grants)	409,999			154,047	564,046				564,046
Donor Advised Grants	245,775				245,775				245,775
Total Grants	655,774			154,047	809,821				809,821
Total Expenses	\$ 907,923	\$ 125,568	\$ 95,357	\$ 243,201	\$ 1,372,049	\$ 115,273	\$ 171,405	\$ 286,678	\$ 1,658,727
Percentages	54%	8%	6%	15%	83%	7%	10%	17%	100%

The accompanying notes are an integral part of the financial statements.

June 30, 2009 and 2008

1. Organization

Headwaters Foundation for Justice (The “Organization”) is a community foundation that serves as a catalyst for social, racial, economic and environmental justice. Through technical assistance, community-led grant making, donor education and community engagement, Headwaters supports grassroots groups

Description of Program Services

Grant Making — This program includes the process of grantee outreach, proposal review, grant tracking, record keeping, grants evaluation and internal grants management. Grant making 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 grant making—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, e-mail, multi-media and print communications provide a direct complement to community education efforts.

Walk for Justice — This program blends Headwaters Foundation for Justice’s focus on grant making, capacity building and public education by coordinating a highly visible public event to advance the work and impact of the grassroots community. In December of 2007, after an extensive evaluation process, the Headwaters board of directors decided unanimously to bring the Foundation’s 12-year-old Walk for Justice to an end. As an organization Headwaters felt its resources could be best utilized by helping groups learn to raise money in more cost-effective ways. The final walk for Justice was held in September of 2007 and proceeds were distributed to participating organizations throughout the 2007 - 2008 fiscal year.

June 30, 2009 and 2008

2. Summary of Accounting Policies

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 - Resources over which the Board of Directors has discretionary control. Designated amounts represent net assets that the Board has set aside for a particular purpose.

Temporarily Restricted - Resources subject to donor imposed restrictions that are satisfied by actions of the Organization or passage of time.

Permanently Restricted - Resources subject to a donor-imposed restriction that they be maintained permanently by the Organization. Donors of these resources generally permit 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 Organization's beneficial interest in 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 and highly liquid short-term investments to be cash equivalents. Money market investment funds held for endowment purposes are excluded from this classification.

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 balances outstanding at year-end will be immaterial. No allowance for uncollectible amounts is provided since all amounts are deemed collectible.

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 years. 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.

June 30, 2009 and 2008

2. Summary of Accounting Policies (Continued)

Property and Equipment (Continued)

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

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.

Beneficial Interest in The Minneapolis Foundation Fund

The Organization has a beneficial interest in The Minneapolis Foundation Fund. Accounting for the benefits of the fund follows the provisions of Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*.

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 grant making 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.

Endowment Funds

Interpretation of Relevant Law – The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original gift of donor-restricted endowment funds absent explicit donor stipulations. The original gift is valued at fair value on the date of the gift. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

June 30, 2009 and 2008

2. Summary of Accounting Policies (Continued)

Endowment Funds (Continued)

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

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 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 sixteen-quarter average fair market value of the Fund.

June 30, 2009 and 2008

2. Summary of Accounting Policies (Continued)

Endowment Funds (Continued)

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.

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.

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.

June 30, 2009 and 2008

2. Summary of Accounting Policies (Continued)

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.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results may vary from those estimates.

Tax Exempt Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, since it is an organization described under Section 509(a)(1). It has been classified as an organization that is a public charitable organization under the Internal Revenue Code, and charitable contributions to it by donors are tax deductible.

The Organization has elected to defer the provisions of FIN 48, *Accounting for Income Taxes*, under the provisions of FSP FIN 48-3. The Organization uses FAS 5, *Loss Contingencies*, approach for evaluating uncertain tax positions and continually evaluates expiring statutes of limitations, examinations, proposed settlements, changes in tax law and new authoritative rulings.

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 an 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.

Reclassifications

Certain amounts from prior year financial statements were reclassified to conform to the current year presentation.

Headwaters Foundation for Justice

Notes to Financial Statements

June 30, 2009 and 2008

3. Pledges Receivable

Pledges receivable are summarized as follows at June 30:

	2009	2008
Pledges Receivable	\$ 419,482	\$ 98,621
Less: Unamortized Discount	(3,468)	(1,187)
Net Pledges Receivable	<u>\$ 416,014</u>	<u>\$ 97,434</u>

Multi-year commitments were discounted to present value using imputed interest rates ranging from 3.0% to 4.0%.

At June 30, 2009, pledges receivable were scheduled to be received as follows:

	Total	Unamortized Discount	Net Discounted Pledges Receivable
In Less than One Year	\$ 310,824	\$ -	\$ 310,824
In One to Five Years	108,658	(3,468)	105,190
	<u>\$ 419,482</u>	<u>\$ (3,468)</u>	<u>\$ 416,014</u>

4. Property and Equipment

Property and equipment consisted of the following at June 30:

	2009	2008
Leasehold Improvements	\$ 113,442	\$ 113,442
Office Furniture and Equipment	147,020	162,516
Totals	260,462	275,958
Accumulated Depreciation and Amortization	(210,945)	(177,416)
Net Property and Equipment	<u>\$ 49,517</u>	<u>\$ 98,542</u>

Depreciation and amortization expense totaled \$49,025 and \$44,834 for the years ended June 30, 2009 and 2008, respectively.

Headwaters Foundation for Justice

Notes to Financial Statements

June 30, 2009 and 2008

5. Fair Value of Financial Instruments

Investments are required to be measured annually at fair value as defined by Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The fair value of investments and beneficial interests in assets held by others consisted of the following at June 30:

<u>2009</u>	Fair Values (Level 1)	Fair Values (Level 2)	Total
Cash and Cash Equivalents	\$ 85,547	\$ -	\$ 85,547
Equity Mutual Funds	1,451,627		1,451,627
U.S. Treasury Securities	397,814		397,814
Beneficial Interest in The Minneapolis Foundation Fund		658,587	658,587
	<u>\$ 1,934,988</u>	<u>\$ 658,587</u>	<u>\$ 2,593,575</u>
<u>2008</u>	Fair Values (Level 1)	Fair Values (Level 2)	Total
Cash and Cash Equivalents	\$ 61,516	\$ -	\$ 61,516
Certificates of Deposit		139,598	139,598
Equity Mutual Funds	2,020,119		2,020,119
U.S. Treasury Securities	634,060		634,060
Beneficial Interest in The Minneapolis Foundation Fund		458,235	458,235
	<u>\$ 2,715,695</u>	<u>\$ 597,833</u>	<u>\$ 3,313,528</u>

Net investment return consisted of the following for the years ended June 30:

	<u>2009</u>	<u>2008</u>
Investment Income	\$ 19,183	\$ 21,322
Net Realized Gains (Losses)	(62,202)	135,425
Net Unrealized (Losses)	(431,658)	(570,329)
Net Investment Return	<u>\$ (474,677)</u>	<u>\$ (413,582)</u>

Headwaters Foundation for Justice

Notes to Financial Statements

June 30, 2009 and 2008

6. Endowment Composition and Changes to Endowment Net Assets

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

<u>2009</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
General Endowment	\$ (769,562)	\$ 2,561,919	\$ 1,792,357
Fund of the Sacred Circle	(81,790)	248,268	166,478
Headwaters Foundation for Justice			
Fund of the Minneapolis Foundation	(297,349)	952,807	655,458
	<u>\$ (1,148,701)</u>	<u>\$ 3,762,994</u>	<u>\$ 2,614,293</u>
<u>2008</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
General Endowment	\$ (312,141)	\$ 2,561,919	\$ 2,249,778
Fund of the Sacred Circle	(135,815)	752,660	616,845
Headwaters Foundation for Justice			
Fund of the Minneapolis Foundation	5,235	447,607	452,842
	<u>\$ (442,721)</u>	<u>\$ 3,762,186</u>	<u>\$ 3,319,465</u>

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

<u>2009</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ (442,721)	\$ 3,762,186	\$ 3,319,465
Investment Return:			
Investment Income (Loss)	(483,842)		(483,842)
Increase (Decrease) in Beneficial Interest in Funds Held by Others	(81,898)		(81,898)
Total Investment Return (Loss)	(565,740)	-	(565,740)
Contributions		808	808
Appropriations of Endowment Assets for Expenditure	(140,240)		(140,240)
Endowment Net Assets, End of Year	<u>\$ (1,148,701)</u>	<u>\$ 3,762,994</u>	<u>\$ 2,614,293</u>

Headwaters Foundation for Justice

Notes to Financial Statements

June 30, 2009 and 2008

6. Endowment Composition and Changes to Endowment Net Assets (Continued)

<u>2008</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 157,301	\$ 3,742,381	\$ 3,899,682
Investment Return:			
Investment Income (Loss)	(420,434)		(420,434)
Increase (Decrease) in Beneficial Interest in Funds Held by Others	(26,318)		(26,318)
Total Investment Return (Loss)	(446,752)	-	(446,752)
Contributions		19,805	19,805
Appropriations of Endowment Assets for Expenditure	(153,270)		(153,270)
Endowment Net Assets, End of Year	<u>\$ (442,721)</u>	<u>\$ 3,762,186</u>	<u>\$ 3,319,465</u>

Changes to endowment net assets are classified as follows at June 30:

	<u>2009</u>	<u>2008</u>
Endowment	\$ (457,421)	\$ (439,917)
Fund of the Sacred Circle	(450,368)	(120,117)
Headwaters Foundation for Justice		
Fund of the Minneapolis Foundation	202,617	(20,182)
	<u>\$ (705,172)</u>	<u>\$ (580,216)</u>

As of June 30, 2009 and 2008, the asset balances for the following funds were less than the original contributions to the fund by the following amounts:

	<u>2009</u>	<u>2008</u>
General Endowment	\$ 769,562	\$ 312,141
Fund of the Sacred Circle	81,790	135,815
Headwaters Foundation for Justice		
Fund of the Minneapolis Foundation	297,349	

Headwaters Foundation for Justice

Notes to Financial Statements

June 30, 2009 and 2008

7. Net Assets

Temporarily Restricted

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

	<u>2009</u>	<u>2008</u>
Capacity Building	\$ 65,000	\$ 15,000
Capital Improvements	10,000	30,000
Democracy Fund		10,000
Environmental Justice	222,750	
Sustainability		31,501
Restricted for Time	32,870	
	<u>\$ 330,620</u>	<u>\$ 86,501</u>

8. Donor Advised Funds

The Organization held donor advised funds amounting to \$223,607 and \$223,394 at June 30, 2009 and 2008, respectively. 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 with unrestricted net assets on the Statements of Financial Position.

Headwaters Foundation for Justice

Notes to Financial Statements

June 30, 2009 and 2008

9. Revenue and Support for Current Operations

Revenue and support for current operations for the years ended June 30 consisted of the following:

	2009	2008
Individual Contributions and Grants	\$ 309,689	\$ 436,468
Donor Advised Funds	91,695	171,167
Corporate/Foundation Contributions and Grants	391,748	530,258
Funding Exchange Contributions	53,024	51,288
In-Kind Contributions		1,112
Release from Restrictions	(76,500)	(176,360)
Total Contributions and Grants	<u>\$ 769,656</u>	<u>\$ 1,013,933</u>
Events	\$ 17,678	\$ 252,450
Administrative and Interest Income	5,294	20,734
Total Other Operating Revenue	<u>\$ 22,972</u>	<u>\$ 273,184</u>
Distributions from Accumulated Earnings on Endowment Funds	<u>\$ 140,240</u>	<u>\$ 153,270</u>

10. Allocation of Joint Costs

During the year ended June 30, 2009, the Organization conducted activities that included appeals for contributions and incurred joint costs of \$52,266. These activities were related to the Allies for Justice Celebration.

Joint costs were as follows:

	<u>Allies for Justice</u>
Education and Communication	\$ 26,133
Fund Development	26,133
Total	<u>\$ 52,266</u>

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 \$18,728 and \$14,094 during the years ended June 30, 2009 and 2008, respectively.

June 30, 2009 and 2008

12. Operating Leases

The Organization leases office space under a lease that calls 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 ranging from December 31, 2009 to June 30, 2010.

Rent expense totaled \$14,553, net of sublease income of \$41,295, for the year ended June 30, 2009, and \$17,851, net of sublease income of \$37,997, for the year ended December 31, 2008.

As of June 30, 2009, future minimum lease commitments of \$55,848 are scheduled to be paid with sublease income of \$23,618 scheduled to be received.

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. At various times during the year, the Organization may exceed federally insured limits. At June 30, 2009, the Organization's deposits did not exceed that covered by FDIC insured limits.

14. Beneficial Interest in The Minneapolis Foundation Fund

The Organization has established a fund with The Minneapolis Foundation (Foundation) in accordance with the terms of the agreement and the applicable Memorandum of Understanding and is entitled the "Headwaters Foundation for Justice Fund".

Amounts contributed by the Organization will be matched by the Foundation up to \$750,000. The Fund will be used to carry out the Organization's charitable purposes, primarily with respect to funding social justice programs as reflected by Headwaters' existing and historical grant making and capacity building programs and initiatives. As previously noted, distributions from the Fund will be at the discretion of the Foundation's Board of Trustees, with the Organization having the right to submit recommendations with respect to income distributions. As of June 30, 2009, \$750,000 had been contributed by the Organization and matched by the Fund. The value of the underlying assets of the Fund, including the portion contributed by The Minneapolis Foundation, was \$1,317,174 at June 30, 2009.

The plan governing the administration of the Fund indicates that 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 unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community served by the Foundation.