

HEADWATERS FOUNDATION FOR JUSTICE
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

**HEADWATERS FOUNDATION FOR JUSTICE
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF FUNCTIONAL EXPENSES	5
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8



INDEPENDENT AUDITORS' REPORT

Board of Directors
Headwaters Foundation for Justice
Minneapolis, Minnesota

We have audited the accompanying financial statements of Headwaters Foundation for Justice which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, 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.

Auditors' 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 auditors' 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.

Board of Directors
Headwaters Foundation for Justice

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, 2019 and 2018, 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.

Emphasis of a Matter

As discussed in Note 17 to the financial statements, the beginning net asset categories have been restated as of June 30, 2017. Our opinion is not modified with respect to that matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 18, 2019

**HEADWATERS FOUNDATION FOR JUSTICE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018**

	2019	2018
ASSETS		
Cash and Cash Equivalents	\$ 1,426,575	\$ 1,662,986
Cash Restricted	652,258	695,803
Pledges Receivable, Net	315,112	64,767
Grants Receivable	372,500	-
Other Receivables	22,200	7,793
Prepaid Expenses and Other	85,886	71,783
Property and Equipment, Net	1,100	7,128
Investments	3,380,969	3,408,377
Program Related Investments	510,000	510,000
Interest in the Net Assets of The Minneapolis Foundation	1,054,771	1,034,376
	\$ 7,821,371	\$ 7,463,013
Total Assets	\$ 7,821,371	\$ 7,463,013
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 41,695	\$ 30,330
Accrued Expenses	209,589	16,967
Grants Payable	130,000	-
Deferred Rent Payable	8,104	10,707
Tenant Security Deposits	1,440	1,440
Total Liabilities	390,828	59,444
NET ASSETS		
Without Donor Restriction	1,997,056	2,785,901
With Donor Restriction	5,433,487	4,617,668
Total Net Assets	7,430,543	7,403,569
Total Liabilities and Net Assets	\$ 7,821,371	\$ 7,463,013

See accompanying Notes to Financial Statements.

**HEADWATERS FOUNDATION FOR JUSTICE
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019			2018		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
REVENUES, GAINS, AND OTHER SUPPORT						
Contributions and Grants	\$ 959,983	\$ 418,000	\$ 1,377,983	\$ 1,219,271	\$ 135,000	\$ 1,354,271
Contributions – Donor Advised Funds	1,106,252	-	1,106,252	1,659,660	-	1,659,660
Investment Income	50,593	137,598	188,191	97,233	141,709	238,942
Change in Beneficial Interests in The Minneapolis Foundation Fund	-	58,147	58,147	-	94,369	94,369
Special Events, Net of Expenses of \$86,184 and \$63,313, Respectively	32,596	-	32,596	85,302	-	85,302
Black Seed Fellowship	-	340,000	340,000	-	-	-
Other Operating Revenue	103,801	-	103,801	50,596	-	50,596
Net Assets Released from Restriction	550,000	(550,000)	-	256,369	(256,369)	-
Total Revenues, Gains, and Other Support	<u>2,803,225</u>	<u>403,745</u>	<u>3,206,970</u>	<u>3,368,431</u>	<u>114,709</u>	<u>3,483,140</u>
EXPENSES						
Program Services	1,995,028	-	1,995,028	1,448,699	-	1,448,699
Supporting Services:						
Management and General	780,455	-	780,455	456,910	-	456,910
Fund Development	404,513	-	404,513	241,639	-	241,639
Total Supporting Services	<u>1,184,968</u>	<u>-</u>	<u>1,184,968</u>	<u>698,549</u>	<u>-</u>	<u>698,549</u>
Total Expenses	<u>3,179,996</u>	<u>-</u>	<u>3,179,996</u>	<u>2,147,248</u>	<u>-</u>	<u>2,147,248</u>
CHANGE IN NET ASSETS	(376,771)	403,745	26,974	1,221,183	114,709	1,335,892
Net Assets - Beginning of Year - As Previously Stated	<u>2,373,827</u>	<u>5,029,742</u>	<u>7,403,569</u>	<u>1,430,134</u>	<u>4,637,543</u>	<u>6,067,677</u>
Restatement	-	-	-	(277,490)	277,490	-
Net Assets - Beginning of Year - As Restated	<u>2,373,827</u>	<u>5,029,742</u>	<u>7,403,569</u>	<u>1,152,644</u>	<u>4,915,033</u>	<u>6,067,677</u>
NET ASSETS - END OF YEAR	<u>\$ 1,997,056</u>	<u>\$ 5,433,487</u>	<u>\$ 7,430,543</u>	<u>\$ 2,373,827</u>	<u>\$ 5,029,742</u>	<u>\$ 7,403,569</u>

See accompanying Notes to Financial Statements.

**HEADWATERS FOUNDATION FOR JUSTICE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

	Program Services				Supporting Services			2019 Total	2018 Total	
	Grantmaking	Donor Advised	Giving Project	Black Seed Project	Total	Management and General	Fund Development			Total
Salaries and Benefits	\$ 221,790	\$ 19,215	\$ 89,236	\$ 25,580	\$ 355,821	\$ 555,275	\$ 264,668	\$ 819,943	\$ 1,175,764	\$ 709,558
Consultants	16,083	1,828	1,523	114,871	134,305	44,694	27,601	72,295	206,600	62,437
Accountants	-	-	-	-	-	83,309	-	83,309	83,309	91,463
Office Expenses	7,750	1,495	2,401	4,984	16,630	7,638	15,341	22,979	39,609	32,765
Information Technology	26,932	5,812	7,526	-	40,270	17,471	21,120	38,591	78,861	50,346
Occupancy	24,417	6,020	7,510	-	37,947	13,894	23,257	37,151	75,098	70,917
Conference Conventions and Meetings	42,516	-	24,607	19,421	86,544	28,946	18,555	47,501	134,045	63,736
Depreciation	-	-	-	-	-	6,028	-	6,028	6,028	9,677
Insurance	1,515	410	454	-	2,379	845	1,312	2,157	4,536	4,820
Memberships	4,210	201	5,168	-	9,579	919	386	1,305	10,884	6,177
Other Expense	363	-	1,544	4,600	6,507	21,253	10,271	31,524	38,031	43,584
Bad Debt Expense	-	-	1,157	-	1,157	183	22,002	22,185	23,342	2,684
Total Expenses Before Grants	<u>345,576</u>	<u>34,981</u>	<u>141,126</u>	<u>169,456</u>	<u>691,139</u>	<u>780,455</u>	<u>404,513</u>	<u>1,184,968</u>	<u>1,876,107</u>	<u>1,148,164</u>
Grants (Net of Donor Advised Grants)	68,750	-	242,750	41,800	353,300	-	-	-	353,300	177,800
Donor Advised Funds Grants	<u>434,500</u>	<u>516,089</u>	<u>-</u>	<u>-</u>	<u>950,589</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>950,589</u>	<u>821,284</u>
Total Grants	<u>503,250</u>	<u>516,089</u>	<u>242,750</u>	<u>41,800</u>	<u>1,303,889</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,303,889</u>	<u>999,084</u>
Total Expenses	<u>848,826</u>	<u>551,070</u>	<u>383,876</u>	<u>211,256</u>	<u>1,995,028</u>	<u>780,455</u>	<u>404,513</u>	<u>1,184,968</u>	<u>3,179,996</u>	<u>2,147,248</u>
Special Event Expenses netted with Revenue	-	-	-	-	-	-	86,184	86,184	86,184	63,313
Total Functional Expenses	<u>\$ 848,826</u>	<u>\$ 551,070</u>	<u>\$ 383,876</u>	<u>\$ 211,256</u>	<u>\$ 1,995,028</u>	<u>\$ 780,455</u>	<u>\$ 490,697</u>	<u>\$ 1,271,152</u>	<u>\$ 3,266,180</u>	<u>\$ 2,210,561</u>
Percentages	<u>26%</u>	<u>17%</u>	<u>12%</u>	<u>6%</u>	<u>61%</u>	<u>24%</u>	<u>15%</u>	<u>39%</u>	<u>100%</u>	

See accompanying Notes to Financial Statements.

**HEADWATERS FOUNDATION FOR JUSTICE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

	Program Services				Supporting Services			
	Grantmaking	Donor Advised	Giving Project	Total	Management and General	Fund Development	Total	Total
Salaries and Benefits	\$ 171,302	\$ 23,494	\$ 70,603	\$ 265,399	\$ 251,723	\$ 192,436	\$ 444,159	\$ 709,558
Consultants	12,406	2,708	31,425	46,539	7,278	8,620	15,898	62,437
Accountants	-	-	-	-	91,463	-	91,463	91,463
Office Expenses	8,164	3,367	3,251	14,782	6,484	11,499	17,983	32,765
Information Technology	19,668	8,410	5,956	34,034	14,538	1,774	16,312	50,346
Occupancy	26,587	11,481	6,042	44,110	24,390	2,417	26,807	70,917
Conference Conventions and Meetings	26,622	82	11,809	38,513	16,655	8,568	25,223	63,736
Depreciation	-	-	-	-	9,677	-	9,677	9,677
Insurance	2,127	918	483	3,528	1,099	193	1,292	4,820
Memberships	148	64	34	246	5,918	13	5,931	6,177
Other Expense	-	1,030	-	1,030	26,435	16,119	42,554	43,584
Bad Debt Expense	-	-	2,684	2,684	-	-	-	2,684
Total Expenses Before Grants	<u>267,024</u>	<u>51,554</u>	<u>132,287</u>	<u>450,865</u>	<u>455,660</u>	<u>241,639</u>	<u>697,299</u>	<u>1,148,164</u>
Grants (Net of Donor Advised Grants)	45,800	-	130,750	176,550	1,250	-	1,250	177,800
Donor Advised Funds Grants	-	821,284	-	821,284	-	-	-	821,284
Total Grants	<u>45,800</u>	<u>821,284</u>	<u>130,750</u>	<u>997,834</u>	<u>1,250</u>	<u>-</u>	<u>1,250</u>	<u>999,084</u>
Total Expenses	<u>312,824</u>	<u>872,838</u>	<u>263,037</u>	<u>1,448,699</u>	<u>456,910</u>	<u>241,639</u>	<u>698,549</u>	<u>2,147,248</u>
Special Event Expenses netted with Revenue	-	-	-	-	-	63,313	63,313	63,313
Total Functional Expenses	<u>\$ 312,824</u>	<u>\$ 872,838</u>	<u>\$ 263,037</u>	<u>\$ 1,448,699</u>	<u>\$ 456,910</u>	<u>\$ 304,952</u>	<u>\$ 761,862</u>	<u>\$ 2,210,561</u>
Percentages	<u>14%</u>	<u>39%</u>	<u>12%</u>	<u>66%</u>	<u>21%</u>	<u>14%</u>	<u>34%</u>	<u>100%</u>

See accompanying Notes to Financial Statements.

**HEADWATERS FOUNDATION FOR JUSTICE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 26,974	\$ 1,335,892
Adjustment to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	6,028	9,677
Net Realized and Unrealized Gain on Investments	(117,627)	(166,423)
Change in Beneficial Interest in The Minneapolis Foundation	(58,147)	(94,369)
Change in Allowance for Uncollectible Pledges	18,986	(418)
(Increase) Decrease in Assets:		
Pledges Receivable	(269,331)	5,959
Grants and Other Receivables	(386,907)	105,789
Prepaid Expenses and Other	(14,103)	(27,243)
Increase (Decrease) in Liabilities:		
Accounts Payable	11,365	9,395
Accrued Expenses	192,622	(7,237)
Grants Payable	130,000	(90,000)
Deferred Rent Payable	(2,603)	(328)
Tenant Security Deposits	-	(440)
Net Cash Provided (Used) by Operating Activities	(462,743)	1,080,254
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(679,857)	(1,285,639)
Proceeds from Sale of Investments	862,644	1,355,008
Net Cash Provided by Investing Activities	182,787	69,369
NET CHANGE IN CASH AND CASH EQUIVALENTS	(279,956)	1,149,623
Cash and Cash Equivalents - Beginning of Year	2,358,789	1,209,166
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,078,833	\$ 2,358,789

See accompanying Notes to Financial Statements.

**HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foundation

Established in 1984, Headwaters Foundation for Justice works to amplify the power of community to advance equity and justice. Our programs and initiatives support grassroots organizations and networks of people who want to see a more just and sustainable Minnesota. We use a community-centered process to guide our grantmaking. Since our founding, Headwaters has directed more than \$10 million to organizations representing communities historically excluded from resources and power.

Description of Program Services

Grantmaking – This program includes the process of grantee outreach, proposal review, grant tracking, recordkeeping, grants evaluation, and internal grants management. Grantmaking programs include:

- The Fund of the Sacred Circle is directed toward Native led grassroots groups or projects in Minnesota and Wisconsin that address issues of injustice in Native communities. The Fund reaffirms the self-determination of Native people to define and address the needs of their communities in culturally appropriate ways. In fiscal year 2019, the Fund of the Sacred Circle awarded \$55,000 in five grants and awarded \$13,750 in stipends.
- Community Innovation Grants is a program in partnership with the Bush Foundation, which support communities to use problem solving processes that lead to more effective, equitable, and sustainable solutions. This grant allows nonprofit organizations to increase collective understanding of an issue, generate ideas, and/or test and implement solutions. In fiscal year 2019, \$434,500 was awarded in 44 grants.

The Giving Project is community-driven a model that funds social change, builds community, and develops leaders. The New Majority Fund, a fund of the Giving Project, awards two-year general operating grants to organizations across Minnesota. In addition, grantee partners will nominate two or three leaders, staff members, or board members to participate in the Movement Leadership Project scheduled for summer 2020. Funds for the grants were raised by members in the Giving Project, a cross-class, multiracial group of community members. In fiscal year 2019, the Giving Project, through the New Majority Fund, awarded \$242,750 in 15 grants.

Donor Advised Funds – This program enables individual donors to advance their philanthropic goals and direct resources to social change groups locally and nationally. Headwaters' staff educates donors about social injustice issues, connect them to organizations that match their interests, and provide technical grant making assistance. In fiscal year 2019, Headwaters allocated \$821,068 in 114 Donor Advised Grants. This amount included grants of \$304,979 to Headwaters Foundation for Justice.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Program Services

Black Seed Fellowship – The Black Seed Fellowship is an innovative strategy for building long-term political power and infrastructure in Minnesota by investing deeply in women and femme organizers from diverse backgrounds. Fellows will develop a series of organizer retreats to provide healing and reconciliation sessions; visioning sessions to build organizing unity and political alignment; and a work-into-action session to plan and execute a collaborative campaign. During the retreat and coaching sessions, Fellows began a process of organizational exploration and development that incorporates support from organizers and partnering organizers who act as validators for the Fellows' leadership in the endeavor. In fiscal year 2019, the Black Seed Fellowship awarded \$41,800 in stipends.

Basis of Presentation

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers cash on hand and on deposit in banks, and 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.

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. The allowance for the years ended June 30, 2019 and 2018 was \$23,861 and \$4,875, respectively.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Other Receivables

Grants and other receivables consist primarily of cost-reimbursement grants where costs have been incurred prior to year-end and amounts drawn down subsequent to year-end. All amounts are deemed collectible by management and due within one year.

Revenue Recognition

Contributions, including unconditional promises to give, are recognized as support without or with donor restriction, depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in the net assets with donor restriction, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restrictions. The Foundation has elected to present with donor restriction contributions, when restrictions are fulfilled in the same time period as received, within the net asset without donor restriction 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 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.

Equipment purchased at a cost of less than \$3,000 is expensed when acquired.

Investments

The Foundation 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.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statements of financial position at cost when approved. Uncollected interest earned on these notes receivable is recorded as earned accrued interest receivable, which is included in Prepaid Expenses and Other on the statements of financial position. Program-related investments are recoverable over periods ranging up to three 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. There were no allowance or impairment reserve recorded for the years ended June 30, 2019 and 2018.

Interest in the Net Assets of The Minneapolis Foundation

The Foundation 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 Foundation or Charitable Trust that Raises or Holds Contributions for Others*.

The Minneapolis Foundation holds a fund for the benefit of the Foundation. The fund has two components; transfers to the fund by the Foundation and matching contributions to the fund by The Minneapolis Foundation. Funds transferred to the fund by the Foundation are recognized as an asset at the estimated fair market value by the Foundation and are classified as with donor restriction. 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 Foundation. Annual distributions related to this portion of the fund are reported as contributions to the Foundation in the period received and are recorded as without donor restriction. Annual adjustments to the fair values of the amounts reported as assets are recognized as gains or losses and affect net assets without donor restriction.

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.

**HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Measurement (Continued)

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.

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. Securities valued using Level 3 inputs include fund held on behalf of Headwaters Foundation for Justice at The Minneapolis Foundation. The underlying securities held at The Minneapolis Foundation are valued using quote market prices; however, the Foundation's interest in the funds held is valued using additional inputs and assumptions.

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 of 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 net assets with donor restriction (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.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds (Continued)

In accordance with UPMIFA, the Foundation 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 Foundation 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 Foundation
- The investment policies of the Foundation

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 Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in net assets with donor restriction. 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. As of June 30, 2019 and 2018, there were no funds with deficiencies.

Spending Policy and the Relationship of the Investment Objectives to the Spending Policy – The Foundation 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 4% 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 Foundation 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 12-quarter average fair market value of the Fund.

Return Objectives and Risk Parameters – The Foundation 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 Foundation must hold in perpetuity.

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.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds (Continued)

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Foundation 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 Foundation 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.

Endowment Distribution Policy

The Foundation 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 4% 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 Foundation 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 12-quarter average fair market value of the Fund.

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 noncash 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. In-kind contributions consisted of in-kind goods and services of \$7,533 and \$49,713 at June 30, 2019 and 2018, respectively.

Functional Allocation of Expenses

The costs of program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Except for certain expenses allocated directly, expenses are allocated among the program and supporting services categories based upon management's estimate in the approved budget of time expended by employees in each functional area. Those expenses include rent, supplies, postage, printing, insurance, computer software, and telephone.

**HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 a foundation that is not a private foundation under Section 509(a)(1) of the IRC and contributions by donors are tax deductible.

The Foundation follows accounting standards for uncertain tax positions and files as a tax-exempt organization. During 2019 and 2018, the Foundation has not recognized any liability for uncertain tax positions. The Foundation's tax returns are subject to review and examination by federal and state authorities.

Change in Accounting Principle

The Foundation adopted Financial Accounting Standards Board (FASB) ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2018. These changes were applied retrospectively to ensure comparability with the prior year presented herein.

Subsequent Events

The Foundation has evaluated subsequent events from the statement of financial position date through October 18, 2019, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable at June 30 are summarized as follows:

	2019	2018
Pledges Receivable	\$ 340,964	\$ 69,642
Less: Unamortized Discount	(1,991)	-
Net Pledges Receivable Before Allowance	338,973	69,642
Allowance	(23,861)	(4,875)
Net Pledges Receivable	\$ 315,112	\$ 64,767

Multi-year commitments were discounted to present value using an imputed interest rate of 1.58%. All pledges are due within one year except for two pledges worth \$250,000 due which \$125,000 is due by June 30, 2020 and the remaining \$125,000 is due by June 30, 2021.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 GRANTS RECEIVABLE

Grants receivable are deemed collectible and are expected to be received in the following manner:

	2019	2018
Less than One Year	\$ 322,500	\$ -
One to Five Years	50,000	-
Total	<u>\$ 372,500</u>	<u>\$ -</u>

NOTE 4 INVESTMENTS

Investments consisted of the following at June 30:

	2019	2018
Cash and Cash Equivalents	\$ 38,815	\$ 32,226
Domestic Equity	1,175,043	1,148,004
International Equity	595,499	594,620
Fixed Income	831,425	869,789
Equity Mutual Funds	740,187	763,738
Total	<u>\$ 3,380,969</u>	<u>\$ 3,408,377</u>

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

	2019	2018
Investment Income	\$ 70,564	\$ 72,519
Realized Gains	184,128	137,125
Net Unrealized Gains (Losses)	(66,501)	29,298
Net Investment Return	<u>\$ 188,191</u>	<u>\$ 238,942</u>

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2019	2018
Office Furniture and Equipment	\$ 121,424	\$ 152,102
Accumulated Depreciation and Amortization	(120,324)	(144,974)
Net Property and Equipment	<u>\$ 1,100</u>	<u>\$ 7,128</u>

Depreciation and amortization expense totaled \$6,028 and \$9,677 for the years ended June 30, 2019 and 2018, respectively.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 6 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 at June 30 are as follows:

	2019			Total
	Level 1	Level 2	Level 3	
Investments:				
Domestic Equity	\$ 1,175,043	\$ -	\$ -	\$ 1,175,043
International Equity	595,499	-	-	595,499
Fixed Income	831,425	-	-	831,425
Equity Mutual Funds	432,636	-	-	432,636
Interest in the Net Assets of The Minneapolis Foundation	-	-	1,054,771	1,054,771
Total	<u>\$ 3,034,603</u>	<u>\$ -</u>	<u>\$ 1,054,771</u>	4,089,374
Investments Valued at NAV Total				<u>307,551</u> <u>\$ 4,396,925</u>
	2018			Total
	Level 1	Level 2	Level 3	
Investments:				
Domestic Equity	\$ 1,148,004	\$ -	\$ -	\$ 1,148,004
International Equity	594,620	-	-	594,620
Fixed Income	869,789	-	-	869,789
Equity Mutual Funds	419,097	-	-	419,097
Interest in the Net Assets of The Minneapolis Foundation	-	-	1,034,376	1,034,376
Total	<u>\$ 3,031,510</u>	<u>\$ -</u>	<u>\$ 1,034,376</u>	4,065,886
Investments Valued at NAV Total				344,641 <u>\$ 4,410,527</u>

Assets Measured Using Net Asset Value per Share (or its Equivalent)

The Foundation values certain investment holdings at fair value using their net asset value and has the ability to redeem its investments with the investee at the net asset value per share (or its equivalent) at the measurement date.

Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent) as of June 30, 2019 and 2018:

	2019 Net Asset Value	2018 Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Boston Common Small Cap Social Fund	\$ 307,551	\$ 344,641	\$ -	90 days	Monthly

**HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets Measured Using Net Asset Value per Share (or its Equivalent)(Continued)

Boston Common Small Cap Social Fund invests primarily in socially screened U.S. small capitalization equity securities with low valuations. The objective of the Fund is to achieve long-term capital appreciation and the fair value of the fund is estimated using the net asset value per share of the investments.

The Foundation's interest in the net assets of The Minneapolis Foundation have been estimated by management in the absence of readily determinable market values based on information provided by the fund manager. 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 years ended June 30:

	2019	2018
Balance - Beginning of Year	\$ 1,034,376	\$ 977,018
Change in Beneficial Interests in The Minneapolis Foundation Fund	58,147	94,369
Distributions	(37,752)	(37,011)
Balance - End of Year	\$ 1,054,771	\$ 1,034,376

NOTE 7 PROGRAM-RELATED INVESTMENTS

Program-related investments consist of the following notes receivable at June 30:

	2019	2018
Propel Nonprofits:		
Matures September 2019	\$ 100,000	\$ 100,000
Matures December 2020	100,000	100,000
Matures September 2021	125,000	125,000
Community Reinvestment Fund:		
Matures November 2021	60,000	60,000
Matures September 2020	125,000	125,000
Total	\$ 510,000	\$ 510,000

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 8 ENDOWMENT COMPOSITION AND CHANGES TO ENDOWMENT NET ASSETS

Endowment net assets consisted of the following donor established funds as of June 30:

	Without Donor Restriction	With Donor Restriction	2019 Total
General Endowment	\$ -	\$ 3,451,929	\$ 3,451,929
Fund of the Sacred Circle	-	422,058	422,058
Interest in the Net Assets of The Minneapolis Foundation	-	1,054,771	1,054,771
Total	<u>\$ -</u>	<u>\$ 4,928,758</u>	<u>\$ 4,928,758</u>
	Without Donor Restriction	With Donor Restriction	2018 Total
General Endowment	\$ -	\$ 3,479,282	\$ 3,479,282
Fund of the Sacred Circle	-	413,945	413,945
Interest in the Net Assets of The Minneapolis Foundation	-	1,034,376	1,034,376
Total	<u>\$ -</u>	<u>\$ 4,927,603</u>	<u>\$ 4,927,603</u>

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

	Without Donor Restriction	With Donor Restriction	Total
Endowment Investments - July 1, 2017	\$ (26,119)	\$ 4,486,491	\$ 4,460,372
Restatement	(21,085)	277,490	256,405
Investment Return:			
Net Investment Income	47,204	141,709	188,913
Repayment of endowment loan	-	100,000	100,000
Change in Interest in Net Assets of The Minneapolis Foundation	-	94,369	94,369
Total Investment Return	<u>47,204</u>	<u>336,078</u>	<u>383,282</u>
Contributions	-	-	-
Endowment Loan	-	-	-
Provision for Uncollectible Pledges	-	-	-
Appropriations of Endowment Assets for Expenditure	<u>-</u>	<u>(172,456)</u>	<u>(172,456)</u>
Endowment Investments - June 30, 2018	-	4,927,603	4,927,603
Investment Return:			
Net Investment Income	-	137,598	137,598
Repayment of endowment loan	-	-	-
Change in Interest in Net Assets of The Minneapolis Foundation	-	58,147	58,147
Total Investment Return	<u>-</u>	<u>195,745</u>	<u>195,745</u>
Contributions	-	-	-
Endowment Loan	-	-	-
Provision for Uncollectible Pledges	-	-	-
Appropriations of Endowment Assets for Expenditure	<u>-</u>	<u>(194,590)</u>	<u>(194,590)</u>
Endowment Investments - June 30, 2019	<u>\$ -</u>	<u>\$ 4,928,758</u>	<u>\$ 4,928,758</u>

**HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 NET ASSETS WITH DONOR RESTRICTION

With Donor Restriction

Net assets with donor restriction consisted of the following:

	2019	2018
Purpose and Time Restricted:		
Fund of the Sacred Circle	\$ 49,879	\$ -
Black Seed	170,000	-
Racial Justice Retreat	25,000	25,000
Restricted for Time	259,850	77,139
Endowment Funds	516,778	515,623
Total Purpose and Time Restricted	1,021,507	617,762
Restricted in Perpetuity:		
General Endowment	3,186,156	3,186,156
Fund of the Sacred Circle	306,922	306,922
Headwaters Foundation for Justice		
Fund of the Minneapolis Foundation	918,902	918,902
Total Restricted in Perpetuity	4,411,980	4,411,980
Total With Donor Restrictions	\$ 5,433,487	\$ 5,029,742

Restrictions Releases

Net assets restrictions were released as a result of the following conditions being met:

	2019	2018
Time	\$ 175,309	\$ 108,909
Purpose:		
Black Seed	180,000	-
Giving Project	13,715	75,000
Endowment	180,976	72,460
Total	\$ 550,000	\$ 256,369

NOTE 10 DONOR ADVISED FUNDS

The Foundation held donor advised funds amounting to \$876,618 and \$1,017,972 as of June 30, 2019 and 2018, respectively. Donors of the funds have the right to advise the Foundation related to grants from the funds; however, the Foundation's board of directors retains the right to direct the grants. The donor advised funds are included within net assets without donor restriction on the statements of financial position.

**HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 11 RETIREMENT PLAN

Employees of the Foundation meeting certain eligibility requirements are eligible to participate in a contributory 401(k) retirement plan. The Foundation contributes a discretionary amount to the plan which was \$37,692 and \$24,406 for the years ended June 30, 2019 and 2018, respectively.

NOTE 12 OPERATING LEASES

The Foundation leases office space under a lease that calls for escalating lease payments through September 30, 2020. The Foundation has subleased portions of office space to four sub-lessees under agreements with expiration dates through June 30, 2015.

Rent expense totaled \$75,098 and \$70,916, net of sublease income of \$37,329 and \$37,656 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 64,481
2021	17,533
Total	<u>\$ 82,014</u>

As of June 30, 2019, future minimum lease payments of the long-term subleases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 38,248
2021	3,664
Total	<u>\$ 41,912</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 Foundation 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 June 30, 2019, 73% of Headwater's gross pledges receivable balance was related to two donors. Additionally, 64% of Headwater's gross contributions balance was related to three donors.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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

The Foundation has established a fund with The Minneapolis 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 Foundation to the Fund will be matched, up to \$750,000, by contributions to the Fund from The Minneapolis Foundation. The Fund will be used in carrying out its charitable purposes, especially with respect to funding social justice programs as reflected by Headwaters Foundation’s 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 Minneapolis Foundation’s board of trustees, but the Headwaters Foundation 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 \$2,109,247 and \$2,068,468 at June 30, 2019 and 2018, respectively.

The plan governing the administration of the Fund indicates The Minneapolis 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 Minneapolis Foundation.

That portion of the funds derived from amounts placed in the funds by the Headwaters Foundation for Justice is included in the statement of financial position. The balance of the funds are derived from the matching amounts placed there by the Minneapolis Foundation are not included in statements of financial position due to the variance power they hold.

NOTE 15 RELATED PARTY TRANSACTIONS

Headwaters Foundation for Justice received \$18,960 and \$800,670 in contributions from board members during the years ended June 30, 2019 and 2018, respectively.

NOTE 16 AVAILABLE RESOURCES AND LIQUIDITY

Headwaters Foundation for Justice (HFJ) regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. HFJ has a finance committee and board of directors that meet regularly and oversees the available resources and liquidity. HFJ has various sources of liquidity at its disposal, including cash and cash equivalents, investments, program related investments, and receivables.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 16 AVAILABLE RESOURCES AND LIQUIDITY (CONTINUED)

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities of community grantmaking, donor advised funds, program related expenses, development, and capacity building services as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Foundation's cash and shows positive cash generated by operations for fiscal years 2018 and 2019.

As of June 30, 2019, the following tables show the total financial assets held by the Foundation and the amounts of those financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

	<u>2019</u>	<u>2018</u>
Financial Assets at Year-End:		
Cash	\$ 2,078,833	\$ 2,358,789
Pledges Receivable, Net	315,112	64,767
Grants, and Other Receivables	394,700	7,793
Investments	3,380,969	3,408,377
PRI	510,000	510,000
Interest in Net Assets of MPLS Foundation	<u>1,054,771</u>	<u>1,034,376</u>
Total Financial Assets at Year-End	7,734,385	7,384,102
Less Amounts Not Available to be Used Within One Year:		
Cash and Equivalents	652,258	695,803
Endowment Investments	4,928,758	4,927,603
Less Amount Expected to be Appropriated for Expenditure	(200,000)	(177,000)
Less Program Related Income due over over the next 12 months	410,000	510,000
Net Assets With Donor Restrictions Subject to Expenditures for Specified Purpose or Passage of Time	504,729	102,139
Less Net Assets With Restrictions to be Met over the next 12 months:		
Purpose	(170,220)	(1,060,545)
Time	<u>(209,883)</u>	<u>(77,143)</u>
Total	<u>5,915,642</u>	<u>4,920,857</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 1,818,743</u>	<u>\$ 2,463,245</u>

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 16 AVAILABLE RESOURCES AND LIQUIDITY (CONTINUED)

The design of Headwaters' internal controls is designed to be cost effective. HFJ maintains accounts necessary for daily operations, a checking account, and multiple savings accounts to maintain Federal Deposit Insurance Corporation coverage. For purposes of liquidity, it is the policy of HFJ to maintain operating funds and donor advised cash balances in checking and/or savings accounts.

At the beginning of each fiscal year, HFJ strives to establish working capital of no less than three months of operating expenses in the approved budget. In addition, HFJ strives to maintain no less than three months operating expenses in reserve (savings). The working capital and reserve are used to satisfy the fluctuating needs for cash during the year and provide solid cash management.

The Foundation's largest intermitted expenses are grant payments. Grant Committees meet regularly to review and recommend grant requests to be approved by the board. Due to this timing, the Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses for administrative, general, and fundraising expenses plus an amount that represents the next expected payment for on-going grant commitments recommended by Grant Committees and approved by the board.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long-term grant commitments and obligations under endowments with donor restrictions and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

NOTE 17 RESTATEMENT

It was discovered that the endowment value was understated in the with donor restrictions category in the net assets for the year ended June 30, 2017. The Foundation has reduced net assets without donor restrictions by \$277,490 and increased net assets with donor restrictions by \$277,490 for endowment appreciation previously recorded in net assets without donor restrictions.