

**HEADWATERS FOUNDATION FOR JUSTICE**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

**HEADWATERS FOUNDATION FOR JUSTICE  
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YEARS ENDED JUNE 30, 2020 AND 2019**

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## 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, 2020 and 2019, 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, 2020 and 2019, 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.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
December 15, 2020

**HEADWATERS FOUNDATION FOR JUSTICE**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2020 AND 2019**

|  | 2020          | 2019         |
|--|---------------|--------------|
| <b>ASSETS</b>  |               |              |
| Cash and Cash Equivalents                                | \$ 4,317,372  | \$ 1,426,575 |
| Cash Restricted  | 636,073       | 652,258      |
| Pledges Receivable, Net                                  | 158,861       | 315,112      |
| Grants Receivable  | 342,000       | 372,500      |
| Other Receivables  | -             | 22,200       |
| Prepaid Expenses and Other                               | 248,362       | 85,886       |
| Property and Equipment, Net                              | 333           | 1,100        |
| Investments  | 3,368,948     | 3,380,969    |
| Program Related Investments                              | 510,000       | 510,000      |
| Interest in the Net Assets of The Minneapolis Foundation | 1,047,972     | 1,054,771    |
| Total Assets   | \$ 10,629,921 | \$ 7,821,371 |
| <b>LIABILITIES AND NET ASSETS</b>                        |               |              |
| <b>LIABILITIES</b>                                       |               |              |
| Accounts Payable   | \$ 10,304     | \$ 41,695    |
| Accrued Expenses   | 28,678        | 209,589      |
| Grants Payable   | 553,500       | 130,000      |
| Notes Payable  | 157,278       | -            |
| Deferred Rent Payable                                    | 2,750         | 8,104        |
| Tenant Security Deposits                                 | 1,440         | 1,440        |
| Total Liabilities  | 753,950       | 390,828      |
| <b>NET ASSETS</b>  |               |              |
| Without Donor Restriction                                | 2,639,221     | 1,997,056    |
| With Donor Restriction                                   | 7,236,749     | 5,433,487    |
| Total Net Assets   | 9,875,971     | 7,430,543    |
| Total Liabilities and Net Assets                         | \$ 10,629,921 | \$ 7,821,371 |

See accompanying Notes to Financial Statements.

**HEADWATERS FOUNDATION FOR JUSTICE  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2020 AND 2019**

|  | 2020                         |                           |                     | 2019                         |                           |                     |
|--|------------------------------|---------------------------|---------------------|------------------------------|---------------------------|---------------------|
|  | Without Donor<br>Restriction | With Donor<br>Restriction | Total               | Without Donor<br>Restriction | With Donor<br>Restriction | Total               |
| <b>REVENUES, GAINS, AND OTHER SUPPORT</b>                              |                              |                           |                     |                              |                           |                     |
| Contributions and Grants   | \$ 1,779,272                 | \$ 2,062,317              | \$ 3,841,589        | \$ 959,983                   | \$ 418,000                | \$ 1,377,983        |
| Contributions – Donor Advised Funds                                    | 2,912,176                    | -                         | 2,912,176           | 1,106,252                    | -                         | 1,106,252           |
| Government Grants  | 170,500                      | -                         | 170,500             | -                            | -                         | -                   |
| Investment Income  | 40,399                       | 140,518                   | 180,917             | 50,593                       | 137,598                   | 188,191             |
| Change in Beneficial Interests in                                      |                              |                           |                     |                              |                           |                     |
| The Minneapolis Foundation Fund  | -                            | 32,220                    | 32,220              | -                            | 58,147                    | 58,147              |
| Special Events, Net of Expenses of \$-0-<br>and \$86,184, Respectively | 108                          | -                         | 108                 | 32,596                       | -                         | 32,596              |
| Black Seed Fellowship  | -                            | 90,000                    | 90,000              | -                            | 340,000                   | 340,000             |
| Other Operating Revenue  | 444,695                      | -                         | 444,695             | 103,801                      | -                         | 103,801             |
| Net Assets Released from Restriction                                   | 521,793                      | (521,793)                 | -                   | 550,000                      | (550,000)                 | -                   |
| Total Revenues, Gains, and Other Support                               | <u>5,868,943</u>             | <u>1,803,262</u>          | <u>7,672,205</u>    | <u>2,803,225</u>             | <u>403,745</u>            | <u>3,206,970</u>    |
| <b>EXPENSES</b>  |                              |                           |                     |                              |                           |                     |
| Program Services   | 4,474,512                    | -                         | 4,474,512           | 1,995,028                    | -                         | 1,995,028           |
| Supporting Services:   |                              |                           |                     |                              |                           |                     |
| Management and General   | 404,857                      | -                         | 404,857             | 780,455                      | -                         | 780,455             |
| Fund Development   | 347,409                      | -                         | 347,409             | 404,513                      | -                         | 404,513             |
| Total Supporting Services  | <u>752,266</u>               | <u>-</u>                  | <u>752,266</u>      | <u>1,184,968</u>             | <u>-</u>                  | <u>1,184,968</u>    |
| Total Expenses   | <u>5,226,778</u>             | <u>-</u>                  | <u>5,226,778</u>    | <u>3,179,996</u>             | <u>-</u>                  | <u>3,179,996</u>    |
| <b>CHANGE IN NET ASSETS</b>  | 642,165                      | 1,803,262                 | 2,445,427           | (376,771)                    | 403,745                   | 26,974              |
| Net Assets - Beginning 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>    |
| <b>NET ASSETS - END OF YEAR</b>  | <u>\$ 2,639,221</u>          | <u>\$ 7,236,749</u>       | <u>\$ 9,875,971</u> | <u>\$ 1,997,056</u>          | <u>\$ 5,433,487</u>       | <u>\$ 7,430,543</u> |

See accompanying Notes to Financial Statements.

**HEADWATERS FOUNDATION FOR JUSTICE  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2020 AND 2019**

|  | 2020                |                        |                   |                           |                     | 2019                |                        |                   |                           |                     |
|--|---------------------|------------------------|-------------------|---------------------------|---------------------|---------------------|------------------------|-------------------|---------------------------|---------------------|
|  | Program Services    | Supporting Services    |                   | Total Supporting Services | Total Expenses      | Program Services    | Supporting Services    |                   | Total Supporting Services | Total Expenses      |
|  |                     | Management and General | Fund Development  |                           |                     |                     | Management and General | Fund Development  |                           |                     |
| Salaries and Benefits                      | \$ 415,213          | \$ 196,139             | \$ 253,615        | \$ 449,754                | \$ 864,967          | \$ 355,821          | \$ 555,275             | \$ 264,668        | \$ 819,943                | \$ 1,175,764        |
| Consultants                                | 55,205              | 6,831                  | 650               | 7,481                     | 62,686              | 134,305             | 44,694                 | 27,601            | 72,295                    | 206,600             |
| Accountants                                | -                   | 127,867                | -                 | 127,867                   | 127,867             | -                   | 83,309                 | -                 | 83,309                    | 83,309              |
| Office Expenses                            | 14,730              | 15,494                 | 16,346            | 31,840                    | 46,570              | 16,630              | 7,638                  | 15,341            | 22,979                    | 39,609              |
| Information Technology                     | 46,122              | 19,276                 | 34,703            | 53,979                    | 100,101             | 40,270              | 17,471                 | 21,120            | 38,591                    | 78,861              |
| Occupancy                                  | 46,234              | 12,782                 | 20,308            | 33,090                    | 79,324              | 37,947              | 13,894                 | 23,257            | 37,151                    | 75,098              |
| Conference Conventions and Meetings        | 45,199              | 11,905                 | 11,789            | 23,694                    | 68,893              | 86,544              | 28,946                 | 18,555            | 47,501                    | 134,045             |
| Depreciation                               | -                   | 767                    | -                 | 767                       | 767                 | -                   | 6,028                  | -                 | 6,028                     | 6,028               |
| Insurance                                  | 3,080               | 1,935                  | 1,381             | 3,316                     | 6,396               | 2,379               | 845                    | 1,312             | 2,157                     | 4,536               |
| Memberships                                | 11,205              | 79                     | 1                 | 80                        | 11,285              | 9,579               | 919                    | 386               | 1,305                     | 10,884              |
| Interest Expense                           | -                   | 240                    | -                 | 240                       | 240                 | -                   | -                      | -                 | -                         | -                   |
| Other Expense                              | 1,660               | 11,542                 | 15,088            | 26,630                    | 28,290              | 6,507               | 21,253                 | 10,271            | 31,524                    | 38,031              |
| Bad Debt Expense                           | 4,365               | -                      | (6,972)           | (6,972)                   | (2,607)             | 1,157               | 183                    | 22,002            | 22,185                    | 23,342              |
| Total Expenses Before Grants               | <u>643,013</u>      | <u>404,857</u>         | <u>346,909</u>    | <u>751,766</u>            | <u>1,394,779</u>    | <u>691,139</u>      | <u>780,455</u>         | <u>404,513</u>    | <u>1,184,968</u>          | <u>1,876,107</u>    |
| Grants (Net of Donor Advised Grants)       | 1,496,729           | -                      | 500               | 500                       | 1,497,229           | 353,300             | -                      | -                 | -                         | 353,300             |
| Donor Advised Funds Grants                 | 2,334,770           | -                      | -                 | -                         | 2,334,770           | 950,589             | -                      | -                 | -                         | 950,589             |
| Total Grants                               | <u>3,831,499</u>    | <u>-</u>               | <u>500</u>        | <u>500</u>                | <u>3,831,999</u>    | <u>1,303,889</u>    | <u>-</u>               | <u>-</u>          | <u>-</u>                  | <u>1,303,889</u>    |
| Total Expenses                             | <u>4,474,512</u>    | <u>404,857</u>         | <u>347,409</u>    | <u>752,266</u>            | <u>5,226,778</u>    | <u>1,995,028</u>    | <u>780,455</u>         | <u>404,513</u>    | <u>1,184,968</u>          | <u>3,179,996</u>    |
| Special Event Expenses Netted with Revenue | <u>-</u>            | <u>-</u>               | <u>-</u>          | <u>-</u>                  | <u>-</u>            | <u>-</u>            | <u>-</u>               | <u>86,184</u>     | <u>86,184</u>             | <u>86,184</u>       |
| Total Functional Expenses                  | <u>\$ 4,474,512</u> | <u>\$ 404,857</u>      | <u>\$ 347,409</u> | <u>\$ 752,266</u>         | <u>\$ 5,226,778</u> | <u>\$ 1,995,028</u> | <u>\$ 780,455</u>      | <u>\$ 490,697</u> | <u>\$ 1,271,152</u>       | <u>\$ 3,266,180</u> |
| Percentages                                | <u>86%</u>          | <u>8%</u>              | <u>7%</u>         | <u>14%</u>                | <u>100%</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  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2020 AND 2019**

|  | 2020         | 2019         |
|--|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |              |              |
| Change in Net Assets   | \$ 2,445,427 | \$ 26,974    |
| Adjustment to Reconcile Change in Net Assets to<br>Net Cash Provided (Used) by Operating Activities: |              |              |
| Depreciation and Amortization  | 767          | 6,028        |
| Net Realized and Unrealized Gain on Investments  | (117,275)    | (117,627)    |
| Change in Beneficial Interest in The Minneapolis Foundation  | (32,220)     | (58,147)     |
| Change in Allowance for Uncollectible Pledges  | (11,904)     | 18,986       |
| (Increase) Decrease in Assets:   |              |              |
| Pledges Receivable   | 168,155      | (269,331)    |
| Grants and Other Receivables   | 52,700       | (386,907)    |
| Prepaid Expenses and Other   | (162,476)    | (14,103)     |
| Increase (Decrease) in Liabilities:  |              |              |
| Accounts Payable   | (31,391)     | 11,365       |
| Accrued Expenses   | (180,911)    | 192,622      |
| Grants Payable   | 423,500      | 130,000      |
| Deferred Rent Payable  | (5,354)      | (2,603)      |
| Net Cash Provided (Used) by Operating Activities   | 2,549,018    | (462,743)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |              |              |
| Purchase of Investments  | (4,606,339)  | (679,857)    |
| Proceeds from Sale of Investments  | 4,774,655    | 862,644      |
| Net Cash Provided by Investing Activities  | 168,316      | 182,787      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |              |              |
| Proceeds from Long-Term Debt   | 157,278      | -            |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>   | 2,874,612    | (279,956)    |
| Cash and Cash Equivalents - Beginning of Year  | 2,078,833    | 2,358,789    |
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>   | \$ 4,953,445 | \$ 2,078,833 |
| <b>SUPPLEMENTAL DISCLOSURES OF TOTAL CASH</b>  |              |              |
| Cash and Cash Equivalents  | \$ 4,317,372 | \$ 1,426,575 |
| Restricted Cash  | 636,073      | 652,258      |
| Total Cash and Cash Equivalents  | \$ 4,953,445 | \$ 2,078,833 |

See accompanying Notes to Financial Statements.

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Foundation**

Established in 1984, Headwaters Foundation for Justice (The Foundation) 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, record keeping, grants evaluation, and internal grants management. Grantmaking programs include:

Giving Project – grants support organizations that are led by and for Black people, Indigenous people, and people of color (BIPOC) that also use a community organizing approach to address root causes of injustice. The Foundation has been offering Giving Project grants since 2015. During fiscal year 2020, Giving Project grants were managed by a cross-class, multiracial cohort of community members. The Giving Project cohort raised funds from their networks and led the grantmaking process; they awarded \$211,000 in 18 grants.

The Fund of the Sacred Circle – is directed toward Native-led grassroots groups or projects in Minnesota and Wisconsin that address issues of injustice. 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 2020, the Fund of the Sacred Circle awarded \$40,000 in four grants.

Community Innovation Grants Program – is a partnership with the Bush Foundation. Grants 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 2020, \$563,500 was awarded in 47 grants.

Rapid Response Grantmaking: Communities First Fund and The Transformation Fund – The local coronavirus public health crisis called attention to how systems and institutions kept letting our communities fall through the cracks. The Foundation's grantee partners — the majority of which are BIPOC-led—had been telling us about how their communities were absorbing more social, political, and economic consequences than they did before the outbreak. Our response was to get to work fundraising and establish the Communities First Fund on March 15, 2020. Then, on May 31, the Foundation responded to the murder of George Floyd by setting up The Transformation Fund. We wanted to move money quickly to frontline organizations as they kept fighting against an ongoing culture of institutional violence and white supremacy. We also wanted to support the long-term movement work for real change required for our collective liberation. These two-rapid response grant making initiatives helped the Foundation tune into the community's real-time needs and get grant dollars to where they could be most helpful. In fiscal year 2020, \$1,132,500 was awarded in 63 grants.

**HEADWATERS FOUNDATION FOR JUSTICE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

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

**Description of Program Services (Continued)**

Donor Advised Funds – This program enables individual donors to advance their philanthropic goals and direct resources to social change groups locally and nationally. The Foundation's staff educates donors about social injustice issues, connects them to organizations that match their interests, and provides grantmaking assistance. In fiscal year 2019, The Foundation's allocated \$2,495,768.84 in 111 Donor Advised Grants. (Includes grants of \$782,500 to HFJ.)

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 2020, \$105,000 was awarded in five grants.

**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.

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

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

**Restricted Cash**

The Foundation's restricted cash consists of the Donor Advise Fund bank account less the Bush Funds. Restricted cash for the years ended June 30, 2020 and 2019 was \$636,073 and \$652,258, respectively.

**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, 2020 and 2019 was \$11,957 and \$23,861, respectively.

**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.

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

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

**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.

**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, 2020 and 2019.

**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 with 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.

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

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

**Fair Value of Measurement (Continued)**

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.

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

**Endowment Funds (Continued)**

In accordance with the Uniform Prudent Management of Institutional Funds Act (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, 2020 and 2019, there were no funds with deficiencies.

*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.

*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**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Endowment Distribution Policy (Continued)**

*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 \$-0- and \$7,533 at June 30, 2020 and 2019, 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.

**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 2020 and 2019, 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.

**HEADWATERS FOUNDATION FOR JUSTICE  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Change in Accounting Principle**

The Foundation adopted Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in the update assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Foundation’s financial statements reflect the application of ASU 2018-08 guidance beginning in fiscal year 2020. The adoption of ASU 2018-08 did not impact the Foundation’s reported revenue or expenses.

The Foundation also adopted FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Foundation had a modified retrospective adoption to the ASU beginning in fiscal year 2020. The adoption of Topic 606 did not impact the Foundation’s reported revenue.

**Subsequent Events**

The Foundation has evaluated subsequent events from the statement of financial position date through December 15, 2020, 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 are summarized as follows at June 30:

|   | 2020       | 2019       |
|---|------------|------------|
| Pledges Receivable                      | \$ 170,818 | \$ 340,964 |
| Less: Unamortized Discount              | -          | (1,991)    |
| Net Pledges Receivable Before Allowance | 170,818    | 338,973    |
| Allowance                               | (11,957)   | (23,861)   |
| Net Pledges Receivable                  | \$ 158,861 | \$ 315,112 |

As of June 30, 2019, multi-year commitments were discounted to present value using an imputed interest rate of 1.60% and included two pledges worth \$250,000. As of June 30, 2020 all pledges are due within one year.

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 3 GRANTS RECEIVABLE**

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

|                    | <u>2020</u>       | <u>2019</u>       |
|--------------------|-------------------|-------------------|
| Less than One Year | \$ 342,000        | \$ 322,500        |
| One to Five Years  | -                 | 50,000            |
| Total              | <u>\$ 342,000</u> | <u>\$ 372,500</u> |

**NOTE 4 INVESTMENTS**

Investments consisted of the following at June 30:

|                           | <u>2020</u>         | <u>2019</u>         |
|---------------------------|---------------------|---------------------|
| Cash and Cash Equivalents | \$ 2,666            | \$ 38,815           |
| Domestic Equity           | 1,107,321           | 1,175,043           |
| International Equity      | 616,739             | 595,499             |
| Fixed Income              | 960,177             | 831,425             |
| Equity Mutual Funds       | 682,045             | 740,187             |
| Total                     | <u>\$ 3,368,948</u> | <u>\$ 3,380,969</u> |

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

|                       | <u>2020</u>       | <u>2019</u>       |
|-----------------------|-------------------|-------------------|
| Investment Income     | \$ 63,642         | \$ 70,564         |
| Realized Gains        | 1,045,457         | 184,128           |
| Net Unrealized Losses | (928,182)         | (66,501)          |
| Net Investment Return | <u>\$ 180,917</u> | <u>\$ 188,191</u> |

**NOTE 5 PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30:

|   | <u>2020</u>   | <u>2019</u>     |
|---|---------------|-----------------|
| Office Furniture and Equipment            | \$ 19,733     | \$ 121,424      |
| Accumulated Depreciation and Amortization | (19,400)      | (120,324)       |
| Net Property and Equipment                | <u>\$ 333</u> | <u>\$ 1,100</u> |

Depreciation and amortization expense totaled \$767 and \$6,028 for the years ended June 30, 2020 and 2019, respectively.

**HEADWATERS FOUNDATION FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**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:

|   | 2020                |             |                     | Total               |
|---|---------------------|-------------|---------------------|---------------------|
|   | Level 1             | Level 2     | Level 3             |                     |
| Investments:  |                     |             |                     |                     |
| Domestic Equity   | \$ 1,107,321        | \$ -        | \$ -                | \$ 1,107,321        |
| International Equity  | 616,739             | -           | -                   | 616,739             |
| Fixed Income  | 960,177             | -           | -                   | 960,177             |
| Equity Mutual Funds   | 438,374             | -           | -                   | 438,374             |
| Interest in the Net Assets of<br>The Minneapolis Foundation | -                   | -           | 1,047,972           | 1,047,972           |
| Total   | <u>\$ 3,122,612</u> | <u>\$ -</u> | <u>\$ 1,047,972</u> | 4,170,584           |
| Investments Valued at NAV                                   |                     |             |                     | 243,671             |
| Total   |                     |             |                     | <u>\$ 4,414,255</u> |
|   |                     |             |                     |                     |
|   | 2019                |             |                     |                     |
|   | Level 1             | Level 2     | Level 3             | Total               |
| Investments:  |                     |             |                     |                     |
| Domestic Equity   | \$ 1,175,043        | \$ -        | \$ -                | \$ 1,175,043        |
| International Equity  | 595,499             | -           | -                   | 595,499             |
| Fixed Income  | 831,425             | -           | -                   | 831,425             |
| Equity Mutual Funds   | 419,042             | -           | -                   | 419,042             |
| Interest in the Net Assets of<br>The Minneapolis Foundation | -                   | -           | 1,054,771           | 1,054,771           |
| Total   | <u>\$ 3,021,009</u> | <u>\$ -</u> | <u>\$ 1,054,771</u> | 4,075,780           |
| Investments Valued at NAV                                   |                     |             |                     | 321,145             |
| Total   |                     |             |                     | <u>\$ 4,396,925</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:

|  | 2020<br>Net Asset<br>Value | 2019<br>Net Asset<br>Value | Unfunded<br>Commitments | Redemption<br>Frequency (if<br>Currently<br>Eligible) | Redemption<br>Notice Period |
|--|----------------------------|----------------------------|-------------------------|---|-----------------------------|
| Boston Common Small Cap<br>Social Fund | \$ 243,671                 | \$ 321,145                 | \$ -                    | 90 days   | Monthly                     |

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.

**HEADWATERS FOUNDATION FOR JUSTICE  
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**NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)**

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

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:

|  | <u>2020</u>         | <u>2019</u>         |
|--|---------------------|---------------------|
| Balance - Beginning of Year  | \$ 1,054,771        | \$ 1,034,376        |
| Change in Beneficial Interests in<br>The Minneapolis Foundation Fund | 32,220              | 58,147              |
| Distributions  | <u>(39,019)</u>     | <u>(37,752)</u>     |
| Balance - End of Year  | <u>\$ 1,047,972</u> | <u>\$ 1,054,771</u> |

**NOTE 7 PROGRAM-RELATED INVESTMENTS**

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

|                              | <u>2020</u>       | <u>2019</u>       |
|------------------------------|-------------------|-------------------|
| Propel Nonprofits:           |                   |                   |
| Matures December 2020        | \$ 100,000        | \$ 100,000        |
| Matures September 2021       | 125,000           | 125,000           |
| Matures September 2022       | 100,000           | 100,000           |
| Community Reinvestment Fund: |                   |                   |
| Matures September 2020       | 125,000           | 125,000           |
| Matures November 2021        | 60,000            | 60,000            |
| Total                        | <u>\$ 510,000</u> | <u>\$ 510,000</u> |

**NOTE 8 ENDOWMENT COMPOSITION AND CHANGES TO ENDOWMENT NET ASSETS**

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

|   | <u>Without Donor<br/>Restriction</u> | <u>With Donor<br/>Restriction</u> | <u>2020<br/>Total</u> |
|---|--------------------------------------|-----------------------------------|-----------------------|
| General Endowment   | \$ -                                 | \$ 3,420,575                      | \$ 3,420,575          |
| Fund of the Sacred Circle                                   | -                                    | 448,401                           | 448,401               |
| Interest in the Net Assets of<br>The Minneapolis Foundation | -                                    | 1,047,972                         | 1,047,972             |
| Total   | <u>\$ -</u>                          | <u>\$ 4,916,948</u>               | <u>\$ 4,916,948</u>   |
|   | <u>Without Donor<br/>Restriction</u> | <u>With Donor<br/>Restriction</u> | <u>2019<br/>Total</u> |
| General Endowment   | \$ -                                 | \$ 3,451,929                      | \$ 3,451,929          |
| Fund of the Sacred Circle                                   | -                                    | 422,058                           | 422,058               |
| Interest in the Net Assets of<br>The Minneapolis Foundation | -                                    | 1,054,771                         | 1,054,771             |
| Total   | <u>\$ -</u>                          | <u>\$ 4,928,758</u>               | <u>\$ 4,928,758</u>   |

**HEADWATERS FOUNDATION FOR JUSTICE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 8 ENDOWMENT COMPOSITION AND CHANGES TO ENDOWMENT NET ASSETS  
(CONTINUED)**

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

|   | <u>Without Donor<br/>Restriction</u> | <u>With Donor<br/>Restriction</u> | <u>Total</u>        |
|---|--------------------------------------|-----------------------------------|---------------------|
| Endowment Investments - July 1, 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<br>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<br>Assets for Expenditure             | <u>-</u>                             | <u>(194,590)</u>                  | <u>(194,590)</u>    |
| Endowment Investments - June 30, 2019                             | -                                    | 4,928,758                         | 4,928,758           |
| Investment Return:  |                                      |                                   |                     |
| Net Investment Income   | -                                    | 140,518                           | 140,518             |
| Repayment of Endowment Loan                                       | -                                    | -                                 | -                   |
| Change in Interest in Net Assets<br>of The Minneapolis Foundation | -                                    | 32,220                            | 32,220              |
| Total Investment Return   | <u>-</u>                             | <u>172,738</u>                    | <u>172,738</u>      |
| Contributions   | -                                    | -                                 | -                   |
| Endowment Loan  | -                                    | -                                 | -                   |
| Provision for Uncollectible Pledges                               | -                                    | -                                 | -                   |
| Appropriations of Endowment<br>Assets for Expenditure             | <u>-</u>                             | <u>(184,548)</u>                  | <u>(184,548)</u>    |
| Endowment Investments - June 30, 2020                             | <u>\$ -</u>                          | <u>\$ 4,916,948</u>               | <u>\$ 4,916,948</u> |

**NOTE 9 NOTES PAYABLE**

During the year, the Foundation entered into a construction loan to fund office improvements in the amount of \$160,000. The note matures on May 1, 2025 and has an interest rate of 4.15%. The first payment is due June 1, 2020 and will go through May 1, 2025 for 60 monthly payments of \$2,961.96. The note is secured by the Foundation's money market savings accounting in the approximate balance of \$160,000.

**HEADWATERS FOUNDATION FOR JUSTICE**  
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**NOTE 10 NET ASSETS WITH DONOR RESTRICTION**

**With Donor Restriction**

Net assets with donor restriction consisted of the following:

|                                    | 2020         | 2019         |
|------------------------------------|--------------|--------------|
| Purpose and Time Restricted:       |              |              |
| Fund of the Sacred Circle          | \$ 121,883   | \$ 49,879    |
| Black Seed                         | 97,600       | 170,000      |
| Racial Justice Retreat             | -            | 25,000       |
| Transformation Fund                | 1,792,318    | -            |
| Restricted for Time                | 308,000      | 259,850      |
| Endowment Funds                    | 504,968      | 516,778      |
| Total Purpose and Time Restricted  | \$ 2,824,769 | \$ 1,021,507 |
|                                    | 2020         | 2019         |
| 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      | \$ 7,236,749 | \$ 5,433,487 |

**Restrictions Releases**

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

|                           | 2020       | 2019       |
|---------------------------|------------|------------|
| Time                      | \$ 225,850 | \$ 175,309 |
| Purpose:                  |            |            |
| Black Seed                | 72,400     | 180,000    |
| Racial Justice Retreat    | 25,000     | -          |
| Fund of the Sacred Circle | 13,995     | -          |
| Giving Project            | -          | 13,715     |
| Endowment                 | 184,548    | 180,976    |
| Total                     | \$ 521,793 | \$ 550,000 |

**NOTE 11 DONOR ADVISED FUNDS**

The Foundation held donor advised funds amounting to \$712,873 and \$876,618 as of June 30, 2020 and 2019, 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  
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**NOTE 12 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 \$30,224 and \$37,692 for the years ended June 30, 2020 and 2019, respectively.

**NOTE 13 OPERATING LEASES**

The Foundation leases office space under a lease that calls for escalating lease payments through September 30, 2020. A lease amendment was signed on February 12, 2020 to extend the lease term starting on October 1, 2020 for a period of 10 years. The lease amendment included a tenant improvement package and tenant allowance provided by the landlord in the amount of \$119,070. This amount will be amortized equally over the life of the lease to reduce rental expense. The Foundation has subleased portions of office space to four sub-lessees under agreements with expiration dates through June 30, 2015.

Rent expense totaled \$79,323 and \$75,098 net of sublease income of \$34,638 and \$37,329 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments are as follows:

| <u>Year Ending June 30.</u> | <u>Amount</u>            |
|-----------------------------|--------------------------|
| 2021                        | \$ 44,764                |
| 2022                        | 60,627                   |
| 2023                        | 61,883                   |
| 2024                        | 63,139                   |
| 2025                        | 64,395                   |
| Thereafter                  | <u>358,562</u>           |
| Total                       | <u><u>\$ 653,370</u></u> |

As of June 30, 2020, future minimum lease payments of the long-term subleases are \$-0-.

**NOTE 14 CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject the Foundation 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, 2020, 59% of the Foundation's gross pledges receivable balance was related to one donor. Additionally, 70% of the Foundation's gross contributions balance was related to three donors.

**HEADWATERS FOUNDATION FOR JUSTICE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 15 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 the 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 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 \$2,096,262 and \$2,109,247 at June 30, 2020 and 2019, 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 Foundation 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 16 RELATED PARTY TRANSACTIONS**

The Foundation’s received \$8,147 and \$18,960 in contributions from board members during the years ended June 30, 2020 and 2019, respectively.

**NOTE 17 AVAILABLE RESOURCES AND LIQUIDITY**

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

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.

**HEADWATERS FOUNDATION FOR JUSTICE  
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**NOTE 17 AVAILABLE RESOURCES AND LIQUIDITY (CONTINUED)**

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 2019 and 2020.

As of June 30, 2020, 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 statement of financial position date to meet general expenditures:

|  | 2020         | 2019         |
|--|--------------|--------------|
| Financial Assets at Year-End:  |              |              |
| Cash   | \$ 4,953,445 | \$ 2,078,833 |
| Pledges Receivable, Net  | 158,861      | 315,112      |
| Grants, and Other Receivables  | 342,000      | 394,700      |
| Investments  | 3,368,948    | 3,380,969    |
| PRI  | 510,000      | 510,000      |
| Interest in Net Assets of MPLS Foundation  | 1,047,972    | 1,054,771    |
| Total Financial Assets at Year-End   | 10,381,226   | 7,734,385    |
| Less Amounts Not Available to be Used Within One Year:   |              |              |
| Cash and Equivalents   | 636,073      | 652,258      |
| Endowment Investments  | 4,916,948    | 4,928,758    |
| Less: Amount Expected to be Appropriated for Expenditure   | (200,000)    | (200,000)    |
| Less: Program Related Income Due over the Next 12 Months   | 225,000      | 410,000      |
| Net Assets With Donor Restrictions Subject to Expenditures<br>for Specified Purpose or Passage of Time | 2,319,801    | 504,729      |
| Less: Net Assets With Restrictions to be Met over the Next<br>12 months:                               |              |              |
| Purpose  | (1,925,802)  | (170,220)    |
| Time   | (242,000)    | (209,883)    |
| Total  | 5,730,020    | 5,915,642    |
| Financial Assets Available to Meet General<br>Expenditures Over the Next Twelve Months                 | \$ 4,651,206 | \$ 1,818,743 |

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

At the beginning of each fiscal year, the Foundation strives to establish working capital of no less than three months of operating expenses in the approved budget. In addition, the Foundation 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.

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**NOTE 17 AVAILABLE RESOURCES AND LIQUIDITY (CONTINUED)**

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 18 PAYCHECK PROTECTION LOAN**

On April 20, 2020, the Foundation received proceeds in the amount of \$170,500 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the PPP Loan). The PPP loan may be forgiven by the U.S. Small Business Administration (SBA) subject to certain performance barriers, as outlined in the loan agreement and the CARES Act. Therefore, the Foundation has classified this loan as a conditional contribution for accounting purposes. The Foundation recognized \$170,500 of Government Grant revenue related to this agreement during the year ended June 30, 2020, which represents the portion of the PPP loan funds for which the performance barriers have been met as of the report date. As of June 30, 2020, the Foundation has not satisfied the performance barriers attributable to \$-0- of the PPP loan proceeds. This amount is classified as Revenue in the accompanying statement of activities. The SBA has not formally forgiven any portion of the Foundation's obligation under this PPP loan. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the organization fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. If the SBA determines that a portion of the PPP loan proceeds will not be forgiven, the Foundation would be obligated to repay those funds to the SBA at an interest rate of 1% over a period of two years, with payments deferred for up to six months. To the extent that all or part of the PPP Loan is not forgiven, the Foundation will be required to pay interest on the PPP Loan at a rate of 1.0% per annum, and commencing in November 2020 principal and interest payments will be required through the maturity date in May 2022.

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**NOTE 19 UNCERTAINTIES**

**COVID-19**

In March 2020, the World Health Organization declared a pandemic of the Corona Virus (COVID-19). Future contributions, revenues, and expenses of Headwaters Foundation are uncertain due to the potential impact on the market, travel, and other economic conditions. In addition, domestic equity markets have experienced significant fluctuations since March 2020. As of December 15, 2020, the amount and likelihood of loss relating to these events is not determined.