

HEADWATERS FOUNDATION FOR JUSTICE
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2025 AND 2024



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**HEADWATERS FOUNDATION FOR JUSTICE
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Headwaters Foundation for Justice
Minneapolis, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Headwaters Foundation for Justice, which comprise the statements of financial position as of June 30, 2025 and 2024, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2025 and 2024, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Headwaters Foundation for Justice and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Headwaters Foundation for Justice's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Headwaters Foundation for Justice's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Headwaters Foundation for Justice's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 18, 2025

HEADWATERS FOUNDATION FOR JUSTICE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2025 AND 2024

	2025	2024
ASSETS		
Cash and Cash Equivalents	\$ 417,512	\$ 2,290,199
Cash Restricted	177,713	342,394
Pledges and Grants Receivable, Net	2,164,970	3,994,272
Prepaid Expenses and Other Assets	90,605	101,800
Property and Equipment, Net	159,599	185,781
Investments	12,118,209	9,576,118
Program Related Investments	100,000	200,000
Interest in the Net Assets of The Minneapolis Foundation	1,295,983	1,233,450
Right of Use Asset - Operating Lease	374,077	438,943
Total Assets	\$ 16,898,668	\$ 18,362,957
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 41,034	\$ 113,957
Accrued Expenses	440,691	10,000
Grants Payable	1,960,000	1,655,300
Notes Payable	-	31,518
Lease Liabilities	389,987	453,883
Total Liabilities	2,831,712	2,264,658
NET ASSETS		
Without Donor Restriction	4,905,109	5,846,665
With Donor Restriction	9,161,847	10,251,634
Total Net Assets	14,066,956	16,098,299
Total Liabilities and Net Assets	\$ 16,898,668	\$ 18,362,957

See accompanying Notes to Financial Statements.

**HEADWATERS FOUNDATION FOR JUSTICE
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2025 AND 2024**

	2025			2024		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
REVENUES, GAINS, AND OTHER SUPPORT						
Contributions and Grants	\$ 1,118,026	\$ 3,370,073	\$ 4,488,099	\$ 1,898,704	\$ 1,067,819	\$ 2,966,523
Contributions – Donor Advised Funds	417,739	-	417,739	449,346	-	449,346
Interest Income	56,789	-	56,789	110,567	-	110,567
Net Investment Income	292,222	423,134	715,356	283,617	458,739	742,356
Change in Beneficial Interests in						
The Minneapolis Foundation Fund	-	108,657	108,657	-	155,316	155,316
Other Operating Revenue	11,220	-	11,220	663	-	663
Net Assets Released from Restriction	4,991,651	(4,991,651)	-	3,408,472	(3,408,472)	-
Total Revenues, Gains, and Other Support	<u>6,887,647</u>	<u>(1,089,787)</u>	<u>5,797,860</u>	<u>6,151,369</u>	<u>(1,726,598)</u>	<u>4,424,771</u>
EXPENSES						
Program Services	5,589,194	-	5,589,194	5,304,087	-	5,304,087
Supporting Services:						
Management and General	1,229,141	-	1,229,141	855,378	-	855,378
Fund Development	1,010,868	-	1,010,868	709,418	-	709,418
Total Supporting Services	<u>2,240,009</u>	<u>-</u>	<u>2,240,009</u>	<u>1,564,796</u>	<u>-</u>	<u>1,564,796</u>
Total Expenses	<u>7,829,203</u>	<u>-</u>	<u>7,829,203</u>	<u>6,868,883</u>	<u>-</u>	<u>6,868,883</u>
CHANGE IN NET ASSETS	(941,556)	(1,089,787)	(2,031,343)	(717,514)	(1,726,598)	(2,444,112)
Net Assets - Beginning of Year	<u>5,846,665</u>	<u>10,251,634</u>	<u>16,098,299</u>	<u>6,564,179</u>	<u>11,978,232</u>	<u>18,542,411</u>
NET ASSETS - END OF YEAR	<u>\$ 4,905,109</u>	<u>\$ 9,161,847</u>	<u>\$ 14,066,956</u>	<u>\$ 5,846,665</u>	<u>\$ 10,251,634</u>	<u>\$ 16,098,299</u>

See accompanying Notes to Financial Statements.

**HEADWATERS FOUNDATION FOR JUSTICE
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2025 AND 2024**

	2025					2024				
	Program Services	Supporting Services Management and General	Fund Development	Total Supporting Services	Total Expenses	Program Services	Supporting Services Management and General	Fund Development	Total Supporting Services	Total Expenses
Salaries and Benefits	\$ 1,224,534	\$ 691,450	\$ 815,381	\$ 1,506,831	\$ 2,731,365	\$ 783,988	\$ 451,840	\$ 524,202	\$ 976,042	\$ 1,760,030
Consultants	56,054	289,667	45,602	335,269	391,323	142,443	151,967	-	151,967	294,410
Accountants	60,476	54,546	40,317	94,863	155,339	122,204	86,765	21,357	108,122	230,326
Stipends	69,358	750	11,000	11,750	81,108	32,300	535	-	535	32,835
Office & Marketing Expenses	44,890	22,653	74,649	97,302	142,192	59,044	7,161	33,014	40,175	99,219
Information Technology	85,137	48,915	57,709	106,624	191,761	70,374	43,829	46,231	90,060	160,434
Occupancy	55,927	31,071	37,285	68,356	124,283	56,430	32,530	37,620	70,150	126,580
Conferences, Events, and Meetings	153,714	44,111	71,709	115,820	269,534	88,009	30,005	45,264	75,269	163,278
Depreciation		31,545		31,545	31,545	-	29,131	-	29,131	29,131
Insurance	2,410	4,476	1,605	6,081	8,491	2,595	4,020	1,730	5,750	8,345
Memberships	22,983	9,957	700	10,657	33,640	21,500	17,595	-	17,595	39,095
Bad Debt Expense (Recovery)	411	-	(145,089)	(145,089)	(144,678)	-	-	-	-	-
Total Expenses Before Grants	<u>1,775,894</u>	<u>1,229,141</u>	<u>1,010,868</u>	<u>2,240,009</u>	<u>4,015,903</u>	<u>1,378,887</u>	<u>855,378</u>	<u>709,418</u>	<u>1,564,796</u>	<u>2,943,683</u>
Grants (Net of Donor Advised Grants)	3,271,500	-	-	-	3,271,500	3,288,000	-	-	-	3,288,000
Donor Advised Funds Grants	541,800	-	-	-	541,800	637,200	-	-	-	637,200
Total Grants	<u>3,813,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,813,300</u>	<u>3,925,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,925,200</u>
Total Expenses	<u>\$ 5,589,194</u>	<u>\$ 1,229,141</u>	<u>\$ 1,010,868</u>	<u>\$ 2,240,009</u>	<u>\$ 7,829,203</u>	<u>\$ 5,304,087</u>	<u>\$ 855,378</u>	<u>\$ 709,418</u>	<u>\$ 1,564,796</u>	<u>\$ 6,868,883</u>

See accompanying Notes to Financial Statements.

**HEADWATERS FOUNDATION FOR JUSTICE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2025 AND 2024**

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (2,031,343)	\$ (2,444,112)
Adjustment to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	31,545	29,131
Net Realized and Unrealized (Gains) Losses on Investments	(427,217)	(588,757)
Change in Beneficial Interest in The Minneapolis Foundation	(108,657)	(155,316)
Loss (Recovery) on Uncollectible Pledges	(144,678)	-
(Increase) Decrease in Assets:		
Pledges and Grants Receivable	1,973,980	1,110,860
Other Receivables	-	2,490
Prepaid Expenses and Other	11,195	(21,929)
Increase (Decrease) in Liabilities:		
Accounts Payable	(72,923)	38,813
Accrued Expenses	430,691	(39,464)
Grants Payable	304,700	1,630,300
Refundable Advance	-	(245,046)
Lease Liabilities	970	2,226
Net Cash, Cash Equivalents, and Restricted Cash Used by Operating Activities	(31,737)	(680,804)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(5,363)	(4,543)
Proceeds from Repayment of PRI	100,000	310,000
Purchase of Investments	(4,579,363)	(3,463,486)
Proceeds from Sale of Investments	2,510,613	1,928,550
Net Cash, Cash Equivalents, and Restricted Cash Used by Investing Activities	(1,974,113)	(1,229,479)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Notes Payable	(31,518)	(33,444)
Net Cash, Cash Equivalents, and Restricted Cash Used by Financing Activities	(31,518)	(33,444)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(2,037,368)	(1,943,727)
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	2,632,593	4,576,320
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	\$ 595,225	\$ 2,632,593
SUPPLEMENTAL DISCLOSURES OF TOTAL CASH		
Cash and Cash Equivalents	\$ 417,512	\$ 2,290,199
Restricted Cash	177,713	342,394
Total Cash and Cash Equivalents	\$ 595,225	\$ 2,632,593

See accompanying Notes to Financial Statements.

**HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foundation

Established in 1984, Headwaters Foundation for Justice (The Foundation or Headwaters) 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:

Donor Advised Funds

This program enables individual donors to advance their philanthropic goals and direct resources to social change groups locally and nationally. Development staff educates donors about social injustice issues, connects them to organizations that match their interests, and provides grantmaking assistance. In fiscal year 2025, Headwaters donor advised funds holders gave \$541,800 to 83 organizations. In addition, \$53,126 was awarded to Headwaters.

The Fund of the Sacred Circle

According to Native Americans in Philanthropy, foundations invest less than half of one percent of grant dollars in Native communities. Headwaters works to address this imbalance through The Fund of the Sacred Circle Program (FSC). Grants support Minnesota- and Wisconsin-based Native American organizations that address systemic injustices. General operating grants supports work that focuses on language and cultural revitalization; land and environmental restoration; sovereignty and treaty rights; and self-determination and civil rights. In fiscal year 2025, FSC program awarded \$324,789.

The Giving Project

Since 2015, this program invests in 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. During fiscal year 2025, a community cohort raised money from their networks and led the grantmaking process. In the fiscal year 2025, our Giving Project Program awarded \$480,000 to 12 organizations.

Rapid Response Grantmaking

At Headwaters, we know that the nature of grassroots organizing means that our funding cycles do not always align with real financial needs of organizations in moments of crisis or opportunity. Headwaters raises and grants out rapid response dollars to community groups during unexpected and critical moments. In fiscal year 2025, our Rapid Response Grantmaking Program awarded \$791,500 to 30 organizations.

**HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Program Services (Continued)

Justice and Liberation

The Justice & Liberation Fund is a new strategy for building long-term political power and infrastructure in Minnesota. This initiative comes out of our Black Radianc Network. In fiscal year 2025, our Justice and Liberation Fund awarded \$2,000,000 to 40 organizations.

Other Programs

Headwaters Foundation conducts additional programming for grantee organizations and our volunteer communities that fall into the category of "Support Beyond the Dollars." Examples of these activities in 2025 included: a series of fundraising training courses accessible to our grantee organizations and two donor education training courses. Headwaters also hosted multiple events open to the public to engage community partners and celebrate specific funds and collective achievements.

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 (U.S. GAAP). 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. 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.

Restricted Cash

The Foundation's restricted cash consists of the Donor Advised Fund bank account. Restricted cash for the years ended June 30, 2025 and 2024 was \$177,713 and \$342,394, respectively.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges and Grants Receivable

Pledges and grants receivable are stated at the amount management expects to collect from balances outstanding at year-end. The allowance for the years ended June 30, 2025 and 2024 was \$52,893 and \$197,982, respectively.

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 when the assets acquired are placed in service.

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.

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.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program-Related Investments (Continued)

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, 2025 and 2024 .

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 to support the Fund of the Sacred Circle and/or other Native funds. 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 with donor restriction to support the Fund of the Sacred Circle and/or other Native funds. 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 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, 2025 AND 2024

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value 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, 2025 AND 2024

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 U.S. GAAP, 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, 2025 and 2024, 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
JUNE 30, 2025 AND 2024

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. Grants payable balances as of June 30, 2025 and 2024 were due to be paid in less than one year.

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.

Leases

Headwaters determines if an arrangement is a lease at inception. Leases are reported on the statements of financial position as a right-of-use (ROU) asset and lease liability. ROU assets represent Headwater's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement of date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that Headwaters will exercise that option.

Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Foundation has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the statements of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, Headwaters has elected to use a risk-free discount rate determined by using a period comparable with that of the lease term for computing the present value of lease liabilities.

**HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 2025 and 2024, 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.

Subsequent Events

The Foundation has evaluated subsequent events from the statement of financial position date through November 18, 2025, the date at which the financial statements were available to be issued and determined there are no other items to disclose.

NOTE 2 PLEDGES AND GRANTS RECEIVABLE

Pledges and grants receivable are summarized as follows at June 30:

	2025	2024
Pledges and Grants Receivable:		
Due in Less than One Year	\$ 2,217,863	\$ 2,293,450
Due in One to Five Years	-	1,916,186
Total	2,217,863	4,209,636
Less: Unamortized Discount	-	(17,382)
Net Pledges and Grants Receivable Before Allowance	2,217,863	4,192,254
Allowance	(52,893)	(197,982)
Net Pledges and Grants Receivable	\$ 2,164,970	\$ 3,994,272

As of June 30, 2025 and 2024, multi-year commitments were discounted to present value using imputed interest rates between 0.87-4.33%.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 3 INVESTMENTS

Investments consisted of the following at June 30:

	2025	2024
Cash and Cash Equivalents	\$ 715,535	\$ 645,813
Fixed Income	5,993,629	5,872,971
Equity Mutual Funds	5,409,045	3,057,334
Total	\$ 12,118,209	\$ 9,576,118

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

	2025	2024
Interest and Dividends	\$ 288,139	\$ 153,599
Realized Gains (Losses)	(1,628)	800,505
Net Unrealized Gains (Losses)	428,845	(211,748)
Net Investment Return	\$ 715,356	\$ 742,356

NOTE 4 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:

	2025			
	Level 1	Level 2	Level 3	Total
Investments:				
Fixed Income	\$ 5,993,629	\$ -	\$ -	\$ 5,993,629
Equity Mutual Funds	5,409,045	-	-	5,409,045
Interest in the Net Assets of				
The Minneapolis Foundation	-	-	1,295,983	1,295,983
Total	\$ 11,402,674	\$ -	\$ 1,295,983	\$ 12,698,657
	2024			
	Level 1	Level 2	Level 3	Total
Investments:				
Fixed Income	\$ 5,872,971	\$ -	\$ -	\$ 5,872,971
Equity Mutual Funds	3,057,334	-	-	3,057,334
Interest in the Net Assets of				
The Minneapolis Foundation	-	-	1,233,450	1,233,450
Total	\$ 8,930,305	\$ -	\$ 1,233,450	\$ 10,163,755

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 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:

	<u>2025</u>	<u>2024</u>
Balance - Beginning of Year	\$ 1,233,450	\$ 1,124,340
Change in Beneficial Interests in The Minneapolis Foundation Fund	108,656	155,316
Distributions	<u>(46,123)</u>	<u>(46,206)</u>
Balance - End of Year	<u>\$ 1,295,983</u>	<u>\$ 1,233,450</u>

The following is a summarization of level 3 significant unobservable inputs:

<u>Instrument</u>	<u>Fair Value</u>		<u>Principal Valuations Technique</u>	<u>Unobservable Inputs</u>
	<u>2025</u>	<u>2024</u>		
Interest in the Net Assets of The Minneapolis Foundation	\$ 1,295,983	\$ 1,233,450	Net Asset Value	Value of Underlying Assets

NOTE 5 PROGRAM-RELATED INVESTMENTS

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

	<u>2025</u>	<u>2024</u>
Propel Nonprofits:		
Matures December 2024	\$ -	\$ 100,000
Matures September 2025	100,000	100,000
Total	<u>\$ 100,000</u>	<u>\$ 200,000</u>

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2025</u>	<u>2024</u>
Office Furniture and Equipment	\$ 5,363	\$ 6,265
Leasehold Improvements	268,521	268,521
Accumulated Depreciation and Amortization	<u>(114,285)</u>	<u>(89,005)</u>
Net Property and Equipment	<u>\$ 159,599</u>	<u>\$ 185,781</u>

Depreciation expense totaled \$31,545 and \$29,131 for the years ended June 30, 2025 and 2024, respectively.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 7 ENDOWMENT COMPOSITION AND CHANGES TO ENDOWMENT NET ASSETS

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

<u>June 30, 2025</u>	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
General Endowment	\$ -	\$ 3,879,079	\$ 3,879,079
Fund of the Sacred Circle	-	680,629	680,629
Interest in the Net Assets of The Minneapolis Foundation	-	1,295,982	1,295,982
Total	<u>\$ -</u>	<u>\$ 5,855,690</u>	<u>\$ 5,855,690</u>
<u>June 30, 2024</u>	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
General Endowment	\$ -	\$ 3,691,546	\$ 3,691,546
Fund of the Sacred Circle	-	605,452	605,452
Interest in the Net Assets of The Minneapolis Foundation	-	1,233,450	1,233,450
Total	<u>\$ -</u>	<u>\$ 5,530,448</u>	<u>\$ 5,530,448</u>

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

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment Investments - July 1, 2023	\$ -	\$ 5,120,964	\$ 5,120,964
Net Investment Income	-	458,739	458,739
PRI Returned to Endowment	-	310,000	310,000
Change in Interest in Net Assets of The Minneapolis Foundation	-	155,317	155,317
Total Investment Return	<u>-</u>	<u>924,056</u>	<u>924,056</u>
Repayment of PRI Loan	-	(310,000)	(310,000)
Appropriations of Endowment Assets for Expenditure	<u>-</u>	<u>(204,572)</u>	<u>(204,572)</u>
Endowment Investments - June 30, 2024	-	5,530,448	5,530,448
Investment Return:			
Net Investment Income	-	423,134	423,134
PRI Returned to Endowment	-	100,000	100,000
Change in Interest in Net Assets of The Minneapolis Foundation	-	108,657	108,657
Total Investment Return	<u>-</u>	<u>631,791</u>	<u>631,791</u>
Repayment of PRI Loan	-	(100,000)	(100,000)
Appropriations of Endowment Assets for Expenditure	<u>-</u>	<u>(206,549)</u>	<u>(206,549)</u>
Endowment Investments - June 30, 2025	<u>\$ -</u>	<u>\$ 5,855,690</u>	<u>\$ 5,855,690</u>

**HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024**

NOTE 8 NOTES PAYABLE

During 2020, the Foundation entered into a construction loan to fund office improvements in the amount of \$160,000. The note matured on May 1, 2025 and had an interest rate of 4.15%. The first payment was due June 1, 2020 and went through May 1, 2025 for 60 monthly payments of \$2,962. The note was secured by the Foundation's money market savings account. The outstanding principal due was \$-0- and \$31,518 as of June 30, 2025 and 2024, respectively.

NOTE 9 NET ASSETS WITH DONOR RESTRICTION

With Donor Restriction

Net assets with donor restriction consisted of the following:

	<u>2025</u>	<u>2024</u>
Purpose and Time Restricted:		
Northwest Area Foundation Fund	\$ 125,000	\$ 375,000
Restricted for Time	3,166,158	4,346,186
Endowment Funds	1,443,709	1,118,468
Total Purpose and Time Restricted	<u>4,734,867</u>	<u>5,839,654</u>
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	<u>4,411,980</u>	<u>4,411,980</u>
 Total With Donor Restrictions	 <u>\$ 9,146,847</u>	 <u>\$ 10,251,634</u>

Restrictions Releases

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

	<u>2025</u>	<u>2024</u>
Time	\$ 3,535,102	\$ 2,998,694
Purpose:		
Transformation Fund	-	80,206
Northwest Area Foundation Fund	250,000	125,000
Black Visions	1,000,000	-
Endowment	206,549	204,572
Total	<u>\$ 4,991,651</u>	<u>\$ 3,408,472</u>

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 10 DONOR ADVISED FUNDS

The Foundation held donor advised funds amounting to \$177,713 and \$342,394 as of June 30, 2025 and 2024, 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.

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 \$87,515 and \$65,106 for the years ended June 30, 2025 and 2024, respectively.

NOTE 12 RIGHT OF USE ASSETS AND LEASE LIABILITIES

The Foundation leases office space under an operating lease that calls for escalating lease payments with an original term 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.

The following table provides quantitative information concerning the Foundation's leases for the year ended June 30:

	<u>2025</u>	<u>2024</u>
Operating Lease Costs	<u>\$ 77,200</u>	<u>\$ 77,200</u>
Other Information:		
Operating Cash Flows from Operating Leases	\$ 76,302	\$ 75,046
Weighted-Average Remaining Lease Term - Operating Leases	5.3 Years	6.25 Years
Weighted-Average Discount Rate - Operating Leases	2.92%	2.92%

As of June 30, 2025 and 2024, the Foundation's lease liability consists of the following:

	<u>2025</u>	<u>2024</u>
Current Lease Liabilities	\$ 66,798	\$ 63,896
Long-Term Lease Liabilities	323,189	389,987
Total Lease Liabilities	<u>\$ 389,987</u>	<u>\$ 453,883</u>

**HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024**

NOTE 12 RIGHT OF USE ASSETS AND LEASE LIABILITIES (CONTINUED)

A maturity analysis of annual undiscounted cash flows for the lease liability as of June 30, 2025 is as follows:

<u>Year Ending June 30,</u>	<u>Operating Leases</u>
2026	\$ 77,108
2027	78,664
2028	80,070
2029	81,326
2030	82,582
Thereafter	20,806
Total Lease Payments	<u>420,556</u>
Less: Interest	<u>(30,569)</u>
Present Value of Lease Liabilities	<u>\$ 389,987</u>

NOTE 13 CONCENTRATIONS

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of temporary cash investments and pledges and grants 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, 2025, 92% of the Foundation's gross pledges and grants receivable balance was related to two donors. Additionally, 67% of the Foundation's gross contributions were from four donors. At June 30, 2024, 92% of the Foundation's gross pledges and grants receivable balance was related to two donors and 43% of the Foundation's gross contributions was from two donors.

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 the Fund of the Sacred Circle and/or other Native funds held at the Foundation. 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 \$2,590,038 and \$2,464,547 at June 30, 2025 and 2024, respectively.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

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

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 is 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 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. Headwaters has a finance and investment committee and board of directors that meet regularly and oversees the available resources and liquidity. Headwaters 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.

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 2025 and 2024.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 15 AVAILABLE RESOURCES AND LIQUIDITY (CONTINUED)

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, as of June 30:

	2025	2024
Financial Assets at Year-End:		
Cash and Cash Equivalents	\$ 595,225	\$ 2,632,593
Pledges and Grants Receivable, Net	2,164,970	3,994,272
Investments	12,118,209	9,576,118
Interest in Net Assets of MPLS Foundation	1,295,983	1,233,450
Total Financial Assets at Year-End	16,174,387	17,436,433
 Amount Expected to be Appropriated for Expenditure	 253,627	 240,425
 Less Amounts Not Available to be Used Within One Year:		
Cash and Equivalents	177,713	342,394
Endowment Investments	5,855,690	5,530,448
Net Assets With Donor Restrictions Subject to Expenditures for Specified Purpose or Passage of Time	3,291,158	4,721,186
Less: Net Assets With Restrictions to be Met over the Next Twelve Months:		
Purpose	(125,000)	(375,000)
Time	(3,166,158)	(2,456,010)
Total	6,033,403	7,763,018
 Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	 \$ 10,394,611	 \$ 9,913,840

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.

HEADWATERS FOUNDATION FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 15 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.



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