

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS**

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2010 AND 2009**

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
TABLE OF CONTENTS  
YEARS ENDED DECEMBER 31, 2010 AND 2009**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
<b>CONSOLIDATED STATEMENTS OF FINANCIAL POSITION</b>	<b>2</b>
<b>CONSOLIDATED STATEMENTS OF ACTIVITIES</b>	<b>3</b>
<b>CONSOLIDATED STATEMENTS OF CASH FLOWS</b>	<b>4</b>
<b>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>5</b>

# LarsonAllen<sup>®</sup>

LLP

CPAs, Consultants & Advisors

www.larsonallen.com

## INDEPENDENT AUDITORS' REPORT

Audit Committee  
Minnesota Community Foundation  
St. Paul, Minnesota

We have audited the accompanying consolidated statements of financial position of Minnesota Community Foundation and Affiliated Organizations (the Foundation) as of December 31, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*LarsonAllen LLP*  
LarsonAllen LLP

Minneapolis, Minnesota  
May 27, 2011

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 997,741	\$ 2,436,434
Accrued Investment Income	68,245	165,939
Investments, at Fair Value	183,127,742	169,229,382
Contributions Receivable	1,569,457	2,397,218
Other Assets	476,226	494,763
Total Assets	\$ 186,239,411	\$ 174,723,736
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 536,162	\$ 594,950
Grants Payable	1,410,039	1,508,016
Income Beneficiaries Payable	495,554	443,132
Funds Held as Nonprofit Endowments	50,068,212	46,230,608
Total Liabilities	52,509,967	48,776,706
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	7,770,978	6,306,359
Field of Interest	19,605,453	20,140,342
Donor Advised	94,366,033	88,270,410
Donor Designated	10,163,845	8,630,003
Total Unrestricted Net Assets	131,906,309	123,347,114
Temporarily Restricted	1,823,135	2,599,916
Total Net Assets	133,729,444	125,947,030
Total Liabilities and Net Assets	\$ 186,239,411	\$ 174,723,736

See accompanying Notes to Consolidated Financial Statements.

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE, GAIN (LOSSES) AND OTHER SUPPORT</b>						
Contributions	\$ 8,453,824	\$ 94,114	\$ 8,547,938	\$ 9,989,856	\$ 212,948	\$ 10,202,804
Investment Income, Net of Investment Expenses of \$339,525 in 2010 and \$308,822 in 2009	1,615,033	-	1,615,033	2,146,919	-	2,146,919
Net Unrealized and Realized Investment Gains	12,435,343	-	12,435,343	15,743,694	-	15,743,694
Administrative Fees	192,289	-	192,289	230,430	-	230,430
Change in Value of Split-Interest Agreements	-	114,105	114,105	-	226,954	226,954
Other	234,177	-	234,177	157,157	-	157,157
Net Assets Released from Restrictions	985,000	(985,000)	-	400,000	(400,000)	-
<b>Total Revenue, Gain (Losses) and Other Support</b>	<b>23,915,666</b>	<b>(776,781)</b>	<b>23,138,885</b>	<b>28,668,056</b>	<b>39,902</b>	<b>28,707,958</b>
<b>EXPENSE</b>						
Program Services:						
Grants	11,138,977	-	11,138,977	17,270,961	-	17,270,961
Direct Conduct of Charitable Activity	1,671,922	-	1,671,922	1,158,468	-	1,158,468
Direct Fund Expenses	221,232	-	221,232	398,269	-	398,269
Other Program Expenses	996,473	-	996,473	1,445,171	-	1,445,171
<b>Total Program Services</b>	<b>14,028,604</b>	<b>-</b>	<b>14,028,604</b>	<b>20,272,869</b>	<b>-</b>	<b>20,272,869</b>
Support Services:						
Management and General	1,073,554	-	1,073,554	859,928	-	859,928
Fundraising	254,313	-	254,313	376,492	-	376,492
<b>Total Support Services</b>	<b>1,327,867</b>	<b>-</b>	<b>1,327,867</b>	<b>1,236,420</b>	<b>-</b>	<b>1,236,420</b>
<b>Total Expenses</b>	<b>15,356,471</b>	<b>-</b>	<b>15,356,471</b>	<b>21,509,289</b>	<b>-</b>	<b>21,509,289</b>
<b>CHANGE IN NET ASSETS</b>	<b>8,559,195</b>	<b>(776,781)</b>	<b>7,782,414</b>	<b>7,158,767</b>	<b>39,902</b>	<b>7,198,669</b>
Net Assets - Beginning of Year	123,347,114	2,599,916	125,947,030	116,188,347	2,560,014	118,748,361
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 131,906,309</b>	<b>\$ 1,823,135</b>	<b>\$ 133,729,444</b>	<b>\$ 123,347,114</b>	<b>\$ 2,599,916</b>	<b>\$ 125,947,030</b>

See accompanying Notes to Consolidated Financial Statements.

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 7,782,414	\$ 7,198,669
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Net Unrealized and Realized Investment Gains	(12,435,343)	(15,743,694)
Noncash Contributions	(2,551,198)	(1,983,024)
Amortization of Present Value Discount on Pledges Receivable	(19,112)	-
Changes in Operating Assets and Liabilities:		
Accrued Investment Income	97,694	75,277
Contributions Receivable	846,873	(57,462)
Other Assets	18,537	26,565
Accounts Payable and Accrued Expenses	(58,788)	237,394
Grants Payable	(97,977)	469,540
Change in Actuarial Value of Income Beneficiaries Payable	91,186	68,876
Net Cash Used by Operating Activities	(6,325,714)	(9,707,859)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Investments	(72,765,802)	(84,271,155)
Proceeds from Sales of Investments	73,853,983	87,553,547
Net Cash Provided by Investing Activities	1,088,181	3,282,392
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments to Beneficiary Under Split-Interest Agreements	(38,764)	(32,853)
Contributions and Earnings on Nonprofit Endowments	6,764,344	10,767,733
Payments on Nonprofit Endowments	(2,926,740)	(2,610,805)
Net Cash Provided by Investing Activities	3,798,840	8,124,075
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,438,693)	1,698,608
Cash and Cash Equivalents - Beginning of Year	2,436,434	737,826
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 997,741	\$ 2,436,434
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY</b>		
Contributions of Investment Securities	\$ 2,551,198	\$ 1,983,024

See accompanying Notes to Consolidated Financial Statements.

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Minnesota Community Foundation and Affiliated Organizations (the Foundation) is a community foundation that is both a consortium of trusts and funds operating under a plan (the Plan) filed with the District Court of Ramsey County, Minnesota, and a charitable corporation known as Minnesota Community Foundation, organized pursuant to the Plan. Minnesota Community Foundation is a publicly supported charitable organization. The Foundation is affiliated with The Saint Paul Foundation through the Foundation Services Organization.

The accompanying consolidated financial statements include the accounts of GiveMN and the Warroad Area Foundation. All material inter-organization transactions and balances have been eliminated in preparing the consolidated financial statements.

**Financial Statement Presentation**

The accompanying financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles.

**Net Asset Classifications**

The Foundation follows an accounting standard that provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The standard also expands disclosures about an organization's endowment funds (both donor restricted and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The board of directors, on the advice of legal counsel, has determined that the majority of the Foundation's net assets do not meet the definition of endowment under UPMIFA. The Foundation is governed subject to *The Plan for Minnesota Community Foundation* (the Plan) and most contributions are subject to the terms of the Plan. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation.

Under the terms of the Plan, the board of directors has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest, or fund as the board in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

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

**Net Asset Classifications (Continued)**

Temporarily restricted net assets consist of irrevocable charitable trusts, restricted contributions receivable, and the remaining portion of donor-restricted endowment funds that are not classified as permanently restricted net assets. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets represent the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds. The Foundation did not have any permanently restricted net assets as of December 31, 2010 and 2009.

**Endowment Investment and Spending Policies**

The Foundation has adopted investment and spending policies for endowment assets that seek to provide a predictable stream of funding to programs supported by its endowment while maintaining the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. Actual returns in any given year may vary from this amount.

To achieve its investment objectives over long periods of time, the Foundation has adopted an investment strategy that invests in domestic equities, international equities, private capital, fixed income, real assets and absolute return strategies. The majority of assets are invested in equity or equity like securities. Fixed income, real assets and absolute return strategies are used to lower short-term volatility. Diversification by asset class, investment style, investment manager, etc. is employed to avoid undue risk concentration and enhance total return. The primary performance objective is to achieve an annualized total rate of return, net of investment fees, that is equal to or greater than 5.5% plus inflation over long periods of time.

The spending policy determines the amount of money in a given year that will be distributed from the Foundation's various endowment assets, which includes donor advised, nonprofit, designated, scholarship, community, field of interest and unrestricted. The current spending policy is to distribute an amount equal to 5.5% of a moving four-year average but not less than 4.5% or greater than 6.25% of current market value. Accordingly, over the long term, the Foundation expects current spending policy to allow its endowment assets to grow at the rate of inflation. This is consistent with the organization's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

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

**Investments**

Marketable securities are reported at fair value based upon quoted market prices or, when quotes are not available, are valued on the basis of comparable financial instruments.

Limited marketability investments, which principally include private equities, absolute return investments, and real estate, are valued at the quoted market price for securities for which market quotations are readily available or an estimate of value (fair value) as determined in good faith by the general partner. Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

Donated securities are recorded at their fair value at the date of donation. Realized and unrealized investment gains or losses are determined by comparison of specific costs of acquisition to net proceeds received at the time of disposal or changes in the difference between fair value and cost, respectively.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the balance sheets.

Investments held by the Foundation under split-interest agreements totaled \$799,232 and \$740,285 at December 31, 2010 and 2009, respectively.

Minnesota Community Foundation and The Saint Paul Foundation have formed The Community Investment Group, an investment partnership, which provides its members a means to obtain unified professional management for their investments. 60.4% and 60.5% of Minnesota Community Foundation's investments at December 31, 2010 and 2009 are invested through The Community Investment Group and the schedules in Note 2, respectively, reflect these holdings in the various asset groups.

**Contributions Receivable**

Contributions receivable consists of unconditional promise to give and are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at rates of 2.9% to 3.8%. Amortization of discounts is recorded as additional contribution revenue. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history.

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES  
(CONTINUED)**

**Contributions Receivable (Continued)**

The Foundation is a beneficiary of several charitable remainder unitrusts. In the case where the Foundation does not act as trustee, the Foundation's policy is to record its beneficial interest as contribution revenue in an amount equal to the present value of future cash flows expected to be received when the trust assets are distributed.

**Grants Payable**

Unconditional grants are recorded as expense when approved by the Foundation's Board of Directors. Grants that are subject to conditions are recorded when the conditions have been substantially met.

**Income Beneficiaries Payable**

A liability is recorded for the amount due income beneficiaries of charitable remainder trusts when the Foundation acts as trustee. The present value of the estimated future payments to be distributed during the beneficiary's expected life is recorded as a liability using a discount rate of between 5.75% and 6.00% based on the year the gift was received.

**Funds Held as Nonprofit Endowments**

In accordance with accounting standards, when a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as nonprofit endowments.

The Foundation maintains legal ownership of nonprofit endowment funds and, as such, continues to report the funds as assets of the Foundation. However, in accordance with accounting standards, a liability has been established for the fair value of the funds.

**Cash Flows**

For the purposes of presenting cash flows, cash equivalents include short-term investments with maturities of three months or less, except for cash equivalents included in investments.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES  
(CONTINUED)**

**Tax Status**

The Foundation has received a determination letter from the Internal Revenue Service (IRS) indicating it has been classified as a publicly supported charitable organization under Internal Revenue Code Section 501(c)(3). As a publicly supported charity, the Foundation is exempt from federal income taxes and federal excise taxes under Section 509(a)(1) of the Internal Revenue Code, except on unrelated business income.

The Foundation adopted the accounting standards for contingencies in evaluating uncertain tax positions and files as a tax-exempt organization. No liability has been recognized by the Foundation as a result of the implementation of this standard. Should that status be challenged in the future, all years since inception could be subject to review by the IRS. Its 2007, 2008, and 2009 tax years are open for examination by the IRS.

**Fair Value of Financial Instruments**

The carrying value of cash and cash equivalents and accounts payable and accrued expenses approximates fair value due to the short-term nature of these instruments. Investments approximate fair value based on the descriptions under Investments in Note 1. The fair value of contributions receivable and grants payable is determined as the present value of expected future cash flows using a discount rate. Income beneficiaries payable are reported at fair value based on the life expectancy of the beneficiaries and the present value of expected cash flows using a discount rate. The carrying amount of all other financial instruments approximates fair value.

**Fair Value Measurements**

The Foundation follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, 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.

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

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

**Fair Value Measurements (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 1 includes various mutual funds, collective funds, and U.S. Treasury futures.

*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, equity futures 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, private capital, hedge funds and real estate.

**Derivative Financial Instruments**

The Foundation's investment strategy incorporates certain financial instruments, which involve, to varying degrees, elements of market risk and credit risk. These financial instruments may include equity, fixed income and foreign currency futures and options contracts, and foreign currency forward contracts. The Foundation uses derivatives to minimize the exposure of certain of its investments to adverse fluctuation in financial and currency markets, thus reducing portfolio risk. The Foundation has not designated any of its derivative financial instruments as hedging instruments.

Market risk represents potential loss from the decrease in the value as a result of fluctuation in the market. Credit risk represents potential loss from possible nonperformance by obligors and counterparties on the terms of their contracts. Management does not anticipate that losses, if any, resulting from credit or market risk would materially affect the Foundation's financial position.

**Reclassifications**

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation. The reclassifications had no effect on the change in net assets or total net assets as previously reported.

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

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

**Subsequent Events**

The Foundation has evaluated events and transactions for potential recognition or disclosure in these consolidated financial statements through May 27, 2011, the date the consolidated financial statements were available to be issued.

**NOTE 2 FAIR VALUE MEASUREMENT**

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 – Organization and Summary of Significant Accounting Policies.

Assets Measured at Fair Value on a Recurring Basis:

	2010			
	Level 1	Level 2	Level 3	Total
Fixed Income Collective Funds	\$ 8,508,668	\$ 15,744,920	\$ -	\$ 24,253,588
U.S. Treasury Futures	540,470	-	-	540,470
U.S. Common Stock, Equity Mutual and Collective Funds	45,612,792	9,082,057	686,000	55,380,849
Non-U.S. Common Stock, Equity Mutual and Collective Funds	21,796,227	20,498,949	-	42,295,176
Balanced Mutual Funds	6,032,957	-	-	6,032,957
Equity Futures	2,293,594	-	-	2,293,594
Private Capital	-	-	13,810,136	13,810,136
Real Estate	5,598,799	-	9,225,263	14,824,062
Absolute Return Investments	-	-	8,079,750	8,079,750
Subtotal	<u>90,383,507</u>	<u>45,325,926</u>	<u>31,801,149</u>	<u>167,510,582</u>
Cash Equivalents	-	-	-	15,617,160
Total	<u>\$ 90,383,507</u>	<u>\$ 45,325,926</u>	<u>\$ 31,801,149</u>	<u>\$ 183,127,742</u>

	2009			
	Level 1	Level 2	Level 3	Total
Corporate and U.S. Government Debt Securities and Mutual Funds	\$ 19,985,073	\$ 12,640,635	\$ -	\$ 32,625,708
Common Stock and Equity Mutual and Collective Funds and Futures	67,152,335	23,944,123	726,000	91,822,458
Private Capital	-	-	11,191,126	11,191,126
Real Estate	335,154	-	6,716,531	7,051,685
Absolute Return Investments	-	-	5,578,988	5,578,988
Subtotal	<u>87,472,562</u>	<u>36,584,758</u>	<u>24,212,645</u>	<u>148,269,965</u>
Cash Equivalents	-	-	-	20,959,417
Total	<u>\$ 87,472,562</u>	<u>\$ 36,584,758</u>	<u>\$ 24,212,645</u>	<u>\$ 169,229,382</u>

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 2 FAIR VALUE MEASUREMENT (CONTINUED)**

**Level 3 Assets**

The following table provides a summary of changes in fair value of the Foundation's Level 3 financial assets for the years ended December 31, 2010 and 2009.

In September 2009 guidance was issued under the ASC Topic - Fair Value Measurements and Disclosures which clarified the fair value level classification for entities that calculate net asset value per share or its equivalent. The guidance states that "if a reporting entity has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date, the fair value measurement of the investment shall be categorized as a Level 2 fair value measurement."

	Privately Held Stock and Equity Collective Funds	Private Capital	Real Assets	Absolute Return Investments	Total
Balances as of January 1, 2010	\$ 726,000	\$ 11,191,126	\$ 6,716,531	\$ 5,578,988	\$ 24,212,645
Net Realized and Unrealized					
Gains on Investments	-	2,277,881	921,530	235,736	3,435,147
Investment Income Distributions	-	(38,898)	(161,514)	-	(200,412)
Purchases of Investments	-	1,827,650	1,872,095	2,694,531	6,394,276
Proceeds from Sale of Investments	(40,000)	(1,447,623)	(123,379)	(429,505)	(2,040,507)
Transfer Out of Level 3	-	-	-	-	-
Balances as of December 31, 2010	<u>\$ 686,000</u>	<u>\$ 13,810,136</u>	<u>\$ 9,225,263</u>	<u>\$ 8,079,750</u>	<u>\$ 31,801,149</u>

	Privately Held Stock and Equity Collective Funds	Private Capital	Real Assets	Absolute Return Investments	Total
Balances as of January 1, 2009	\$ 7,979,340	\$ 9,208,504	\$ 9,434,622	\$ 5,014,085	\$ 31,636,551
Net Realized and Unrealized					
Gains (Losses) on Investments	-	183,122	(2,786,093)	(92,650)	(2,695,621)
Investment Income Distributions	-	(5,082)	(212,004)	-	(217,086)
Purchases of Investments	-	2,021,551	280,006	3,221,306	5,522,863
Proceeds from Sale of Investments	-	(216,969)	-	(2,563,753)	(2,780,722)
Transfer Out of Level 3	(7,253,340)	-	-	-	(7,253,340)
Balances as of December 31, 2009	<u>\$ 726,000</u>	<u>\$ 11,191,126</u>	<u>\$ 6,716,531</u>	<u>\$ 5,578,988</u>	<u>\$ 24,212,645</u>

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 2 FAIR VALUE MEASUREMENT (CONTINUED)**

Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent) as of December 31, 2010:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity Collective Funds	\$ 29,581,006	\$ -	Monthly	2-15 Days
Fixed Income Collective Funds	15,744,920	-	Monthly	1-5 Days
Multi-Strategy Hedge Funds of Funds	4,851,009	-	Annually	60 Days
Equity Long/Short Hedge Fund of Funds	3,228,741	-	Quarterly	60 Days
Private Capital Fund of Funds	13,810,136	-	N/A	N/A
Natural Resources Fund of Funds	1,285,181	-	N/A	N/A
Private Real Estate	7,940,082	-	N/A	N/A

The Community Investment Group has committed to capital calls to private capital and real asset investments partnerships which can be called over the next five years.

Equity Collective Funds includes investments in funds that are invested in domestic and international common stocks. The fair value of the equity collective funds is based on quoted market prices for the underlying securities which comprise the net asset value of the collective fund. The funds provide full disclosure of the underlying holdings, whereby the Foundation is able to verify its account balances.

Fixed Income Collective Funds includes investments in funds that are invested in U.S. Treasury, U.S. Agency, residential mortgage backed securities, commercial mortgage backed securities, collateralized debt securities and corporate bonds. The fair value of the fixed income collective funds is based on quoted market prices for the underlying securities which comprise the net asset value of the collective fund. The funds provide full disclosure of the underlying holdings, whereby the Foundation is able to verify its account balances.

Multi-Strategy Hedge Fund of Funds is invested primarily in a diversified portfolio of directly originated loan investments, distressed corporate and mortgage bonds and long/short credit. The fair value of the fund of hedge funds in this category has been estimated using the net asset value per share of the investments.

Equity Long/Short Hedge Fund of Funds is invested primarily in long/short equity managers along with distressed debt managers. The fair value of the fund of hedge funds in this category has been estimated using the net asset value per share of the investments.

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 2 FAIR VALUE MEASUREMENT (CONTINUED)**

Private Capital Fund of Funds includes investments in venture capital, buy-outs, distressed securities, mezzanine and special situations funds and direct investments in securities of companies. The fair value of the fund of private capital funds and direct investments has been estimated based on the capital account balances reported by underlying partnerships subject to the private capital fund of funds management review and judgment.

Natural Resources Fund of Funds includes investments in oil, gas and other natural resource-related funds. The fair value of the fund of natural resources funds has been estimated based on the capital account balances reported by underlying partnerships subject to the natural resources fund of funds management review and judgment.

Private Real Estate includes investments in multi-family, industrial, retail and office properties in targeted metropolitan areas within the continental United States. The fair value of private real estate has been estimated using external and internal appraisals of property investments.

**NOTE 3 CONTRIBUTIONS RECEIVABLE**

Contributions receivable in more than one year are stated at fair value at initial recognition. Fair value is determined as the present value of estimated cash flows using a discount rate ranging from 2.9% to 3.8%. The discount as of December 31, 2010 and 2009 was \$4,150 and \$28,808, respectively. Unconditional contributions receivable outstanding as of December 31, 2010 and 2009 are generally due as follows:

	2010			
	Less than One Year	One Year to Five Years	More than Five Years	Total
Unconditional Promises to Give	\$ 460,000	\$ 55,850	\$ -	\$ 515,850
Charitable Remainder Trusts	-	-	1,053,607	1,053,607
Total	<u>\$ 460,000</u>	<u>\$ 55,850</u>	<u>\$ 1,053,607</u>	<u>\$ 1,569,457</u>
	2009			
	Less than One Year	One Year to Five Years	More than Five Years	Total
Unconditional Promises to Give	\$ 1,035,000	\$ 416,192	\$ -	\$ 1,451,192
Charitable Remainder Trusts	-	-	946,026	946,026
Total	<u>\$ 1,035,000</u>	<u>\$ 416,192</u>	<u>\$ 946,026</u>	<u>\$ 2,397,218</u>

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 4 GRANTS PAYABLE**

Grants payable in more than one year are stated at fair value at initial recognition. Fair value is determined as the present value of estimated cash flows using a discount rate ranging from 2.8% to 5.7%. The discount as of December 31, 2010 and 2009 was \$27,078 and \$23,261, respectively. Unconditional grants payable as of December 31 are generally due as follows:

	<u>2010</u>	<u>2009</u>
Less than One Year	\$ 1,162,117	\$ 1,297,444
One Year to Five Years	247,922	210,572
Total	<u>\$ 1,410,039</u>	<u>\$ 1,508,016</u>

**NOTE 5 FUNDS HELD AS NONPROFIT ENDOWMENTS**

At December 31, 2010 and 2009, the Foundation is the owner of nonprofit endowment funds with a consolidated value of \$50,068,212 and \$46,230,608, respectively. The following table summarizes activity in such funds during the years ended December 31:

	<u>2010</u>	<u>2009</u>
Funds Held as Nonprofit Endowments at January 1	\$ 46,230,608	\$ 38,073,680
Amounts Raised from Nonprofits	900,689	2,512,150
Investment Income	795,354	995,351
Net Unrealized and Realized Investment Gains	5,265,003	7,493,990
Amounts Disbursed to Nonprofits	(2,926,740)	(2,610,805)
Administrative Fees	(238,202)	(217,859)
Other Income (Expenses)	41,500	(15,899)
Funds Held as Nonprofit Endowments at December 31	<u>\$ 50,068,212</u>	<u>\$ 46,230,608</u>

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 6 ENDOWMENT BY NET ASSET CLASS**

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported as unrestricted net assets were \$-0- at December 31, 2010 and 2009. The endowment net assets and activity for 2010 and 2009 consisted of the following:

	2010	2009
Other Endowment Funds:		
Undesignated	\$ 2,665,503	\$ 2,415,834
Field of Interest	17,630,041	16,944,362
Donor Advised	39,853,148	34,865,124
Designated	9,461,944	8,542,059
Subtotal Other Endowment Funds	69,610,636	62,767,379
Board Designated	43,028	40,382
Total Unrestricted Endowment Funds	\$ 69,653,664	\$ 62,807,761

Other Endowment Funds include funds that are subject to the Foundation's spending policy under gift agreement but are not endowment funds as defined by UPMIFA.

**NOTE 7 CHANGES IN ENDOWMENT NET ASSETS**

	2010	2009
Unrestricted Endowment Net Assets, Beginning of Year	\$ 62,807,761	\$ 57,110,810
Interest and Dividends,		
Net of Investment Expense	1,083,243	1,133,247
Net Appreciation	7,057,315	7,636,809
Contributions	3,454,453	2,586,902
Amounts Appropriated for Expenditure	(4,749,108)	(5,660,007)
Change in Endowment		
Net Assets	6,845,903	5,696,951
Unrestricted Endowment Net Assets, End of Year	\$ 69,653,664	\$ 62,807,761

**MINNESOTA COMMUNITY FOUNDATION  
AND AFFILIATED ORGANIZATIONS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 8 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Split Interest Agreements	\$ 1,357,285	\$ 1,243,178
Time Restricted Contributions Receivable	465,850	1,356,738
Total	<u>\$ 1,823,135</u>	<u>\$ 2,599,916</u>

**NOTE 9 RELATED-PARTY TRANSACTIONS**

The Foundation, under the terms of an agreement, receives administrative and staff services from The Saint Paul Foundation. For the years ended December 31, 2010 and 2009, expenses incurred for these services were \$1,742,287 and \$1,815,030, respectively. A significant portion of the accounts payable at December 31, 2010 and 2009 consists of unpaid obligations under this agreement.

During 2010 and 2009, the Foundation received contributions of \$443,855 and \$805,775, respectively, from The Saint Paul Foundation.

During the year, grants have been approved and disbursed to organizations in which some of the board members may be involved through board or other advisory relationships. It is the Foundation's policy to have each board member disclose the conflict of interest. These board members are prohibited from voting on grants to these organizations in those instances.