

**THE SAINT PAUL FOUNDATION AND  
AFFILIATED ORGANIZATIONS**

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS  
TABLE OF CONTENTS  
YEARS ENDED DECEMBER 31, 2009 AND 2008**

<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>5</b>
<b>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>6</b>

# LarsonAllen<sup>®</sup> LLP

CPAs, Consultants & Advisors

[www.larsonallen.com](http://www.larsonallen.com)

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
The Saint Paul Foundation and Affiliated Organizations  
Saint Paul, Minnesota

We have audited the accompanying consolidated statements of financial position of The Saint Paul Foundation and Affiliated Organizations (the Foundation) as of December 31, 2009 and 2008, 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, 2009 and 2008, 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  
July 21, 2010

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2009 AND 2008**

	2009	2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 6,150,437	\$ 2,493,555
Accrued Investment Income	1,351,407	1,821,096
Investments, at Fair Value	843,317,807	727,345,442
Investments Loaned to Broker	22,481,572	17,043,341
Investment Collateral	22,269,700	15,539,153
Payable Under Investment Loan Agreement	(23,539,147)	(17,449,152)
Contributions Receivable	7,597,151	9,456,588
Program-Related Loans Receivable	2,267,668	2,431,351
Beneficial Interests in Perpetual Trusts	928,633	722,959
Other Assets	3,696,795	3,046,822
	<b>\$ 886,522,023</b>	<b>\$ 762,451,155</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 1,029,494	\$ 1,178,138
Grants Payable	9,844,284	11,762,659
Split-Interest Agreement Liabilities	14,521,925	12,968,557
Funds Held as Nonprofit Endowments	105,425,372	89,810,700
Total Liabilities	130,821,075	115,720,054
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	161,088,924	136,186,052
Field of Interest	97,508,451	83,549,610
Donor Advised	359,021,304	304,173,861
Donor Designated	44,703,311	37,919,910
Minority Interests	58,712,390	52,015,376
Total Unrestricted Net Assets	721,034,380	613,844,809
Temporarily Restricted	20,166,204	18,586,277
Permanently Restricted	14,500,364	14,300,015
	<b>755,700,948</b>	<b>646,731,101</b>
Total Net Assets	<b>755,700,948</b>	<b>646,731,101</b>
Total Liabilities and Net Assets	<b>\$ 886,522,023</b>	<b>\$ 762,451,155</b>

See accompanying Notes to Consolidated Financial Statements.

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES, NET INVESTMENTS GAINS AND OTHER SUPPORT</b>				
Contributions	\$ 55,599,746	\$ 2,658,621	\$ -	\$ 58,258,367
Investment Income, Net of Investment Expenses of \$1,998,363 in 2009 and \$2,405,676 in 2008	12,139,428	1,192,904	-	13,332,332
Net Unrealized and Realized Investment Gains (Losses)	101,720,013	-	200,349	101,920,362
Administrative Fees	596,387	-	-	596,387
Staff Services	612,901	-	-	612,901
Change in Value of Split-Interest Agreements	(65,936)	2,012,739	-	1,946,803
Other	375,248	-	-	375,248
Net Assets Released from Restrictions	4,284,337	(4,284,337)	-	-
Total Revenues, Net Investment Gains, and Other Support	175,262,124	1,579,927	200,349	177,042,400
<b>EXPENSES</b>				
Program Services:				
Grants	51,928,188	-	-	51,928,188
Direct Conduct of Charitable Activity	4,328,754	-	-	4,328,754
Staff Services for Other Foundations and Not-for-Profit Organizations	623,958	-	-	623,958
Direct Fund Expenses	1,484,158	-	-	1,484,158
Other Program Expenses	2,165,022	-	-	2,165,022
Support Services:				
Management and General	3,216,559	-	-	3,216,559
Fundraising	1,379,591	-	-	1,379,591
Total Expenses	65,126,230	-	-	65,126,230
<b>CHANGE IN NET ASSETS</b>	110,135,894	1,579,927	200,349	111,916,170
Minority Interest (Gain) Loss	(9,643,338)	-	-	(9,643,338)
Reclassification of Net Assets for Accounting for Endowments	-	-	-	-
<b>TOTAL CHANGE IN NET ASSETS</b>	100,492,556	1,579,927	200,349	102,272,832
Net Assets at Beginning of Year	561,829,433	18,586,277	14,300,015	594,715,725
Beginning Minority Interests	52,015,376	-	-	52,015,376
Add: Net Partner (Distributions) Contributions	(2,946,324)	-	-	(2,946,324)
Add: Gains (Losses) Earnings on Minority Interests, Net	9,643,338	-	-	9,643,338
Total Minority Interests	58,712,390	-	-	58,712,390
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 721,034,380</u>	<u>\$ 20,166,204</u>	<u>\$ 14,500,364</u>	<u>\$ 755,700,948</u>

See accompanying Notes to Consolidated Financial Statements.

2008

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 52,443,246	\$ 4,569,894	\$ 7,100	\$ 57,020,240
18,370,261	-	-	18,370,261
(255,858,547)	-	(428,470)	(256,287,017)
635,748	-	-	635,748
617,031	-	-	617,031
(73,720)	(4,637,523)	-	(4,711,243)
320,100	-	-	320,100
6,911,898	(6,911,898)	-	-
(176,633,983)	(6,979,527)	(421,370)	(184,034,880)
53,975,993	-	-	53,975,993
3,786,023	-	-	3,786,023
704,724	-	-	704,724
1,231,338	-	-	1,231,338
2,011,004	-	-	2,011,004
3,279,944	-	-	3,279,944
1,590,865	-	-	1,590,865
66,579,891	-	-	66,579,891
(243,213,874)	(6,979,527)	(421,370)	(250,614,771)
19,534,916	-	-	19,534,916
(11,596,869)	73,640	11,523,229	-
(235,275,827)	(6,905,887)	11,101,859	(231,079,855)
797,105,260	25,492,164	3,198,156	825,795,580
3,991,393	-	-	3,991,393
67,558,899	-	-	67,558,899
(19,534,916)	-	-	(19,534,916)
52,015,376	-	-	52,015,376
\$ 613,844,809	\$ 18,586,277	\$ 14,300,015	\$ 646,731,101

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 111,916,170	\$(250,614,771)
Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Provided (Used) by Operating Activities:		
Net Unrealized and Realized Investment (Gains) Losses	(101,720,013)	255,858,548
Funds Held as Nonprofit Endowments	14,133,476	(41,682,773)
Noncash Contributions	(14,316,387)	(6,246,237)
Depreciation Expense	205,135	172,705
Program Loan Discounts and Imputed Interest	(17,381)	(18,385)
Adjustment of Actuarial Liability for Split-Interest Agreement Liabilities	1,553,368	(3,974,522)
Changes in Operating Assets and Liabilities:		
Accrued Investment Income	469,689	142,324
Investment Collateral	(6,730,547)	(609,364)
Payable under Investment Loan Program	6,089,995	2,519,363
Contributions Receivable	1,859,437	4,248,903
Other Assets	(110,199)	386,729
Accounts Payable and Accrued Expenses	(148,644)	(191,445)
Grants Payable	(1,918,375)	(4,203,588)
Net Cash and Cash Equivalents Provided (Used) by Operating Activities	11,265,724	(44,212,513)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Investments	(401,821,051)	(310,869,601)
Proceeds from Sales of Investments	396,446,855	286,666,375
Net Partner (Distributions) Contributions	(2,946,324)	67,558,899
Payments Received on Notes and Program Loans	181,064	256,916
Proceeds from Sale of Property and Equipment	-	547,019
Purchases of Property and Equipment	(744,909)	(227,375)
Net Cash and Cash Equivalents (Used) Provided by Investing Activities	(8,884,365)	43,932,232
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in Value of Beneficial Interest in Perpetual Trusts	(205,674)	428,469
Payments to Beneficiary Under Split-Interest Agreements	1,481,196	(1,913,292)
Net Cash and Cash Equivalents Provided (Used) by Financing Activities	1,275,522	(1,484,823)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	3,656,882	(1,765,104)
Cash and Cash Equivalents - Beginning of Year	2,493,555	4,258,659
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 6,150,437	\$ 2,493,555
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITY</b>		
Contributions of Investment Securities	\$ 14,316,387	\$ 6,246,237

See accompanying Notes to Consolidated Financial Statements.

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Saint Paul Foundation (the Foundation) is a community foundation that is both a consortium of trusts and funds operating under a plan filed with the District Court of Ramsey County, Minnesota, and a charitable corporation known as The Saint Paul Foundation, Incorporated, organized pursuant to the plan. The accompanying consolidated financial statements include the accounts of The Saint Paul Foundation and certain affiliated foundations, which include the Minnesota Community Foundation, Foundation Services Organization, Saint Paul Public Schools Foundation, and Red Wing Property Conservation Fund. The consolidated financial statements also includes the accounts of The Community Investment Group. All material interorganization transactions and balances have been eliminated in preparing the consolidated financial statements.

**Financial Statement Presentation**

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

**Net Asset Classification**

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 State of Minnesota adopted UPMIFA effective August 1, 2008. The Foundation has adopted accounting for the year ending December 31, 2008 and reclassified certain net assets to conform with the required presentation. The board of directors, on the advice of legal counsel, has determined that the majority of the Foundations net assets do not meet the definition of endowment under UPMIFA. The Foundation is governed subject to *The Plan for The Saint Paul 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.

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

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

**Net Asset Classification (Continued)**

Temporarily restricted net assets consist of irrevocable charitable trusts, lead trusts, restricted contributions receivable, the remaining portion of donor-restricted endowment funds that are not classified as permanently restricted net assets, and earnings on donor-restricted endowment funds under UPMIFA. 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.

**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.

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

**NOTE 1 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.

**Contributions Receivable**

Contributions receivable consists of unconditional promises 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 5.6%. 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.

The Foundation is the sole or partial beneficiary of charitable remainder trusts and charitable lead trusts. In cases where the Foundation does not act as trustee, the Foundation has recorded an asset at the present value of the revenue to be received from the trusts using a discount rate between 5.25% and 7.5% based on the year the trust was established.

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

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

**Program-Related Loans Receivable**

The Foundation has made loans to not-for-profit organizations and to units of government at below-market interest rates or that are interest free. If the loan has a fixed maturity date, the loan receivable is recorded at the net present value of the future payments to be received from the borrower using an imputed market interest rate between 6.0% and 7.68% based on the year the loan was made. If the loan repayment term is variable, the loan receivable is recorded equal to the amount borrowed. Interest income and program expense are recorded for the difference between the actual interest rate and an imputed market interest rate.

**Beneficial Interests In Perpetual Trusts**

The Foundation is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Foundation and are not subject to the Plan filed with the District Court. The Foundation has an irrevocable right to a portion of the net income of these trusts. The Foundation's interest in these trusts is recorded at fair value and is classified as permanently restricted net assets. Distributions received from these trusts are recorded as unrestricted investment income, and the change in fair value is recorded as permanently restricted net unrealized and realized investment gains (losses) in the consolidated statements of activities.

**Other Assets**

For purposes of financial position presentation, other assets consists of several items, including fixed assets, cash surrender value of life insurance, notes receivable, and client accounts receivable.

**Split-Interest Agreement Liabilities**

A liability is recorded for the amount due income beneficiaries and split-charitable remainder interest of charitable gift annuities and 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 and the split-charitable remainder interest at the beneficiary's death is recorded as a liability using a discount rate between 5.75% and 7.0% 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.

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

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

**Grants**

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.

**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, which are 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.

**Federal Income Taxes**

The Foundation has received a determination letter from the Internal Revenue Service 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 supporting organizations meet the requirements of Section 509(a)(3) of the Internal Revenue Code.

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 Measurement**

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.

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

**NOTE 1 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 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.

**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.

The Foundation's domestic and international equity portfolio's invest in futures to equitize cash balances. Equity and treasury bond futures are used to obtain domestic and international equity and treasury bond exposure for selected cash balances. The Foundation will buy and sell equity and treasury futures to adjust the overall portfolio asset allocation. These quarterly futures contracts are marked to market and realize gains and losses on a daily basis.

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

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

**Derivative Financial Instruments (Continued)**

The Foundation had 403 and 243 contracts outstanding as of December 31, 2009 and 2008 at a gross contract value of \$36,092,221 and \$15,903,353, respectively, and the net exposure amount is included within the Foundation's investment portfolio. The profits and losses of a futures contract depends on the daily movements of the market for that contract and are calculated on a daily basis. Changes in fair value are accounted for as net appreciation (depreciation) in fair value of investments. Net gains and losses for these futures were \$2,738,929 for the year ended December 31, 2009.

**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.

**Subsequent Events**

The Foundation has evaluated events and transactions for potential recognition or disclosure in these consolidated financial statements through July 21, 2010, the date the consolidated financial statements were available to be issued.

**NOTE 2 SECURITIES LENDING**

**Securities Lending**

Under a securities lending agreement, the Foundation has authorized the lending agent to manage and administer a securities lending program. The lending agent has the responsibility for negotiating the terms of each loan and for collecting the required collateral, which must be in the amount of 102% in the case of securities of U.S. issuers and 105% in the case of non-U.S. issuers of the market value of any securities loaned, including any accrued interest. Collateral was invested in a short-term investment trust and was due to the investment borrower in accordance with the terms of the collateral agreement. As of December 31, 2009 and 2008, the securities lending transactions are summarized as follows:

	<u>2009</u>	<u>2008</u>
Investments Loaned to Broker	\$ 22,481,572	\$ 17,043,341
Investment Collateral	22,269,700	15,539,153
Payable Under Investment Loan Agreement	23,539,147	17,449,152

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

**NOTE 3 INVESTMENTS**

Investments are at fair value and consist of the following:

	<u>2009</u>	<u>2008</u>
Cash Equivalents	\$ 76,926,931	\$ 73,975,016
Corporate and U.S. Government Debt Securities and Mutual Funds	190,597,345	178,099,621
Common Stock and Equity Mutual and Collective Funds and Futures	474,848,874	381,554,635
Private Equities	60,518,106	46,846,526
Real Estate	40,188,281	44,303,298
Absolute Return Investments	22,719,842	19,609,687
Subtotal	<u>865,799,379</u>	<u>744,388,783</u>
Investments Loaned to Broker	<u>(22,481,572)</u>	<u>(17,043,341)</u>
Total	<u><u>\$ 843,317,807</u></u>	<u><u>\$ 727,345,442</u></u>

Investments held by the Foundation under split-interest agreements totaled \$26,392,033 and \$22,361,747 at December 31, 2009 and 2008, respectively.

**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 – Organization and Summary of Significant Accounting Policies.

Assets measured at fair value on a recurring basis:

	<u>2009</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Corporate and U.S. Government Debt Securities and Mutual Funds	\$ 107,312,691	\$ 83,284,654	\$ -	\$ 190,597,345
Common Stock and Equity Mutual and Collective Funds and Futures	332,169,005	124,572,755	18,107,114	474,848,874
Private Equities	-	-	60,518,106	60,518,106
Real Estate	7,320,017	-	32,868,264	40,188,281
Absolute Return Investments	-	-	22,719,842	22,719,842
Subtotal	<u>446,801,713</u>	<u>207,857,409</u>	<u>134,213,326</u>	<u>788,872,448</u>
Cash Equivalents	-	-	-	76,926,931
Total	<u><u>\$ 446,801,713</u></u>	<u><u>\$ 207,857,409</u></u>	<u><u>\$ 134,213,326</u></u>	<u><u>\$ 865,799,379</u></u>

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

	2008			
	Level 1	Level 2	Level 3	Total
Corporate and U.S. Government Debt Securities and Mutual Funds	\$ 45,551,368	\$ 132,548,253	\$ -	\$ 178,099,621
Common Stock and Equity Mutual and Collective Funds and Futures	304,007,991	31,811,204	45,735,440	381,554,635
Private Equities	-	-	46,846,526	46,846,526
Real Estate	-	-	44,303,298	44,303,298
Absolute Return Investments	-	-	19,609,687	19,609,687
Subtotal	<u>349,559,359</u>	<u>164,359,457</u>	<u>156,494,951</u>	<u>670,413,767</u>
Cash Equivalents	-	-	-	73,975,016
Total	<u>\$ 349,559,359</u>	<u>\$ 164,359,457</u>	<u>\$ 156,494,951</u>	<u>\$ 744,388,783</u>

**Level 3 Assets**

The following table provides summary of changes in fair value of the Foundation's Level 3 financial assets for the years ended December 31, 2009 and 2008:

	Equity Collective Funds	Private Equities	Real Estate	Absolute Return Investments	Total
Balances as of January 1, 2009	\$ 45,735,440	\$ 46,846,526	\$ 44,303,298	\$ 19,609,687	\$156,494,951
Net Realized and Unrealized					
Gains (Losses) on Investments	1,659,523	3,415,683	(11,920,874)	251,401	(6,594,267)
Investment Income and Returns	-	(20,508)	(911,035)	-	(931,543)
Purchases of Investments	8,514,360	15,673,594	3,674,420	13,000,000	40,862,374
Proceeds from Sale of Investments	(34,493)	(5,397,189)	(2,277,545)	(10,141,246)	(17,850,473)
Transfer out of Level 3	(37,767,716)	-	-	-	(37,767,716)
Balances as of December 31, 2009	<u>\$ 18,107,114</u>	<u>\$ 60,518,106</u>	<u>\$ 32,868,264</u>	<u>\$ 22,719,842</u>	<u>\$134,213,326</u>
	Equity Collective Funds	Private Equities	Real Estate	Absolute Return Investments	Total
Balances as of January 1, 2008	\$ 76,975,968	\$ 40,110,235	\$ 46,010,982	\$ 24,560,286	\$187,657,471
Net Realized and Unrealized					
Losses on Investments	(38,031,693)	(9,842,314)	(6,140,246)	(4,950,599)	(58,964,852)
Investment Income and Returns	(293,062)	(38,140)	(2,181,197)	-	(2,512,399)
Purchases of Investments	10,917,731	18,771,382	7,989,619	-	37,678,732
Proceeds from Sale of Investments	(3,833,504)	(2,154,637)	(1,375,860)	-	(7,364,001)
Transfer out of Level 3	-	-	-	-	-
Balances as of December 31, 2008	<u>\$ 45,735,440</u>	<u>\$ 46,846,526</u>	<u>\$ 44,303,298</u>	<u>\$ 19,609,687</u>	<u>\$156,494,951</u>

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

**Level 3 Assets (Continued)**

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.” The Foundation previously classified its investments that calculate net asset value per share as a Level 3 fair value measurement, and reclassified these investments as a Level 2 fair value measurement during 2009, resulting in a transfer out of \$37,767,716.

Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent) as of December 31, 2009:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity Collective Funds	\$ 123,167,597	\$ -	Monthly	2 - 30 Days
Multi-Strategy Hedge Fund of Funds	11,580,408	-	Annually	60 Days
Equity Long/Short Hedge Fund of Funds	9,234,207	-	Quarterly	60 Days

Equity Collective Funds includes investments in long only funds and a long/short enhanced index fund that are invested in domestic and international common stocks. The fair value of the investment in this category 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 that 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 that 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.

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

**NOTE 5 CONTRIBUTIONS RECEIVABLE**

Contributions receivable in more than one year are stated at fair value. Fair value is determined as the present value of estimated cash flows using a discount rate ranging from 2.9% to 5.6%. The discount amount was \$71,805 and \$124,710 as of December 31, 2009 and 2008, respectively. Unconditional contributions receivable outstanding as of December 31, 2009 and 2008 are generally due as follows:

	Less than One Year	One Year to Five Years	More than Five Years	2009 Total
Unconditional Promises to Give	\$ 3,355,644	\$ 993,570	\$ -	\$ 4,349,214
Charitable Remainder Trusts	-	346,236	2,901,701	3,247,937
Total	<u>\$ 3,355,644</u>	<u>\$ 1,339,806</u>	<u>\$ 2,901,701</u>	<u>\$ 7,597,151</u>
	Less than One Year	One Year to Five Years	More than Five Years	2008 Total
Unconditional Promises to Give	\$ 2,875,123	\$ 2,625,507	\$ -	\$ 5,500,630
Charitable Remainder Trusts	10,000	1,175,083	2,770,875	3,955,958
Total	<u>\$ 2,885,123</u>	<u>\$ 3,800,590</u>	<u>\$ 2,770,875</u>	<u>\$ 9,456,588</u>

**NOTE 6 PROGRAM-RELATED LOANS RECEIVABLE**

The Foundation has made loans to various local nonprofit organizations and the City of Saint Paul to fund projects for improvement and sustainability of the community. Repayment schedules and interest rates on the loans are varied. The Foundation has discounted such loans that were made at below-market-rate interest rates. Total loans outstanding at December 31, 2009 and 2008 were \$2,267,668 and \$2,431,351, respectively.

**NOTE 7 GRANTS PAYABLE**

Grants payable in more than one year are stated at fair value. Fair value is determined as the present value of estimated cash flows using a discount rate ranging from 2.9% to 5.6%. The discount amount was \$447,746 and \$517,197 as of December 31, 2009 and 2008, respectively. Unconditional grants payable as of December 31, 2009 and 2008 are generally due as follows:

	2009	2008
Less than One Year	\$ 6,580,699	\$ 7,891,798
One Year to Five Years	3,263,585	3,870,861
Total	<u>\$ 9,844,284</u>	<u>\$ 11,762,659</u>

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

**NOTE 7 GRANTS PAYABLE (CONTINUED)**

At December 31, 2009 and 2008, the Foundation has unpaid approved grants of \$1,525,826 and \$2,675,767, respectively, which are subject to conditions and have not been reflected in the accompanying consolidated financial statements.

**NOTE 8 FUNDS HELD AS NONPROFIT ENDOWMENTS**

At December 31, 2009 and 2008, the Foundation is the owner of nonprofit endowment funds with a consolidated value of \$105,425,372 and \$89,810,700, respectively. The following table summarizes activity in such funds during the years ended December 31:

	2009	2008
Funds Held as Nonprofit Endowments at January 1	\$ 89,810,700	\$ 131,493,473
Amounts Raised from Nonprofits	3,607,030	3,787,322
Investment Income	2,013,957	2,797,240
Net Unrealized and Realized Investment Gains	15,886,114	(40,631,982)
Amounts Disbursed to Nonprofits	(5,369,770)	(7,061,750)
Administrative Fee	(503,083)	(571,703)
Other Expenses	(19,576)	(1,900)
Funds Held as Nonprofit Endowments at December 31	<u>\$ 105,425,372</u>	<u>\$ 89,810,700</u>

**NOTE 9 ENDOWMENT BY NET ASSET CLASS**

	2009			Total Net Assets
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor Designated Endowment Funds	\$ (59,513)	\$ 1,266,544	\$ 13,571,731	\$ 14,778,762
Other Endowment Funds:				
Undesignated	147,868,263	-	-	147,868,263
Field of Interest	78,611,823	-	-	78,611,823
Donor Advised	60,703,446	-	-	60,703,446
Designated	42,314,571	-	-	42,314,571
Subtotal Other Endowment Funds	329,498,103	-	-	329,498,103
Board Designated Endowment Funds	1,693,243	-	-	1,693,243
Total Endowment Funds	<u>\$ 331,131,833</u>	<u>\$ 1,266,544</u>	<u>\$ 13,571,731</u>	<u>\$ 345,970,108</u>

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

**NOTE 9 ENDOWMENT BY NET ASSET CLASS (CONTINUED)**

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Donor Designated Endowment Funds	\$ (614,539)	\$ 73,640	\$ 13,577,056	\$ 13,036,157
Other Endowment Funds:				
Undesignated	127,590,838	-	-	127,590,838
Field of Interest	65,386,634	-	-	65,386,634
Donor Advised	57,155,706	-	-	57,155,706
Designated	36,048,764	-	-	36,048,764
Subtotal Other Endowment Funds	286,181,942	-	-	286,181,942
Board Designated Endowment Funds	1,521,882	-	-	1,521,882
Total Endowment Funds	<u>\$ 287,089,285</u>	<u>\$ 73,640</u>	<u>\$ 13,577,056</u>	<u>\$ 300,739,981</u>

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 10 CHANGES IN ENDOWMENT NET ASSETS**

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ 287,089,285	\$ 73,640	\$ 13,577,056	\$ 300,739,981
Interest and Dividends, Net of Investment Expense	7,414,804	-	-	7,414,804
Net Appreciation (Decretion)	48,065,573	637,878	-	48,703,451
Contributions	8,301,690	-	-	8,301,690
Amounts Appropriated for Expenditure	(19,184,493)	-	-	(19,184,493)
Others Changes	(555,026)	555,026	(5,325)	(5,325)
Change in Endowment Net Assets	<u>44,042,548</u>	<u>1,192,904</u>	<u>(5,325)</u>	<u>45,230,127</u>
Endowment Net Assets, End of Year	<u>\$ 331,131,833</u>	<u>\$ 1,266,544</u>	<u>\$ 13,571,731</u>	<u>\$ 345,970,108</u>

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

**NOTE 10 CHANGES IN ENDOWMENT NET ASSETS (CONTINUED)**

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning of Year	\$ 422,420,124	\$ -	\$ 2,046,727	\$ 424,466,851
Interest and Dividends, Net of Investment Expense	9,526,869	-	-	9,526,869
Net Appreciation (Decretion)	(128,897,556)	-	-	(128,897,556)
Contributions	13,456,755	-	7,100	13,463,855
Amounts Appropriated for Expenditure	(17,820,038)	-	-	(17,820,038)
Others Changes	(11,596,869)	73,640	11,523,229	-
Change in Endowment Net Assets	<u>(135,330,839)</u>	<u>73,640</u>	<u>11,530,329</u>	<u>(123,726,870)</u>
Endowment Net Assets, End of Year	<u>\$ 287,089,285</u>	<u>\$ 73,640</u>	<u>\$ 13,577,056</u>	<u>\$ 300,739,981</u>

**NOTE 11 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following as of December 31, 2009 and 2008:

	2009	2008
Split Interest Agreements	\$ 14,650,640	\$ 13,006,758
Time Restricted Contributions Receivable	5,415,814	5,568,619
Other	99,750	10,900
Total	<u>\$ 20,166,204</u>	<u>\$ 18,586,277</u>

**NOTE 12 MINORITY INTEREST**

The Saint Paul Foundation and Minnesota Community Foundation have agreed to pool certain of their investment funds into an investment partnership called The Community Investment Group (CIG). Under the governing documents for CIG, the investment committee of CIG is responsible for the management of CIG. A majority of the investment committee may recommend that one or more additional persons be appointed to the investment committee who shall become members if approved in writing by The Saint Paul Foundation. These additional persons shall serve for the same term as the appointed members and shall be subject to removal by The Saint Paul Foundation. Other charitable organizations may be added to the partnership if approved by the voting foundations.

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

**NOTE 12 MINORITY INTEREST (CONTINUED)**

The Saint Paul Foundation holds control of the partnership through ability to approve and remove additional members of the investment committee, and through economic interest (86% of the investment in the partnership as of December 31, 2009.) As a result of this controlling interest, consolidation is required under accounting standards

The minority interest activity during the year is as follows:

	<u>2009</u>	<u>2008</u>
Beginning Minority Interests, January 1,	\$ 52,015,376	\$ 3,991,393
Interest and Dividends	1,247,343	1,041,835
Net Realized and Unrealized Gains (Losses)	8,611,905	(20,426,879)
Contributions to Partnership	164,813	70,073,083
Withdrawals from Partnership	(3,111,137)	(2,514,184)
Partnership Expenses	(215,910)	(149,872)
Minority Interests, December 31,	<u>\$ 58,712,390</u>	<u>\$ 52,015,376</u>

**NOTE 13 RETIREMENT PLAN**

The Foundation maintains a defined contribution plan for employees meeting the eligibility requirements in which contributions are based upon a specified percentage of salaries. Retirement plan expense was \$221,519 and \$479,310 for the years ended December 31, 2009 and 2008, respectively. Contributions vest with employees over a five-year period.

**NOTE 14 OPERATING LEASE**

The Foundation has an operating lease for office space. Annual rentals under the lease, which expires October 31, 2013, include the base rent plus a proportionate share of the actual operating costs of the building as specified in the lease agreement. Total rentals paid during fiscal years 2009 and 2008 were \$379,051 and \$354,504, respectively.

Future minimum lease payments as of December 31, 2009 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2010	\$ 379,652
2011	369,956
2012	369,956
2013	308,297
Total	<u>\$ 1,427,861</u>

**THE SAINT PAUL FOUNDATION AND AFFILIATED ORGANIZATIONS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**NOTE 15 COMMITMENTS**

The Foundation and affiliated organizations have committed approximately \$89.1 million in capital to private capital and real asset investment partnerships which can be called over the next one to five years.