NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2010 AND 2009

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
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LarsonAllen LLP

CPAs, Consultants & Advisors
www.larsonallen.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Northwest Area Foundation
St. Paul, Minnesota

We have audited the accompanying statements of financial position of Northwest Area Foundation (Foundation) as of March 31, 2010 and 2009, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwest Area Foundation as of March 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

LarsonAllen LLP

LarsonAllen LLP

Minneapolis, Minnesota
August 23, 2010

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2010 AND 2009

	2010	2009
ASSETS		
Cash	$ 437,468	$ 605,128
Receivable for Securities with Settlements Pending	2,600,980	68,123
Accrued Investment Income	608,847	608,093
Investments, at Fair Value (Cost Value: 2010 - $352,621,938; 2009 - $376,909,748):		
Temporary Cash Investments	19,383,788	7,440,588
U.S. Treasury Inflation Protected Securities	18,021,553	-
Fixed Income	77,589,400	70,459,670
Domestic Equities	47,799,403	50,743,017
International Equities	54,102,231	35,781,054
Absolute Return Strategies	74,275,608	88,405,521
Long-Short Equity	56,551,132	42,072,671
Private Equities	37,607,733	29,920,970
Total Investments	385,330,848	324,823,491
Program-Related Investments	9,344,795	9,872,119
Other Assets	117,548	552,048
Prepaid Excise Tax	78,763	131,629
Leasehold Improvements, Furniture and Equipment, Net of Accumulated Depreciation and Amortization of $2,610,397 and $2,307,386 in 2010 and 2009, Respectively	725,097	946,929
Total Assets	$ 399,244,346	$ 337,607,560
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Other Liabilities	$ 495,112	$ 665,186
Payable for Securities with Settlements Pending	43,281	200,228
Leasehold Incentives	111,037	164,338
Deferred Taxes	540,881	-
Total Liabilities	1,190,311	1,029,752
NET ASSETS		
Unrestricted	387,729,741	326,253,514
Permanently Restricted	10,324,294	10,324,294
Total Net Assets	398,054,035	336,577,808
Total Liabilities and Net Assets	$ 399,244,346	$ 337,607,560

See accompanying Notes to Financial Statements.

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
YEARS ENDED MARCH 31, 2010 AND 2009

	2010			2009		
	Unrestricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
REVENUES						
Dividends	$ 1,377,139	$ -	$ 1,377,139	$ 2,030,791	$ -	$ 2,030,791
Interest	5,579,535	-	5,579,535	7,875,591	-	7,875,591
Net Appreciation (Depreciation) in Fair Value of Investments	78,093,257	-	78,093,257	(116,104,816)	-	(116,104,816)
Other	15,820	-	15,820	23,469	-	23,469
Total Revenues	85,065,751	-	85,065,751	(106,174,965)	-	(106,174,965)
EXPENSES						
Program:						
Grants Appropriated, Net of Cancellations and Refunds	13,392,631	-	13,392,631	11,912,043	-	11,912,043
Program-Related Administrative	2,499,900	-	2,499,900	3,204,743	-	3,204,743
Administrative:						
Nonprogram-Related Administrative Expenses	3,657,054	-	3,657,054	3,835,797	-	3,835,797
Investment and Related Fees	3,444,675	-	3,444,675	3,140,210	-	3,140,210
Federal Excise Tax and UBIT Provision	595,264	-	595,264	(841,069)	-	(841,069)
Total Expenses	23,589,524	-	23,589,524	21,251,724	-	21,251,724
CHANGE IN NET ASSETS	61,476,227	-	61,476,227	(127,426,689)	-	(127,426,689)
Net Assets - Beginning of Year	326,253,514	10,324,294	336,577,808	453,680,203	10,324,294	464,004,497
NET ASSETS - END OF YEAR	$ 387,729,741	$ 10,324,294	$ 398,054,035	$ 326,253,514	$ 10,324,294	$ 336,577,808

See accompanying Notes to Financial Statements.

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 61,476,227	$ (127,426,689)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	307,176	311,096
Amortization of Leasehold Incentives	(53,301)	(53,304)
Net (Appreciation) Depreciation in Fair Value of Investments	(78,093,257)	116,104,816
Deferred Excise Taxes	540,881	(930,500)
(Increase) Decrease in Assets:		
Accrued Investment Income	(754)	51,032
Program-Related Investments	527,324	72,152
Other Assets	434,500	(463,358)
Prepaid Excise Tax	52,866	85,899
Increase (Decrease) in Liabilities:		
Accounts Payable and Other Liabilities	(170,074)	(338,367)
Unpaid Grant Commitments	-	(25,000)
Net Cash Used by Operating Activities	(14,978,412)	(12,612,223)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	168,987,553	124,452,846
Purchases of Investments	(154,091,457)	(111,754,466)
Purchases of Leasehold Improvements, Furniture and Equipment	(85,344)	(79,873)
Net Cash Provided by Investing Activities	14,810,752	12,618,507
NET INCREASE (DECREASE) IN CASH	(167,660)	6,284
Cash - Beginning of Year	605,128	598,844
CASH - END OF YEAR	$ 437,468	$ 605,128
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Supplemental Disclosure of Noncash Investing Transactions:		
Change in Receivable for Securities with Settlements Pending	$ 2,532,857	$ 36,156
Change in Payable for Securities with Settlements Pending	$ 156,947	$ 28,229

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Northwest Area Foundation (the Foundation) is a private foundation incorporated under the laws of Minnesota. The Foundation exists to help communities in its eight-state region reduce poverty by providing knowledge, financial resources (including grants), products, and services.

The Foundation was originally formed by the donation of three gifts beginning in 1934 totaling $10,324,294. The amount is preserved in permanently restricted net assets. As a result, the Foundation as a whole functions as an endowment.

Basis of Presentation

In the financial statements, net assets that have similar characteristics have been combined into categories as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted – Net assets whose use by the Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.

Permanently Restricted – Net assets subject to donor-imposed stipulations to be maintained permanently by the Foundation. The donors of these assets permit the Foundation to use all of the income earned on these investments.

As of and for the years ended March 31, 2010 and 2009, the Foundation had only unrestricted net assets and permanently restricted net assets.

UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT

Background

In August 2008, the State of Minnesota enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) replacing the previous Uniform Management of Institutional Funds Act (UMIFA). Under UMIFA, spending below the historic-dollar-value of an endowment was not permitted. Under UPMIFA, the historic-dollar-value threshold is eliminated, and the governing board has discretion to continue a prudent payout amount of a donor-restricted endowment even if the market value of the fund is below historic-dollar-value, with the expectation that, over time, the permanently restricted amount will remain intact.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT (CONTINUED)

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 Northwest Area 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 Northwest Area 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 Northwest Area Foundation classifies as permanently restricted net assets (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.

Return Objectives and Risk Parameters and Strategies

The Foundation's Statement of Investment Objectives and Policies indicates that the Foundation will invest its portfolio in a diverse set of asset classes, aiming to achieve above median relative returns at less than median levels of risk. The portfolio also aims to maintain its purchasing power over time as measured by the Consumer Price Index (CPI). In order to do so and to meet its obligation to exist in perpetuity, the absolute total return of the fund is targeted to be at least 6%.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a spending policy that states each fiscal year budget shall be no more than 6% of the historic, rolling average value of investment assets as calculated on a quarterly basis over the most recent 5-year period of time. The purpose of this policy is to ensure that the Foundation is spending its assets in a fiscally responsible manner and one that will allow it to fulfill the mission of the organization. The spending policy addresses other goals of the Foundation including assuring that the Foundation will exist in perpetuity as required by the Last Will and Testament of Louis W. Hill and complying with the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Cash

Cash represents funds held for use in the operations of the Foundation. Temporary cash investments held by investment managers are classified as a component of investments. At times, cash at financial institutions may be in excess of the FDIC insurance limit.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are stated at fair value and include accrued income. The value of publicly traded securities is based upon quoted market prices and net asset values. For other securities, for which no such quotations or valuations are readily available, fair value is estimated using values provided by external investment managers. These consist of limited partnerships, mutual funds, fund of funds and hedge funds and are recorded at approximate fair value as determined and approved by the managers or valuation committees of the alternative investments based upon judgments, which include, among other factors, restrictions affecting marketability and operating results.

The Foundation may also be invested in fixed income securities that are not actively traded and as such quoted market prices may not be available. These investments are priced using the estimates provided by investment managers. The Foundation believes that these valuations are a reasonable estimate of fair value as of March 31, 2010 and 2009, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed.

The Foundation invests in a variety of investment vehicles. 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 amounts reported in the statements of financial position.

Changes in fair value are recorded as unrealized gains or losses in the period of change. Realized gains and losses on sales of securities are generally determined using the average cost method

Fair Value of Financial Instruments

At March 31, 2010 and 2009 the fair value of all financial instruments approximates carrying value.

Investments – Fair value is based on quoted market prices or estimated fair value at the reporting date.

Program-Related Investments – Carrying value represents the principal balance remaining. There are certain conditions that must be met; therefore it is not practical to determine fair value.

Grants Payable – Carrying value is a reasonable estimate of fair value since the grants are considered to be current as of March 31, 2010 and 2009.

All Other – Carrying value is a reasonable estimate of fair value for all other financial instruments due to the short-term nature of those financial instruments.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program-Related Investments

Program-related investments consist of debt positions in organizations that conduct activities that fulfill the charitable purposes of the Foundation. Program-related investments are initially recorded on the statement of financial position at cost when approved. Uncollected interest earned on program-related investments with a debt position is recorded as earned and included in the investment account. These investments are recoverable over periods ranging up to 15 years. Should the lendor 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.

Accrued Investment Income

Accrued investment income includes interest and declared dividends not yet received. Interest income is recorded in the period in which it is earned, and dividend income is recorded on the ex-dividend date.

Leasehold Improvements, Furniture and Equipment

Leasehold improvements, furniture and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets ranging from 3 to 10 years. Amortization of leasehold improvements is recorded on a straight-line basis over the shorter of the lease term or the estimated useful life of the improvement.

Leasehold Incentives

In May 2002, the Foundation received $533,000 from its landlord for leasehold improvements. This amount has been deferred and is being amortized over the lease term of 10 years.

Grants

Grant appropriations are charged to unrestricted net assets at the time the grants are approved by the CEO/President of the Foundation subject to the guidelines set forth by the board of directors. Conditional grants are recognized as grant appropriations in the statement of activities and change in net assets when the conditions are met. Cancellations of grants occur when the grantees do not meet the grant terms. Grants are refunded when grant program needs are less than the appropriated amount.

Federal Taxes

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not subject to federal income taxes except for income from its unrelated business activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Taxes (Continued)

Under Section 4940 of the Internal Revenue Code, the Foundation is subject to a 2% excise tax on its taxable investment income received, which principally includes income from investments plus net realized capital gains. Net capital losses, however, are not deductible. Under certain circumstances, the Foundation may qualify for a 1% excise tax rate. An annual determination is made by the Foundation as to whether a 1% or 2% rate is applicable in each year. The Foundation applied 1.5% and 2% excise tax rates as an estimate of the current tax provision for the years ended March 31, 2010 and 2009, respectively.

Deferred taxes result from certain income and expense items being accounted for in different time periods for financial statement purposes than for federal excise and income tax purposes. Deferred excise tax expense (benefit) arises from the change in unrealized appreciation (depreciation) in fair value of investments and accrued investment income. The deferred excise tax provision (benefit) is calculated utilizing a 1.5% excise tax rate.

The Foundation has adopted guidance in the income tax standard regarding the recognition of uncertain tax positions. The guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax filing that are not certain to be realized. The implementation of this guidance had no impact on the Foundation's financial statements. The Foundation's tax filings are subject to review and examination by federal and state authorities. The Foundation is not aware of any activities that would jeopardize its tax exempt status. The Foundation is not aware of any activities that are subject to tax on unrelated business income, excise or other taxes. The filings for the years ending 2007 to 2010 are open to examination by federal and state authorities.

Fair Value Measurement

Fair Value Measurement establishes 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.

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.

The Fair Value Option for Financial Assets and Liabilities allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument by instrument basis. The Foundation has not elected to measure any existing financial instruments at fair value at April 1, 2009. However, the Foundation may elect to measure newly acquired financial instruments at fair value in the future.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 23, 2010, the date the financial statements were approved to be issued.

NOTE 2 INVESTMENTS

Net appreciation (depreciation) in fair value of investments for the years ended March 31, 2010 and 2009 consist of the following:

Year Ended March 31, 2010	
Net Realized Losses on Sales of Investments	$ (11,696,307)
Net Unrealized Appreciation of Investments	89,789,564
Net Appreciation in Fair Value of Investments	$ 78,093,257
Year Ended March 31, 2009	
Net Realized Gains on Sales of Investments	$ (23,602,400)
Net Unrealized Depreciation of Investments	(92,502,416)
Net Depreciation in Fair Value of Investments	$ (116,104,816)

The Foundation had investment fees netted with unrealized appreciation (depreciation) of investments for the years ended March 31, 2010 and 2009 in the amount of $2,304,044 and $2,328,192, respectively.

Capital Call Commitments

As of March 31, 2010, the Foundation has committed to invest approximately $36,800,000 in additional funds.

NOTE 3 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 as of March 31, 2010:

	Level 1	Level 2	Level 3	Total
U.S. Treasury Inflation Protected Securities	$ -	$ 18,021,553	$ -	$ 18,021,553
Fixed Income	-	77,589,400	-	77,589,400
Domestic Equities	28,025,394	-	19,774,009	47,799,403
International Equities	11,411,126	42,691,105	-	54,102,231
Absolute Return Strategies	-	59,861,932	14,413,676	74,275,608
Long-Short Equity	-	56,551,132	-	56,551,132
Private Equities	-	-	37,607,733	37,607,733
Total Investments	$ 39,436,520	$ 254,715,122	$ 71,795,418	$ 365,947,060

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a recurring basis as of March 31, 2009:

	Level 1	Level 2	Level 3	Total
Fixed Income	$ -	$ 70,365,763	$ 93,907	$ 70,459,670
Domestic Equities	15,789,235	34,953,782	-	50,743,017
International Equities	6,810,403	28,970,651	-	35,781,054
Absolute Return Strategies	-	-	88,405,521	88,405,521
Long-Short Equity	-	-	42,072,671	42,072,671
Private Equities	-	-	29,920,970	29,920,970
Total Investments	$ 22,599,638	$ 134,290,196	$ 160,493,069	$ 317,382,903

The following table provides summary of changes in fair value of the Foundation's Level 3 financial assets for the year ended March 31, 2010:

	Fixed Income and Domestic Equities	Absolute Return	Long/Short Equity	Private Equities	Total
Balances as of April 1, 2009	$ 93,907	$ 88,405,521	$ 42,072,671	$ 29,920,970	$ 160,493,069
Reclassification to Level 2	-	(48,131,268)	(42,072,671)	-	(90,203,939)
Net Realized and Unrealized Losses on Investments	4,774,009	(126,377)	-	2,405,794	7,053,426
Purchases of Investments	30,000,000	28,393,305	-	6,013,649	64,406,954
Proceeds from Sales of Investments	(15,093,907)	(54,127,505)	-	(732,680)	(69,954,092)
Balances as of March 31, 2010	$ 19,774,009	$ 14,413,676	$ -	$ 37,607,733	$ 71,795,418

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

	Fixed Income and Domestic Equities	Absolute Return	Long/Short Equity	Private Equities	Total
Balances as of April 1, 2008	$ -	$ 130,398,090	$ -	$ 27,862,752	$ 158,260,842
Net Realized and Unrealized Losses on Investments	-	(30,992,569)	(5,927,329)	(6,117,653)	(43,037,551)
Purchases of Investments	93,907	-	48,000,000	9,724,438	57,818,345
Proceeds from Sales of Investments	-	(11,000,000)	-	(1,548,567)	(12,548,567)
Balances as of March 31, 2009	$ 93,907	$ 88,405,521	$ 42,072,671	$ 29,920,970	$ 160,493,069

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

In September 2009 guidance was issued 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 2010, resulting in a transfer out of $90,203,939.

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

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
U.S. Treasury Inflation Proctected Securities	$ 18,021,553	$ -	Daily	3 days
Fixed Income	77,589,400	-	Daily	3 days
International Equities	42,691,105	-	Monthend	2 days
Absolute Return Strategies	59,861,932	-	Quarterly	90 days
Absolute Return Strategies	14,413,676	-	In Liquidation	N/A
Long/Short Equity	56,551,132	-	Quarterly	45 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.

NOTE 4 PROGRAM-RELATED INVESTMENTS

Program-related investments consist of the following at March 31:

	2010	2009
Midwest Minnesota Community Development Corporation (Debt) Matures September 2019	$ 880,000	$ 920,000
Neighborhood Development Center (Debt) Matures August 2023	311,154	339,747
Montana Community Development Corporation (Debt) Matures December 2015	329,875	341,949
First Children's Finance* (Debt) Matures in June 2013	187,500	234,375
CDC Bancshares (Debt) Matures April 2021	900,000	1,000,000
Grow Iowa Foundation (Debt) Matures April 2021	100,000	100,000
Idaho-Nevada Community Development Financial Institution (Debt) Matures April 2016	700,000	700,000
RAIN Source Capital Corporation** (Debt) Matures April 2017	1,000,000	1,000,000
North Country Cooperative Development Fund (Debt) Matures April 2021	1,000,000	1,000,000
NE Entrepreneur Fund (Debt) Matures April 2015	200,000	200,000
Initiative Foundation (Debt) Matures December 2016	1,000,000	1,000,000
Seattle Economic Development Fund (Debt) Matures December 2016	750,000	750,000
South Dakota Rural Enterprise (Debt) Matures December 2016	500,000	500,000
Calvert Social Investment Foundation (Debt) Matures December 2011	500,000	500,000
Northland Foundation (Debt) Matures December 2011	700,000	1,000,000
Indian Land Tenure Foundation (Debt) Matures December 2013	250,000	250,000
	9,308,529	9,836,071
Interest Receivable (at Varying Rates up to 3.25% and Maturities through 2022)	36,266	36,048
	$ 9,344,795	$ 9,872,119

* Formerly known as Development Corporation for Children
** Formerly known as Minnesota Investment Network

As of March 31, 2010 and 2009 there were write offs of $-0-. New program-related investments totaling $-0- and $250,000 were distributed in 2010 and 2009, respectively.

NOTE 5 USE OF FINANCIAL INSTRUMENTS

The Foundation's investment strategy incorporates certain financial instruments, which involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in its financial statements. 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 of off-balance-sheet financial instruments. Credit risk represents potential loss from possible nonperformance by obligors and counterparties on the terms of their contracts. There continues to be market volatility due to changes in market conditions and other factors which results in credit and market risk.

The Foundation's international fixed income portfolio uses derivatives, which are not considered hedges, to minimize foreign currency risks through forward contracts. These contracts mature in less than 60 days. The Foundation's domestic portfolio uses options to minimize volatility; they are marked to market each reporting period. Realized and unrealized gains and losses related to the above instruments are recorded when they occur.

The Foundation had 3 contracts outstanding as of March 31, 2010 and 2009 at a gross contract value of $735,000 and $865,000, respectively and the net exposure amount is included within the Partnership'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. Gains and losses for these futures were $(44,332) for the year ended March 31, 2010.

NOTE 6 GRANTS

Grant activity for the years ended March 31, 2010 and 2009 is summarized as follows:

	2010	2009
Unpaid Commitments at Beginning of Year	$ -	$ 25,000
Grant Appropriations, Net of Cancellations and Refunds (*)	13,392,631	11,912,043
Payments (*)	(13,392,631)	(11,937,043)
Unpaid Commitments at End of Year	$ -	$ -

(*) Does not include program-related investments

Conditional grants made where conditions have not yet been met totaled $16,874,109 and $36,058,024 at March 31, 2010 and 2009, respectively.

NOTE 7 FEDERAL EXCISE TAXES AND UBIT DISTRIBUTION REQUIREMENTS AND PROVISION

Federal excise taxes for the years ended March 31, 2010 and 2009 consist of the following:

	2010	2009
Provision:		
Current Expense (Benefit)	$ 72,145	$ 89,431
Deferred	521,601	(930,500)
Total	$ 593,746	$ (841,069)
Receivable (Liability):		
Current	78,763	$ 131,629
Deferred	(540,881)	-
Total	$ (462,118)	$ 131,629

The Foundation is subject to the distribution requirements of the Internal Revenue Code. Accordingly, it must make qualified distributions within one year after the end of each fiscal year of at least 5% of the average market value of its assets as defined to avoid an additional excise tax. The Foundation has complied with these distribution requirements for the years ended March 31, 2010 and 2009.

NOTE 8 CAPITAL STOCK

Included in the unrestricted net assets are 10 shares of capital stock. Under the terms established in the Foundation’s by-laws, these 10 shares of capital stock have a zero par value. The five trustees hold all 10 shares as a unit. (Individuals do not hold separate identifiable shares). No dividends are paid on these shares, nor do any net earnings of the Foundation benefit any stockholder.

NOTE 9 RELATED PARTY TRANSACTIONS

The Foundation compensates its Board of Directors for their governance responsibilities, for the additional duties they perform as officers of the Foundation and for the grant portfolio oversight responsibilities they assume as directors of the Foundation. In 2010 and 2009, this compensation totaled $230,096 and $245,006, respectively.

NOTE 10 PROGRAM-RELATED AND NONPROGRAM-RELATED ADMINISTRATIVE EXPENSES

Program-related expenses relate to control and evaluation of grants, direct program services provided through the Foundation, as well as the salaries and expenses required to run the programs. Nonprogram-related administrative expenses include all expenses incidental to operating the Organization.

NOTE 11 EMPLOYEE PENSION PLAN

The Foundation has an employee pension plan operated as a self-funded money purchase plan. This is a defined noncontributory plan available to all employees who work a minimum of 1,000 hours per year, following one full year of service. The plan provides for an annual contribution of 11% of each eligible participant's earned compensation up to the IRS permissible maximum of $245,000 and $230,000 for 2009 and 2008, respectively. Contributions to the plan for the years ended March 31, 2010 and 2009 were $215,047 and $176,635, respectively.

NOTE 12 LEASE COMMITMENTS

In March 2001, the Foundation entered into a 10-year noncancellable operating lease for office space, which commenced on May 6, 2002. Under this lease agreement, the Foundation pays operating costs for the leased property. This lease agreement has renewal options for up to 10 additional years. Total rent expense was $229,186 for each of the years ended March 31, 2010 and 2009, net of amortization of the leasehold incentives of $53,304 for each of the years ended March 31, 2010 and 2009.

Future minimum rental payments at March 31, 2010 are as follows:

Year Ending March 31,	Amount
2011	$ 282,490
2012	282,490
2013	23,541
Total	$ 588,521