NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011 AND
NINE-MONTH PERIOD ENDED DECEMBER 31, 2010

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(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
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NINE-MONTH PERIOD ENDED DECEMBER 31, 2010

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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 December 31, 2011 and 2010, and the related statements of activities and changes in net assets, and cash flows for the year ended December 31, 2011 and the nine-month period ended December 31, 2010. 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 provide 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 December 31, 2011 and 2010, and the changes in its net assets and its cash flows for periods then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 8, 2012

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Cash	$ 756,807	$ 265,806
Receivable for Securities with Settlements Pending	296,690	922,497
Accrued Investment Income	355,775	461,816
Investments	400,326,604	415,565,814
Program-Related Investments	7,549,286	8,556,719
Other Assets	105,325	172,431
Fixed Assets	312,446	499,217
Total Assets	$ 409,702,933	$ 426,444,300
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Other Liabilities	$ 578,756	$ 571,891
Payable for Securities with Settlements Pending	12,194,593	8,981,820
Leasehold Incentives	-	71,063
Deferred Taxes	408,584	847,163
Total Liabilities	13,181,933	10,471,937
NET ASSETS		
Unrestricted	386,196,706	405,648,069
Permanently Restricted	10,324,294	10,324,294
Total Net Assets	396,521,000	415,972,363
Total Liabilities and Net Assets	$ 409,702,933	$ 426,444,300

See accompanying Notes to Financial Statements.

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
YEAR ENDED DECEMBER 31, 2011 AND NINE-MONTH PERIOD ENDED DECEMBER 31, 2010

	2011			2010		
	Unrestricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
REVENUES						
Dividends	$ 3,015,645	$ -	$ 3,015,645	$ 1,555,985	$ -	$ 1,555,985
Interest	2,406,007	-	2,406,007	2,486,514	-	2,486,514
Net Appreciation (Depreciation) in Fair Value of Investments	(4,602,852)	-	(4,602,852)	31,328,333	-	31,328,333
Other	26,776	-	26,776	131,427	-	131,427
Total Revenues	845,576	-	845,576	35,502,259	-	35,502,259
EXPENSES						
Program:						
Grants Appropriated, Net of Cancellations and Refunds	9,575,903	-	9,575,903	9,249,874	-	9,249,874
Program-Related Administrative	3,920,792	-	3,920,792	2,343,471	-	2,343,471
Administrative:						
Nonprogram-Related Administrative Expenses	2,528,395	-	2,528,395	2,778,479	-	2,778,479
Investment and Related Fees	4,246,133	-	4,246,133	2,718,541	-	2,718,541
Federal Excise Tax and UBIT Provision	25,716	-	25,716	493,566	-	493,566
Total Expenses	20,296,939	-	20,296,939	17,583,931	-	17,583,931
CHANGE IN NET ASSETS	(19,451,363)	-	(19,451,363)	17,918,328	-	17,918,328
Net Assets - Beginning of Year	405,648,069	10,324,294	415,972,363	387,729,741	10,324,294	398,054,035
NET ASSETS - END OF YEAR	$ 386,196,706	$ 10,324,294	$ 396,521,000	$ 405,648,069	$ 10,324,294	$ 415,972,363

See accompanying Notes to Financial Statements.

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011 AND
NINE-MONTH PERIOD ENDED DECEMBER 31, 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (19,451,363)	$ 17,918,328
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	376,480	227,044
Amortization of Leasehold Incentives	(71,063)	(39,974)
Net Depreciation (Appreciation) in Fair Value of Investments	4,602,852	(31,328,333)
Deferred Excise Taxes	(438,579)	306,282
(Increase) Decrease in Assets:		
Accrued Investment Income	106,041	147,031
Program-Related Investments	1,007,433	788,076
Other Assets	67,106	(14,727)
Prepaid Excise Tax	-	78,763
Increase in Liabilities:		
Accounts Payable and Other Liabilities	6,865	76,779
Net Cash Used by Operating Activities	(13,794,228)	(11,840,731)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	101,655,233	71,012,565
Purchases of Investments	(87,180,295)	(59,302,176)
Purchases of Leasehold Improvements, Furniture and Equipment	(189,709)	(41,320)
Net Cash Provided by Investing Activities	14,285,229	11,669,069
NET INCREASE (DECREASE) IN CASH	491,001	(171,662)
Cash - Beginning of Year	265,806	437,468
CASH - END OF YEAR	$ 756,807	$ 265,806
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Supplemental Disclosure of Noncash Investing Transactions:		
Change in Receivable for Securities with Settlements Pending	$ (625,807)	$ (1,678,483)
Change in Payable for Securities with Settlements Pending	$ (3,212,773)	$ (8,938,539)
Cash Paid for Federal Excise Taxes	$ 440,000	$ 108,000

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.

In 2010, the Foundation changed its fiscal year-end from March 31 to December 31 to simplify finance responsibilities related to the accounting for the Foundation's investment portfolio.

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 year ended December 31, 2011 and the nine-month period ended December 31, 2010, 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. The fair 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 can consist of absolute return and private equity investments, 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 December 31, 2011 and 2010, 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.

Receivables and payables with settlements pending arise out of the ordinary course of buy and sells within the Foundation's investment portfolio. These items are short-term in nature and are settled in the next year.

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 December 31, 2011 and 2010, 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 December 31, 2011 and 2010.

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 lender fail to make progress towards their program goals the Foundation can require repayment. In the event that a program-related investment is subsequently determined to be uncollectible or the value is permanently impaired, the Foundation may record the uncollectible amount as a grant appropriation or record an impairment reserve.

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 had been deferred and was being amortized over the lease term of 10 years. The lease was amended in October 2011 and the remaining amount was fully amortized.

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 a 2.0% excise tax rate as an estimate of the current tax provision for the year ended December 31, 2011 and the nine-month period ended December 31, 2010.

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’s 2009 to 2011 tax years are open for examination by federal and state taxing authorities. The Foundation files as a tax exempt organization, should that status be challenged in the future, all years since inception would be subject to review by the Internal Revenue Service.

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

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 December 31, 2011 and 2010. 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.

Reclassifications

Certain reclassifications have been made to the prior year 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

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 8, 2012, the date the financial statements were approved to be issued.

Subsequent to year-end, the Foundation entered into an investment agreement with a real asset fund manager. A total of $20,000,000 was committed to the fund.

NOTE 2 INVESTMENTS

Investments consist of the following as of December 31, 2011 and 2010:

	2011	2010
Investments, at Fair Value (Cost Value: December 31, 2011 and 2010 - $363,151,666 and $352,626,962, Respectively):		
Temporary Cash Investments	$ 12,729,564	$ 12,527,153
U.S. Treasury Inflation Protected Securities	13,319,352	18,851,829
Government and Agencies Fixed Income	14,055,535	12,400,650
Bond Funds	35,031,232	37,594,170
Municipal Bonds	711,851	406,535
Corporate Bonds and Notes	13,468,105	19,126,707
Asset-Backed Securities	2,744,758	-
Collateralized Mortgage-Backed	657,562	-
Domestic Equities	72,200,296	76,981,323
International Equities	48,339,440	59,201,590
Absolute Return Strategies	70,757,904	73,554,490
Long-Short Equity	57,496,617	59,348,655
Real Assets	9,116,686	-
Private Equities	49,697,702	45,572,712
Total Investments	$ 400,326,604	$ 415,565,814

Net appreciation (depreciation) in fair value of investments for the year ended December 31, 2011 and the nine-month period ended December 31, 2010 consists of the following:

Year Ended December 31, 2011	
Net Realized Gains on Sales of Investments	$ 22,110,036
Net Unrealized Depreciation of Investments	(26,712,888)
Net Appreciation in Fair Value of Investments	$ (4,602,852)
Nine Month Period Ended December 31, 2010	
Net Realized Gains on Sales of Investments	$ 10,115,247
Net Unrealized Appreciation of Investments	21,213,086
Net Appreciation in Fair Value of Investments	$ 31,328,333

The Foundation had investment fees netted with unrealized appreciation of investments for the year ended December 31, 2011 and the nine-month period ended December 31, 2010 in the amount of $2,995,650 and $1,747,194, respectively.

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 December 31, 2011:

	Level 1	Level 2	Level 3	Total
U.S. Treasury Inflation Protected Securities	$ -	$ 13,319,352	$ -	$ 13,319,352
Government and Agencies Fixed Income	-	14,055,535	-	14,055,535
Bond Funds	19,054,867	15,976,365	-	35,031,232
Municipal Bonds	-	711,851	-	711,851
Corporate Bonds and Notes	-	13,468,105	-	13,468,105
Asset-Backed Securities	-	2,744,758	-	2,744,758
Collateralized Mortgage-Backed	-	657,562	-	657,562
Domestic Equities	42,096,689	30,103,607	-	72,200,296
International Equities	48,339,440	-	-	48,339,440
Absolute Return Strategies	-	45,081,100	25,676,804	70,757,904
Long-Short Equity	-	57,496,617	-	57,496,617
Real Assets - Commodities	-	9,116,686	-	9,116,686
Private Equities	-	-	49,697,702	49,697,702
Total Investments	$ 109,490,996	$ 202,731,538	$ 75,374,506	$ 387,597,040

Assets measured at fair value on a recurring basis as of December 31, 2010:

	Level 1	Level 2	Level 3	Total
U.S. Treasury Inflation Protected Securities	$ -	$ 18,851,829	$ -	$ 18,851,829
Government and Agencies Fixed Income	-	12,400,650	-	12,400,650
Bond Funds	18,933,069	18,661,101	-	37,594,170
Municipal Bonds	-	406,535	-	406,535
Corporate Bonds and Notes	-	19,126,707	-	19,126,707
Domestic Equities	48,494,254	28,487,069	-	76,981,323
International Equities	13,423,412	45,778,178	-	59,201,590
Absolute Return Strategies	-	63,648,665	9,905,825	73,554,490
Long-Short Equity	-	59,348,655	-	59,348,655
Private Equities	-	-	45,572,712	45,572,712
Total Investments	$ 80,850,735	$ 266,709,389	$ 55,478,537	$ 403,038,661

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table provides summary of changes in fair value of the Foundation's Level 3 financial assets for the year ended December 31, 2011:

	Absolute Return	Private Equities	Total
Balances as of January 1, 2011	$ 9,905,825	$ 45,572,712	$ 55,478,537
Net Realized and Unrealized Gains on Investments	132,769	2,927,862	3,060,631
Purchases of Investments	23,736,036	10,862,876	34,598,912
Proceeds from Sales of Investments	(8,097,826)	(9,665,748)	(17,763,574)
Balances as of December 31, 2011	$ 25,676,804	$ 49,697,702	$ 75,374,506

The following table provides summary of changes in fair value of the Foundation's Level 3 financial assets for the nine-month period ended December 31, 2010:

	Fixed Income and Domestic Equities	Absolute Return	Private Equities	Total
Balances as of April 1, 2010	$ 19,744,009	$ 14,413,676	$ 37,607,733	$ 71,765,418
Reclassification to Level 2	(19,744,009)	-	-	(19,744,009)
Net Realized and Unrealized Gains on Investments	-	2,028,075	5,586,727	7,614,802
Purchases of Investments	-	2,409,708	7,096,719	9,506,427
Proceeds from Sales of Investments	-	(8,945,634)	(4,718,467)	(13,664,101)
Balances as of December 31,2010	$ -	$ 9,905,825	$ 45,572,712	$ 55,478,537

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2011:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
U.S. Treasury Inflation Protected Securities	$ 13,319,352	$ -	Daily	3 days
Fixed Income	47,614,176	-	Daily	3 days
Domestic Equities	30,103,607	-	Quarterly	60 days
Absolute Return Strategies	65,249,269	-	Quarterly	90 days
Absolute Return Strategies	5,508,635	-	In Liquidation	N/A
Long/Short Equity	57,496,617	-	Quarterly	45 days
Real Assets - Commodities	9,116,686	-	Monthly	35 days
Private Equities	49,697,702	25,809,766	N/A	N/A

NOTE 3 FAIR VALUE MEASUREMENTS (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	Redemption Notice Period
U.S. Treasury Inflation Protected Securities	$ 18,851,829	$ -	Daily	3 days
Fixed Income	50,594,993	-	Daily	3 days
Domestic Equities	28,487,069	-	Quarterly	60 days
International Equities	45,778,178	-	Month End	2 days
Absolute Return Strategies	63,648,665	-	Quarterly	90 days
Absolute Return Strategies	9,905,825	-	In Liquidation	N/A
Long/Short Equity	59,348,655	-	Quarterly	45 days
Private Equities	45,572,712	32,910,754	N/A	N/A

US Treasury Inflation Protected Securities (TIPS) are securities issued by the U.S. government to help investors hedge against the effects of inflation. This asset class is backed by the U.S. government, and is adjusted for inflation by modifying the principal (as opposed to the coupon) according to changes in the Consumer Price Index (CPI). The annual coupon rate is then fixed over the life of the bond, with the coupon payment changing based on a variable principal, so the actual dollar amount of each interest payment changes. At maturity, TIPS repay the original principal (if adjusted down due to deflation) or the higher adjusted principal, whichever is greater.

The fixed income asset class seeks to generate regular, reasonably predictable income. The most common type of fixed income instrument is the bond. Bonds are issued by governments and corporations and offer the investor a defined schedule of obligatory interest payments.

Domestic equities represent an ownership interest in a company/property based in the United States. Domestic equities are generally defined by the company size (market capitalization – large cap/small cap) and investment style (value, growth, and blend). Domestic equities are typically traded on large public exchanges in the U.S. International equities represent an ownership interest in a company/property that is located outside the United States.

The Absolute Return Strategies goal is to provide positive returns regardless of the how the broader market is performing. Absolute return strategies include a variety of investments (derivatives, leverage, equities, fixed income, and unconventional assets).

Long/Short equity are multi-strategy hedge funds that that invest both long and short equity securities, commodities, distressed credit, global long/short real estate, and multi-strategies. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Private Equity seeks to generate returns through the identification of undervalued or mispriced assets or companies whose primary activities are in industries outside of real estate and natural resources. Investments would be expected to be made through either public or private equity securities, convertible notes or warrants, or other acquired or originated debt securities. The exposure within this asset class would be expected to be predominately long-only exposure. It is not expected that these assets would be held as marketable securities with an active or easily identifiable market, however, the asset class overall would be expected to generate return through the sale of holdings through initial public offerings or sales to strategic or financial buyers. This exposure is obtained primarily through investments in long-dated limited partnership vehicles and is considered illiquid.

Real Assets includes physical or identifiable assets that have intrinsic utility; considered the opposite of a financial asset. Typical investments in this category include gold, land, patents, etc. Real assets tend to have a low correlation to traditional asset classes and have the potential to generate returns via price appreciation and income generation.

Commodities, a sub-asset class of Real Assets, are physical goods (food, grain, metals) traditionally used as raw materials in the production process. Commodities can be bought and sold, typically through the use of futures contracts. This sub-asset class has historically been negatively correlated to both stocks and bonds, making commodities a useful diversification tool.

NOTE 4 PROGRAM-RELATED INVESTMENTS

Program-related investments consist of the following at December 31, 2011 and 2010:

	2011	2010
Midwest Minnesota Community Development Corporation (Debt) Matures September 2019	$ 780,000	$ 840,000
Neighborhood Development Center (Debt) Matures August 2023	277,185	299,911
Montana Community Development Corporation (Debt) Matures December 2015	81,356	259,172
First Children's Finance* (Debt) Matures in June 2013	93,750	140,625
CDC Bancshares (Debt) Matures April 2021	900,000	900,000
Grow Iowa Foundation (Debt) Matures April 2021	100,000	100,000
Idaho-Nevada Community Development Financial Institution (Debt) Matures April 2016	600,000	600,000
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	550,000	750,000
Calvert Social Investment Foundation (Debt) Matures December 2011	-	500,000
Northland Foundation (Debt) Matures December 2014	700,000	700,000
Indian Land Tenure Foundation (Debt) Matures December 2013	250,000	250,000
	7,532,291	8,539,708
Interest Receivable (at Varying Rates up to 3.25% and Maturities through 2022)	16,995	17,011
Total	$ 7,549,286	$ 8,556,719

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

For the year ended December 31, 2011, there was one partial program-related investment that was converted to a grant in the amount of $165,138. No such conversion or write-off occurred during the nine-month period ended December 31, 2010. No new program-related investments were distributed during the year ended December 31, 2011 and the nine-month period ending December 31, 2010.

No program-related investments were past due as of December 31, 2011 and 2010 and no allowance for credit losses has been created for any potential uncollectible program-related investments as of December 31, 2011 and 2010.

NOTE 5 FIXED ASSETS

Fixed assets consist of the following at December 31, 2011 and 2010:

	2011	2010
Leasehold Improvements	$ 1,807,930	$ 1,769,457
Furniture and Equipment	970,389	1,047,715
Computer Hardware and Software	424,810	519,485
Work In-Progress	13,498	-
	3,216,627	3,336,657
Less: Accumulated Depreciation	(2,904,181)	(2,837,440)
Total Fixed Assets	$ 312,446	$ 499,217

NOTE 6 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 56 and 60 contracts outstanding as of December 31, 2011 and 2010 at a gross contract value of $-0- 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. Gains and losses for these futures were ($5,706) and $115,857 for year ended December 31, 2011 and the nine-month period ended December 31, 2010, respectively.

NOTE 7 GRANTS

Grant activity for the periods ended December 31, 2011 and 2010 is summarized as follows:

	2011	2010
Unpaid Commitments at Beginning of Year	$ -	$ -
Grant Appropriations, Net of Cancellations and Refunds (*)	9,575,903	9,249,874
Payments (*)	(9,575,903)	(9,249,874)
Unpaid Commitments at End of Year	$ -	$ -

(*) Does not include program-related investments

Conditional grants made where conditions have not yet been met totaled $7,765,549 and $11,256,918 at December 31, 2011 and 2010, respectively.

NOTE 8 FEDERAL EXCISE TAXES AND UBIT DISTRIBUTION REQUIREMENTS AND PROVISION

Federal excise taxes for the year ended December 31, 2011 and the nine-month period ended December 31, 2010 consisted of the following:

	2011	2010
Provision:		
Current Expense	$ 470,540	$ 226,529
Deferred	(445,661)	266,516
Total	$ 24,879	$ 493,045
Receivable (Liability):		
Current	$ 24,125	$ -
Deferred	(408,584)	(847,163)
Total	$ (384,459)	$ (847,163)

For the year ended December 31, 2011 and the nine-month period ended December 31, 2010, the provision also includes UBIT expense of $837 and $521, respectively.

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 year ended December 31, 2011 and the nine-month period ended December 31, 2010.

NOTE 9 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 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 10 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. For the year ended December 31, 2011 and the nine-month period ended December 31, 2010 this compensation totaled $194,375 and $147,201, respectively.

NOTE 11 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 12 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 Internal Revenue Service permissible maximum of $245,000 for 2011 and 2010. Contributions to the plan for the year ended December 31, 2011 and the nine-month period ended December 31, 2010 were $258,801 and $168,533, respectively.

NOTE 13 LEASE COMMITMENTS

In March 2001, the Foundation entered into a 10-year noncancelable 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. In June 2011, the Foundation exercised the renewal option on its current office space lease. This lease amendment commenced on October 1, 2011 and is for the twelve-year period from October 1, 2011 through September 30, 2023. Under this amendment, the Foundation will continue to pay operating costs (prorated share of utilities, property taxes, maintenance of common areas, etc.) for the leased space in addition to rent. Total rent expense was $200,767 and $171,892 for the year ended December 31, 2011 and the nine-month period ended December 31, 2010, respectively, net of amortization of the leasehold incentives of $71,063 and $39,975 for the year ended December 31, 2011 and the nine-month period ended December 31, 2010, respectively.

Future minimum rental payments at December 31, 2011 are as follows:

Year Ending December 31,	Amount
2012	$ 239,850
2013	239,850
2014	239,850
2015	239,850
2016	239,850
Thereafter	1,746,908
Total	$ 2,946,158