NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

INDEPENDENT AUDITORS' REPORT

Board of Directors
Northwest Area Foundation
Saint Paul, Minnesota

We have audited the accompanying financial statements of Northwest Area Foundation (Foundation), a Minnesota non-profit corporation, which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Northwest Area Foundation

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 6, 2014

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
Cash	$ 200,559	$ 492,357
Receivable for Securities with Settlements Pending	18,523,979	3,381,649
Accrued Investment Income	194,304	369,216
Investments	430,643,101	404,747,604
Program-Related Investments	5,875,894	6,640,945
Other Assets	116,130	107,231
Fixed Assets	1,186,029	1,238,400
Total Assets	$ 456,739,996	$ 416,977,402
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Other Liabilities	$ 505,125	$ 488,603
Payable for Securities with Settlements Pending	56,842	433,823
Unpaid Grant Commitments	2,748,500	-
Leasehold Incentives	305,470	336,800
Deferred Taxes	1,295,753	702,881
Total Liabilities	4,911,690	1,962,107
NET ASSETS		
Unrestricted	441,504,012	404,691,001
Permanently Restricted	10,324,294	10,324,294
Total Net Assets	451,828,306	415,015,295
Total Liabilities and Net Assets	$ 456,739,996	$ 416,977,402

See accompanying Notes to Financial Statements.

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013			2012		
	Unrestricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
REVENUES						
Dividends	$ 4,256,704	$ -	$ 4,256,704	$ 2,993,648	$ -	$ 2,993,648
Interest	1,246,900	-	1,246,900	1,708,795	-	1,708,795
Net Appreciation in Fair Value of Investments	59,413,907	-	59,413,907	39,343,526	-	39,343,526
Other	16,353	-	16,353	60,932	-	60,932
Total Revenues	64,933,864	-	64,933,864	44,106,901	-	44,106,901
EXPENSES						
Program:						
Grants Appropriated, Net of Cancellations and Refunds	16,256,704	-	16,256,704	14,671,362	-	14,671,362
Program-Related Administrative	4,424,273	-	4,424,273	3,945,868	-	3,945,868
Administrative:						
Nonprogram-Related Administrative Expenses	2,383,503	-	2,383,503	2,428,407	-	2,428,407
Investment and Related Fees	4,344,470	-	4,344,470	4,074,912	-	4,074,912
Federal Excise Tax and UBIT Provision	711,903	-	711,903	492,057	-	492,057
Total Expenses	28,120,853	-	28,120,853	25,612,606	-	25,612,606
CHANGE IN NET ASSETS	36,813,011	-	36,813,011	18,494,295	-	18,494,295
Net Assets - Beginning of Year	404,691,001	10,324,294	415,015,295	386,196,706	10,324,294	396,521,000
NET ASSETS - END OF YEAR	$ 441,504,012	$ 10,324,294	$ 451,828,306	$ 404,691,001	$ 10,324,294	$ 415,015,295

See accompanying Notes to Financial Statements.

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 36,813,011	$ 18,494,295
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	212,724	109,283
Net Appreciation in Fair Value of Investments	(59,413,907)	(39,343,526)
Deferred Excise Taxes	592,872	294,297
Loss on Sale of Fixed Assets	-	1,552
(Increase) Decrease in Assets:		
Accrued Investment Income	174,912	(13,441)
Program-Related Investments	765,051	908,341
Other Assets	(8,899)	(1,906)
Increase (Decrease) in Liabilities:		
Accounts Payable and Other Liabilities	16,522	(90,153)
Unpaid Grant Commitments	2,748,500	-
Net Cash Used by Operating Activities	(18,099,214)	(19,641,258)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	73,499,686	95,006,129
Purchases of Investments	(55,500,587)	(74,929,332)
Purchases of Leasehold Improvements, Furniture and Equipment	(191,683)	(699,989)
Net Cash Provided by Investing Activities	17,807,416	19,376,808
NET DECREASE IN CASH	(291,798)	(264,450)
Cash - Beginning of Year	492,357	756,807
CASH - END OF YEAR	$ 200,559	$ 492,357
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Supplemental Disclosure of Noncash Investing Transactions:		
Change in Receivable for Securities with Settlements Pending	$ 15,142,330	$ 3,084,959
Change in Payable for Securities with Settlements Pending	$ 376,981	$ 11,760,770
Fixed Assets Received through Leasehold Incentives	$ -	$ 336,800
Supplemental Disclosure of Cash Transactions:		
Cash Paid for Federal Excise Taxes	$ 118,000	$ 170,000

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 is committed to the well-being of the people of their region. It focuses on the work of proven or promising organizations – those that have demonstrated success and those that are on the cutting edge and poised to do innovative work in poverty reduction. Minnesota, Iowa, North Dakota, South Dakota, Montana, Idaho, Washington, and Oregon make up the eight state region served by the Foundation.

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 December 31, 2013 and 2012, 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 five-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 does allow the Foundation to exceed the 6% policy amount if needed in order to meet qualified minimum distribution requirements. The spending policy also 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, 2013 and 2012, 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 buys 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, 2013 and 2012, 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.

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 and equity 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

During 2012, the Foundation received $336,800 from its landlord for leasehold improvements completed in December of 2012. This amount has been deferred and is being amortized over the remaining lease term of 10 years and 9 months beginning in January 2013.

Grants

Grant appropriations are charged to unrestricted net assets at the time the grants are approved by the CEO/President, Program Committee, and Board of Directors 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 1.0% and 1.0% excise tax rate as an estimate of the current tax provision for the years ended December 31, 2013 and 2012, 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’s 2010 to 2012 tax years are open for examination by federal and state taxing authorities. The Foundation files as a tax exempt organizations. 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.

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 which have 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.

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 6, 2014, the date the financial statements were approved to be issued.

NOTE 2 INVESTMENTS

Investments consist of the following as of December 31, 2013 and 2012:

	2013	2012
Investments, at Fair Value (Cost Value: December 31, 2013 and 2012 - $348,034,945 and $358,513,179, Respectively):		
Temporary Cash Investments	$ 8,704,905	$ 31,401,019
U.S. Treasury Inflation Protected Securities	5,857,717	13,974,849
Government and Agencies Fixed Income	-	7,807,300
Bond Funds	62,582,724	33,934,121
Municipal Bonds	-	462,333
Corporate Bonds and Notes	-	10,122,787
Asset-Backed Securities	-	2,768,277
Collateralized Mortgage-Backed	-	1,294,851
Contracts and Swaps	-	15,780
Domestic Equities	103,607,040	83,599,626
International / Global Equities	127,105,543	83,389,804
Absolute Return Strategies	59,025,415	73,858,989
Real Assets	10,429,501	9,484,993
Private Equities	53,330,256	52,632,875
Total Investments	$ 430,643,101	$ 404,747,604

Net appreciation (depreciation) in fair value of investments for the years ended December 31, 2013 and 2012 consists of the following:

Year Ended December 31, 2013	
Net Realized Gains on Sales of Investments	$ 22,819,513
Net Unrealized Appreciation of Investments	36,594,394
Net Appreciation in Fair Value of Investments	$ 59,413,907
Year Ended December 31, 2012	
Net Realized Gains on Sales of Investments	$ 12,251,644
Net Unrealized Depreciation of Investments	27,091,882
Net Depreciation in Fair Value of Investments	$ 39,343,526

The Foundation had investment fees netted with unrealized appreciation of investments for the years ended December 31, 2013 and 2012 in the amount of $3,324,985 and $3,173,223, 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, 2013:

	Level 1	Level 2	Level 3	Total
U.S. Treasury Inflation Protected Securities	$ -	$ 5,857,717	$ -	$ 5,857,717
Fixed Income	15,474,068	45,859,860	1,248,796	62,582,724
Domestic Equities	103,607,040	-	-	103,607,040
Global Equities	62,333,267	-	-	62,333,267
International Equities	64,772,276	-	-	64,772,276
Absolute Return Strategies	-	57,051,783	1,973,632	59,025,415
Real Assets - Commodities	-	8,315,970	2,113,531	10,429,501
Private Equities	-	-	53,330,256	53,330,256
Total Investments	$ 246,186,651	$ 117,085,330	$ 58,666,215	$ 421,938,196

Assets measured at fair value on a recurring basis as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
U.S. Treasury Inflation Protected Securities	$ -	$ 13,974,849	$ -	$ 13,974,849
Government and Agencies Fixed Income	-	7,807,300	-	7,807,300
Bond Funds	20,776,964	13,157,157	-	33,934,121
Municipal Bonds	-	462,333	-	462,333
Corporate Bonds and Notes	-	10,122,787	-	10,122,787
Asset-Backed Securities	-	2,768,277	-	2,768,277
Collateralized Mortgage-Backed	-	1,294,851	-	1,294,851
Contracts and Swaps	-	15,780	-	15,780
Domestic Equities	47,231,173	36,368,453	-	83,599,626
International Equities	83,389,804	-	-	83,389,804
Absolute Return Strategies	-	70,558,381	3,300,608	73,858,989
Long-Short Equity	-	-	-	-
Real Assets - Commodities	-	9,484,993	-	9,484,993
Private Equities	-	-	52,632,875	52,632,875
Total Investments	$ 151,397,941	$ 166,015,161	$ 55,933,483	$ 373,346,585

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table provides a summary of changes in fair value of the Foundation's Level 3 financial assets for the year ended December 31, 2013:

	Fixed Income	Absolute Return	Real Assets	Private Equities	Total
Balance as of January 1, 2013	$ -	$ 3,300,608	$ -	$ 52,632,875	$ 55,933,483
Net Realized and Unrealized Gains					-
(Losses) on Investments	(704)	252,757	(186,469)	6,898,915	6,964,499
Purchases of Investments	1,249,500	-	2,300,000	3,746,050	7,295,550
Proceeds from Sales of Investments	-	(1,579,733)	-	(9,947,584)	(11,527,317)
Balance as of December 31, 2013	$ 1,248,796	$ 1,973,632	$ 2,113,531	$ 53,330,256	$ 58,666,215

The following table provides summary of changes in fair value of the Foundation's Level 3 financial assets for the year ended December 31, 2012:

	Absolute Return	Private Equities	Total
Balances as of January 1, 2012	$ 25,676,804	$ 49,697,702	$ 75,374,506
Reclassification to Level 2	(20,000,000)	-	(20,000,000)
Net Realized and Unrealized			
Gains on Investments	(200,133)	4,259,181	4,059,048
Purchases of Investments	2,319,220	9,090,911	11,410,131
Proceeds from Sales			
of Investments	(4,495,283)	(10,414,919)	(14,910,202)
Balances as of December 31, 2012	$ 3,300,608	$ 52,632,875	$ 55,933,483

The reclassification to Level 2 in the above table represents moving a fund to Level 2 that had its lock-up period expire during the year ended December 31, 2012.

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2013:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
U.S. Treasury Inflation Protected Securities	$ 5,857,717	$ -	Daily	3 days
Fixed Income	62,582,724	7,250,500	Monthly	3 days
International Equities	17,212,504	-	Daily	3 days
Global Equities	62,333,267	-	Daily	3 days
Real Assets	8,315,970	-	Month end	2 days
Absolute Return Strategies	57,051,783	-	Quarterly	90 days
Absolute Return Strategies	1,973,632	-	In Liquidation	N/A
Private Equities	53,330,256	16,262,941	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, 2012:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
U.S. Treasury Inflation Protected Securities	$ 13,974,849	$ -	Daily	3 days
Fixed Income	13,157,132	-	Daily	3 days
Domestic Equities	36,368,453	-	Quarterly	60 days
Absolute Return Strategies	70,558,381	-	Quarterly	90 days
Absolute Return Strategies	3,300,608	-	In Liquidation	N/A
Real Assets - Commodities	9,484,993	-	Monthly	35 days
Private Equities	52,632,875	39,708,991	N/A	N/A

US Treasury Inflation Protected Securities (TIPS) are securities issued by the U.S. government to protect investors against the effects of inflation. The securities are backed by the U.S. government, and 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. Global equities include both domestic and international equities.

The Absolute Return Strategies goal is to provide positive returns regardless of how the broader market is performing. Absolute return strategies include a variety of investments (derivatives, equities, fixed income, and unconventional assets). The unobservable inputs used to determine the fair value have been estimated based on the capital account balances reported by the fund managers subject to management review and judgment.

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Real Assets includes physical or identifiable assets that have intrinsic utility and are considered the opposite of a financial asset. Typical investments in this category include gold, land, 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.

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. The unobservable inputs used to determine the fair value have been estimated based on the capital account balances reported by the fund managers subject to management review and judgment.

NOTE 4 PROGRAM-RELATED INVESTMENTS

Program-related investments consist of the following at December 31, 2013 and 2012:

	2013	2012
Midwest Minnesota Community Development Corporation (Debt) Matures September 2019	$ 660,000	$ 720,000
Neighborhood Development Center (Debt) Matures August 2023	230,149	253,901
Montana Community Development Corporation (Debt) Matures December 2015	68,709	77,152
First Children's Finance* (Debt) Matures in June 2013	-	46,875
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 2022	500,000	500,000
North Country Cooperative Development Fund (Debt/Equity) 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	850,000	900,000
Seattle Economic Development Fund (Debt) Matures December 2016	350,000	350,000
Northland Foundation (Debt) Matures December 2014	400,000	700,000
Indian Land Tenure Foundation (Debt) Matures December 2013	-	250,000
	5,858,858	6,597,928
Interest Receivable (at Varying Rates up to 3.25% and Maturities through 2022)	17,036	43,017
Total	$ 5,875,894	$ 6,640,945

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

For the year ended December 31, 2012, there was one partial program-related investment that was converted to a grant in the amount of $500,000. During the year ended December 31, 2013, $500,000 of the North Country Cooperative Development Fund program-related investment was converted into equity. No new program-related investments were distributed during the years ended December 31, 2013 and 2012.

No program-related investments were past due as of December 31, 2013 and 2012 and no allowance for credit losses has been created for any potential uncollectible program-related investments as of December 31, 2013 and 2012.

NOTE 5 FIXED ASSETS

Fixed assets consist of the following at December 31, 2013 and 2012:

	2013	2012
Leasehold Improvements	$ 2,165,695	$ 2,164,597
Furniture and Equipment	739,335	735,849
Computer Hardware and Software	669,571	599,358
	3,574,601	3,499,804
Less: Accumulated Depreciation	(2,388,572)	(2,261,404)
Total Fixed Assets	$ 1,186,029	$ 1,238,400

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 0 and 4 contracts outstanding as of December 31, 2013 and 2012 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 $-0- and $3,279 for years ended December 31, 2013 and 2012, respectively.

NOTE 7 GRANTS

Grant activity for the years ended December 31, 2013 and 2012 is summarized as follows:

	2013	2012
Unpaid Commitments at Beginning of Year	$ -	$ -
Grant Appropriations, Net of Cancellations and Refunds (*)	16,256,704	14,671,362
Payments (*)	(13,508,204)	(14,671,362)
Unpaid Commitments at End of Year	$ 2,748,500	$ -

(*) Does not include program-related investments

Conditional grants made where conditions have not yet been met totaled $5,019,001 and $6,971,734 at December 31, 2013 and 2012, respectively.

NOTE 8 FEDERAL EXCISE TAXES AND UBIT DISTRIBUTION REQUIREMENTS AND PROVISION

Federal excise taxes for the years ended December 31, 2013 and 2012 consisted of the following:

	2013	2012
Provision:		
Current Expense	$ 240,981	$ 132,752
Deferred	690,206	358,887
Total	$ 931,187	$ 491,639
Liability:		
Current	$ 56,631	$ 40,465
Deferred	1,295,753	702,881
Total	$ 1,352,384	$ 743,346

For the years ended December 31, 2013 and 2012, the provision also includes UBIT expense of $1,031 and $287, 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 years ended December 31, 2013 and 2012.

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 years ended December 31, 2013 and 2012, this compensation totaled $267,050 and $189,750, respectively.

During the year, grants may have been approved and disbursed to organizations in which board members are involved through board or other advisory relationships. It is the Foundation's policy to require all board members to disclose any conflicts of interest. These board members are prohibited from voting on grants to those organizations for which a conflict may exist.

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 $255,000 and $250,000 for 2013 and 2012, respectively. Contributions to the plan for the years ended December 31, 2013 and 2012 were $260,121 and $267,275, 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 12-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 $239,850 for the years ended December 31, 2013 and 2012, net of amortization of the leasehold incentives of $31,330 and $-0- for the years ended December 31, 2013 and 2012, respectively.

Future minimum rental payments at December 31, 2013 are as follows:

Year Ending December 31,	Amount
2014	$ 239,850
2015	239,850
2016	239,850
2017	245,180
2018	261,170
Thereafter	1,240,558
Total	$ 2,466,458