

**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
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YEARS ENDED DECEMBER 31, 2016 AND 2015**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Northwest Area Foundation  
Saint Paul, Minnesota

We have audited the accompanying financial statements of Northwest Area Foundation (the Foundation), a Minnesota nonprofit corporation, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and change 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, 2016 and 2015, 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 9, 2017

**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>ASSETS</b>		
Cash	\$ 905,533	\$ 406,842
Receivable for Securities with Settlements Pending	399,541	327,129
Accrued Investment Income	12,997	17,606
Investments	415,270,991	410,374,679
Program-Related Investments	3,979,927	5,200,769
Other Assets	182,474	132,922
Prepaid Excise Tax	71,547	44,341
Fixed Assets	736,020	869,815
Total Assets	\$ 421,559,030	\$ 417,374,103
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Other Liabilities	\$ 408,955	\$ 484,330
Payables for Securities with Settlements Pending	2,160	-
Unpaid Grant Commitments	7,192,250	4,682,500
Leasehold Incentives	211,479	242,809
Deferred Taxes	638,118	332,921
Total Liabilities	8,452,962	5,742,560
<b>NET ASSETS</b>		
Unrestricted	402,781,774	401,307,249
Permanently Restricted	10,324,294	10,324,294
Total Net Assets	413,106,068	411,631,543
Total Liabilities and Net Assets	\$ 421,559,030	\$ 417,374,103

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, 2016 AND 2015**

	2016			2015		
	Unrestricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
<b>REVENUES</b>						
Dividends	\$ 3,220,725	\$ -	\$ 3,220,725	\$ 4,092,818	\$ -	\$ 4,092,818
Interest	1,308,866	-	1,308,866	1,119,186	-	1,119,186
Net Appreciation (Depreciation) in Fair Value of Investments	26,934,874	-	26,934,874	(9,931,527)	-	(9,931,527)
Other	(1,193)	-	(1,193)	320	-	320
<b>Total Revenues</b>	<b>31,463,272</b>	<b>-</b>	<b>31,463,272</b>	<b>(4,719,203)</b>	<b>-</b>	<b>(4,719,203)</b>
<b>EXPENSES</b>						
Program:						
Grants Appropriated, Net of Cancellations and Refunds	18,958,048	-	18,958,048	17,770,983	-	17,770,983
Program-Related Administrative	3,140,449	-	3,140,449	3,053,971	-	3,053,971
Administrative:						
Nonprogram-Related Administrative Expenses	2,486,531	-	2,486,531	2,382,794	-	2,382,794
Investment and Related Fees	5,066,082	-	5,066,082	4,927,299	-	4,927,299
Federal Excise Tax and UBIT Provision	337,637	-	337,637	(209,655)	-	(209,655)
<b>Total Expenses</b>	<b>29,988,747</b>	<b>-</b>	<b>29,988,747</b>	<b>27,925,392</b>	<b>-</b>	<b>27,925,392</b>
<b>CHANGE IN NET ASSETS</b>	<b>1,474,525</b>	<b>-</b>	<b>1,474,525</b>	<b>(32,644,595)</b>	<b>-</b>	<b>(32,644,595)</b>
Net Assets - Beginning of Year	401,307,249	10,324,294	411,631,543	433,951,844	10,324,294	444,276,138
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 402,781,774</b>	<b>\$ 10,324,294</b>	<b>\$ 413,106,068</b>	<b>\$ 401,307,249</b>	<b>\$ 10,324,294</b>	<b>\$ 411,631,543</b>

See accompanying Notes to Financial Statements.

**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 1,474,525	\$ (32,644,595)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	205,677	229,243
Net (Appreciation) Depreciation in Fair Value of Investments	(30,059,894)	6,621,825
Deferred Excise Taxes	305,197	(488,022)
(Increase) Decrease in Assets:		
Accrued Investment Income	4,609	153,243
Program-Related Investments	1,220,842	261,079
Prepaid Excise Tax	(27,206)	188,561
Other Assets	(49,552)	(2,363)
Increase (Decrease) in Liabilities:		
Accounts Payable and Other Liabilities	(75,375)	33,202
Unpaid Grant Commitments	2,509,750	1,448,426
Net Cash Used by Operating Activities	(24,491,427)	(24,199,401)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales of Investments	245,948,400	207,135,024
Purchases of Investments	(220,855,070)	(182,792,264)
Purchases of Leasehold Improvements, Furniture, and Equipment	(103,212)	(92,014)
Net Cash Provided by Investing Activities	24,990,118	24,250,746
 <b>NET INCREASE IN CASH</b>	498,691	51,345
Cash - Beginning of Year	406,842	355,497
<b>CASH - END OF YEAR</b>	\$ 905,533	\$ 406,842
 <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Supplemental Disclosure of Noncash Investing Transactions:		
Change in Receivable for Securities with Settlements Pending	\$ 72,412	\$ (24,233,471)
Change in Payable for Securities with Settlements Pending	\$ (2,160)	\$ 17,923
Supplemental Disclosure of Cash Transactions:		
Cash Paid for Federal Excise Taxes	\$ 53,000	\$ 88,000

See accompanying Notes to Financial Statements.

**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Northwest Area Foundation (the Foundation) is a private foundation incorporated under the laws of the state 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 helping people build assets through good jobs and financial capability. These assets are instrumental in creating a shared and lasting prosperity which gives individuals, families, and communities the chance to thrive on their own terms. The region served by the Foundation includes 75 Native tribal nations and the states of Minnesota, Iowa, North Dakota, South Dakota, Montana, Idaho, Washington, and Oregon.

The Foundation was formed beginning in 1934 through the donation of three gifts 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 retained 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, 2016 and 2015, 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.



**NORTHWEST AREA FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**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 a rate of return sufficient to provide for charitable distribution and operating expenses. 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 total return of the fund is targeted to be at least 6% plus CPI over a rolling 10-year period.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Foundation has a spending policy that states each fiscal year operating budget shall be no more than 5% of the historic, rolling average value of total 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 5% 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 Federal Deposit Insurance Corporation (FDIC) insurance limit.

**NORTHWEST AREA FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**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, 2016 and 2015, 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.

**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.

**NORTHWEST AREA FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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

**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 three to five years. Assets are capitalized over \$3,000. 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 statements 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 (IRC) 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% excise tax rate as an estimate of the current tax provision for both years ended December 31, 2016 and 2015.

**NORTHWEST AREA FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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

**Federal Taxes (Continued)**

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 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 (IRS).

**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.

**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.

**NORTHWEST AREA FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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

**Subsequent Events**

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 9, 2017, the date the financial statements were approved to be issued.

**NOTE 2 INVESTMENTS**

Investments consist of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Investments, at Fair Value (Cost Value: December 31, 2016 and 2015 - \$372,729,764 and \$388,179,942, Respectively):		
Temporary Cash Investments	\$ 1,468,844	\$ 10,900,659
U.S. Treasury Inflation Protected Securities	8,118,550	5,878,483
Bond Funds	78,135,097	77,533,726
Domestic Equities	74,454,140	80,936,926
International/Global Equities	128,543,992	130,007,007
Absolute Return Strategies	55,624,722	43,084,640
Real Assets	21,050,476	12,428,355
Private Equities	47,875,170	49,604,883
Total Investments	<u>\$ 415,270,991</u>	<u>\$ 410,374,679</u>

Net appreciation (depreciation) in fair value of investments for the years ended December 31, 2016 and 2015 consists of the following:

Year Ended December 31, 2016

Net Realized Gains on Sales of Investments	\$ 3,463,366
Net Unrealized Appreciation of Investments	23,471,508
Net Appreciation in Fair Value of Investments	<u>\$ 26,934,874</u>

Year Ended December 31, 2015

Net Realized Gains on Sales of Investments	\$ 19,293,580
Net Unrealized Depreciation of Investments	(29,225,107)
Net Depreciation in Fair Value of Investments	<u>\$ (9,931,527)</u>

The Foundation had investment fees netted with unrealized appreciation/depreciation of investments for the years ended December 31, 2016 and 2015 in the amount of \$3,125,020 and \$3,309,702, respectively.

**NORTHWEST AREA FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**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, 2016:

	Level 1	Level 2	Level 3	Total
Fixed Income	\$ 496,990	\$ -	\$ -	\$ 496,990
Domestic Equities	17,876,051	-	-	17,876,051
Global Equities	-	-	-	-
International Equities	17,062,413	-	-	17,062,413
Absolute Return Strategies	12,502,492	-	-	12,502,492
Total Investments	<u>\$ 47,937,946</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,937,946</u>

Assets measured at fair value on a recurring basis as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
Fixed Income	\$ 10,039,007	\$ -	\$ -	\$ 10,039,007
Domestic Equities	24,209,889	-	-	24,209,889
Global Equities	28,201,737	-	-	28,201,737
International Equities	40,410,677	-	-	40,410,677
Absolute Return Strategies	14,172,126	-	-	14,172,126
Total Investments	<u>\$ 117,033,436</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,033,436</u>

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

	2016	2015			
	Net Asset	Net Asset	Unfunded	Redemption	Redemption
	Value	Value	Commitments	Frequency	Notice Period
U.S. Treasury Inflation Protected Securities	\$ 8,118,550	\$ 5,878,483	\$ -	Daily	3 days
Fixed Income	16,242,502	25,047,425	-	Daily	3 days
Fixed Income	25,525,043	33,931,099	-	Monthly	8 - 60 days
Fixed Income	13,612,594	-	-	Annually	60 days
Private Debt	22,257,968	8,516,195	9,593,593	N/A	N/A
Domestic Equities	56,578,089	56,727,038	-	Quarterly	60 days
International Equities	39,764,050	31,294,792	-	Monthly	5 - 15 days
International Equities	15,106,119	-	-	Quarterly	60 days
Global Equities	30,581,855	30,099,801	-	Daily	3 days
Global Equities	26,029,555	-	-	Monthly	7 days
Real Assets	21,050,476	12,428,355	30,711,187	N/A	N/A
Absolute Return Strategies	18,359,673	9,623,756	-	Quarterly	90 days
Absolute Return Strategies	20,967,849	12,295,250	-	Monthly	30 days
Absolute Return Strategies	3,794,708	6,993,508	-	In Liquidation	N/A
Private Equities	47,875,170	49,604,882	20,332,819	N/A	N/A

**NORTHWEST AREA FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)**

The Foundation's investment portfolio includes individual securities, mutual funds, commingled vehicles, collective trusts, and limited partnerships.

U.S. 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 domiciled in the United States. International equities represent an ownership interest in a company/property that is domiciled outside the United States. Global equities include both domestic and international equities.

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.

Real Assets includes physical or identifiable assets that have intrinsic utility. Investments in this category may include minerals, metals, land, and other natural resources as well as real estate.

Private Equity includes a variety of strategies including venture capital, buyouts, secondary funds, and direct investments. 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.

**NORTHWEST AREA FOUNDATION  
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**NOTE 4 PROGRAM-RELATED INVESTMENTS**

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

<u>Description</u>	<u>2016</u>	<u>2015</u>
Midwest Minnesota Community Development Corporation (Debt) Matures September 2019	\$ 360,000	\$ 460,000
Neighborhood Development Center (Debt) Matures August 2023	159,412	184,558
CDC Bancshares (Debt) Matures April 2021	700,000	700,000
Grow Iowa Foundation (Debt) Matures April 2021	100,000	100,000
Idaho-Nevada Community Development Financial Institution (Debt) Matures April 2016	-	594,000
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
Initiative Foundation (Debt) Matures December 2016	-	750,000
Seattle Economic Development Fund (Debt) Matures December 2016	-	350,000
Northland Foundation (Debt) Matures December 2014	-	400,000
The Lakota Funds Incorporated (Debt) Matures November 2022	150,000	150,000
Craft3 (Debt) Matures September 2023	1,000,000	-
Subtotal	<u>3,969,412</u>	<u>5,188,558</u>
Interest Receivable (at Varying Rates up to 3.25% and Maturities through 2023)	10,515	12,211
Total	<u>\$ 3,979,927</u>	<u>\$ 5,200,769</u>

\* Formerly known as Minnesota Investment Network

During the year ended December 31, 2016, one new program-related investment for \$1,000,000 was distributed to Craft3. One new program-related investment to The Lakota Funds Incorporated for \$150,000 was distributed during the year ended December 31, 2015.

No program-related investments were past due as of December 31, 2016 and 2015 and no allowance for credit losses has been created for any potential uncollectible program-related investments as of December 31, 2016 and 2015.



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**NOTE 5 FIXED ASSETS**

Fixed assets consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Leasehold Improvements	\$ 2,237,966	\$ 2,182,046
Furniture and Equipment	739,335	739,335
Computer Hardware and Software	681,300	716,930
Total	<u>3,658,601</u>	<u>3,638,311</u>
Less: Accumulated Depreciation	<u>(2,922,581)</u>	<u>(2,768,496)</u>
Total Fixed Assets	<u>\$ 736,020</u>	<u>\$ 869,815</u>

**NOTE 6 GRANTS**

Grant activity for the years ended December 31, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Unpaid Commitments - Beginning of Year	\$ 4,682,500	\$ 3,234,074
Grant Appropriations, Net of Cancellations and Refunds (*)	18,958,048	17,770,983
Payments (*)	<u>(16,448,298)</u>	<u>(16,322,557)</u>
Unpaid Commitments - End of Year	<u>\$ 7,192,250</u>	<u>\$ 4,682,500</u>

(\*) Does not include program-related investments

Conditional grants made where conditions have not yet been met totaled \$247,000 and \$1,106,000 at December 31, 2016 and 2015, respectively.

**NOTE 7 FEDERAL EXCISE TAXES AND UBIT DISTRIBUTION REQUIREMENTS AND PROVISION**

Federal excise taxes for the years ended December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Provision:		
Current Expense	\$ 29,211	\$ 194,254
Deferred	(305,197)	488,022
Total	<u>\$ (275,986)</u>	<u>\$ 682,276</u>
Liability:		
Current	\$ -	\$ -
Deferred	638,118	332,921
Total	<u>\$ 638,118</u>	<u>\$ 332,921</u>

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**NOTE 7 FEDERAL EXCISE TAXES AND UBIT DISTRIBUTION REQUIREMENTS AND PROVISION (CONTINUED)**

For the years ended December 31, 2016 and 2015, the provision also includes UBIT expense of \$6,692 and \$1,806, 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, 2016 and 2015.

**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 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. For the years ended December 31, 2016 and 2015, this compensation totaled \$221,154 and \$275,690, 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 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.

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**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 \$265,000 for 2016 and 2015. Contributions to the plan for the years ended December 31, 2016 and 2015 were \$257,532 and \$233,534, respectively.

**NOTE 12 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, 2016 and 2015, net of amortization of the leasehold incentives of \$31,330 for the years ended December 31, 2016 and 2015.

Future minimum rental payments at December 31, 2016 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 245,180
2018	261,170
2019	261,170
2020	261,170
2021	261,170
Thereafter	457,048
Total	<u>\$ 1,746,908</u>