NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

INDEPENDENT AUDITORS' REPORT

Board of Directors
Northwest Area Foundation
St. 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, 2017 and 2016, 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, 2017 and 2016, 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 8, 2018

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash	$ 460,040	$ 905,533
Receivable for Securities with Settlements Pending	3,001,006	399,541
Accrued Investment Income	35,853	12,997
Investments	462,811,603	415,270,991
Program-Related Investments	6,053,984	3,979,927
Other Assets	191,985	182,474
Prepaid Excise Tax	-	71,547
Fixed Assets	563,464	736,020
Total Assets	$ 473,117,935	$ 421,559,030
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Other Liabilities	$ 323,230	$ 408,955
Payables for Securities with Settlements Pending	15,668	2,160
Unpaid Grant Commitments	9,312,702	7,192,250
Leasehold Incentives	180,148	211,479
Deferred Taxes	1,472,062	638,118
Total Liabilities	11,303,810	8,452,962
NET ASSETS		
Unrestricted	451,489,831	402,781,774
Permanently Restricted	10,324,294	10,324,294
Total Net Assets	461,814,125	413,106,068
Total Liabilities and Net Assets	$ 473,117,935	$ 421,559,030

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, 2017 AND 2016

	2017			2016		
	Unrestricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
REVENUES						
Dividends and Interest	$ 5,964,053	$ -	$ 5,964,053	$ 4,529,591	$ -	$ 4,529,591
Realized Gains on Investments	18,144,754	-	18,144,754	3,463,366	-	3,463,366
Unrealized Gains on Investments	55,298,517	-	55,298,517	23,471,508	-	23,471,508
Other	(61)	-	(61)	(1,193)	-	(1,193)
Total Revenues	79,407,263	-	79,407,263	31,463,272	-	31,463,272
EXPENSES						
Program:						
Grants Appropriated, Net of Cancellations and Refunds	18,435,908	-	18,435,908	18,958,048	-	18,958,048
Program-Related Administrative	3,181,737	-	3,181,737	3,140,449	-	3,140,449
Administrative:						
Nonprogram-Related Administrative Expenses	2,724,279	-	2,724,279	2,486,531	-	2,486,531
Investment and Related Fees	5,307,712	-	5,307,712	5,066,082	-	5,066,082
Federal Excise Tax and UBIT Provision	1,049,570	-	1,049,570	337,637	-	337,637
Total Expenses	30,699,206	-	30,699,206	29,988,747	-	29,988,747
CHANGE IN NET ASSETS	48,708,057	-	48,708,057	1,474,525	-	1,474,525
Net Assets - Beginning of Year	402,781,774	10,324,294	413,106,068	401,307,249	10,324,294	411,631,543
NET ASSETS - END OF YEAR	$ 451,489,831	$ 10,324,294	$ 461,814,125	$ 402,781,774	$ 10,324,294	$ 413,106,068

See accompanying Notes to Financial Statements.

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 48,708,057	$ 1,474,525
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	180,640	205,677
Realized Gains on Investments	(18,144,754)	(3,463,366)
Unrealized Gains on Investments	(55,298,517)	(23,471,508)
Deferred Excise Taxes	833,944	305,197
(Increase) Decrease in Assets:		
Accrued Investment Income	(22,856)	4,609
Program-Related Investments	(2,074,057)	1,220,842
Prepaid Excise Tax	71,547	(27,206)
Other Assets	(9,511)	(49,552)
Increase (Decrease) in Liabilities:		
Accounts Payable and Other Liabilities	(85,725)	(75,375)
Unpaid Grant Commitments	2,120,452	2,509,750
Net Cash Used by Operating Activities	(23,720,780)	(21,366,407)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	148,595,728	242,823,380
Purchases of Investments	(125,281,026)	(220,855,070)
Purchases of Leasehold Improvements, Furniture, and Equipment	(39,415)	(103,212)
Net Cash Provided by Investing Activities	23,275,287	21,865,098
NET CHANGE IN CASH	(445,493)	498,691
Cash - Beginning of Year	905,533	406,842
CASH - END OF YEAR	$ 460,040	$ 905,533
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Supplemental Disclosure of Noncash Investing Transactions:		
Change in Receivable for Securities with Settlements Pending	$ 2,601,465	$ 72,412
Change in Payable for Securities with Settlements Pending	$ 13,508	$ (2,160)
Supplemental Disclosure of Cash Transactions:		
Cash Paid for Federal Excise Taxes	$ 131,000	$ 53,000

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

Temporarily Restricted Net Assets – 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 – 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.

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 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Foundation's investment portfolio is structured to provide a sufficient level of investment return with maintaining prudent levels of risk, illiquidity and diversification. 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 funds are recorded at approximate fair value as determined and approved by the managers or valuation committees of the alternative investments based upon judgements, 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, 2017 and 2016, 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.

Derivative Financial Instruments

The Foundation uses derivatives principally to manage portfolio exposures and risk in the Foundation's investment holdings. As part of the Foundation's liquidity and risk management strategy, the Foundation may use derivatives to protect the fair value of investments in the portfolio or the anticipated cash flows associated with the forecasted purchases and sales of certain investments. Derivatives may also be used to maintain targeted asset allocation.

Derivative instruments are measured at fair value and reported as assets or liabilities in the statement of financial position. Changes in the fair value of derivatives during the year are reported in the statement of activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Financial Instruments (Continued)

As of December 31, 2017, the Foundation had 86 contracts outstanding and contract exposure amounts of $9,442,325 of long positions in equity index futures, and 87 contracts outstanding and contract exposure amounts of $9,612,413 of long positions in commodity futures. Net realized and unrealized gains of approximately $1,571,404 were recognized for the year ending 2017. There was no derivative activity for 2016.

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 borrower 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 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants

Grant appropriations are charged to unrestricted net assets at the time the grants are approved 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 IRC, 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, 2017 and 2016.

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.

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.

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 8, 2018, the date the financial statements were approved to be issued.

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.

NOTE 2 INVESTMENTS

Investments consist of the following at December 31:

	2017	2016
Investments, at Fair Value (Cost Value: December 31, 2017 and 2016 - $368,110,066 and $372,729,764, Respectively):		
Temporary Cash Investments	$ 1,371,789	$ 1,468,844
Public Fixed Income	60,656,729	63,995,679
Private Credit	25,643,193	22,257,968
Public Equities	239,018,219	202,998,132
Private Equities	48,141,065	47,875,170
Real Assets	37,413,696	21,050,476
Diversifying Strategies	50,566,912	55,624,722
Total Investments	$ 462,811,603	$ 415,270,991

The Foundation had investment fees netted with unrealized appreciation/depreciation of investments for the years ended December 31, 2017 and 2016 in the amount of $3,150,309 and $3,125,020, respectively.

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.

NOTE 3 FAIR VALUE MEASUREMENTS

Assets measured at fair value on a recurring basis as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Public Fixed Income	$ 522,556	$ -	$ -	$ 522,556
Public Equities	44,144,409	-	-	44,144,409
Real Assets	9,612,413	-	-	9,612,413
Diversifying Strategies	13,191,004	-	-	13,191,004
Subtotal	$ 67,470,382	$ -	$ -	67,470,382
Temporary Cash Investments				1,371,789
Investments Measured at Net Asset Value Per Share or its Equivalent				393,969,432
Total Investments				$ 462,811,603

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a recurring basis as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Public Fixed Income	$ 496,990	$ -	$ -	$ 496,990
Public Equities	34,938,464	-	-	34,938,464
Diversifying Strategies	12,502,492	-	-	12,502,492
Subtotal	$ 47,937,946	$ -	$ -	47,937,946
Temporary Cash Investments				1,468,844
Investments Measured at Net Asset Value Per Share or its Equivalent				365,864,201
Total Investments				$ 415,270,991

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

	2017 Net Asset Value	2016 Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Public Fixed Income	$ 20,577,163	$ 24,361,052	$ -	Daily	3 Days
Public Fixed Income	28,057,909	25,525,043	-	Monthly	8 Days
Public Fixed Income	11,499,101	13,612,594	-	Annually	60 Days
Private Credit	25,643,193	22,257,968	19,155,842	N/A	N/A
Public Equities	77,311,714	71,684,208	-	Quarterly	60 Days
Public Equities	83,952,635	65,793,605	-	Monthly	5 - 15 days
Public Equities	33,609,461	30,581,855	-	Daily	3 Days
Private Equities	48,141,065	47,875,170	22,793,694	N/A	30 Days
Real Assets	27,801,283	21,050,476	25,594,352	N/A	30 Days
Diversifying Strategies	19,913,224	18,359,673	-	Quarterly	60 - 90 Days
Diversifying Strategies	12,738,146	20,967,849	-	Monthly	30 Days
Diversifying Strategies	1,755,004	-	4,306,280	N/A	N/A
Diversifying Strategies	2,969,534	3,794,708	-	In Liquidation	N/A
Subtotal	$ 393,969,432	$ 365,864,201	$ 71,850,168		

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

Public fixed income 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. Investing in fixed income securities provides diversification, interest income, lower risk, and stability to the overall portfolio.

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Private credit strategies invest in a variety of debt instruments. Distributions from funds are received when the underlying investments in the funds generate distributable cash flows or when the investments are liquidated. Private credit investments provide diversification, interest income, and growth potential to the overall portfolio.

Public equities represent an ownership interest in a company. Investing in equity securities provides diversification, dividend income, and growth potential.

Private equities include 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. Investing in private equity offers diversification, growth potential, and accessibility to a broader range of companies.

Real assets include physical or identifiable assets that have intrinsic utility. Investments in this category may include minerals, metals, land, and other natural resources as well as infrastructure, aircraft, and real estate. Real asset strategies provide diversification, inflation hedging, and risk reduction benefits to the overall portfolio.

Diversifying 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. Diversifying strategies provide diversification and risk reduction benefits to the overall portfolio.

NOTE 4 PROGRAM-RELATED INVESTMENTS

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

Description	2017	2016
Midwest Minnesota Community Development Corporation (Debt) Matures September 2019	$ 240,000	$ 360,000
Neighborhood Development Center (Debt) Matures August 2023	132,292	159,412
CDC Bancshares (Debt) Matures April 2021	400,000	700,000
Grow Iowa Foundation (Debt) Matures April 2021	100,000	100,000
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
The Lakota Funds Incorporated (Debt) Matures November 2022	150,000	150,000
Craft3 (Debt) Matures September 2023	1,000,000	1,000,000
Initiative Foundation (Debt) Matures January 2024	1,000,000	-
Propel Nonprofits (Debt) Matures January 2024	1,000,000	-
First Nations Oweesta Corporation (Debt) Matures November 2027	500,000	-
Subtotal	6,022,292	3,969,412
Interest Receivable (at Varying Rates up to 3.25% and Maturities through 2023)	31,692	10,515
Total	$ 6,053,984	$ 3,979,927

* Formerly known as Minnesota Investment Network

During the year ended December 31, 2017, the Foundation distributed three new program-related investments totaling $2,500,000, and during the year ended, 2016, the Foundation distributed one new program-related investment totaling $1,000,000.

No program-related investments were past due as of December 31, 2017 and 2016, and no allowance for credit losses has been created for any potential uncollectible program-related investments as of December 31, 2017 and 2016.

NOTE 5 FIXED ASSETS

Fixed assets consist of the following at December 31:

	2017	2016
Leasehold Improvements	$ 2,237,967	$ 2,237,966
Furniture and Equipment	737,490	739,335
Computer Hardware and Software	652,890	681,300
Total	3,628,347	3,658,601
Less: Accumulated Depreciation	(3,064,883)	(2,922,581)
Total Fixed Assets	$ 563,464	$ 736,020

NOTE 6 GRANTS

Grant activity for the years ended December 31, 2017 and 2016 is summarized as follows:

	2017	2016
Unpaid Commitments - Beginning of Year	$ 7,192,250	$ 4,682,500
Grant Appropriations, Net of Cancellations and Refunds (*)	18,435,908	18,958,048
Payments (*)	(16,315,456)	(16,448,298)
Unpaid Commitments - End of Year	$ 9,312,702	$ 7,192,250

(*) Does not include program-related investments

Conditional grants made where conditions have not yet been met totaled $415,000 and $247,000 at December 31, 2017 and 2016, respectively.

NOTE 7 FEDERAL EXCISE TAXES AND UBIT DISTRIBUTION REQUIREMENTS AND PROVISION

Federal excise taxes for the years ended December 31, 2017 and 2016 consisted of the following:

	2017	2016
Provision:		
Current Expense	$ 267,165	$ 32,440
Deferred	782,405	305,197
Total	$ 1,049,570	$ 337,637
Liability:		
Current	$ 51,539	$ -
Deferred	1,420,523	638,118
Total	$ 1,472,062	$ 638,118

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

For the years ended December 31, 2017 and 2016, the provision also includes UBIT expense of $13,033 and $6,692, 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, 2017 and 2016.

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, 2017 and 2016, this compensation totaled $211,581 and $221,154, 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 FUNCTIONAL ALLOCATION OF EXPENSES

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

NOTE 11 EMPLOYEE PENSION PLAN

The Foundation has an employee pension plan operated as a self-funded money purchase plan. This is a defined noncontributory plan available to all employees who work a minimum of 1,000 hours per year, following one full year of service. The plan provides for an annual contribution of 11% of each eligible participant's earned compensation up to the IRS permissible maximum of $270,000 for 2017 and $265,000 for 2016. Contributions to the plan for the years ended December 31, 2017 and 2016 were $223,411 and $257,532, 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 $245,180 and $239,850 for the years ended December 31, 2017 and 2016, respectively.

Future minimum rental payments at December 31, 2017 are as follows:

Year Ending December 31,	Amount
2018	$ 261,170
2019	261,170
2020	261,170
2021	261,170
2022	261,170
Thereafter	195,878
Total	$ 1,501,728