NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
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CliftonLarsonAllen

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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 (Foundation), a Minnesota non-profit corporation, which comprise the statements of financial position as of December 31, 2014 and 2013, 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, 2014 and 2013, 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 5, 2015

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash	$ 355,497	$ 200,559
Receivable for Securities with Settlements Pending	24,560,600	18,523,979
Accrued Investment Income	170,849	194,304
Investments	417,123,716	430,643,101
Program-Related Investments	5,461,848	5,875,894
Other Assets	130,559	116,130
Prepaid Excise Tax	232,902	-
Fixed Assets	1,038,374	1,186,029
Total Assets	$ 449,074,345	$ 456,739,996
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Other Liabilities	$ 451,128	$ 505,125
Payable for Securities with Settlements Pending	17,923	56,842
Unpaid Grant Commitments	3,234,074	2,748,500
Leasehold Incentives	274,139	305,470
Deferred Taxes	820,943	1,295,753
Total Liabilities	4,798,207	4,911,690
NET ASSETS		
Unrestricted	433,951,844	441,504,012
Permanently Restricted	10,324,294	10,324,294
Total Net Assets	444,276,138	451,828,306
Total Liabilities and Net Assets	$ 449,074,345	$ 456,739,996

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, 2014 AND 2013

	2014			2013		
	Unrestricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
REVENUES						
Dividends	$ 5,201,071	$ -	$ 5,201,071	$ 4,256,704	$ -	$ 4,256,704
Interest	1,074,219	-	1,074,219	1,246,900	-	1,246,900
Net Appreciation in Fair Value of Investments	14,080,500	-	14,080,500	59,413,907	-	59,413,907
Other	818	-	818	16,353	-	16,353
Total Revenues	20,356,608	-	20,356,608	64,933,864	-	64,933,864
EXPENSES						
Program:						
Grants Appropriated, Net of Cancellations and Refunds	16,985,111	-	16,985,111	16,256,704	-	16,256,704
Program-Related Administrative	3,380,026	-	3,380,026	4,424,273	-	4,424,273
Administrative:						
Nonprogram-Related Administrative Expenses	2,296,398	-	2,296,398	2,383,503	-	2,383,503
Investment and Related Fees	5,337,476	-	5,337,476	4,344,470	-	4,344,470
Federal Excise Tax and UBIT Provision	(90,235)	-	(90,235)	711,903	-	711,903
Total Expenses	27,908,776	-	27,908,776	28,120,853	-	28,120,853
CHANGE IN NET ASSETS	(7,552,168)	-	(7,552,168)	36,813,011	-	36,813,011
Net Assets - Beginning of Year	441,504,012	10,324,294	451,828,306	404,691,001	10,324,294	415,015,295
NET ASSETS - END OF YEAR	$ 433,951,844	$ 10,324,294	$ 444,276,138	$ 441,504,012	$ 10,324,294	$ 451,828,306

See accompanying Notes to Financial Statements.

NORTHWEST AREA FOUNDATION
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (7,552,168)	$ 36,813,011
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	227,053	212,724
Net Appreciation in Fair Value of Investments	(14,080,500)	(59,413,907)
Deferred Excise Taxes	(474,810)	592,872
(Increase) Decrease in Assets:		
Accrued Investment Income	23,455	174,912
Program-Related Investments	414,046	765,051
Prepaid Excise Tax	(232,902)	-
Other Assets	(14,429)	(8,899)
Increase (Decrease) in Liabilities:		
Accounts Payable and Other Liabilities	(53,997)	16,522
Unpaid Grant Commitments	485,574	2,748,500
Net Cash Used by Operating Activities	(21,258,678)	(18,099,214)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	189,218,626	73,499,686
Purchases of Investments	(167,694,281)	(55,500,587)
Purchases of Leasehold Improvements, Furniture and Equipment	(110,729)	(191,683)
Net Cash Provided by Investing Activities	21,413,616	17,807,416
NET INCREASE (DECREASE) IN CASH	154,938	(291,798)
Cash - Beginning of Year	200,559	492,357
CASH - END OF YEAR	$ 355,497	$ 200,559
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Supplemental Disclosure of Noncash Investing Transactions:		
Change in Receivable for Securities with Settlements Pending	$ 6,036,621	$ 15,142,330
Change in Payable for Securities with Settlements Pending	$ 38,919	$ 376,981
Supplemental Disclosure of Cash Transactions:		
Cash Paid for Federal Excise Taxes	$ 556,000	$ 118,000

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 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 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, 2014 and 2013, 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 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 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, 2014 and 2013, 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, 2014 and 2013, 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 5 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 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.

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, 2014 and 2013, 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 files as a tax exempt organization. Should that status be challenged in the future, all years since inception would be subject to review by the Internal Revenue Service.

Fair Value Measurement

Fair value measurement establishes a framework for measuring fair value, a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements.

The Foundation accounts for its investments at fair value. The Foundation has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

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 5, 2015, the date the financial statements were approved to be issued.

NOTE 2 INVESTMENTS

Investments consist of the following as of December 31, 2014 and 2013:

	2014	2013
Investments, at Fair Value (Cost Value: December 31, 2014 and 2013 - $362,394,165 and $348,034,945, Respectively):		
Temporary Cash Investments	$ 5,853,086	$ 8,704,905
U.S. Treasury Inflation Protected Securities	5,913,062	5,857,717
Bond Funds	83,486,991	62,582,724
Domestic Equities	106,832,110	103,607,040
International / Global Equities	132,348,208	127,105,543
Absolute Return Strategies	16,482,249	59,025,415
Real Assets	13,283,897	10,429,501
Private Equities	52,924,113	53,330,256
Total Investments	$ 417,123,716	$ 430,643,101

NOTE 2 INVESTMENTS (CONTINUED)

Net appreciation (depreciation) in fair value of investments for the years ended December 31, 2014 and 2013 consists of the following:

Year Ended December 31, 2014		
Net Realized Gains on Sales of Investments	$	37,731,544
Net Unrealized Depreciation of Investments		(23,651,044)
Net Appreciation in Fair Value of Investments	$	14,080,500
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

The Foundation had investment fees netted with unrealized appreciation of investments for the years ended December 31, 2014 and 2013 in the amount of $4,192,675 and $3,324,985, 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, 2014:

	Level 1	Level 2	Level 3	Total
Domestic Equities	$ 50,651,897	$ -	$ -	$ 50,651,897
Global Equities	30,491,160	-	-	30,491,160
International Equities	60,271,179	-	-	60,271,179
Total Investments	$ 141,414,236	$ -	$ -	$ 141,414,236

Assets measured at fair value on a recurring basis as of December 31, 2013:

	Level 1	Level 2	Level 3	Total
Fixed Income	$ 15,474,068	$ -	$ -	$ 15,474,068
Domestic Equities	53,160,805	-	-	53,160,805
Global Equities	30,774,369	-	-	30,774,369
International Equities	64,772,276	-	-	64,772,276
Total Investments	$ 164,181,518	$ -	$ -	$ 164,181,518

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, 2014:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
U.S. Treasury Inflation Protected Securities	$ 5,913,062	$ -	Daily	3 days
Fixed Income	55,156,103	7,543,395	Daily	3 days
International Equities	16,127,879	-	Daily	3 days
Global Equities	63,452,046	-	Daily	3 days
Real Assets	13,283,897	22,098,879	Monthly	35 days
Absolute Return Strategies	27,793,098	-	Quarterly	90 days
Absolute Return Strategies	1,477,640	-	In Liquidation	N/A
Private Equities	52,924,113	12,033,841	N/A	N/A

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	17,000,000	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

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 based in the United States. 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.

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

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 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. 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, 2014 and 2013:

	2014	2013
Midwest Minnesota Community Development Corporation (Debt) Matures September 2019	$ 560,000	$ 660,000
Neighborhood Development Center (Debt) Matures August 2023	208,123	230,149
Montana Community Development Corporation (Debt) Matures December 2015	31,345	68,709
CDC Bancshares (Debt) Matures April 2021	700,000	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	800,000	850,000
Seattle Economic Development Fund (Debt) Matures December 2016	350,000	350,000
Northland Foundation (Debt) Matures December 2014	400,000	400,000
	5,449,468	5,858,858
Interest Receivable (at Varying Rates up to 3.25% and Maturities through 2022)	12,380	17,036
Total	$ 5,461,848	$ 5,875,894

* Formerly known as Minnesota Investment Network

NOTE 4 PROGRAM-RELATED INVESTMENTS (CONTINUED)

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, 2014 and 2013.

No program-related investments were past due as of December 31, 2014 and 2013 and no allowance for credit losses has been created for any potential uncollectible program-related investments as of December 31, 2014 and 2013.

NOTE 5 FIXED ASSETS

Fixed assets consist of the following at December 31, 2014 and 2013:

	2014	2013
Leasehold Improvements	$ 2,165,695	$ 2,165,695
Furniture and Equipment	739,335	739,335
Computer Hardware and Software	718,282	669,571
	3,623,312	3,574,601
Less: Accumulated Depreciation	(2,584,938)	(2,388,572)
Total Fixed Assets	$ 1,038,374	$ 1,186,029

NOTE 6 GRANTS

Grant activity for the years ended December 31, 2014 and 2013 is summarized as follows:

	2014	2013
Unpaid Commitments at Beginning of Year	$ 2,748,500	$ -
Grant Appropriations, Net of Cancellations and Refunds (*)	16,985,111	16,256,704
Payments (*)	(16,499,537)	(13,508,204)
Unpaid Commitments at End of Year	$ 3,234,074	$ 2,748,500

(*) Does not include program-related investments

Conditional grants made where conditions have not yet been met totaled $5,487,169 and $5,019,001 at December 31, 2014 and 2013, respectively.

NOTE 7 FEDERAL EXCISE TAXES AND UBIT DISTRIBUTION REQUIREMENTS AND PROVISION

Federal excise taxes for the years ended December 31, 2014 and 2013 consisted of the following:

	2014	2013
Provision:		
Current Expense	$ 386,462	$ 240,981
Deferred	418,179	690,206
Total	$ 804,641	$ 931,187
Liability:		
Current	$ -	$ 56,631
Deferred	820,943	1,295,753
Total	$ 820,943	$ 1,352,384

For the years ended December 31, 2014 and 2013, the provision also includes UBIT expense of $4,477 and $1,031, 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, 2014 and 2013.

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, 2014 and 2013, this compensation totaled $276,425 and $267,050, respectively.

NOTE 9 RELATED PARTY TRANSACTIONS (CONTINUED)

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.

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 Internal Revenue Service permissible maximum of $260,000 and $255,000 for 2014 and 2013, respectively. Contributions to the plan for the years ended December 31, 2014 and 2013 were $243,138 and $260,121, 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, 2014 and 2013, net of amortization of the leasehold incentives of $31,331 and $31,330 for the years ended December 31, 2014 and 2013, respectively.

NOTE 12 LEASE COMMITMENTS (CONTINUED)

Future minimum rental payments at December 31, 2014 are as follows:

Year Ending December 31,	Amount
2015	$ 239,850
2016	239,850
2017	245,180
2018	261,170
2019	261,170
Thereafter	979,388
Total	$ 2,226,608