

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

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
TABLE OF CONTENTS  
YEARS ENDED DECEMBER 31, 2019 AND 2018**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
<b>STATEMENTS OF FINANCIAL POSITION</b>	<b>3</b>
<b>STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS</b>	<b>4</b>
<b>STATEMENTS OF FUNCTIONAL EXPENSES</b>	<b>5</b>
<b>STATEMENTS OF CASH FLOWS</b>	<b>6</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>7</b>



## 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, 2019 and 2018, the related statements of activities and change in net assets, statements of functional expenses, 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended and functional expenses as of December 31, 2019 and 2018, in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
August 12, 2020

**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>ASSETS</b>		
Cash	\$ -	\$ 316,234
Grants Receivable	200,000	575,000
Receivable for Securities with Settlements Pending	4,083,631	2,720,545
Accrued Investment Income	426,466	29,490
Investments	460,651,311	419,541,935
Program-Related Investments	10,262,908	6,736,062
Other Assets	186,825	220,266
Prepaid Excise Tax	252,776	-
Fixed Assets	385,299	455,369
	\$ 476,449,216	\$ 430,594,901
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Other Liabilities	\$ 529,451	\$ 468,345
Payables for Securities with Settlements Pending	442,241	-
Unpaid Grant Commitments	6,397,110	7,026,432
Leasehold Incentives	117,488	148,818
Deferred Taxes	1,607,033	1,126,313
Total Liabilities	9,093,323	8,769,908
<b>NET ASSETS</b>		
Without Donor Restrictions	457,031,599	411,500,699
With Donor Restrictions	10,324,294	10,324,294
Total Net Assets	467,355,893	421,824,993
Total Liabilities and Net Assets	\$ 476,449,216	\$ 430,594,901

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, 2019 AND 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES</b>						
Contribution Revenue	\$ 617,000	\$ -	\$ 617,000	\$ 3,750,000	\$ -	\$ 3,750,000
Dividends and Interest	6,625,359	-	6,625,359	11,807,760	-	11,807,760
Realized Gains on Investments	7,826,902	-	7,826,902	3,760,708	-	3,760,708
Unrealized Gains (Losses) on Investments	60,567,625	-	60,567,625	(30,905,354)	-	(30,905,354)
Less: Investment and Related Fees	(6,642,771)	-	(6,642,771)	(5,652,213)	-	(5,652,213)
Other	-	-	-	(15,520)	-	(15,520)
Total Revenues	<u>68,994,115</u>	<u>-</u>	<u>68,994,115</u>	<u>(17,254,619)</u>	<u>-</u>	<u>(17,254,619)</u>
<b>EXPENSES</b>						
Program:						
Grants Appropriated, Net of Cancellations and Refunds	16,261,417	-	16,261,417	17,002,467	-	17,002,467
Program-Related Administrative	3,164,707	-	3,164,707	3,037,720	-	3,037,720
Administrative:						
Management and General Expenses	3,101,156	-	3,101,156	2,819,288	-	2,819,288
Federal Excise Tax and UBIT Provision	935,935	-	935,935	(124,962)	-	(124,962)
Total Expenses	<u>23,463,215</u>	<u>-</u>	<u>23,463,215</u>	<u>22,734,513</u>	<u>-</u>	<u>22,734,513</u>
<b>CHANGE IN NET ASSETS</b>	45,530,900	-	45,530,900	(39,989,132)	-	(39,989,132)
Net Assets - Beginning of Year	<u>411,500,699</u>	<u>10,324,294</u>	<u>421,824,993</u>	<u>451,489,831</u>	<u>10,324,294</u>	<u>461,814,125</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 457,031,599</u>	<u>\$ 10,324,294</u>	<u>\$ 467,355,893</u>	<u>\$ 411,500,699</u>	<u>\$ 10,324,294</u>	<u>\$ 421,824,993</u>

See accompanying Notes to Financial Statements.

**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019		
	Program Activities	Management and General	Total
Grants	\$ 16,261,417	\$ -	\$ 16,261,417
Salaries and Benefits	2,090,948	1,889,384	3,980,332
Professional Services	674,741	372,543	1,047,284
Excise and Income Taxes	-	935,935	935,935
Depreciation	-	100,153	100,153
Occupancy and Other Office Expenses	295,609	390,855	686,464
Travel and Meeting Expenses	101,960	181,938	283,898
Miscellaneous Expense	1,449	166,283	167,732
	<u>\$ 19,426,124</u>	<u>\$ 4,037,091</u>	<u>\$ 23,463,215</u>

	2018		
	Program Activities	Management and General	Total
Grants	\$ 17,002,467	\$ -	\$ 17,002,467
Salaries and Benefits	1,930,027	1,750,875	3,680,902
Professional Services	709,410	373,595	1,083,005
Excise and Income Taxes	-	(124,962)	(124,962)
Depreciation	-	109,697	109,697
Occupancy and Other Office Expenses	273,625	407,141	680,766
Travel and Meeting Expenses	124,658	164,232	288,890
Miscellaneous Expense	-	13,748	13,748
	<u>\$ 20,040,187</u>	<u>\$ 2,694,326</u>	<u>\$ 22,734,513</u>

See accompanying Notes to Financial Statements.

**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Contributions	\$ 992,000	\$ 3,175,000
Cash Received from Dividends and Interest	6,124,984	11,725,409
Cash Received from Program Related Investments	151,332	298,435
Cash Paid for Grants	(16,390,518)	(18,780,537)
Cash Paid for Program Related Investments	(4,075,000)	(1,400,000)
Cash Paid to Vendors and Employees	(5,969,533)	(5,747,322)
Cash Paid for Investment Fees and Related Expenses	(1,885,216)	(2,101,520)
Cash Paid for Excise and Income Taxes	<u>(707,991)</u>	<u>(220,787)</u>
Net Cash Used by Operating Activities	(21,759,942)	(13,051,322)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales of Investments	189,651,260	141,678,599
Purchases of Investments	(168,146,139)	(128,722,601)
Purchases of Leasehold Improvements, Furniture, and Equipment	<u>(61,413)</u>	<u>(48,482)</u>
Net Cash Provided by Investing Activities	<u>21,443,708</u>	<u>12,907,516</u>
<b>DECREASE IN CASH</b>	(316,234)	(143,806)
Cash - Beginning of Year	<u>316,234</u>	<u>460,040</u>
<b>CASH - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 316,234</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Supplemental Disclosure of Noncash Investing Transactions:		
Change in Receivable for Securities with Settlements Pending	<u>\$ 1,363,086</u>	<u>\$ (280,461)</u>
Change in Payable for Securities with Settlements Pending	<u>\$ 442,241</u>	<u>\$ (15,668)</u>

See accompanying Notes to Financial Statements.



**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**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. Founded in 1934 and based in St. Paul, Minnesota, the Foundation supports organizations building equitable economies, where prosperity is defined by local communities and shared by all – with good jobs, thriving businesses, and vibrant cultures. Its grantees are resourceful problem solvers working in resilient communities that have a wealth of wisdom, passion, and expertise – Native Americans, communities of color, immigrants and refugees, and people in rural areas. The Foundation's region includes the eight states of Minnesota, Iowa, North Dakota, South Dakota, Montana, Idaho, Washington, and Oregon, and more than 76 Native nations. For more information, please visit [www.nwaf.org](http://www.nwaf.org).

The Foundation was formed beginning in 1934 through the donation of three gifts totaling \$10,324,294. The amount is preserved in net assets with donor restrictions and will be held in perpetuity. 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:

*Net Assets without Donor Restrictions* - Net assets that are not subject to donor-imposed stipulations.

*Net Assets with Donor Restrictions* - Net assets subject to donor-imposed stipulations to be held in perpetuity 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 donor-restricted amount will remain intact.

**NORTHWEST AREA FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**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 net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 Investment Policy Statement 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  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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

**Investments**

The Foundation's investment portfolio is structured to provide a sufficient level of investment return while maintaining prudent levels of risk, liquidity, 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 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, 2019 and 2018, 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 purchases and sales 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 statements of financial position. Changes in the fair value of derivatives during the year are reported in the statements of activities.

**NORTHWEST AREA FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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

**Derivative Financial Instruments (Continued)**

As of December 31, 2019, the Foundation had 94 contracts outstanding and contract exposure amounts of \$10,718,845 of long positions in equity index futures, 35 contracts outstanding and contract exposure amounts of \$4,850,266 of long positions in fixed income futures, and 39 contracts outstanding and contract exposure amounts of \$4,249,538 of short positions in commodity futures.

As of December 31, 2018, the Foundation had 211 contracts outstanding and contract exposure amounts of \$19,319,507 of long positions in equity index futures, and 4 contracts outstanding and contract exposure amounts of \$294,040 of long positions in currency futures, 95 contracts outstanding and contract exposure amounts of \$14,266,735 of short positions in fixed income futures, and 25 contracts outstanding and contract exposure amounts of \$2,345,313 of short positions in commodity futures. Net realized and unrealized gains of approximately \$4,901,078 and losses of \$746,220 were recognized for the years ending December 31, 2019 and 2018, respectively.

**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 statements 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 toward 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 \$5,000. 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.

**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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

**Grants**

Grant appropriations are charged to net assets without donor restrictions at the time the grant agreements are executed, subject to the approval 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, 2019 and 2018.

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 1.39% 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 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.

**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**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.

**Liquidity**

The Foundation has a liquidity policy intended to ensure that the Foundation's investment portfolio remains sufficiently liquid regardless of market conditions. The Foundation's management and investment committee regularly review the policy to incorporate the Foundation's changing liquidity needs, level of private investments, and the overall liquidity profile of the investment portfolio. As part of its liquidity management, the Foundation invests cash in excess of daily requirements in short-term investments.

The following reflects the Foundation's financial assets available to meet general expenditures within one year of the statements of financial position date:

	2019	2018
Cash	\$ -	\$ 316,234
Grants Receivable	200,000	575,000
Program-Related Investments	28,739	148,109
Investments Appropriated for Current Use	24,100,000	21,900,000
Financial Assets Available Within One Year to Meet		
Cash Needs for General Expenditures Within One Year	\$ 24,328,739	\$ 22,939,343

The Foundation's maximum operating budget is limited by a spending policy of 5% of the historic, rolling average value of total assets over the most recent five years. As a result of this policy, \$24.1 million of appropriations will be available for general expenditures within the next 12 months.

**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, 2019 AND 2018**

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

**Change in Accounting Principle**

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in the update assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Foundation's financial statements reflect the application of ASU 2018-08 guidance beginning in fiscal year 2019. The adoption of ASU 2018-08 did not impact the Foundation's reported revenue in total.

**Subsequent Events**

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 12, 2020, the date the financial statements were approved to be issued.

**NOTE 2 INVESTMENTS**

Investments consist of the following at December 31:

	2019	2018
Investments, at Fair Value (Cost Value: December 31, 2019 and 2018 - \$345,047,521 and \$359,179,567, Respectively):		
Temporary Cash Investments	\$ 585,770	\$ 1,669,368
Public Fixed Income	31,662,077	41,562,785
Private Credit	40,329,104	34,063,659
Public Equities	239,833,584	197,168,661
Private Equities	36,795,826	49,229,659
Real Assets	58,966,175	50,936,647
Diversifying Strategies	52,478,775	44,911,156
Total Investments	\$ 460,651,311	\$ 419,541,935

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.

**NORTHWEST AREA FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 3 FAIR VALUE MEASUREMENTS**

Assets measured at fair value on a recurring basis as of December 31, 2019:

	Level 1	Level 2	Level 3	Total
Public Equities	\$ 33,795,278	\$ -	\$ -	\$ 33,795,278
Subtotal	<u>\$ 33,795,278</u>	<u>\$ -</u>	<u>\$ -</u>	33,795,278
Temporary Cash Investments				585,770
Investments Measured at Net Asset Value Per Share or its Equivalent				426,270,263
Total Investments				<u>\$ 460,651,311</u>

Assets measured at fair value on a recurring basis as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Public Fixed Income	\$ 520,142	\$ -	\$ -	\$ 520,142
Public Equities	32,608,461	-	-	32,608,461
Diversifying Strategies	11,561,783	-	-	11,561,783
Subtotal	<u>\$ 44,690,386</u>	<u>\$ -</u>	<u>\$ -</u>	44,690,386
Temporary Cash Investments				1,669,368
Investments Measured at Net Asset Value Per Share or its Equivalent				373,182,181
Total Investments				<u>\$ 419,541,935</u>

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

	2019 Net Asset Value	2018 Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Public Fixed Income	\$ 15,739,363	\$ 17,460,436	\$ -	Daily	3 Days
Public Fixed Income	13,800,649	15,948,670	-	Monthly	8 Days
Public Fixed Income	2,122,065	7,633,537	-	Annually	60 Days
Private Credit	40,329,104	34,063,659	21,002,127	N/A	N/A
Public Equities	77,517,700	62,722,149	-	Quarterly	60 Days
Public Equities	83,232,045	73,537,029	-	Monthly	5 - 30 days
Public Equities	33,096,775	28,301,022	-	Daily	3 Days
Public Equities	12,191,786	-	-	N/A	N/A
Private Equities	36,795,826	49,229,659	22,418,934	N/A	N/A
Real Assets	46,034,120	35,456,902	14,253,959	N/A	N/A
Real Assets	6,461,722	5,332,636	-	Quarterly	30 Days
Real Assets	6,470,333	10,147,109	-	Daily	15 Days
Diversifying Strategies	28,078,711	17,456,684	-	Quarterly	60 - 90 Days
Diversifying Strategies	9,996,691	-	-	Monthly	7 days
Diversifying Strategies	11,571,794	12,781,439	-	Monthly	30 Days
Diversifying Strategies	2,831,579	3,111,250	4,490,332	N/A	N/A
Total	<u>\$ 426,270,263</u>	<u>\$ 373,182,181</u>	<u>\$ 62,165,352</u>		



**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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

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.

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.

**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 4 PROGRAM-RELATED INVESTMENTS**

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

Description	Type	Maturity	2019	2018
Midwest Minnesota Community Development Corporation	Debt	September 2019	\$ -	\$ 120,000
Neighborhood Development Center	Debt	August 2022	72,525	103,857
CDC Bancshares	Debt	April 2021	400,000	400,000
Grow Iowa Foundation	Debt	April 2021	100,000	100,000
RAIN Source Capital Corporation	Debt	April 2022	500,000	500,000
Shared Capital Cooperative	Debt	April 2021	500,000	500,000
Shared Capital Cooperative	Equity	N/A	500,000	500,000
Craft3	Debt	September 2023	1,000,000	1,000,000
Initiative Foundation	Debt	January 2024	1,000,000	1,000,000
Propel Nonprofits	Debt	January 2024	1,000,000	1,000,000
Metropolitan Economic Development Association	Debt	March 2024	1,000,000	-
Neighborhood Development Center	Debt	February 2024	1,000,000	-
White Earth Investment Initiative	Debt	January 2024	500,000	-
Dakota Resources	Debt	January 2025	1,000,000	1,000,000
Northwest Native Development Fund	Debt	December 2025	325,000	150,000
Micro Enterprise Services of Oregon	Debt	February 2025	250,000	250,000
Montana Community Development Corporation	Debt	June 2026	1,000,000	-
Community LendingWorks	Debt	July 2026	400,000	-
First Nations Oweesta Corporation	Debt	November 2027	500,000	500,000
Subtotal			11,047,525	7,123,857
Less: Discount on Program Related Investments			(854,694)	(437,541)
Interest Receivable (at Varying Rates up to 3.25% and Maturities through 2027)			70,077	49,746
Total			\$ 10,262,908	\$ 6,736,062

During the year ended December 31, 2019, the Foundation distributed five new program-related investments totaling \$4,075,000, and during the year ended, 2018, the Foundation distributed three new program-related investments totaling \$1,400,000.

No program-related investments were past due as of December 31, 2019 and 2018, and no allowance for credit losses has been created for any potential uncollectible program-related investments as of December 31, 2019 and 2018. The Foundation discounted loans that were made at below-market-rate interest rates. The discount as of December 31, 2019 and 2018 was \$854,694 and \$437,541, respectively.

**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 5 FIXED ASSETS**

Fixed assets consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Leasehold Improvements	\$ 2,255,346	\$ 2,236,088
Furniture and Equipment	702,270	703,289
Computer Hardware and Software	416,672	537,844
Total	<u>3,374,288</u>	<u>3,477,221</u>
Less: Accumulated Depreciation	<u>(2,988,989)</u>	<u>(3,021,852)</u>
Total Fixed Assets	<u>\$ 385,299</u>	<u>\$ 455,369</u>

**NOTE 6 GRANTS**

Grant activity for the years ended December 31, 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Unpaid Commitments - Beginning of Year	\$ 7,026,432	\$ 9,312,702
Grant Appropriations, Net of Cancellations and Refunds (*)	16,261,417	17,002,467
Less: Imputed Interest on PRIs	(500,221)	(508,200)
Payments (*)	<u>(16,390,518)</u>	<u>(18,780,537)</u>
Unpaid Commitments - End of Year	<u>\$ 6,397,110</u>	<u>\$ 7,026,432</u>

(\*) Does not include program-related investments

Conditional grants made where conditions have not yet been met totaled \$120,000 and \$215,100 at December 31, 2019 and 2018, respectively.

**NOTE 7 FEDERAL EXCISE TAX PROVISION AND DISTRIBUTION REQUIREMENTS**

Federal excise taxes for the years ended December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Provision:		
Current Expense	\$ 237,036	\$ 310,825
Deferred	698,899	(435,787)
Total	<u>\$ 935,935</u>	<u>\$ (124,962)</u>
Liability:		
Current	\$ -	\$ 218,179
Deferred	1,607,033	908,134
Total	<u>\$ 1,607,033</u>	<u>\$ 1,126,313</u>

**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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

For the years ended December 31, 2019 and 2018, the provision also includes UBIT expense of \$5,634 and \$(1,165), respectively.

The Foundation is subject to the distribution requirements of the IRC. 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, 2019 and 2018.

**NOTE 8 CAPITAL STOCK**

Included in net assets without donor restrictions 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, and 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, 2019 and 2018, this compensation totaled \$253,475 and \$226,875, 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 expenses include grants, the cost of direct program services, and an allocation of costs required to run the programs. Management and general expenses include all expenses incidental to operating the Foundation. The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Foundation. Those expenses include occupancy, building maintenance, insurance, salaries and benefits, and the information technology department. Occupancy, building maintenance and insurance are allocated based on square footage, while salaries and benefits are allocated based on estimates of time and effort. The information technology department is allocated based on estimates of time and costs of specific technology utilized.

**NORTHWEST AREA FOUNDATION  
(A MINNESOTA PRIVATE NONPROFIT CORPORATION)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**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 \$280,000 for 2019 and \$275,000 for 2018. Contributions to the plan for the years ended December 31, 2019 and 2018 were \$308,864 and \$274,143, 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 \$229,840 for each of the years ended December 31, 2019 and 2018.

Future minimum rental payments at December 31, 2019 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 261,170
2021	261,170
2022	261,170
2023	195,878
Total	<u>\$ 979,388</u>

**NOTE 13 SUBSEQUENT EVENT**

The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Foundation, COVID-19 may impact various parts of its 2020 operations and financial results, including investment returns. Management believes the Foundation is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.