

**NORTHWEST AREA FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021**



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**NORTHWEST AREA FOUNDATION
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Northwest Area Foundation
St. Paul, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Northwest Area Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Northwest Area Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Northwest Area Foundation's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Northwest Area Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Northwest Area Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 25, 2023

**NORTHWEST AREA FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021**

	2022	2021
ASSETS		
Receivable for Securities with Settlements Pending	\$ 146,612	\$ 72,810
Accrued Investment Income	30,419	433,407
Investments	471,809,528	553,629,633
Program-Related Investments	11,024,249	11,351,249
Other Assets	73,722	203,094
Prepaid Excise Tax	716,081	-
Operating Lease Right-of-Use Asset	171,722	-
Fixed Assets	159,810	263,160
	\$ 484,132,143	\$ 565,953,353
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Other Liabilities	\$ 463,796	\$ 377,325
Payables for Securities with Settlements Pending	-	484,319
Unpaid Grant Commitments	7,545,000	10,641,496
Leasehold Incentives	-	54,827
Operating Lease Liability	195,220	-
Deferred Taxes	1,338,558	2,394,492
Total Liabilities	9,542,574	13,952,459
NET ASSETS		
Without Donor Restrictions	464,265,275	541,676,600
With Donor Restrictions	10,324,294	10,324,294
Total Net Assets	474,589,569	552,000,894
Total Liabilities and Net Assets	\$ 484,132,143	\$ 565,953,353

See accompanying Notes to Financial Statements.

**NORTHWEST AREA FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES						
Dividends and Interest	\$ 5,842,522	\$ -	\$ 5,842,522	\$ 7,162,540	\$ -	\$ 7,162,540
Realized Gains (Losses) on Investments	4,826,962	-	4,826,962	47,550,681	-	47,550,681
Unrealized Gains (Losses) on Investments	(64,486,477)	-	(64,486,477)	28,308,277	-	28,308,277
Less: Investment and Related Fees	(5,132,562)	-	(5,132,562)	(5,707,079)	-	(5,707,079)
Other	1,000	-	1,000	-	-	-
Total Revenues	<u>(58,948,555)</u>	<u>-</u>	<u>(58,948,555)</u>	<u>77,314,419</u>	<u>-</u>	<u>77,314,419</u>
EXPENSES						
Program:						
Grants Appropriated, Net of Cancellations and Refunds	13,443,113	-	13,443,113	22,046,755	-	22,046,755
Other Program Expenses	2,818,944	-	2,818,944	2,738,414	-	2,738,414
Administrative:						
Management and General Expenses	3,107,086	-	3,107,086	2,845,904	-	2,845,904
Federal Excise Tax and UBIT Provision	(906,373)	-	(906,373)	1,057,844	-	1,057,844
Total Expenses	<u>18,462,770</u>	<u>-</u>	<u>18,462,770</u>	<u>28,688,917</u>	<u>-</u>	<u>28,688,917</u>
CHANGE IN NET ASSETS	(77,411,325)	-	(77,411,325)	48,625,502	-	48,625,502
Net Assets - Beginning of Year	<u>541,676,600</u>	<u>10,324,294</u>	<u>552,000,894</u>	<u>493,051,098</u>	<u>10,324,294</u>	<u>503,375,392</u>
NET ASSETS - END OF YEAR	<u>\$ 464,265,275</u>	<u>\$ 10,324,294</u>	<u>\$ 474,589,569</u>	<u>\$ 541,676,600</u>	<u>\$ 10,324,294</u>	<u>\$ 552,000,894</u>

See accompanying Notes to Financial Statements.

**NORTHWEST AREA FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022			2021		
	Program Activities	Management and General	Total	Program Activities	Management and General	Total
Grants	\$ 13,443,113	\$ -	\$ 13,443,113	\$ 22,046,755	\$ -	\$ 22,046,755
Salaries and Benefits	2,056,119	1,963,032	4,019,151	2,003,929	1,841,655	3,845,584
Professional Services	447,307	436,010	883,317	450,304	416,017	866,321
Excise and Income Taxes	-	(906,373)	(906,373)	-	1,057,844	1,057,844
Depreciation	-	134,747	134,747	-	114,182	114,182
Occupancy and Other Office Expenses	277,911	446,438	724,349	267,753	456,592	724,345
Travel and Meeting Expenses	36,710	120,076	156,786	15,232	10,931	26,163
Miscellaneous Expense	897	6,783	7,680	1,196	6,527	7,723
Total Expenses	\$ 16,262,057	\$ 2,200,713	\$ 18,462,770	\$ 24,785,169	\$ 3,903,748	\$ 28,688,917

See accompanying Notes to Financial Statements.

**NORTHWEST AREA FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Contributions	\$ -	\$ 150,000
Cash Received from Dividends and Interest	6,058,041	6,768,521
Cash Received from Program Related Investments	14,469	1,029,317
Cash Received from Other Sources	1,000	-
Cash Paid for Grants	(16,039,609)	(18,182,163)
Cash Paid for Program Related Investments	-	(150,000)
Cash Paid to Vendors and Employees	(5,694,352)	(5,447,838)
Cash Paid for Investment Fees and Related Expenses	(810,664)	(1,162,330)
Cash Paid for Excise and Income Taxes	(865,642)	(717,343)
Net Cash Used by Operating Activities	(17,336,757)	(17,711,836)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	264,449,411	293,024,687
Purchases of Investments	(247,081,257)	(275,224,839)
Purchases of Fixed Assets	(31,397)	(88,012)
Net Cash Provided by Investing Activities	17,336,757	17,711,836
DECREASE IN CASH	-	-
Cash - Beginning of Year	-	-
CASH - END OF YEAR	\$ -	\$ -
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Supplemental Disclosure of Noncash Investing Transactions:		
Change in Receivable for Securities with Settlements Pending	\$ 73,802	\$ (4,927,190)
Change in Payable for Securities with Settlements Pending	\$ (484,319)	\$ 476,689

See accompanying Notes to Financial Statements.

**NORTHWEST AREA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

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. Established in 1934, the Foundation supports organizations that advance social, racial, and economic justice in its region of eight states and 76 Native nations. Grantee organizations advance long-overdue change in deep connection with the land they inhabit and communities they serve: Native Americans, communities of color, immigrants, refugees, and people in rural areas. The Foundation provides funding to grantee organizations, but also connections to fellow leaders, useful information, and other funders. The Foundation also follows the lead of grantee organizations to change policies, practices, and beliefs and heal from injustice so that communities can thrive on their own terms.

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. 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.

Adoption of New Accounting Standard

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Foundation adopted the requirements of the guidance effective January 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption, while continuing to present the comparative period in accordance with the guidance under the lease standard in effect during that period.

**NORTHWEST AREA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Uniform Prudent Management of Institutional Funds Act

Background

The Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). 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.

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 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 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 distributions 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 annual 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 its mission. 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 UPMIFA.

**NORTHWEST AREA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash

Cash represents funds held for use in the Foundation's operations. As of December 31, 2022 and 2021, the Foundation's cash consisted entirely of temporary cash investments held by investment managers, which are classified as a component of investments on the statements of financial position. At times, cash at financial institutions may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit.

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, 2022 and 2021, 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.

**NORTHWEST AREA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The Foundation had the following contracts outstanding and contract exposure amounts as of December 31:

	2022		2021	
	No. of Contracts	Contract Exposure	No. of Contracts	Contract Exposure
Equity Index Futures (long)	94	\$ 11,687,220	130	\$ 19,171,486
Fixed Income Futures (long)	4	537,602	21	2,899,961
Commodity Futures (short)	21	(3,203,025)	17	(2,387,013)
Currency Futures (short)	0	-	1	(79,050)
Total	119	\$ 9,021,797	169	\$ 19,605,384

Net realized and unrealized losses of approximately \$5,181,729 and gains of \$101,181 were recognized for the years ending December 31, 2022 and 2021, 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.

**NORTHWEST AREA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Leases

The Foundation determines if an arrangement is a lease at inception. Leases are reported on the statements of financial position as a right-of-use (ROU) asset and lease liability.

ROU assets represent the Foundation's right to use an underlying asset for the lease term and lease liabilities represent the Foundation's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Foundation has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the statements of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Foundation has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of all lease liabilities.

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. This incentive was recognized on the statement of financial position as a liability in 2021. In 2022, the leasehold incentive was reclassified as a reduction to the operating lease right-of-use asset with the new lease standard implementation.

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.

**NORTHWEST AREA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and is a private foundation defined in IRC Section 509(a)(1). The Foundation pays federal excise taxes on taxable investment income and income tax on any net unrelated business income as defined by the Internal Revenue Service (IRS). As discussed in Note 7, a provision for federal excise tax and unrelated business income tax has been made and is included in the financial statements.

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.

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.

**NORTHWEST AREA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Liquidity (continued)

The following reflects the Foundation's financial assets available to meet general expenditures within one year of the balance sheet date.

	2022	2021
Program-Related Investments	\$ 1,014,441	\$ 528,910
Investments Appropriated for Current Use	25,000,000	22,300,000
Financial Assets Available Within One Year to Meet		
Cash Needs for General Expenditures Within One Year	\$ 26,014,441	\$ 22,828,910

The Foundation's maximum annual budget is limited by a spending policy of 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.

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 25, 2023, the date the financial statements were approved to be issued.

**NORTHWEST AREA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 2 INVESTMENTS

Investments consist of the following at December 31:

	2022	2021
Investments, at Fair Value (Cost Value: December 31, 2022 and 2021 - \$376,498,929 and \$389,606,751, Respectively):		
Temporary Cash Investments	\$ 2,183,172	\$ 13,622,655
Public Fixed Income	41,096,569	49,533,771
Private Credit	53,749,398	55,656,219
Public Equities	230,681,823	287,487,963
Private Equities	70,588,976	67,530,922
Real Assets	42,871,395	45,951,900
Diversifying Strategies	30,638,195	33,846,203
Total Investments	\$ 471,809,528	\$ 553,629,633

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:

	2022			
	Level 1	Level 2	Level 3	Total
Public Fixed Income	\$ 23,779,255	\$ -	\$ -	\$ 23,779,255
Public Equities	60,667,107	-	-	60,667,107
Total	\$ 84,446,362	\$ -	\$ -	84,446,362
Temporary Cash Investments				2,183,172
Investments Measured at Net Asset Value Per Share or its Equivalent				385,179,994
Total Investments				\$ 471,809,528
	2021			
	Level 1	Level 2	Level 3	Total
Public Fixed Income	\$ 35,892,574	\$ -	\$ -	\$ 35,892,574
Public Equities	89,136,767	-	-	89,136,767
Total	\$ 125,029,341	\$ -	\$ -	125,029,341
Temporary Cash Investments				13,622,655
Investments Measured at Net Asset Value Per Share or its Equivalent				414,977,637
Total Investments				\$ 553,629,633

**NORTHWEST AREA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

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:

	2022 Net Asset Value	2021 Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Public Fixed Income	\$ 17,317,314	\$ 13,641,197	\$ -	Daily	1-15 Days
Private Credit	53,749,398	55,656,219	19,642,652	N/A	N/A
Public Equities	53,777,273	75,403,756	-	Quarterly	60 Days
Public Equities	57,577,378	41,476,212	-	Monthly	5 - 30 Days
Public Equities	30,676,183	33,584,218	-	Weekly	3 days
Public Equities	27,983,882	33,652,936	-	Daily	3 days
Public Equities	-	14,234,074	-	N/A	N/A
Private Equities	70,588,976	67,530,922	22,986,880	N/A	N/A
Real Assets	42,871,395	45,951,900	9,996,163	N/A	N/A
Diversifying Strategies	21,058,517	25,382,295	-	Quarterly	60 Days
Diversifying Strategies	9,288,578	7,724,256	-	Monthly	7 - 30 Days
Diversifying Strategies	291,100	739,652	-	N/A	N/A
Total	<u>\$ 385,179,994</u>	<u>\$ 414,977,637</u>	<u>\$ 52,625,695</u>		
Cash	2,183,172	13,622,655	-		
Level 1 - non NAV investments	84,446,362	125,029,341	-		
	<u>\$ 471,809,528</u>	<u>\$ 553,629,633</u>	<u>\$ 52,625,695</u>		

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, 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.

**NORTHWEST AREA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

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 and third-party 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 and third-party 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:

Regional Focus	Type	Maturity	2022	2021
Rural	Debt	2023-2026	\$ 4,400,000	\$ 4,900,000
Reservation	Debt	2023-2027	1,475,000	1,475,000
Urban	Debt	2023-2027	2,514,441	2,528,910
Urban	Equity	N/A	500,000	500,000
Multiple	Debt	2023-2025	2,500,000	2,500,000
Subtotal			11,389,441	11,903,910
Less: Discount on Program Related Investments			(442,214)	(633,036)
Interest Receivable (at Varying Rates up to 2.0% and Maturities through 2027)			77,022	80,375
Total			\$ 11,024,249	\$ 11,351,249

During the year ended December 31, 2022, the Foundation distributed no new program-related investments, while during the year ended December 31, 2021, the Foundation distributed one new program-related investment totaling \$150,000. For the year ended December 31, 2022, there was one program-related investment for \$500,000 that was converted to a grant, which is reflected on the statements of activities and changes in net assets within grant expense.

**NORTHWEST AREA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 4 PROGRAM-RELATED INVESTMENTS (CONTINUED)

No program related investments were past due as of December 31, 2022 and 2021, and no allowance for credit losses has been created for any potential uncollectible program-related investments as of December 31, 2022 and 2021. The Foundation discounted loans that were made at below-market-rate interest rates. The discount as of December 31, 2022 and 2021 was \$442,214 and \$633,036.

NOTE 5 FIXED ASSETS

Fixed assets consist of the following at December 31:

	2022	2021
Leasehold Improvements	\$ 2,265,826	\$ 2,265,826
Furniture and Equipment	712,770	702,270
Computer Hardware and Software	337,672	448,499
Work In Progress	31,397	53,668
Total	<u>3,347,665</u>	<u>3,470,263</u>
Less: Accumulated Depreciation	(3,187,855)	(3,207,103)
Total Fixed Assets	<u>\$ 159,810</u>	<u>\$ 263,160</u>

NOTE 6 GRANTS

Grant activity for the years ended December 31 is summarized as follows:

	2022	2021
Unpaid Commitments - Beginning of Year	\$ 10,641,496	\$ 6,793,614
Grant Appropriations, Net of Cancellations and Refunds (*)	13,443,113	22,046,755
Less: Imputed Interest on PRIs	-	(16,710)
Less: PRI Write Offs	(500,000)	-
Payments (*)	(16,039,609)	(18,182,163)
Unpaid Commitments - End of Year	<u>\$ 7,545,000</u>	<u>\$ 10,641,496</u>

(*) Does not include program-related investments

Conditional grants made where conditions have not yet been met totaled \$350,000 and \$165,000 at December 31, 2022 and 2021, respectively.

**NORTHWEST AREA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 7 FEDERAL EXCISE TAX PROVISION AND DISTRIBUTION REQUIREMENTS

Under Section 4940 of the IRC, the Foundation is subject to an 1.39% 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.

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.

Federal excise taxes for the years ended December 31 consisted of the following:

	<u>2022</u>	<u>2021</u>
Provision:		
Current Expense	\$ 34,987	\$ 728,149
Deferred	(941,360)	329,695
Total	<u>\$ (906,373)</u>	<u>\$ 1,057,844</u>
Liability:		
Current	\$ -	\$ 114,574
Deferred	1,338,558	2,279,918
Total	<u>\$ 1,338,558</u>	<u>\$ 2,394,492</u>

For the years ended December 31, 2022 and 2021, the provision also includes unrelated business income tax expense of \$15,642 and \$30,337, 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, 2022 and 2021.

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.

**NORTHWEST AREA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 9 RELATED PARTY TRANSACTIONS

The Foundation compensates its board of directors for their governance responsibilities, and for the grant portfolio oversight responsibilities they assume as directors of the Foundation. For the years ended December 31, 2022 and 2021, this compensation totaled \$281,625 and \$244,525, 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.

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 \$305,000 for 2022 and \$290,000 for 2021. Contributions to the plan for the years ended December 31, 2022 and 2021 were \$267,784 and \$287,895, respectively.

NOTE 12 LEASE COMMITMENTS

In March 2001, the Foundation entered into a 10-year noncancelable operating lease for office space, commencing on May 6, 2002 with renewal options for up to 10 additional years. Under this lease agreement, the Foundation paid operating costs for the leased space in addition to rent. In June 2011, the Foundation exercised the renewal option on its current office space lease, commencing on October 1, 2011 for the 12-year period through September 30, 2023.

**NORTHWEST AREA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 12 LEASE COMMITMENTS (CONTINUED)

The following table provides quantitative information concerning the Foundation's operating leases for the year ended December 31, 2022.

	<u>Amount</u>
Operating Lease Cost	\$ 229,840
Weighted Average Remaining Lease Term	0.7 Years
Weighted Average Discount Rate	1.01%

A maturity analysis of annual undiscounted cash flows for lease liabilities as of December 31, 2022, is as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ 195,878
Total Lease Payments	195,878
Less: Imputed Interest	(658)
Present Value of Lease Payments	<u>\$ 195,220</u>

For the year ended December 31, 2021, total rent expense was \$229,840, while future minimum rent commitments were as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ 261,170
2023	195,878
Total	<u>\$ 457,048</u>

In April 2023, the Foundation again renewed the lease on its current office space, but at a reduced footprint. This lease amendment commenced on April 1, 2023 and is for the 10-year period through March 31, 2033. Under this amendment, the Foundation will continue to pay operating costs for the leased space in addition to rent, but on approximately 40% less square footage than the original lease. Future minimum rent commitments for the renewed lease are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ 182,259
2024	158,915
2025	162,861
2026	166,903
2027	171,073
Thereafter	970,611
Total	<u>\$ 1,812,622</u>



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