

Native American Agriculture Fund

Independent Auditor's Report and Financial Statements

December 31, 2020



Native American Agriculture Fund
December 31, 2020

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Independent Auditor's Report

Board of Trustees
Native American Agriculture Fund
Fayetteville, Arkansas

We have audited the accompanying financial statements of Native American Agriculture Fund, which comprise the statement of financial position as of December 31, 2020, and the related statements of activities and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Native American Agriculture Fund as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Tulsa, Oklahoma
June 3, 2021

Native American Agriculture Fund
Statement of Financial Position
December 31, 2020

Assets

Cash	\$ 3,792,435
Prepaid expenses and other assets, net	149,628
Accrued income	878,158
Due from broker	1,102,775
Investments	<u>291,078,731</u>
Total assets	<u><u>\$ 297,001,727</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 639,244
Grants payable	8,347,532
Due to broker	<u>26,806,571</u>
Total liabilities	<u>35,793,347</u>

Net Assets

Without donor restrictions	<u>261,208,380</u>
Total net assets	<u>261,208,380</u>
Total liabilities and net assets	<u><u>\$ 297,001,727</u></u>

Native American Agriculture Fund
Statement of Activities
Year Ended December 31, 2020

Revenues, Gains, and Other Support	
Interest and dividends	\$ 3,411,436
Realized and unrealized gain on investments, net	<u>11,458,092</u>
Total revenues, gains, and other support	<u>14,869,528</u>
Expenses	
Grants	20,919,383
General and administrative	<u>1,747,447</u>
Total expenses	<u>22,666,830</u>
Change in Net Assets Without Donor Restrictions	(7,797,302)
Net Assets Without Donor Restrictions, Beginning of Year	<u>269,005,682</u>
Net Assets Without Donor Restrictions, End of Year	<u><u>\$ 261,208,380</u></u>

Native American Agriculture Fund
Statement of Cash Flows
Year Ended December 31, 2020

Operating Activities	
Change in net assets without donor restrictions	\$ (7,797,302)
Item not providing cash	
Realized and unrealized gain on investments, net	(11,458,092)
Changes in	
Accrued income	270,414
Accounts payable and accrued expenses	433,349
Prepaid expenses and other assets	(143,611)
Grants payable	<u>(1,652,468)</u>
Net cash used in operating activities	<u>(20,347,710)</u>
Investing Activities	
Proceeds from sale of investments	1,208,823,699
Purchase of investments	<u>(1,186,699,550)</u>
Net cash provided by investing activities	<u>22,124,149</u>
Increase in Cash	1,776,439
Cash, Beginning of Year	<u>2,015,996</u>
Cash, End of Year	<u><u>\$ 3,792,435</u></u>

Native American Agriculture Fund

Notes to Financial Statements

December 31, 2020

Note 1: Organization and Summary of Significant Accounting Policies

Organization

Native American Agriculture Fund (NAAF) is a trust that is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. NAAF is a result of a Cy Pres Fund (the Contributions) established in the settlement of *Keepseagle v. Vilsack*, No. 1:99CV03119 (D.D.C.) and may not accept contributions from any other source. As part of the settlement, NAAF was created with the requirement that all funds be distributed within a period of 20 years. NAAF provides grants to eligible entities for business assistance, agricultural education, technical support, and advocacy services to support Native farmers and ranchers to support and promote their continued engagement in agriculture. Eligible entities include 501(c)(3) organizations, educational organizations, Community Development Financial Institutions (CDFI) and Native CDFIs, and instrumentalities of a state or federally recognized tribe.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other assets and liabilities. NAAF follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Net Assets

Net assets, revenues, and gains and losses are classified on the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. As of December 31, 2020, NAAF did not have any net assets with donor restrictions.

Cash Equivalents

NAAF considers all highly liquid investments with original maturities of three months or less when purchased, excluding cash equivalent funds held in NAAF's investment portfolio, to be cash equivalents. There were no cash equivalents at December 31, 2020.

Concentrations of Credit Risk

NAAF periodically maintains certain depository, bank savings, and/or sweep account balances in excess of FDIC-insured limits. Exposure from uninsured cash balances totaled approximately

Native American Agriculture Fund

Notes to Financial Statements

December 31, 2020

\$3,327,000 at December 31, 2020. NAAF has not incurred any losses in its depository accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Investments and Net Investment Return

NAAF measures securities at fair value.

Investment return includes dividend, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses in other investments less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Due to/from Broker

Amounts represent investment transactions that were executed on or before the last day of the year but were not settled until after year-end.

Grants

Grants approved by the trustees of NAAF are typically paid over a period of one to two years. Grants are generally unconditional and are, therefore, recorded as payable when approved by the trustees. Grants dependent on the occurrence of a specified and uncertain event are conditional and are not recognized until the conditions on which they depend are substantially met. At December 31, 2020, NAAF had no conditional grants.

Contributions

The only contributions received by NAAF were those assets established in the *Keepseagle v. Vilsack* settlement. In accordance with the terms of the trust agreement, NAAF shall not accept contributions of additional property from any other source. Contributions are reported as increases in net assets without donor restrictions. Gifts of property other than cash are recognized at fair value at the time of donation. NAAF received no contributions in 2020.

Functional Allocation of Expenses

The costs of providing the various programs and other activities are summarized on a functional basis in the accompanying statement of activities. Certain costs have been allocated among the program and support categories based on the evaluation of related activities and other methods. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of NAAF. See Note 4 for the natural classification.

Native American Agriculture Fund

Notes to Financial Statements

December 31, 2020

Income Taxes

NAAF is exempt from income taxes on income under Section 501 of the Internal Revenue Code and a similar provision of state law. However, NAAF is subject to federal income tax on any unrelated business taxable income. There was no unrelated business taxable income in 2020.

NAAF files tax returns in the U.S. federal jurisdiction.

Excise Taxes

NAAF is required to pay federal excise taxes on its net investment income at a 1.39% rate.

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, expenses, gains, losses, and other changes in net assets during the reporting period. Actual amounts and results could differ from those estimates.

Significant Estimates

Estimates that are particularly susceptible to significant change include the valuation of investments. Investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with these financial instruments, it is reasonably possible that changes in the values of these assets will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statement of financial position. Significant fluctuations in fair values could occur from year to year, and the amounts NAAF will ultimately realize could differ materially.

Retirement Plan

NAAF contributes to a 401(k) plan covering substantially all employees after a specified period of employment. NAAF has no liability other than annual contributions. Annual contributions are based upon a percentage of employee contributions limited to a percentage of employee compensation. Participant contributions are immediately vested. NAAF contributed approximately \$91,000 to this plan during the year ended December 31, 2020.

Future Change in Accounting Principles

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statement of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statement of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line

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Notes to Financial Statements

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basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. NAAF is evaluating the effect the standard will have on the financial statements; however, the standard is not expected to have a material effect on the financial statements.

Subsequent Events

Subsequent events have been evaluated through June 3, 2021, which is the date the financial statements were available to be issued.

Note 2: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and significant to the fair value of the assets or liabilities

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Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2020:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market	\$ 13,517,903	\$ -	\$ 13,517,903	\$ -
U.S. government and agencies	72,428,651	-	72,428,651	-
Mortgage-backed securities	62,518,766	-	62,518,766	-
Collateralized mortgage obligations	11,888,438	-	11,888,438	-
Domestic corporate bonds	71,173,942	-	71,173,942	-
Domestic common stock	45,300,543	45,300,543	-	-
Foreign common stock	6,902,818	6,902,818	-	-
Master limited partnerships	46,469	46,469	-	-
Mutual funds	6,152,816	6,152,816	-	-
Exchange traded funds	1,148,385	1,148,385	-	-
Total investments	<u>\$ 291,078,731</u>	<u>\$ 59,551,031</u>	<u>\$ 231,527,700</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2020.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. There were no Level 3 investments at December 31, 2020.

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Notes to Financial Statements
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Note 3: Grants

Grants payable consist of unconditional amounts awarded, but not paid, to various organizations. During the year ended December 31, 2020, NAAF awarded approximately \$17,998,000 in grants. As of December 31, 2020, approximately \$8,348,000 of the grants issued in 2020 and 2019 were still outstanding.

The scheduled payments for grants payable are as follows at December 31, 2020:

Amounts payable in	
Year 1	\$ 7,628,617
Year 2	<u>718,915</u>
	<u>\$ 8,347,532</u>

Note 4: Functional Expenses

NAAF's primary function is to provide grants to eligible entities for business assistance, agricultural education, technical support, and advocacy services to support Native farmers and ranchers to support and promote their continued engagement in agriculture. There are also general and administrative costs to run the organization. Certain costs attributable to more than one function have been allocated among the various functional expense classifications based on direct assignment, personnel expenses, and other methods.

The following schedule presents the natural classification of expenses by function for the year ended December 31, 2020:

	Total	Support General and Administrative	Program Grants
Salaries and benefits	\$ 2,549,790	\$ 999,092	\$ 1,550,698
Grants awarded	17,998,595	-	17,998,595
Professional fees and services	877,283	401,166	476,117
Office expenses	55,288	13,822	41,466
Utilities and rent	189,211	47,303	141,908
Other operating expenses	698,277	88,042	610,235
Taxes and insurance	167,488	76,870	90,618
Travel	<u>130,898</u>	<u>121,152</u>	<u>9,746</u>
	<u>\$ 22,666,830</u>	<u>\$ 1,747,447</u>	<u>\$ 20,919,383</u>

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Note 5: Lease Obligation

Effective November 1, 2018, NAAF entered into a two-year lease for office space. The lease was amended in December 2019 to extend the term for an additional five years, ending October 31, 2025. The amendment includes a one-year renewal option at the end of the extended term.

Future minimum lease payments under the operating lease are as follows at December 31, 2020. Once additional space is configured, the amounts due under the lease will increase.

2021	\$ 109,896
2022	109,896
2023	109,896
2024	109,896
2025	<u>91,580</u>
	<u>\$ 531,164</u>

NAAF recognized rent expense associated with this lease of approximately \$118,000 for the year ended December 31, 2020. NAAF is currently in negotiation with the building owner to modify the terms of the lease.

Note 6: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31, 2020, comprise the following:

Financial assets at year-end	
Cash	\$ 3,792,435
Accrued income	878,158
Due from broker	1,102,775
Investments	<u>291,078,731</u>
	296,852,099
Less:	
Due to broker	<u>26,806,581</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 270,045,518</u>

NAAF manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.