

Native American Agriculture Fund

Independent Auditor's Report and Financial Statements

December 31, 2019



Native American Agriculture Fund
December 31, 2019

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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, 2019, and the related statements of activities and cash flows for the period from July 23, 2018 through December 31, 2019, 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, 2019, and the related changes in its net assets and its cash flows for the period from July 23, 2018 through December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Tulsa, Oklahoma
May 13, 2020

Native American Agriculture Fund
Statement of Financial Position
December 31, 2019

Assets

Cash	\$ 2,015,996
Prepaid expenses and other assets, net	6,017
Accrued income	1,148,572
Investments	<u>276,040,992</u>
Total assets	<u><u>\$ 279,211,577</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 205,895
Grants payable	<u>10,000,000</u>
Total liabilities	<u>10,205,895</u>

Net Assets

Without donor restrictions	<u>269,005,682</u>
Total net assets	<u>269,005,682</u>
Total liabilities and net assets	<u><u>\$ 279,211,577</u></u>

Native American Agriculture Fund
Statement of Activities
Period from July 23, 2018 Through December 31, 2019

Revenues, Gains and Other Support	
Interest and dividends	\$ 10,355,690
Realized and unrealized loss on investments, net	(987,312)
Contributions	<u>274,078,111</u>
Total revenues, gains and other support	<u>283,446,489</u>
Expenses	
Grants	12,574,681
General and administrative	<u>1,866,126</u>
Total expenses	<u>14,440,807</u>
Change in Net Assets Without Donor Restictions	269,005,682
Net Assets Without Donor Restrictions, Beginning of Period	<u>-</u>
Net Assets Without Donor Restrictions, End of Period	<u><u>\$ 269,005,682</u></u>

Native American Agriculture Fund
Statement of Cash Flows
Period from July 23, 2018 Through December 31, 2019

Operating Activities	
Change in net assets without donor restrictions	\$ 269,005,682
Items not requiring (providing) cash	
Realized and unrealized loss on investments, net	987,312
Contribution of investments	(260,815,137)
Changes in	
Accrued income	(1,148,572)
Accounts payable and accrued expenses	205,895
Prepaid expenses and other assets	(6,017)
Grants payable	<u>10,000,000</u>
Net cash provided by operating activities	<u>18,229,163</u>
Investing Activities	
Proceeds from sale of investments	608,630,049
Purchase of investments	<u>(624,843,216)</u>
Net cash used in investing activities	<u>(16,213,167)</u>
Increase in Cash	2,015,996
Cash, Beginning of Period	<u>-</u>
Cash, End of Period	<u><u>\$ 2,015,996</u></u>

Native American Agriculture Fund

Notes to Financial Statements

December 31, 2019

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.

Financial Statement Period

The accompanying financial statements have been prepared from the period that the trust was signed on July 23, 2018 through December 31, 2019. There was minimal activity within the trust until December 5, 2018, when the investments were received into the trust.

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, 2019, NAAF did not have any net assets with donor restrictions.

Native American Agriculture Fund

Notes to Financial Statements

December 31, 2019

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, 2019.

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 \$1,566,000 at December 31, 2019. 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.

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, 2019, 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 contributions in-kind, which consisted of corporate bonds measured at fair value, of approximately \$260,815,000 and contributions of cash of approximately \$13,263,000 during the period from July 23, 2018 through December 31, 2019. The majority of those funds were contributed on December 5, 2018.

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

Native American Agriculture Fund

Notes to Financial Statements

December 31, 2019

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.

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.

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 2% rate, which may be reduced to 1% when certain qualifying distribution levels are achieved. NAAF's federal excise tax rate was 1% in 2019.

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.

Future Change in Accounting Principles

FASB 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 statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements 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 basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated

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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, 2020, and any interim periods within annual reporting periods that begin after December 15, 2021. 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 May 13, 2020, which is the date the financial statements were available to be issued.

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen that may negatively affect the financial position, results of operations and ability of various grantees to fulfill the grant requirements. The duration of these uncertainties and the ultimate financial effects cannot be reasonably ascertained at this time. NAAF is examining ongoing operations, the current lease and headquarter arrangements, as well as employment and public relationship ramifications in relation to the SARS/COVID-19 situation.

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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 192,777,086	\$ -	\$ -	\$ 192,777,086
Corporate bonds	<u>34,600,005</u>	<u>48,663,901</u>	<u>-</u>	<u>83,263,906</u>
Total investments	<u>\$ 227,377,091</u>	<u>\$ 48,663,901</u>	<u>\$ -</u>	<u>\$ 276,040,992</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 period from July 23, 2018 through December 31, 2019.

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, 2019.

Note 3: Grants

Grants payable consist of unconditional amounts awarded, but not paid, to various organizations. During the period from July 23, 2018 through December 31, 2019, NAAF awarded \$10,000,000 in grants.

The scheduled payments for grants payable are as follows at December 31, 2019:

Amounts payable in	
Year 1	\$ 9,620,126
Year 2	<u>379,874</u>
	<u>\$ 10,000,000</u>

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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 period from July 23, 2018 through December 31, 2019:

	Total	Support General and Administrative	Program Grants
Salaries and benefits	\$ 2,055,545	\$ 1,113,493	\$ 942,052
Grants awarded	10,000,000	-	10,000,000
Professional fees and services	789,577	89,420	700,157
Office expenses	87,338	15,582	71,756
Utilities and rent	183,674	67,330	116,344
Other operating expenses	587,975	210,484	377,491
Taxes and insurance	289,490	258,015	31,475
Travel	447,208	111,802	335,406
	<u>\$ 14,440,807</u>	<u>\$ 1,866,126</u>	<u>\$ 12,574,681</u>

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, 2019. Once additional space is configured, the amounts due under the lease will increase.

2020	\$ 109,896
2021	109,896
2022	109,896
2023	109,896
2024	109,896
Thereafter	<u>91,580</u>
	<u>\$ 641,060</u>

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NAAF recognized rent expense associated with this lease of approximately \$110,000 for the period from July 23, 2018 through December 31, 2019.

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, 2019, comprise the following:

Financial assets at year-end	
Cash	\$ 2,015,996
Accrued income	1,148,572
Investments	<u>276,040,992</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 279,205,560</u></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.