

Native American Agriculture Fund

Independent Auditor's Report and Financial Statements

December 31, 2022



Native American Agriculture Fund
December 31, 2022

Contents

Independent Auditor's Report 1

Financial Statements

Statement of Financial Position 3
Statement of Activities 4
Statement of Cash Flows 5
Notes to Financial Statements 6

Independent Auditor's Report

Board of Trustees
Native American Agriculture Fund
Fayetteville, Arkansas

Opinion

We have audited the financial statements of Native American Agriculture Fund (NAAF), which comprise the statement of financial position as of December 31, 2022 and the related statements of activities and cash flows for the year then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of NAAF as of December 31, 2022 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of NAAF and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 NAAF's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditor's 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 auditor's 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 NAAF'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 NAAF'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.

FORVIS,LLP

Tulsa, Oklahoma
May 23, 2023

Native American Agriculture Fund
Statement of Financial Position
December 31, 2022

Assets

Cash	\$ 8,800,712
Prepaid expenses and other assets, net	271,087
ROU assets – operating leases	62,454
Accrued income	932,714
Investments	<u>198,079,243</u>
Total assets	<u><u>\$ 208,146,210</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 1,541,217
Operating lease liabilities	65,472
Grants payable	11,316,140
Discretionary grants payable	11,999,900
Due to broker	<u>26,636</u>
Total liabilities	<u>24,949,365</u>

Net Assets

Without donor restrictions	<u>183,196,845</u>
Total net assets	<u>183,196,845</u>
Total liabilities and net assets	<u><u>\$ 208,146,210</u></u>

Native American Agriculture Fund
Statement of Activities
Year Ended December 31, 2022

Revenues, Gains, and Other Support	
Interest and dividends	\$ 5,540,511
Realized and unrealized loss on investments, net	(38,076,151)
Contributions	<u>96,218</u>
Total revenues, gains, and other support	<u>(32,439,422)</u>
Expenses	
Grants	25,564,299
Program support	1,736,653
General and administrative	<u>1,741,001</u>
Total expenses	<u>29,041,953</u>
Change in Net Assets Without Donor Restrictions	(61,481,375)
Net Assets Without Donor Restrictions, Beginning of Year	<u>244,678,220</u>
Net Assets Without Donor Restrictions, End of Year	<u><u>\$ 183,196,845</u></u>

Native American Agriculture Fund
Statement of Cash Flows
Year Ended December 31, 2022

Operating Activities	
Change in net assets without donor restrictions	\$ (61,481,375)
Items not providing cash	
Realized and unrealized loss on investments, net	38,076,151
Noncash operating lease expense	34,316
Changes in	
Accrued income	(191,990)
Accounts payable and accrued expenses	1,049,724
Prepaid expenses and other assets	(44,751)
Operating lease liabilities	(31,298)
Discretionary grants payable	10,999,900
Grants payable	<u>912,530</u>
Net cash used in operating activities	<u>(10,676,793)</u>
Investing Activities	
Proceeds from sale of investments	540,182,825
Purchase of investments	<u>(524,026,929)</u>
Net cash provided by investing activities	<u>16,155,896</u>
Increase in Cash	5,479,103
Cash, Beginning of Year	<u>3,321,609</u>
Cash, End of Year	<u>\$ 8,800,712</u>
Supplemental Cash Flows Information	
ROU assets obtained in exchange for new operating lease liabilities	\$ 96,770

Native American Agriculture Fund

Notes to Financial Statements

December 31, 2022

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, 2022, 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, 2022.

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, 2022

\$8,529,000 at December 31, 2022. 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, 2022, NAAF had no conditional grants.

Discretionary Grants

Discretionary grants are grants approved by the trustees of NAAF to help fund other organizations that support the mission of NAAF. These grants are unconditional and recorded at the time they are approved by the board.

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 approximately \$96,000 in contributions from the Keepseagle Fund in 2022.

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.

Native American Agriculture Fund

Notes to Financial Statements

December 31, 2022

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. There was no unrelated business taxable income in 2022.

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 \$84,000 to this plan during the year ended December 31, 2022.

Native American Agriculture Fund
Notes to Financial Statements
December 31, 2022

Subsequent Events

During March 2023, an external entity, which was originally obligated for one of NAAF's accounts payable, funded the award. NAAF recognized the release of obligation during 2023 for approximately \$831,000.

Subsequent events have been evaluated through May 23, 2023, 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

Native American Agriculture Fund
Notes to Financial Statements
December 31, 2022

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, 2022:

	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	\$ 18,919,955	\$ -	\$ 18,919,955	\$ -
U.S. government and agencies	45,973,066	-	45,973,066	-
Mortgage-backed securities	40,681,614	-	40,681,614	-
Collateralized mortgage obligations	8,418,617	-	8,418,617	-
Domestic corporate bonds	46,488,849	-	46,488,849	-
Foreign corporate bonds	312,738	-	312,738	-
Domestic common stock	23,249,774	23,249,774	-	-
Foreign common stock	2,921,387	2,921,387	-	-
Master limited partnerships	33,285	33,285	-	-
Mutual funds	10,917,226	10,917,226	-	-
Exchange traded funds	162,732	162,732	-	-
Total investments	<u>\$ 198,079,243</u>	<u>\$ 37,284,404</u>	<u>\$ 160,794,839</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, 2022.

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, 2022.

Native American Agriculture Fund
Notes to Financial Statements
December 31, 2022

Note 3: Grants

Grants payable and discretionary grants payable consist of unconditional amounts awarded, but not paid, to various organizations. During the year ended December 31, 2022, NAAF awarded approximately \$23,000,000 in grants. As of December 31, 2022, approximately \$23,300,000 of the grants were still outstanding.

The scheduled payments for grants payable and discretionary grants payable are as follows at December 31, 2022:

Amounts payable in	
Year 1	\$ 22,339,249
Year 2	810,427
Year 3	<u>166,364</u>
	<u>\$ 23,316,040</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, 2022:

	Total	General and Administrative	Grants	Program Support
Salaries and benefits	\$ 2,792,075	\$ 1,075,124	\$ 1,545,256	\$ 171,695
Grants awarded	22,999,988	-	22,999,988	-
Program support activities	1,564,958	-	-	1,564,958
Professional fees and services	636,164	321,524	314,640	-
Office expenses	52,323	10,733	41,590	-
Utilities and rent	101,059	20,730	80,329	-
Other operating expenses	173,152	35,518	137,634	-
Taxes and insurance	122,380	112,154	10,226	-
Travel	<u>599,854</u>	<u>165,218</u>	<u>434,636</u>	<u>-</u>
	<u>\$ 29,041,953</u>	<u>\$ 1,741,001</u>	<u>\$ 25,564,299</u>	<u>\$ 1,736,653</u>

Native American Agriculture Fund

Notes to Financial Statements

December 31, 2022

Note 5: Leases

Change in Accounting Principles

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

NAAF adopted Topic 842 on January 1, 2022 (the effective date) using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. NAAF elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. NAAF elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component for all. Also, NAAF elected to keep short-term leases with an initial term of 12 months or less off the statement of financial position. NAAF did not elect the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2022.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of \$73,383 at the beginning of the year, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. The standard did not significantly affect the accompanying statements of financial position, activities, or cash flows.

Accounting Policies

NAAF determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the statement of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. NAAF determines lease classification as operating or finance at the lease commencement date.

NAAF combines lease and nonlease components, such as common area and other maintenance costs, and accounts for them as a single lease component in calculating the ROU assets and lease liabilities.

At lease commencement, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. NAAF has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent

Native American Agriculture Fund
Notes to Financial Statements
December 31, 2022

measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that NAAF is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

NAAF has elected not to record leases with an initial term of 12 months or less on the statement of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Nature of Leases

NAAF has entered into the following lease arrangements:

Operating Leases

NAAF has leases for office space and administrative equipment that expire in various years through 2024. These leases generally contain renewal options for periods ranging from a month to a year and require NAAF to pay executory costs (property taxes, maintenance, and insurance). NAAF only has one lease with a recorded annual renewal option included in the term for a building. Lease payments have a fixed escalating fee schedule. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

NAAF has no material related-party leases.

Future minimum lease payments and reconciliation to the accompanying statement of financial position at December 31, 2022 are as follows:

2023	\$ 52,982
2024	<u>17,648</u>
Total future undiscounted lease payments	<u>70,630</u>
Less interest	<u>5,158</u>
Operating lease liabilities	<u><u>\$ 65,472</u></u>

Native American Agriculture Fund
Notes to Financial Statements
December 31, 2022

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, 2022, comprise the following:

Financial assets at year-end	
Cash	\$ 8,800,712
Accrued income	932,714
Investments	<u>198,079,243</u>
	207,812,669
Less due to broker	<u>26,636</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 207,786,033</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.