

Financial statements of:

**NATIVE ARTS & CULTURES
FOUNDATION**

Years ended
December 31, 2009 and 2008

NATIVE ARTS & CULTURES FOUNDATION YEARS ENDED DECEMBER 31, 2009 AND 2008

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Schechter Dokken Kanter
Andrews & Selcer Ltd

INDEPENDENT AUDITOR'S REPORT

Suite 1600

Board of Directors
Native Arts & Cultures Foundation
Vancouver, WA

100 Washington Avenue South

We have audited the accompanying statements of financial position of Native Arts & Cultures Foundation (a nonprofit organization) as of December 31, 2009 and 2008, and the related statements of activities and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Minneapolis, MN

55401-2192

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Native Arts & Cultures Foundation as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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*Schechter Dokken Kanter
Andrews & Selcer Ltd.*

April 26, 2010

NATIVE ARTS & CULTURES FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31

	<u>2009</u>	<u>2008</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,393,601	\$ 268,055
Pledge receivable		500,000
Prepaid expenses	<u>11,125</u>	
Total current assets	<u>2,404,726</u>	<u>768,055</u>
Equipment	12,418	
Less accumulated depreciation	<u>632</u>	
	<u>11,786</u>	
Other assets:		
Cash held for long-term purposes		7,152,513
Investments	<u>9,473,509</u>	
	<u>9,473,509</u>	<u>7,152,513</u>
	<u>\$ 11,890,021</u>	<u>\$ 7,920,568</u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$ 31,808	\$ 96,681
Accrued expenses	<u>5,836</u>	
Total current liabilities	<u>37,644</u>	<u>96,681</u>
Net assets:		
Unrestricted:		
Undesignated	352,377	323,887
Board designated	<u>1,500,000</u>	<u>1,000,000</u>
	1,852,377	1,323,887
Temporarily restricted	1,000,000	1,500,000
Permanently restricted	<u>9,000,000</u>	<u>5,000,000</u>
Total net assets	<u>11,852,377</u>	<u>7,823,887</u>
	<u>\$ 11,890,021</u>	<u>\$ 7,920,568</u>

See notes to financial statements.

NATIVE ARTS & CULTURES FOUNDATION

	2009			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Revenues:				
Grants		\$ 500,000	\$ 4,000,000	\$ 4,500,000
Contributions	\$ 2,275			2,275
Tribal government	100,000			100,000
Investment income	124,483			124,483
Unrealized loss on investments	(77,149)			(77,149)
Release from restriction	1,000,000	(1,000,000)		
Total support and revenue	1,149,609	(500,000)	4,000,000	4,649,609
Functional expenses:				
Program services	42,134			42,134
Management and general	450,123			450,123
Fundraising	128,862			128,862
Total expenses	621,119			621,119
Change in net assets	528,490	(500,000)	4,000,000	4,028,490
Net assets, beginning	1,323,887	1,500,000	5,000,000	7,823,887
Net assets, ending	\$ 1,852,377	\$ 1,000,000	\$ 9,000,000	\$ 11,852,377

See notes to financial statements.

STATEMENTS OF ACTIVITIES AND
CHANGE IN NET ASSETS
YEARS ENDED DECEMBER 31

2008			
Unrestricted	Temporarily restricted	Permanently restricted	Total
\$ 500,000	\$ 1,000,000	\$ 5,000,000	\$ 6,500,000
1,000,500	500,000		1,500,500
49,558			49,558
1,550,058	1,500,000	5,000,000	8,050,058
2,155			2,155
224,016			224,016
226,171			226,171
1,323,887	1,500,000	5,000,000	7,823,887
\$ 1,323,887	\$ 1,500,000	\$ 5,000,000	\$ 7,823,887

NATIVE ARTS & CULTURES FOUNDATIONSTATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,028,490	\$ 7,823,887
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	632	
Unrealized loss on investments	77,149	
Contributions restricted for long-term purposes	(4,000,000)	(5,000,000)
(Increase) decrease in assets:		
Pledges receivable	500,000	(500,000)
Prepaid expenses	(11,125)	
Increase (decrease) in liabilities:		
Accounts payable	(64,873)	96,681
Accrued expenses	5,836	
Net cash provided by operating activities	<u>536,109</u>	<u>2,420,568</u>
Cash flows from investing activities:		
Cash held for long-term purposes	7,152,513	(7,152,513)
Purchase of:		
Equipment	(12,418)	
Investments	<u>(9,550,658)</u>	
Net cash used in investing activities	<u>(2,410,563)</u>	<u>(7,152,513)</u>
Cash flows from financing activities, contributions restricted for long-term purposes	<u>4,000,000</u>	<u>5,000,000</u>
Net increase in cash and cash equivalents	2,125,546	268,055
Cash and cash equivalents, beginning of year	<u>268,055</u>	
Cash and cash equivalents, end of year	<u>\$ 2,393,601</u>	<u>\$ 268,055</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NATIVE ARTS & CULTURES FOUNDATION YEARS ENDED DECEMBER 31, 2009 AND 2008

1. Nature of business and summary of significant accounting policies:

Nature of business:

The Native Arts and Cultures Foundation (NACF or the Foundation) was established to promote the revitalization, appreciation, and perpetuation of Native arts and cultures in all sectors of society through philanthropy and partnership, ensuring a path that benefits present and future generations of indigenous peoples in America. The Foundation is the first permanently endowed national philanthropic foundation dedicated exclusively to Native arts and cultures. Through grant-making, partnerships, and convenings, NACF will focus on strengthening the Native arts and cultures field, indigenous artists and communities.

Financial statement presentation:

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of directors has discretionary control. Designated amounts represent those revenues which the board has set aside for a particular purpose.

Temporarily restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Foundation or passage of time.

Permanently restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Foundation. The donors of these resources permitted the Foundation to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

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.

Cash and cash equivalents:

The Foundation considers all money market funds and financial instruments with an original maturity date of 90 days or less to be cash equivalents. The Foundation maintains its cash in bank deposit accounts, which at times may exceed federally insured limits.

Cash and cash equivalents at December 31, 2009 include certificates of deposit with an original maturity of one month, earning interest at an annual rate of 4%. At December 31, 2008, there were certificate of deposits with an original maturity of one to three months, earning interest at an annual rate ranging between 1% and 1.33%.

Receivables:

Pledges receivable are recognized when a signed agreement is received. Pledges to give that are expected to be collected within one year are recorded at their net realizable value.

Equipment:

Equipment is recorded at cost, if purchased, and at fair value, if donated. The Foundation depreciates equipment over their estimated useful lives (3 to 7 years) by the straight-line method of depreciation.

Fair value measurements:

The Foundation follows a standard that establishes a framework for measuring fair value, establishes 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 a significant portion of its financial instruments at fair value or considers fair value in their measurement. The Foundation also accounts for certain assets at fair value under applicable industry guidance.

NOTES TO FINANCIAL STATEMENTS

NATIVE ARTS & CULTURES FOUNDATION YEARS ENDED DECEMBER 31, 2009 AND 2008

1. Nature of business and summary of significant accounting policies (continued):

Fair value hierarchy:

In accordance with the standard on fair value measurements, the Foundation has categorized its financial instruments 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 of the instrument.

The following table presents the Foundation's fair value for those assets measured at fair value on a recurring basis at December 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity	\$3,086,069			\$3,086,069
Fixed income	<u>6,387,402</u>			<u>6,387,402</u>
	<u>\$9,473,471</u>			9,473,471
Cash held for investment purposes				<u>38</u>
				<u>\$9,473,509</u>

The Foundation had no assets measured at fair value on a recurring basis at December 31, 2008.

Revenue recognition:

Contributions, including unconditional promises to give, are recognized as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in the temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when

a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional contribution pledges are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional contributions are recognized when the conditions on which they depend are substantially met.

Income taxes:

Effective January 1, 2009, the Foundation adopted the provisions of Accounting for Uncertainty in Income Taxes. This standard clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of this standard had no impact on the Foundation's financial statements.

The Foundation qualifies as a tax-exempt organization described in Section 501(c)(3) and is not a private foundation under Section 509(a)(2) of the Internal Revenue Code. As such, it is exempt from federal unemployment taxes and State of Washington sales tax, but is subject to federal and state income taxes on net unrelated business income. The Foundation currently has no unrelated business income.

The Foundation's income tax returns are subject to review and examination by federal and state authorities. The tax return for 2008 is open to examination by federal authorities.

NOTES TO FINANCIAL STATEMENTS

NATIVE ARTS & CULTURES FOUNDATION YEARS ENDED DECEMBER 31, 2009 AND 2008

1. Nature of business and summary of significant accounting policies (continued):

Functional allocation of expense:

Salaries and related expenses are allocated based on estimates of time spent on programs. Other expenses, not directly identifiable by program or supporting service, are allocated based on the best estimates of management.

Subsequent events:

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through April 26, 2010, the date financial statements were available for issuance.

2. Investments:

The following summarizes the Foundation's investments at December 31, 2009 and 2008:

	2009	2008
Cash and cash equivalents	\$ 38	\$ 0
Mutual funds:		
Equity	3,086,069	0
Fixed income	6,387,402	0
	\$ 9,473,509	\$ 0

3. Concentration of support:

For the year ended December 31, 2008, the pledge receivable was due from a single donor.

Approximately 99% of 2008 tribal government contributions were from a single tribe.

Grant revenues for 2009 and 2008 were entirely from a single grantor.

4. Operating lease:

The Foundation leases its office facilities under a long-term, non-cancelable operating lease agreement which expires June 30, 2012. The lease provides for increases in future minimum annual rental payments. Lease

expense totaled \$6,625 and \$0 during 2009 and 2008, respectively.

On January 15, 2010 the Foundation amended the lease agreement to expand the office space leased which consequently increased the future minimum rental payments.

The following is a schedule by year of future minimum rental payments required under the amended operating lease agreements:

Year ending December 31	Amount
2010	\$ 27,875
2011	36,400
2012	18,600
	\$ 82,875

5. Temporarily restricted net assets:

Temporarily restricted net assets at December 31, 2009 and 2008 were time restricted. Net assets were released from donor restrictions and reclassified to unrestricted net assets when the timing specified by the donors had been met.

6. Endowment and permanently restricted net assets::

The Foundation's endowment funds consisted of \$9,000,000 and \$5,000,000 of donor-restricted funds at December 31, 2009 and 2008, respectively, and \$1,500,000 and \$1,000,000 of board-restricted endowment funds at December 31, 2009 and 2008, respectively.

6. Endowment and permanently restricted net assets
(continued):

Net assets of the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The board of directors of the Foundation has interpreted the State's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation considered all amounts earned on the endowment fund to be appropriated for current use.

Donor restricted endowment funds are co-mingled with the overall investments of the Foundation and are subject to the investment policies of the Foundation with an overall goal of long-term capital appreciation with preservation of capital. The strategy of the Foundation is to maintain a balanced, diversified portfolio with specific asset allocation targets. To manage risk, the investment policy also limits the types of investments the Foundation can hold.

The Foundation is currently in the process of adopting a policy in order to maintain an appropriate purchasing level.

NOTES TO FINANCIAL STATEMENTS

NATIVE ARTS & CULTURES FOUNDATION YEARS ENDED DECEMBER 31, 2009 AND 2008

6. Endowment and permanently restricted net assets: (continued):

Endowment net asset composition by type for the years ended December 31 is as follows:

	2009		
	Unrestricted	Permanently restricted	Total
Donor-restricted endowment funds		\$ 9,000,000	\$ 9,000,000
Board-designated endowment funds	<u>\$ 1,500,000</u>	_____	<u>1,500,000</u>
	<u>\$ 1,500,000</u>	<u>\$ 9,000,000</u>	<u>\$ 10,500,000</u>
	2008		
	Unrestricted	Permanently restricted	Total
Donor-restricted endowment funds		\$ 5,000,000	\$ 5,000,000
Board-designated endowment funds	<u>\$ 1,000,000</u>	_____	<u>1,000,000</u>
	<u>\$ 1,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ 6,000,000</u>

The following is a summary of endowment funds subject to UPMIFA as of and for the years ended December 31, 2009 and 2008:

	Unrestricted	Permanently restricted	Total
Endowment assets, January 1, 2008	\$ 0	\$ 0	\$ 0
Donor-restricted contributions		5,000,000	5,000,000
Board-designated endowment funds	<u>1,000,000</u>	_____	<u>1,000,000</u>
Endowment assets, December 31, 2008	1,000,000	5,000,000	6,000,000
Donor-restricted contributions		4,000,000	4,000,000
Board-designated endowment funds	<u>500,000</u>	_____	<u>500,000</u>
	<u>\$ 1,500,000</u>	<u>\$ 9,000,000</u>	<u>\$ 10,500,000</u>



Schechter Dokken Kanter
Andrews & Selcer Ltd

Suite 1600

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

100 Washington Avenue South

Board of Directors
Native Arts & Cultures Foundation
Vancouver, WA

Minneapolis, MN

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedule of expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

55401-2192

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April 26, 2010

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NATIVE ARTS & CULTURES FOUNDATION**SCHEDULE OF EXPENSES
YEARS ENDED DECEMBER 31**

	<u>2009</u>	<u>2008</u>
Salary and wages	\$ 109,750	
Payroll taxes	8,397	
Employee benefits	4,044	
Professional and contract fees	298,905	\$ 172,388
Business insurance	1,132	
Legal		4,010
Accounting	8,088	739
Promotional and support	10,025	
Office supplies	6,967	3,053
Telephone and communications	4,076	1,181
Postage and shipping	3,589	682
Printing and copying	3,928	9,524
Dues and subscriptions	1,046	
Licenses and permits	769	
Occupancy	6,625	
Utilities	486	
Small equipment purchases	7,325	
Repair and maintenance	2,776	
Advertising and marketing	9,944	5,168
Travel	48,112	10,359
Vehicle expense and mileage	1,770	264
Meals and entertainment	2,503	174
Conference and meetings	5,839	
Board meetings	46,090	18,599
Miscellaneous	18,207	
Bank fees	226	30
Investment management fees	9,868	
	<hr/>	<hr/>
Total expense before depreciation	620,487	226,171
Depreciation	632	
	<hr/>	<hr/>
Total expense	\$ 621,119	\$ 226,171