

Financial statements of:

**NATIVE ARTS & CULTURES
FOUNDATION**

Years ended
December 31, 2010 and 2009

NATIVE ARTS & CULTURES FOUNDATION YEARS ENDED DECEMBER 31, 2010 AND 2009

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Native Arts & Cultures Foundation
Vancouver, WA

We have audited the accompanying statements of financial position of Native Arts & Cultures Foundation (a nonprofit organization) as of December 31, 2010 and 2009, 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.

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.

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, 2010 and 2009, 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.

May 6, 2011

STATEMENTS OF FINANCIAL POSITION

NATIVE ARTS & CULTURES FOUNDATION

DECEMBER 31

	2010	2009
Assets:		
Current assets:		
Cash and cash equivalents	\$ 525,914	\$ 2,393,601
Grants receivable	1,153,000	
Prepaid expenses	14,147	11,125
Total current assets	<u>1,693,061</u>	<u>2,404,726</u>
Equipment	19,776	12,418
Less accumulated depreciation	4,410	632
	<u>15,366</u>	<u>11,786</u>
Other assets:		
Investments	10,889,653	9,473,509
Security deposit	10,067	
	<u>10,899,720</u>	<u>9,473,509</u>
	<u>\$ 12,608,147</u>	<u>\$ 11,890,021</u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$ 27,155	\$ 31,808
Grants payable	60,432	
Accrued expenses		5,836
Total current liabilities	<u>87,587</u>	<u>37,644</u>
Net assets:		
Unrestricted:		
Undesignated	221,591	352,377
Board designated	1,225,278	1,500,000
	<u>1,446,869</u>	<u>1,852,377</u>
Temporarily restricted	2,073,691	1,000,000
Permanently restricted	9,000,000	9,000,000
Total net assets	<u>12,520,560</u>	<u>11,852,377</u>
	<u>\$ 12,608,147</u>	<u>\$ 11,890,021</u>

See notes to financial statements.

NATIVE ARTS & CULTURES FOUNDATION

	2010			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Revenues:				
Grants		\$ 1,238,000		\$ 1,238,000
Contributions	\$ 1,200			1,200
Tribal government				
Special event income, net of expenses of \$55,369 for 2010	6,650			6,650
Investment income	94,181	708,768		802,949
Release from restrictions	873,077	(873,077)		
	975,108	1,073,691		2,048,799
Total support and revenue				
Functional expenses:				
Program services	644,244			644,244
Management and general	468,503			468,503
Fundraising	267,869			267,869
	1,380,616			1,380,616
Total expenses				
Change in net assets	(405,508)	1,073,691		668,183
Net assets, beginning	1,852,377	1,000,000	\$ 9,000,000	11,852,377
Net assets, ending	\$ 1,446,869	\$ 2,073,691	\$ 9,000,000	\$ 12,520,560

See notes to financial statements.

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

2009			
Unrestricted	Temporarily restricted	Permanently restricted	Total
	\$ 500,000	\$ 4,000,000	\$ 4,500,000
\$ 2,275			2,275
100,000			100,000
47,334			47,334
1,000,000	(1,000,000)		
1,149,609	(500,000)	4,000,000	4,649,609
42,134			42,134
450,123			450,123
128,862			128,862
621,119			621,119
528,490	(500,000)	4,000,000	4,028,490
1,323,887	1,500,000	5,000,000	7,823,887
<u>\$ 1,852,377</u>	<u>\$ 1,000,000</u>	<u>\$ 9,000,000</u>	<u>\$ 11,852,377</u>

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

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 668,183	\$ 4,028,490
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	3,778	632
Unrealized (gain) loss on investments	(475,236)	77,149
Permanently restricted grants		(4,000,000)
(Increase) decrease in assets:		
Grants receivable	(1,153,000)	500,000
Prepaid expenses	(3,022)	(11,125)
Security deposit	(10,067)	
Increase (decrease) in liabilities:		
Accounts payable	(4,653)	(64,873)
Grants payable	60,432	
Accrued expenses	(5,836)	5,836
	<u>(919,421)</u>	<u>536,109</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities:		
Sale of investments	2,302,400	7,152,513
Purchase of:		
Equipment	(7,358)	(12,418)
Investments	(3,243,308)	(9,550,658)
	<u>(948,266)</u>	<u>(2,410,563)</u>
Net change used in investing activities		
Cash flows from financing activities, permanently restricted grants		<u>4,000,000</u>
Net change in cash and cash equivalents	(1,867,687)	2,125,546
Cash and cash equivalents, beginning of year	<u>2,393,601</u>	<u>268,055</u>
Cash and cash equivalents, end of year	<u>\$ 525,914</u>	<u>\$ 2,393,601</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NATIVE ARTS & CULTURES FOUNDATION YEARS ENDED DECEMBER 31, 2010 AND 2009

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 and are not subject to donor imposed restrictions. 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, financial instruments, and certificates of deposit 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.

Grants receivables:

Grants receivable are recognized upon notification of the award by the grantor. Grants receivable as of December 31, 2010 are due within one year and are considered fully collectible.

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.

Investments:

Investments consist of mutual funds, an annuity, and a hedge fund which are carried at fair value. The investments are classified as long-term as they pertain to donor-restricted and board-designated endowments. Endowment investment earnings are classified as temporarily restricted until appropriated for expenditure.

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 inputs used to measure fair value are categorized into the following three categories:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds that the Organization has the ability to access as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the Organization's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

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.

In 2010, the Foundation received a conditional grant, which will match fundraising during 2011 and 2012 in the amounts of \$30,000 and \$42,000, respectively.

Income taxes:

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.

Management has evaluated the Foundation's tax positions and has concluded that the Foundation has taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities before the year 2007.

NOTES TO FINANCIAL STATEMENTS

NATIVE ARTS & CULTURES FOUNDATION YEARS ENDED DECEMBER 31, 2010 AND 2009

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.

Reclassifications:

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

Subsequent events:

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 6, 2011, the date financial statements were available for issuance.

2. Concentration of support:

Grants receivable at December 31, 2010 are from two grantors.

Grant revenues for 2010 and 2009 were approximately 93% and 100% from two grantors and a single grantor, respectively.

3. Investment income:

Investment income consists of the following:

	<u>2010</u>	<u>2009</u>
Interest	\$ 5,595	\$ 124,483
Realized gains	322,118	
Unrealized gain (loss)	<u>475,236</u>	<u>(77,149)</u>
	<u>\$ 802,949</u>	<u>\$ 47,334</u>

4. Fair value measurements:

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

	<u>2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity	\$2,493,806			\$2,493,806
Fixed income	6,065,431			6,065,431
Annuity		\$1,000,000		1,000,000
Hedge fund			\$1,330,416	1,330,416
	<u>\$8,559,237</u>	<u>\$1,000,000</u>	<u>\$1,330,416</u>	<u>\$10,889,653</u>

	<u>2009</u>			
	<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	6,387,440			6,387,440
	<u>\$9,473,509</u>			<u>\$9,473,509</u>

Hedge fund investments are carried at the value as provided by the fund management. The fund has certain restrictions on the sale of the shares. The fund's shares may only be sold once per quarter and the Foundation must provide a request in writing 45 days prior to the sale.

Summary of changes in Level 3 assets:

	<u>2010</u>
Balance, beginning of year	\$ 0
Purchases	1,250,000
Unrealized gain	<u>80,416</u>
Balance, end of year	<u>\$ 1,330,416</u>

NOTES TO FINANCIAL STATEMENTS

NATIVE ARTS & CULTURES FOUNDATION YEARS ENDED DECEMBER 31, 2010 AND 2009

5. Operating leases:

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 \$27,875 and \$6,625 during 2010 and 2009, respectively.

The Foundation also leases a copier under a long-term, non-cancelable operating lease agreement which expires October 25, 2013. The lease is secured with a \$10,000 letter of credit, which is collateralized by a certificate of deposit held at the same financial institution. Rental expense under the lease totaled \$2,024 in 2010.

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

<u>Year ending</u> <u>December 31</u>	<u>Amount</u>
2011	\$ 39,009
2012	21,209
2013	<u>584</u>
	<u>\$ 60,802</u>

6. Temporarily restricted net assets:

Temporarily restricted net assets consists of the following:

	<u>2010</u>	<u>2009</u>
Time restriction	\$ 1,653,000	\$ 1,000,000
Purpose restriction, future convenings	75,000	
Unappropriated endowment earnings	<u>345,691</u>	
	<u>\$ 2,073,691</u>	<u>\$ 1,000,000</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or lapse of time restrictions.

	<u>2010</u>	<u>2009</u>
Use restriction, Alaska Native Heritage Center	\$ 10,000	
Time restriction	500,000	\$ 1,000,000
Appropriation of endowment earnings	<u>363,077</u>	
	<u>\$ 873,077</u>	<u>\$ 1,000,000</u>

7. Endowment and permanently restricted net assets:

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.

NOTES TO FINANCIAL STATEMENTS

NATIVE ARTS & CULTURES FOUNDATION YEARS ENDED DECEMBER 31, 2010 AND 2009

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

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 has adopted a spending policy which allows management to appropriate 5% of the average market value of the endowment investments as of year-end of the previous three years.

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

	2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds		\$ 345,691	\$ 9,000,000	\$ 9,345,691
Board-designated endowment funds	<u>\$ 1,225,278</u>			<u>1,225,278</u>
	<u>\$ 1,225,278</u>	<u>\$ 345,691</u>	<u>\$ 9,000,000</u>	<u>\$ 10,570,969</u>

	2009			
	Unrestricted	Temporarily restricted	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>

NOTES TO FINANCIAL STATEMENTS

NATIVE ARTS & CULTURES FOUNDATION YEARS ENDED DECEMBER 31, 2010 AND 2009

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

The following is a summary of endowment funds subject to UPMIFA as of and for the years ended December 31, 2010 and 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2009	\$ 1,000,000		\$ 5,000,000	\$ 6,000,000
Donor-restricted contributions			4,000,000	4,000,000
Board designation of net assets	<u>500,000</u>			<u>500,000</u>
Endowment net assets, December 31, 2009	1,500,000		9,000,000	10,500,000
Investment income:				
Realized income	35,791	\$ 286,327		322,118
Unrealized gain	52,795	422,441		475,236
Appropriation of endowment earnings	(62,500)	(363,077)		(425,577)
Releases from board designation	<u>(300,808)</u>			<u>(300,808)</u>
Endowment net assets, December 31, 2010	<u>\$ 1,225,278</u>	<u>\$ 345,691</u>	<u>\$ 9,000,000</u>	<u>\$ 10,570,969</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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May 6, 2011

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

	<u>2010</u>	<u>2009</u>
Salaries and wages	\$ 344,002	\$ 109,750
Payroll taxes	24,347	8,397
Employee benefits	21,656	4,044
Professional and contract fees	206,411	298,905
Grants and scholarships	394,319	
Business insurance	2,431	1,132
Accounting	76,946	8,088
Promotional and support	17,798	10,025
Office supplies	9,838	6,967
Telephone and communications	7,044	4,076
Postage and shipping	4,000	3,589
Printing and copying	4,697	3,928
Dues and subscriptions	1,641	1,046
Licenses and permits	2,911	769
Occupancy	27,875	6,625
Utilities	1,502	486
Equipment rental	2,024	
Small equipment purchases	4,932	7,325
Repairs and maintenance	3,859	2,776
Communications and external relations	35,776	9,944
Travel	68,220	48,112
Vehicle expense and mileage	746	1,770
Meals and entertainment	7,130	2,503
Conference and meetings	8,078	5,839
Board meetings	40,089	46,090
Miscellaneous	6,133	18,207
Bank fees	657	226
Investment management fees	50,808	9,868
Website	968	
	<hr/>	<hr/>
Total expense before depreciation	1,376,838	620,487
	<hr/>	<hr/>
Depreciation	3,778	632
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Total expense	<u>\$ 1,380,616</u>	<u>\$ 621,119</u>