
NATIVE ARTS & CULTURES FOUNDATION

FINANCIAL STATEMENTS

Years Ended December 31, 2011 and 2010

and

Supplementary Financial Information

with

Independent Auditors' Reports

NATIVE ARTS & CULTURES FOUNDATION

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Independent Auditors' Report

The Board of Directors
Native Arts & Cultures Foundation

We have audited the accompanying statement of financial position of Native Arts & Cultures Foundation (NACF or the Foundation) as of December 31, 2011, and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of NACF as of December 31, 2010, were audited by other auditors whose report dated May 6, 2011, expressed an unqualified opinion on those statements.

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 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of Native Arts & Cultures Foundation as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Hoffman, Stewart & Schmidt, P.C.

March 5, 2012

NATIVE ARTS & CULTURES FOUNDATION

Statements of Financial Position

December 31,	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 551,777	\$ 535,981
Grants receivable	533,000	1,153,000
Prepaid expenses and deposits	<u>22,742</u>	<u>14,147</u>
Total current assets	1,107,519	1,703,128
Furniture and equipment	25,391	19,776
Less accumulated depreciation	<u>8,931</u>	<u>4,410</u>
Net furniture and equipment	16,460	15,366
Investments (<i>Note 4</i>)	<u>10,185,944</u>	<u>10,889,653</u>
Total assets	<u>\$ 11,309,923</u>	<u>\$ 12,608,147</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 6,944	\$ 27,155
Grants payable	171,154	60,432
Accrued payroll liabilities	<u>5,230</u>	<u>-</u>
Total current liabilities	183,328	87,587
Commitments (<i>Note 5</i>)		
Net assets:		
Unrestricted:		
Undesignated	202,433	221,591
Board designated (<i>Note 7</i>)	<u>1,132,726</u>	<u>1,225,278</u>
Total unrestricted	1,335,159	1,446,869
Temporarily restricted (<i>Note 6</i>)	791,436	2,073,691
Permanently restricted (<i>Note 7</i>)	<u>9,000,000</u>	<u>9,000,000</u>
Total net assets	<u>11,126,595</u>	<u>12,520,560</u>
Total liabilities and net assets	<u>\$ 11,309,923</u>	<u>\$ 12,608,147</u>

The accompanying notes are an integral part of the financial statements.

NATIVE ARTS & CULTURES FOUNDATION

Statements of Activities and Changes in Net Assets

Years Ended December 31,

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues:				
Grants	\$ 9,472	\$ 100,000	\$ -	\$ 109,472
Contributions	30,291	-	-	30,291
Tribal government	1,500	-	-	1,500
Special event income, net of expenses of \$55,369 for 2010	-	-	-	-
Investment return <i>(Note 3)</i>	(29,806)	217,188	-	187,382
In-kind contributions	14,447	-	-	14,447
Net assets released from restrictions <i>(Note 6)</i>	1,599,443	(1,599,443)	-	-
Total support and revenue	1,625,347	(1,282,255)	-	343,092
Functional expenses:				
Program services	1,263,860	-	-	1,263,860
Management and general	356,609	-	-	356,609
Fund-raising	116,588	-	-	116,588
Total expenses	1,737,057	-	-	1,737,057
Increase (decrease) in net assets	(111,710)	(1,282,255)	-	(1,393,965)
Net assets, beginning of year	1,446,869	2,073,691	9,000,000	12,520,560
Net assets, end of year	\$ 1,335,159	\$ 791,436	\$ 9,000,000	\$ 11,126,595

The accompanying notes are an integral part of the financial statements.

2010			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ 1,238,000	\$ -	\$ 1,238,000
1,200	-	-	1,200
-	-	-	-
6,650	-	-	6,650
43,373	708,768	-	752,141
-	-	-	-
<u>873,077</u>	<u>(873,077)</u>	<u>-</u>	<u>-</u>
<u>924,300</u>	<u>1,073,691</u>	<u>-</u>	<u>1,997,991</u>
644,244	-	-	644,244
417,695	-	-	417,695
267,869	-	-	267,869
<u>1,329,808</u>	<u>-</u>	<u>-</u>	<u>1,329,808</u>
(405,508)	1,073,691	-	668,183
<u>1,852,377</u>	<u>1,000,000</u>	<u>9,000,000</u>	<u>11,852,377</u>
<u>\$ 1,446,869</u>	<u>\$ 2,073,691</u>	<u>\$ 9,000,000</u>	<u>\$ 12,520,560</u>

NATIVE ARTS & CULTURES FOUNDATION

Statements of Cash Flows

Years Ended December 31,	2011	2010
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (1,393,965)	\$ 668,183
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation	4,521	3,778
Realized and unrealized (gain) loss on investments	170,295	(475,236)
(Increase) decrease in assets:		
Grants receivable	620,000	(1,153,000)
Prepaid expenses and deposits	(8,595)	(3,022)
Increase (decrease) in liabilities:		
Accounts payable	(20,211)	(4,653)
Grants payable	110,722	60,432
Accrued payroll liabilities	5,230	(5,836)
Net cash used by operating activities	(512,003)	(909,354)
Cash flows from investing activities:		
Proceeds from sale of investments	4,706,438	2,302,400
Purchases of investments	(4,173,024)	(3,243,308)
Purchases of furniture and equipment	(5,615)	(7,358)
Net cash provided (used) by investing activities	527,799	(948,266)
Net increase (decrease) in cash and cash equivalents	15,796	(1,857,620)
Cash and cash equivalents, beginning of year	535,981	2,393,601
Cash and cash equivalents, end of year	\$ 551,777	\$ 535,981

The accompanying notes are an integral part of the financial statements.

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements

1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization - 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 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.

Summary of Significant Accounting Policies

Basis of 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.

Estimates are used in the financial statements for, among other things, the determination of any allowance for uncollectible receivables, the useful lives of furniture and equipment for calculating depreciation expense, and the valuation of investments classified as Level 3.

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 Receivable - Grants receivable are recognized upon notification of the award by the grantor. Grants receivable as of December 31, 2011, are due within one year and are considered fully collectible.

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

1. Nature of Organization and Summary of Significant Accounting Policies - Continued Summary of Significant Accounting Policies - Continued

Furniture and Equipment - Furniture and equipment are recorded at cost, if purchased, and at fair value, if donated. The Foundation depreciates furniture and equipment over estimated useful lives ranging from 3 to 7 years using the straight-line method of depreciation.

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.

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 promises to give (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.

During the year ended December 31, 2010, the Foundation received a \$225,000 conditional promise to give over a three-year period to fund salary and associated expenses for a new Development Director position. As of December 31, 2011, the Foundation has recognized \$153,000 of this contribution, leaving a conditional promise to give of \$72,000 to be received and recognized once certain additional matching funds are raised from new or existing sources.

Income Taxes - The Foundation is exempt from income tax under Section 501(c)(3) and similar state provisions. The Foundation is not classified as a private foundation.

Accounting principles generally accepted in the United States of America prescribe a recognition threshold and measurement process for accounting for uncertain tax positions and provide guidance on various related matters such as interest, penalties, and required disclosures. Management does not believe that the Foundation has any uncertain tax positions. The Foundation files informational returns. Generally, these returns are subject to examination by income tax authorities for three years from the filing of a return. As such, the returns for the years ended December 31, 2008, 2009, and 2010 are currently subject to examination. The Foundation has not paid any interest or penalties related to its income tax positions. Interest or penalties assessed by taxing authorities, if any, would be included with management and general expenses.

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

1. Nature of Organization and Summary of Significant Accounting Policies - Continued Summary of Significant Accounting Policies - Continued

Functional Allocation of Expenses - 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 2010 financial statements to conform to the 2011 presentation.

2. Concentrations

Grants receivable at December 31, 2011 and 2010 are from two grantors.

A single grantor accounted for approximately 92 percent and 81 percent of total grant revenues during the years ended December 31, 2011 and 2010, respectively.

3. Investment Return

Investment return consists of the following:

	2011	2010
Interest and dividends	\$ 412,333	\$ 327,713
Net realized and unrealized gain (loss)	(170,295)	475,236
Investment management fees	<u>(54,656)</u>	<u>(50,808)</u>
Net investment return	<u><u>\$ 187,382</u></u>	<u><u>\$ 752,141</u></u>

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

4. Fair Value Measurements

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 and the valuation methodologies used for assets are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Fair value is based on significant unobservable inputs.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

4. Fair Value Measurements - Continued

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis at December 31:

2011	Level 1	Level 2	Level 3	Total
Mutual funds:				
Domestic equity	\$ 2,045,233	\$ -	\$ -	\$ 2,045,233
International equity	1,584,085	-	-	1,584,085
Fixed income	4,117,977	-	-	4,117,977
Money market	7,235	-	-	7,235
Annuity	-	1,052,893	-	1,052,893
Hedge fund	-	-	1,378,521	1,378,521
	<u>\$ 7,754,530</u>	<u>\$ 1,052,893</u>	<u>\$ 1,378,521</u>	<u>\$ 10,185,944</u>
2010				
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>

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds: Valued at the net asset value of shares held by the Foundation at year end, and are classified as Level 1.

Annuity: Recorded at fair value provided primarily by the insurance company and is based on pricing models that incorporate available trade, bid and other market information.

Hedge fund: Valued at net asset value of shares held by the Foundation at year end. The underlying investments of the hedge fund are measured by management of the hedge fund using a variety of valuation methods including Level 1, Level 2, and Level 3 inputs. As such, this asset is classified as Level 3.

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

4. Fair Value Measurements - Continued

A summary of the fair value measurements using unobservable inputs (Level 3) for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Balance, beginning of year	\$ 1,330,416	\$ -
Purchases	-	1,250,000
Realized and unrealized gains	63,279	87,280
Fees paid	<u>(15,174)</u>	<u>(6,864)</u>
Balance, end of year	<u>\$ 1,378,521</u>	<u>\$ 1,330,416</u>

5. Commitments

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 \$36,400 and \$27,875 during 2011 and 2010, respectively.

The Foundation also leases a copier under a long-term, non-cancelable operating lease agreement which expires April, 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 \$2,609 and \$2,024 in 2011 and 2010, respectively.

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

Years Ending December 31,	Amount
2012	\$ 21,208
2013	<u>870</u>
	<u>\$ 22,078</u>

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	2011	2010
Time restriction	\$ 533,000	\$ 1,653,000
Purpose restriction	99,177	75,000
Unappropriated endowment earnings	159,259	345,691
	<u>\$ 791,436</u>	<u>\$ 2,073,691</u>

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

	2011	2010
Time restriction	\$ 1,120,000	\$ 500,000
Purpose restriction	75,823	10,000
Appropriation of endowment earnings	403,620	363,077
	<u>\$ 1,599,443</u>	<u>\$ 873,077</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.

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

7. Endowment and Permanently Restricted Net Assets - Continued

Donor restricted endowment funds are co-mingled with 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 percent of the average market value of the endowment investments as of year end of the previous three years.

Endowment net asset composition by type of fund as of December 31, is as follows:

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 159,259	\$ 9,000,000	\$ 9,159,259
Board-designated endowment funds	<u>1,132,726</u>	<u>-</u>	<u>-</u>	<u>1,132,726</u>
	<u>\$ 1,132,726</u>	<u>\$ 159,259</u>	<u>\$ 9,000,000</u>	<u>\$ 10,291,985</u>
2010				
Donor-restricted endowment funds	\$ -	\$ 345,691	\$ 9,000,000	\$ 9,345,691
Board-designated endowment funds	<u>1,225,278</u>	<u>-</u>	<u>-</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>

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

7. Endowment and Permanently Restricted Net Assets - Continued

Changes in endowment net assets for the years ended December 31, 2011 and 2010, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2009	\$ 1,500,000	\$ -	\$ 9,000,000	\$ 10,500,000
Investment return:				
Realized income	35,791	286,327	-	322,118
Unrealized gain	52,795	422,441	-	475,236
	<u>88,586</u>	<u>708,768</u>	<u>-</u>	<u>797,354</u>
Net investment gain	88,586	708,768	-	797,354
Investment management fees	(50,808)	-	-	(50,808)
Appropriation of endowment earnings for expenditure	(62,500)	(363,077)	-	(425,577)
Releases from Board designation	(250,000)	-	-	(250,000)
	<u>1,225,278</u>	<u>345,691</u>	<u>9,000,000</u>	<u>10,570,969</u>
Endowment net assets, December 31, 2010	1,225,278	345,691	9,000,000	10,570,969
Investment return:				
Realized income	65,138	530,570	-	595,708
Unrealized loss	(42,734)	(313,382)	-	(356,116)
	<u>22,404</u>	<u>217,188</u>	<u>-</u>	<u>239,592</u>
Net investment gain	22,404	217,188	-	239,592
Investment management fees	(54,656)	-	-	(54,656)
Appropriation of endowment earnings for expenditure	(60,300)	(403,620)	-	(463,920)
	<u>(60,300)</u>	<u>(403,620)</u>	<u>-</u>	<u>(463,920)</u>
Endowment net assets, December 31, 2011	<u>\$ 1,132,726</u>	<u>\$ 159,259</u>	<u>\$ 9,000,000</u>	<u>\$ 10,291,985</u>

8. Subsequent Events

Management has evaluated subsequent events through March 5, 2012, the date the financial statements were available for issue.

NATIVE ARTS & CULTURES FOUNDATION

Supplementary Financial Information

Independent Auditors' Report on Supplementary Financial Information

The Board of Directors
Native Arts & Cultures Foundation

We have audited the financial statements of the Native Arts & Cultures Foundation as of and for the year ended December 31, 2011, and have issued our report thereon dated March 5, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The 2011 supplementary financial information presented on page 16 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 2011 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2011 information is fairly stated in all material respects in relation to the financial statements as a whole.

The supplementary financial information for 2010 has not been subjected to the auditing procedures applied in the audit of the 2011 financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Hoffman, Stewart & Schmidt, P.C.

March 5, 2012

NATIVE ARTS & CULTURES FOUNDATION

Schedules of Expenses

Years Ended December 31,	2011	2010
Grantmaking programs	\$ 530,287	\$ 412,117
Salaries and wages	483,867	344,002
Payroll taxes and benefits	61,654	46,003
Office and operations	187,428	186,482
Professional contracts	165,014	206,411
Communications and external relations	136,332	35,776
Travel	167,489	84,174
Equipment	465	4,932
Miscellaneous	-	6,133
Depreciation	4,521	3,778
Total expenses	<u>\$ 1,737,057</u>	<u>\$ 1,329,808</u>