

**First Nations Oweesta Corporation**

**Financial Statements and Supplementary Information**

**June 30, 2016 and 2015**

**(With Independent Auditor's Report Thereon)**

*Kundinger, Corder & Engle, P.C.*

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*Certified Public Accountants*

# First Nations Oweesta Corporation

## Table of Contents

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<b>Independent Auditor's Report .....</b>	<b>1</b>
<b>Statements of Financial Position .....</b>	<b>3</b>
<b>Statements of Activities.....</b>	<b>4</b>
<b>Statements of Cash Flows .....</b>	<b>5</b>
<b>Notes to Financial Statements .....</b>	<b>6</b>
<b>Supplementary Information</b>	
<b>Schedule of Functional Expenses at June 30, 2016.....</b>	<b>20</b>
<b>Schedule of Functional Expenses at June 30, 2015.....</b>	<b>21</b>

**Independent Auditor's Report**

**Board of Directors  
First Nations Oweesta Corporation:**

We have audited the accompanying financial statements of First Nations Oweesta Corporation (the "Organization"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Board of Directors  
First Nations Oweesta Corporation**

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Nations Oweesta Corporation as of June 30, 2016 and 2015, 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.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information in the accompanying schedules of functional expenses on pages 20-21 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

*Kuendinger, Cochrane & Congle, P.C.*

December 13, 2016

**First Nations Oweesta Corporation**  
**Statements of Financial Position**  
**June 30, 2016 and 2015**

	2016	2015
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 3,003,509	2,264,977
Short-term investments (note 4)	-	255,726
Grants receivable (note 2)	-	212,500
Current notes receivable, net of allowance of \$35,500 and \$70,050, respectively (note 3)	674,500	1,247,950
Government grants receivable	159,577	77,513
Interest receivable	18,976	30,963
Other current receivables, net of allowance of \$10,000	27,785	3,131
Due from affiliate (note 12)	-	1,889
Prepaid expenses	12,797	11,934
Total current assets	<u>3,897,144</u>	<u>4,106,583</u>
Property and equipment, net (note 6)	<u>26,634</u>	<u>1,744</u>
Other assets:		
Long-term notes receivable, net of allowance of \$156,900 and \$136,500, respectively (note 3)	2,981,100	2,593,500
Long-term government grants receivable	225,700	-
Investments (note 4)	741,875	324,393
Total other assets	<u>3,948,675</u>	<u>2,917,893</u>
Total assets	<u>\$ 7,872,453</u>	<u>7,026,220</u>
<b>Liabilities and Net Assets:</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 106,808	96,794
Due to affiliate (note 12)	7,359	-
Deferred revenue	8,000	1,620
Current maturities of long-term debt (note 7)	685,000	525,000
Total current liabilities	<u>807,167</u>	<u>623,414</u>
Noncurrent liabilities:		
Long-term debt, net of current maturities (note 7)	3,211,480	3,026,480
Total liabilities	<u>4,018,647</u>	<u>3,649,894</u>
Net assets:		
Unrestricted	2,057,414	2,414,161
Temporarily restricted (note 9)	1,796,392	962,165
Total net assets	<u>3,853,806</u>	<u>3,376,326</u>
Commitments and contingencies (notes 7, 8, 10, and 11)		
Total liabilities and net assets	<u>\$ 7,872,453</u>	<u>7,026,220</u>

See accompanying notes to financial statements.

**First Nations Oweesta Corporation**  
**Statements of Activities**  
**Years Ended June 30, 2016 and 2015**

	June 30, 2016			June 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenue, Gains and Support:</b>						
Public support:						
Grants	\$ 41,500	105,895	147,395	100,000	300,000	400,000
Government grants	405,558	975,700	1,381,258	370,000	660,410	1,030,410
Contributions	2,600	-	2,600	75,775	15,500	91,275
Total public support	<u>449,658</u>	<u>1,081,595</u>	<u>1,531,253</u>	<u>545,775</u>	<u>975,910</u>	<u>1,521,685</u>
Other revenue:						
Program service fees	212,813	-	212,813	149,018	-	149,018
Interest income on notes receivable	138,401	-	138,401	138,946	-	138,946
Investment income	18,683	-	18,683	17,664	-	17,664
Other income	35,985	-	35,985	15,395	-	15,395
Total other revenue	<u>405,882</u>	<u>-</u>	<u>405,882</u>	<u>321,023</u>	<u>-</u>	<u>321,023</u>
Net assets released from restrictions (note 9)	247,368	(247,368)	-	270,811	(270,811)	-
Total revenue, gains and support	<u>1,102,908</u>	<u>834,227</u>	<u>1,937,135</u>	<u>1,137,609</u>	<u>705,099</u>	<u>1,842,708</u>
<b>Expenses:</b>						
Program services:						
Institutional development	1,035,597	-	1,035,597	966,745	-	966,745
Lending and other	177,477	-	177,477	217,278	-	217,278
Total program services	<u>1,213,074</u>	<u>-</u>	<u>1,213,074</u>	<u>1,184,023</u>	<u>-</u>	<u>1,184,023</u>
Supporting services:						
Administration	230,474	-	230,474	287,756	-	287,756
Development	16,107	-	16,107	19,960	-	19,960
Total supporting services	<u>246,581</u>	<u>-</u>	<u>246,581</u>	<u>307,716</u>	<u>-</u>	<u>307,716</u>
Total expenses	<u>1,459,655</u>	<u>-</u>	<u>1,459,655</u>	<u>1,491,739</u>	<u>-</u>	<u>1,491,739</u>
<b>Change in net assets</b>	<u>(356,747)</u>	<u>834,227</u>	<u>477,480</u>	<u>(354,130)</u>	<u>705,099</u>	<u>350,969</u>
Net assets at beginning of year	2,414,161	962,165	3,376,326	2,768,291	257,066	3,025,357
<b>Net assets at end of year</b>	<u>\$ 2,057,414</u>	<u>1,796,392</u>	<u>3,853,806</u>	<u>2,414,161</u>	<u>962,165</u>	<u>3,376,326</u>

See accompanying notes to financial statements.

**First Nations Oweesta Corporation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	2016	2015
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 477,480	350,969
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	2,109	7,857
Net realized and unrealized gain on investments	(4,282)	(3,404)
(Reversal of) provision for loan losses	(14,150)	1,800
Provision for doubtful accounts	-	1,537
Decrease (increase) in operating assets:		
Grants receivable	212,500	(62,500)
Government grants receivable	(307,764)	93,137
Interest receivable	11,987	6,323
Other receivables	(24,654)	25,817
Due from affiliate	1,889	(1,889)
Prepaid expenses and other assets	(863)	(243)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	10,014	5,725
Deferred revenue	6,380	1,620
Due to affiliate	7,359	(21,024)
Net cash provided by operating activities	378,005	405,725
<b>Cash flows from investing activities:</b>		
Net proceeds (purchases) from sales of investments	(157,474)	398,059
Purchases of property and equipment	(26,999)	-
Disbursements related to notes receivable	(500,000)	(250,000)
Collections of notes receivable	700,000	210,000
Net cash provided by investing activities	15,527	358,059
<b>Cash flows from financing activities:</b>		
Proceeds from debt	865,000	731,480
Payments on debt	(520,000)	(1,125,000)
Net cash provided by (used in) financing activities	345,000	(393,520)
<b>Net increase in cash and cash equivalents</b>	738,532	370,264
Cash and cash equivalents at beginning of year	2,264,977	1,894,713
<b>Cash and cash equivalents at end of year</b>	\$ 3,003,509	2,264,977
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 78,608	91,507

See accompanying notes to financial statements.

# First Nations Oweesta Corporation

## Notes to Financial Statements

Years Ended June 30, 2016 and 2015

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### Note 1 - Organization and Summary of Significant Accounting Policies

#### Organization

First Nations Oweesta Corporation (the "Organization") enhances the capacity of Native tribes, communities and peoples to access, control, create, leverage, utilize, and retain financial assets and to provide appropriate financial capital for Native development efforts. The Organization has been certified as a Community Development Financial Institution ("CDFI") by the United States Department of the Treasury.

The Organization was incorporated December 23, 1999. It is considered a wholly-owned subsidiary of First Nations Development Institute ("First Nations") because its Board of Directors is controlled by First Nations. These financial statements reflect only the activity of First Nations Oweesta Corporation and do not include any activity of its parent organization.

#### Summary of Program Activities

*Institutional Capacity Building* - The primary goal of the Organization is to help create, develop, expand, and strengthen Native CDFIs. Activities in this area reflect the provision of regional and local CDFI workshops, participation and attendance at other industry conferences, participation on the CDFI Coalition, and follow-up outreach, technical assistance and training to tribes who have expressed an interest in or are in the process of forming a CDFI.

*Lending* – The other primary, and critical goal, is to provide qualified Native CDFIs with loan capital. The main objective is to provide initial start-up capital or to leverage additional loan capital for new or expanding community-based financial institutions serving Native communities. Activities in this area reflect technical assistance to potential and existing loan recipients, performance of due diligence on loan applications, and monitoring of the loan portfolio.

Other program activities include the following:

*Financial Education and Asset Building* - In addition to its work with Native CDFIs, the Organization also strives to enhance, through training, technical assistance and development of educational materials, the capacity of tribes, Native organizations, and individuals to better manage their financial assets. Activities in this area reflect the provision of instructor training workshops and follow-up technical assistance in asset building strategies and programs, participation in the Native Financial Education Coalition and its activities and the development and distribution of new educational resources.



# First Nations Oweesta Corporation

## Notes to Financial Statements

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### Note 1 - Organization and Summary of Significant Accounting Policies, Continued

*Advocacy, Policy, and Research* - The Organization collaborates on research studies that focus on identifying and mitigating barriers to Native control of and access to financial assets. The Organization's national voice works to create and retain the integrity of policy favorable to building assets in Native communities.

*Public Education* - Through the use of print, electronic, and personal contact methods, the public education program develops and implements strategies to increase public awareness about the Organization and the current challenges facing community development financial institutions in rural and reservation-based Native American communities. The public education program leverages this awareness to increase support and provide information to educate the public on Native Community Development Financial Institutions for the benefit of native peoples throughout the nation.

#### Basis of Accounting

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other liabilities.

#### Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted amounts are those currently available at the discretion of the Boards of Directors for use in the Organization's operations and those amounts invested in property and equipment.

Temporarily restricted amounts are monies restricted by donors specifically for certain time periods, purposes, or programs.

Permanently restricted amounts are assets that must be maintained permanently by the Organization as required by the donor; however, the Organization is permitted to use or expend part or all of any income derived from those assets. The Organization had no permanently restricted net assets as of June 30, 2016 and 2015.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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 revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

# First Nations Oweesta Corporation

## Notes to Financial Statements

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### Note 1 - Organization and Summary of Significant Accounting Policies, Continued

#### Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to credit risk include cash and cash equivalents, investments, notes receivable, and grants receivable. The Organization places its cash and money market accounts with creditworthy, high-quality financial institutions.

The Organization provides financing to Native Tribal Governments and not-for-profit organizations. Concentrations of credit risk with respect to loans receivable is limited due to the Organization's loan policies which set a maximum loan size and also limit the total amount loaned to a borrower. Credit risk with respect to grants receivable is limited due to the number and credit worthiness of the organizations from whom the amounts are due.

Also, a significant amount of the Organization's revenue is from the federal government. Should a significant reduction in the level of this funding occur, it could affect the Organization's programs and activities.

#### Cash and Cash Equivalents

The Organization considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. The Organization continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. Throughout the year, the Organization held balances of cash and cash equivalents in excess of the federally insured limit.

#### Investments and Investment Returns

The Organization reports investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values with unrealized gains and losses included in the statements of activities and changes in net assets. Investment return includes dividends, interest and other investment income, and realized and unrealized gains and losses on investments carried at fair value. Investment income and gains restricted by a donor are reported as increases in temporarily restricted net assets.

#### Fair Value Measurements

The Organization follows the requirements of the *Fair Value Measurements* standard of accounting, which among other things requires enhanced disclosures about investments that are measured and reported at fair value. The standard requires the use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels: quoted market prices in active markets for identical assets and liabilities (Level 1); inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2); and unobservable inputs from the asset or liability (Level 3).

# First Nations Oweesta Corporation

## Notes to Financial Statements

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### **Note 1 - Organization and Summary of Significant Accounting Policies, Continued**

#### Receivables

Receivables relate to amounts due from customers for fees for program services provided. An allowance for uncollectible receivables is provided based upon prior years' experience and management's analysis of specific balances. The allowance for doubtful accounts of other receivables totaled \$10,000 for each year ending June 30, 2016 and 2015.

#### Property and Equipment

Property and equipment purchased by the Organization are recorded at cost. Donated fixed assets are capitalized at fair value at the date of donation. The Organization capitalizes property and equipment in excess of \$2,000. Depreciation and amortization is provided on the straight-line method based upon the estimated useful lives of the assets, which range from three to five years.

#### Income Tax Status

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as a public charity pursuant to Section 509(a)(2). Accordingly, contributions are deductible to the extent allowed by law.

The Organization applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2016 and 2015.

If incurred, interest and penalties associated with tax positions are recorded in the period assessed as general and administrative expense. No interest and penalties have been assessed as of June 30, 2016 and 2015.

Tax years that remain subject to examination include 2013 through the current period for the federal returns.

#### Functional Expenses

Expenses are charged to each program based on direct expenditures incurred. Indirect expenditures are allocated to program and supporting services based on various direct costs related to each program. Development costs reported in the statements of activities reflect costs associated with raising funds for both program operations and the Organization's regranting programs.

#### Revenue Recognition

Revenue from exchange transactions is recorded at the time the service is provided. Amounts received in advance are deferred until such time as they are earned.

# First Nations Oweesta Corporation

## Notes to Financial Statements

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### **Note 1 - Organization and Summary of Significant Accounting Policies, Continued**

#### Contributions

Contributions, including grants receivable, are recognized as revenue when they are received or unconditionally pledged. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 statements of activities as net assets released from restrictions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor imposed restrictions. Conditional contributions are recognized as income when the conditions are met. Donated marketable securities are recorded at market value on the date received.

#### In-kind Contributions

Contributed goods and services are recorded as in-kind contributions and corresponding expenses at their estimated fair values at the date of donation. There were no in-kind contributions recognized for the years ended June 30, 2016 and 2015. A number of volunteers have donated time in connection with the Organization's activities. No amounts have been reflected in the accompanying financial statements for volunteers' donated services because they do not meet the criteria of recognition.

#### Subsequent Events

The Organization has evaluated all subsequent events through December 13, 2016, which is the date the financial statements were available to be issued.

### **Note 2 - Grants Receivable**

As of June 30, 2016 and 2015, grants receivable from grantors other than the federal government totaled \$0 and \$212,500, respectively.

### **Note 3 - Notes Receivable**

Notes receivable consist of loans made to qualified Native Community Development Financial Institutions (CDFIs). There are three types of loans issued by the Organization. Capital loans are available to certified Native CDFIs only, carry terms of up to five years, and are limited to 10% of the borrower's total assets. Meanwhile, First In loans are available to both certified and emerging Native CDFIs, carry terms of up to two years, and are limited to 25% of the borrower's total assets. Finally, Start-Up loans are available to Native CDFIs that have never been issued debt capital, carry terms of two years, and are limited to \$20,000. There are no start-up loans in the years ending June 30, 2016 and 2015. The notes accrue interest at rates from 3% to 4%.

# First Nations Oweesta Corporation

## Notes to Financial Statements

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### Note 3 - Notes Receivable, Continued

Loans are recorded at the principal balance outstanding. Interest income is recognized on the accrual basis. A loan is considered to be impaired if, based on current information, it is probable the Organization will not receive all amounts due in accordance with the contractual terms of a loan agreement. When the ultimate collectability of the principal balance of an impaired loan is in doubt, all cash receipts are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are applied to interest income, to the extent any interest has been foregone, and then they are recorded as recoveries of any amounts previously charged off.

The accrual of interest is generally discontinued on loans that become 90 days past due as to principal or interest. When borrowers demonstrate over an extended period the ability to repay a loan in accordance with the contractual terms of a loan classified as nonaccrual, the loan is returned to accrual status, and interest revenue is recognized. There were no loans on nonaccrual status at June 30, 2016 and 2015. Any other loans over 90 days due have not been placed on nonaccrual status based on management's assessment of these loans, communications with the borrowers and other factors.

Notes receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for loan losses and an adjustment to an allowance for loan losses based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are charged off.

The Organization has accounted for the doubtful collection of notes receivable by providing an allowance for loan losses of \$192,400 and \$206,550 at June 30, 2016 and 2015, respectively.

Annual maturities of notes receivable at June 30, 2016 are as follows for the years ending June 30:

2017	\$ 710,000
2018	1,293,000
2019	685,000
2020	410,000
2021	500,000
Thereafter	<u>250,000</u>
Total notes receivable	3,848,000
Less allowance for loan losses	<u>(192,400)</u>
Net notes receivable	\$ <u>3,655,600</u>

# First Nations Oweesta Corporation

## Notes to Financial Statements

### Note 3 - Notes Receivable, Continued

The following is an aging of the Organization's notes receivable at June 30, 2016:

	Current	Over 30 days	Over 60 days	Over 90 days	Total
Loan type:				days	
Capital loans	\$ 3,045,000	-	-	-	3,045,000
First In loans	<u>803,000</u>	-	-	-	<u>803,000</u>
Total	<u>\$ 3,848,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,848,000</u>

The following is an aging of the Organization's notes receivable at June 30, 2015:

	Current	Over 30 days	Over 60 days	Over 90 days	Total
Loan type:					
Capital loans	\$ 3,575,000	-	-	-	3,575,000
First In loans	<u>473,000</u>	-	-	-	<u>473,000</u>
Total	<u>\$ 4,048,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,048,000</u>

Loans for which no payments are due are considered current.

A summary of the activity in the allowance for loan losses for the years ended June 30 is as follows:

	Capital loans	First In loans	Total
Beginning balance, June 30, 2014	\$ 183,100	21,650	204,750
(Reversal of) provision for loan losses	<u>(4,350)</u>	<u>6,150</u>	<u>1,800</u>
Ending balance, June 30, 2015	178,750	27,800	206,550
(Reversal of) provision for loan losses	<u>(26,500)</u>	<u>12,350</u>	<u>(14,150)</u>
Ending balance, June 30, 2016	<u>\$ 152,250</u>	<u>40,150</u>	<u>192,400</u>

#### Credit Quality

At least quarterly, the loan loss reserve is adjusted to reflect the loan rating updates for the borrowers' delinquency status. Credit quality of loans is adjusted based on the following assessments:

<u>Payment Status</u>	<u>Loan Downgrade</u>	<u>Loan Rating Recovery</u>
30 days delinquent	Reduce loan rating by one category	60 days of on-time payments
60 days delinquent	Reduce loan rating by two categories	90 days of on-time payments
90 days delinquent	Reduce loan rating by three categories	120 days of on-time payments

# First Nations Oweesta Corporation

## Notes to Financial Statements

### Note 3 - Notes Receivable, Continued

The following is the credit quality classification of the notes receivable by loan type at June 30, 2016:

	Capital loans	First In loans	Total
Non-delinquent	\$ 3,045,000	803,000	3,848,000
30 days delinquent	-	-	-
60 days delinquent	-	-	-
90 days delinquent	-	-	-
Total	\$ 3,045,000	803,000	3,848,000

The following is the credit quality classification of the notes receivable by loan type at June 30, 2015:

	Capital loans	First In loans	Total
Non-delinquent	\$ 3,575,000	473,000	4,048,000
30 days delinquent	-	-	-
60 days delinquent	-	-	-
90 days delinquent	-	-	-
Total	\$ 3,575,000	473,000	4,048,000

### Note 4 - Investments

Investments, stated at fair value, consist of the following at June 30:

	2016	2015
Certificates of deposit	\$ 566,350	\$ 449,015
Government and agency bonds	175,525	131,104
	\$ 741,875	\$ 580,119

Investments are presented in the statements of financial position as follows at June 30:

	2016	2015
Short-term investments	\$ -	\$ 255,726
Investments	741,875	324,393
	\$ 741,875	\$ 580,119

Short-term investments consist of certificates of deposit with maturities of less than one year.

# First Nations Oweesta Corporation

## Notes to Financial Statements

### Note 5 - Fair Value Measurements

The Organization values its financial assets and liabilities based on 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. The following fair value hierarchy prioritizes observable inputs used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets and liabilities. The fair value hierarchy gives highest priority to Level 1 inputs.
- Level 2: Quoted prices that are based on inputs not quoted on active markets, but corroborated by market data.
- Level 3: Unobservable inputs where little or no market data is available, which requires the reporting entity to develop its own assumptions.

In determining fair value, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. These classifications (Levels 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

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

Money market funds, fixed income securities, certificates of deposit: Valued based on prices currently available on comparable securities of the issuer or other issuers with similar credit ratings.

Mutual funds: Valued at the closing price reported on the active market on which the securities are traded.

There have been no changes in the valuation methodologies during the current year.

Financial assets and liabilities carried at fair value at June 30, 2016 are classified in the following table in one of the three categories described above:

Description	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	566,350	-	566,350
Government and agency bonds	-	175,525	-	175,525
	<u>\$ -</u>	<u>741,875</u>	<u>-</u>	<u>741,875</u>



# First Nations Oweesta Corporation

## Notes to Financial Statements

### Note 5 - Fair Value Measurements, Continued

Financial assets and liabilities carried at fair value at June 30, 2015 are classified in the following table in one of the three categories described above:

Description	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	449,015	-	449,015
Government and agency bonds	-	131,104	-	131,104
	<u>\$ -</u>	<u>580,119</u>	<u>-</u>	<u>580,119</u>

### Note 6 - Property and Equipment

Property and equipment consist of the following at June 30:

	2016	2015
Furniture, equipment, and software	\$ 97,625	\$ 182,363
Less accumulated depreciation and amortization	<u>(70,991)</u>	<u>(180,619)</u>
	<u>\$ 26,634</u>	<u>\$ 1,744</u>

(Continued)

# First Nations Oweesta Corporation

## Notes to Financial Statements

### Note 7 - Short-Term and Long-Term Debt

The Organization maintains short and long-term debt for capital for its loan portfolio. Long-term debt consists of the following at June 30:

Lender	Maturity	Rate	2016	2015
Bank of America (a)	3/31/2018	2.75%	1,000,000	1,500,000
Tamalpais Trust	1/15/2021	1.00%	500,000	-
Mercy Investment Services, Inc.	5/1/2020	3.00%	500,000	500,000
CDFI Fund 141NA012511 (b)	1/6/2028	1.95%	380,000	380,000
CDFI Fund 131FA011410	6/23/2018	1.86%	170,000	170,000
Jonathan and Connie Heller	4/1/2018	2.00%	150,000	150,000
Adrian Dominican Sisters	12/15/2018	2.00%	100,000	-
Julia Maher Living Trust	3/31/2020	2.00%	100,000	-
Charles Schwab -Suzanne LaFetra Trust	10/1/2017	2.00%	100,000	100,000
Charles Schwab -Suzanne LaFetra Trust	4/1/2020	2.00%	100,000	100,000
Basilian Fathers of Toronto	4/1/2017	3.00%	100,000	100,000
Sisters of Charity of Incarnate Word	12/18/2018	1.00%	100,000	100,000
Charles Schwab -Donna K. Altschuler	10/1/2019	2.00%	100,000	100,000
Marta Jo Lawrence Rev. Living Trust	9/30/2019	2.00%	60,000	-
Charles Schwab -Karuna Trust (c)	10/1/2016	1.85%	50,000	50,000
Charles Schwab -Barbara Kingsolver	4/1/2018	2.00%	50,000	50,000
Charles Schwab -James A Rose	4/1/2018	2.00%	50,000	50,000
James A N Rose 2012 Trust	3/31/2018	2.00%	50,000	-
Susan D. Goldman Trust	11/1/2017	1.85%	41,480	41,480
Srs. of St. Francis of Philadelphia	6/1/2017	2.50%	30,000	30,000
Marian H Rose Trust	8/31/2020	2.00%	25,000	-
Charles Schwab -Chyna Wranch Inc. Profit Sharing	4/1/2020	2.00%	25,000	25,000
Thomas J. Abood	2/11/2020	2.25%	25,000	25,000
Charles Schwab -Margaret E. Sheehan Rev Trust	10/1/2018	2.00%	25,000	25,000
Sisters of the Blessed Sacrament	4/5/2018	3.00%	25,000	25,000
John CB Webster	3/31/2018	2.00%	20,000	-
James A Babson Trust 1996	6/20/2019	2.00%	10,000	-
James Adams Babson Trust - 1996	6/20/2016	2.00%	-	20,000
Larry Dansinger & Karen Marysdaughter	5/1/2019	0.00%	5,000	5,000
Peter & Sharon Moller	1/23/2017	0.00%	5,000	5,000
<b>Total</b>			<b>3,896,480</b>	<b>3,551,480</b>
<b>Less current maturities</b>			<b>(685,000)</b>	<b>(525,000)</b>
<b>Long term debt less current maturities</b>			<b>3,211,480</b>	<b>3,026,480</b>

# First Nations Oweesta Corporation

## Notes to Financial Statements

### Note 7 - Short-Term and Long-Term Debt, Continued

Interest only payments are paid annually, quarterly, or monthly. Principal payments are due at maturity, unless otherwise noted below.

- (a) Beginning 3/31/15, annual principal payments of \$500,000 are due and payable until the loan is paid in full on 3/31/18.
- (b) Principal payments are required, beginning December 2025.
- (c) Subsequent to year-end, this note was renewed, and now has a maturity date of 3/31/21.

First Nations Oweesta is required to meet certain covenants as specified in particular debt agreements. At June 30, 2016, these covenants were met.

None of the notes are collateralized. At June 30, 2016, aggregate maturities of principal under long-term debt obligations are as follows for the years ending June 30:

2017	\$ 685,000
2018	1,156,480
2019	240,000
2020	910,000
2021	525,000
Thereafter	<u>380,000</u>
	<u>\$ 3,896,480</u>

### Note 8 - Line-of-Credit

The Organization had a line-of-credit agreement with Wells Fargo Bank, N.A. for a maximum amount of \$100,000. The line expired on August 15, 2015, and was not subsequently extended. There was no balance outstanding as of June 30, 2016 and 2015.

### Note 9 - Net Assets

Temporarily restricted net assets consist of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Loan loss reserve	\$ 150,000	\$ 140,000
Healthy Food Financing Initiative	474,685	500,000
Lending	799,491	200,000
Institutional development	<u>372,216</u>	<u>122,165</u>
	<u>\$ 1,796,392</u>	<u>\$ 962,165</u>

Net assets totaling \$652,926 in 2016 and \$270,811 in 2015 were released from restrictions as a result of satisfying purpose and time restrictions.

# First Nations Oweesta Corporation

## Notes to Financial Statements

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### **Note 10 - Retirement Plan**

The Organization has a Simple IRA pension plan (the "Plan"). Under the Plan, the Organization matches up to 3% of employee salary contributions. Contributions to the Plan totaled \$15,553 and \$12,107 during the years ended June 30, 2016 and 2015, respectively.

### **Note 11 - Commitments and Contingencies**

#### Operating Leases

The Organization rents office space under a month-to-month lease agreement in an office building purchased by First Nations in Longmont. Through April 30, 2015, rent was charged at \$2,000 per month, including utilities and cleaning. Beginning May 1, 2015, rent is charged at \$2,750 per month, including utilities and cleaning.

Rent expense for the years ended June 30, 2016 and 2015 was \$33,000 and \$26,750, respectively.

#### Government Grants

The Organization earns revenue under grants received from various governmental agencies. Funds received under these grants generally require compliance with the terms and conditions specified in the grant contracts and are subject to audit by the governmental agencies. Management believes the amount of grant charges that may be disallowed, if any, by such audits would not have a significant impact on the consolidated financial statements, and accordingly, no provision has been made in the financial statements for any liability that may result. Government grants receivable total \$385,277 and \$77,513 at June 30, 2016 and June 30, 2015, respectively.

### **Note 12 - Related Party Transactions**

The Organization makes loans and grants to tribal groups as part of its programmatic mission. It also has a policy of investing in Native American businesses. As a result, the Organization may have lender and business relationships with groups headed by members of its board of directors. All loans and grants are made in accordance with long-standing procedures in which board members do not participate. All business dealings are conducted at market rates on terms consistent with those available to similar organizations or from similar businesses.

The Organization has a service agreement with First Nations, whereby the Organization paid annual fees of \$60,000 in 2016 and 2015 to cover program and administrative costs incurred on the Organization's behalf. First Nations granted \$12,273 in 2016 and \$19,021 in 2015 to the Organization for its part in a collaborative program effort, and sold program materials to the Organization valued at \$0 in 2016 and \$600 in 2015. The Organization also has a contractual agreement for services with First Nations in providing their grantees technical assistance and training services. In addition, First Nations pays certain direct costs incurred by the Organization on its behalf. Amounts due from (due to) First Nations were (\$7,359) and \$1,889 at June 30, 2016 and 2015, respectively.

# First Nations Oweesta Corporation

## Notes to Financial Statements

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### **Note 13 – Re grants**

Regranting funds are not used for the program operations of the Organization, but are instead regranting to other Native non-profits, tribal projects, and individual participants in their projects. Re grants and related stipends for the years ended June 30, 2016 and 2015 totaled \$100,000 and \$50,000, respectively.

**First Nations Oweesta Corporation**  
**Schedule of Functional Expenses**  
**Year Ended June 30, 2016**

	Program Services			Supporting Services			Total
	Institutional Development	Lending and Other	Total program services	Administration	Development	Total supporting services	
Salaries, payroll taxes and benefits	\$ 535,780	62,963	598,743	140,832	9,283	150,115	748,858
Grants and stipends	100,000	-	100,000	-	-	-	100,000
Professional and consulting fees	121,459	2,775	124,234	46,494	3,333	49,827	174,061
Operating fees	45,540	10,080	55,620	4,380	-	4,380	60,000
Travel	102,336	1,404	103,740	12,287	2,239	14,526	118,266
Printing and publications	27,527	130	27,657	451	-	451	28,108
Conferences and meetings	43,957	493	44,450	1,547	226	1,773	46,223
Interest expense	-	91,211	91,211	-	-	-	91,211
Rent and occupancy	23,430	4,950	28,380	3,795	825	4,620	33,000
Postage and delivery	3,284	113	3,397	179	20	199	3,596
Supplies and small equipment	6,452	301	6,753	1,553	-	1,553	8,306
Outside computer services	10,981	406	11,387	3,619	-	3,619	15,006
Telephone	11,106	2,244	13,350	5,395	181	5,576	18,926
Other expenses	2,289	169	2,458	6,228	-	6,228	8,686
Insurance	-	-	-	3,299	-	3,299	3,299
Subtotals	1,034,141	177,239	1,211,380	230,059	16,107	246,166	1,457,546
Depreciation and amortization	1,456	238	1,694	415	-	415	2,109
Total functional expenses	\$ 1,035,597	177,477	1,213,074	230,474	16,107	246,581	1,459,655

See accompanying independent auditor's report.

**First Nations Oweesta Corporation**  
**Schedule of Functional Expenses**  
**Year Ended June 30, 2015**

	Program Services				Supporting Services			Total
	Institutional Development	Lending and Other	Total		Administration	Development	Total supporting services	
			program services	services				
Salaries, payroll taxes and benefits	\$ 345,296	77,976	423,272	198,079	17,725	215,804	639,076	
Grants and stipends	50,000	-	50,000	-	-	-	50,000	
Professional and consulting fees	292,447	-	292,447	30,247	1,198	31,445	323,892	
Operating fees	45,540	10,080	55,620	4,380	-	4,380	60,000	
Travel	101,736	8,794	110,530	19,185	26	19,211	129,741	
Printing and publications	34,801	968	35,769	163	995	1,158	36,927	
Conferences and meetings	35,818	4,315	40,133	3,312	-	3,312	43,445	
Interest expense	-	94,560	94,560	-	-	-	94,560	
Rent and occupancy	20,303	4,494	24,797	1,953	-	1,953	26,750	
Postage and delivery	5,115	63	5,178	130	16	146	5,324	
Supplies and small equipment	12,765	1,026	13,791	3,825	-	3,825	17,616	
Outside computer services	6,023	476	6,499	5,571	-	5,571	12,070	
Telephone	8,693	1,339	10,032	6,902	-	6,902	16,934	
Other expenses	3,309	237	3,546	8,943	-	8,943	12,489	
Bad debt expense	-	-	-	1,537	-	1,537	1,537	
Expense for loan loss reserve	-	11,800	11,800	-	-	-	11,800	
Insurance	-	-	-	1,721	-	1,721	1,721	
<b>Subtotals</b>	<b>961,846</b>	<b>216,128</b>	<b>1,177,974</b>	<b>285,948</b>	<b>19,960</b>	<b>305,908</b>	<b>1,483,882</b>	
Depreciation and amortization	4,899	1,150	6,049	1,808	-	1,808	7,857	
<b>Total functional expenses</b>	<b>\$ 966,745</b>	<b>217,278</b>	<b>1,184,023</b>	<b>287,756</b>	<b>19,960</b>	<b>307,716</b>	<b>1,491,739</b>	

See accompanying independent auditor's report.