

First Nations Oweesta Corporation

Financial Statements

June 30, 2019 and 2018

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

First Nations Oweesta Corporation

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Independent Auditor's Report

Board of Directors First Nations Oweesta Corporation

Report on the Financial Statements

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, 2019 and 2018, and the related statements of activities, functional expenses, 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 the 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 policies used and the reasonableness of significant accounting 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.

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, 2019 and 2018, 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.

**Board of Directors
First Nations Oweesta Corporation**

Emphasis of Matter

As discussed in note 1, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended June 30, 2019. The requirements of the ASU have been applied retrospectively for all years presented. Our opinion is not modified with respect to this matter.

Kundinger, Cordia & Gogle, P.C.

December 10, 2019

First Nations Oweesta Corporation
Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 7,053,640	3,892,211
Short-term investments (note 4)	1,863,920	164,390
Current notes receivable, net of allowance of \$15,500 and \$60,650, respectively (note 3)	294,500	1,152,350
Government grants receivable (note 9)	155,172	66,973
Other current receivables, net of allowance of \$10,000	234,740	94,756
Prepaid expenses	8,642	19,766
Total current assets	9,610,614	5,390,446
Property and equipment, net (note 6)	10,351	15,751
Other assets		
Long-term notes receivable, net of allowance of \$378,491 and \$200,500, respectively (note 3)	12,981,134	3,809,500
Long-term government grants receivable (note 9)	1,146,333	771,333
Investments (note 4)	607,179	1,465,671
Total other assets	14,734,646	6,046,504
Total assets	\$ 24,355,611	11,452,701
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 307,301	167,878
Due to affiliate (note 11)	3,016	7,856
Deferred revenue	263,175	4,000
Refundable advances	500,000	1,000,000
Current maturities of long-term debt (note 6)	1,022,000	350,000
Total current liabilities	2,095,492	1,529,734
Noncurrent liabilities		
Long-term debt, net of current maturities (note 6)	13,506,480	4,893,480
Total liabilities	15,601,972	6,423,214
Net assets		
Without donor restrictions	6,032,246	3,961,936
With donor restrictions (note 7)	2,721,393	1,067,551
Total net assets	8,753,639	5,029,487
Commitments (notes 6, 9, and 10)		
Total liabilities and net assets	\$ 24,355,611	11,452,701

See the accompanying notes to the financial statements.

First Nations Oweesta Corporation
Statement of Activities
Year Ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Revenue, Gains and Support			
Public support			
Grants	\$ 212,000	5,727,991	5,939,991
Government grants	922,374	625,000	1,547,374
Contributions	5,942	–	5,942
Total public support	<u>1,140,316</u>	<u>6,352,991</u>	<u>7,493,307</u>
Other revenue			
Program service fees	302,900	–	302,900
Interest income on notes receivable	333,951	–	333,951
Investment return	132,887	–	132,887
Other income	90,256	–	90,256
Total other revenue	<u>859,994</u>	<u>–</u>	<u>859,994</u>
Net assets released from restrictions (note 7)	<u>4,699,149</u>	<u>(4,699,149)</u>	<u>–</u>
Total revenue, gains and support	<u>6,699,459</u>	<u>1,653,842</u>	<u>8,353,301</u>
Expenses			
Program services			
Institutional development	2,223,806	–	2,223,806
Lending and other	2,128,004	–	2,128,004
Total program services	<u>4,351,810</u>	<u>–</u>	<u>4,351,810</u>
Supporting services			
Administration	237,770	–	237,770
Development	39,569	–	39,569
Total supporting services	<u>277,339</u>	<u>–</u>	<u>277,339</u>
Total expenses	<u>4,629,149</u>	<u>–</u>	<u>4,629,149</u>
Change in net assets	2,070,310	1,653,842	3,724,152
Net assets at beginning of year	<u>3,961,936</u>	<u>1,067,551</u>	<u>5,029,487</u>
Net assets at end of year	<u>\$ 6,032,246</u>	<u>2,721,393</u>	<u>8,753,639</u>

See the accompanying notes to the financial statements.

First Nations Oweesta Corporation
Statement of Activities
Year Ended June 30, 2018

	Without donor restrictions	With donor restrictions	Total
Revenue, Gains and Support			
Public support			
Grants	\$ 105,000	467,500	572,500
Government grants	673,586	717,166	1,390,752
Contributions	43,218	–	43,218
Total public support	<u>821,804</u>	<u>1,184,666</u>	<u>2,006,470</u>
Other revenue			
Program service fees	322,410	–	322,410
Interest income on notes receivable	168,930	–	168,930
Investment return	24,764	–	24,764
Other income	34,245	–	34,245
Total other revenue	<u>550,349</u>	<u>–</u>	<u>550,349</u>
Net assets released from restrictions (note 7)	<u>1,027,417</u>	<u>(1,027,417)</u>	<u>–</u>
Total revenue, gains and support	<u>2,399,570</u>	<u>157,249</u>	<u>2,556,819</u>
Expenses			
Program services			
Institutional development	1,349,434	–	1,349,434
Lending and other	202,371	–	202,371
Total program services	<u>1,551,805</u>	<u>–</u>	<u>1,551,805</u>
Supporting services			
Administration	236,679	–	236,679
Development	20,961	–	20,961
Total supporting services	<u>257,640</u>	<u>–</u>	<u>257,640</u>
Total expenses	<u>1,809,445</u>	<u>–</u>	<u>1,809,445</u>
Change in net assets	590,125	157,249	747,374
Net assets at beginning of year	<u>3,371,811</u>	<u>910,302</u>	<u>4,282,113</u>
Net assets at end of year	<u>\$ 3,961,936</u>	<u>1,067,551</u>	<u>5,029,487</u>

See the accompanying notes to the financial statements.

First Nations Oweesta Corporation
Statement of Functional Expenses
Year Ended June 30, 2019

	Program services			Supporting services			Total
	Institutional develop- ment	Lending and other	Total program services	Admini- stration	Develop- ment	Total supporting services	
Salaries, payroll taxes and benefits	\$ 856,276	50,773	907,049	107,373	16,332	123,705	1,030,754
Grants and stipends (note 8)	634,368	1,720,000	2,354,368	-	-	-	2,354,368
Professional and consulting fees	260,324	980	261,304	29,917	10,145	40,062	301,366
Operating fees	24,371	1,538	25,909	3,626	465	4,091	30,000
Travel	159,530	-	159,530	11,413	8,070	19,483	179,013
Printing and publications	17,551	-	17,551	35,790	9	35,799	53,350
Conferences and meetings	131,621	-	131,621	1,554	2,548	4,102	135,723
Interest expense	-	199,801	199,801	671	-	671	200,472
Rent and occupancy	37,639	2,375	40,014	5,601	718	6,319	46,333
Postage and delivery	5,389	340	5,729	802	103	905	6,634
Supplies and small equipment	9,183	396	9,579	3,837	10	3,847	13,426
Telephone	10,764	679	11,443	1,602	205	1,807	13,250
Other expenses	26,201	15,090	41,291	22,657	-	22,657	63,948
Equipment and software maintenance	49,047	3,094	52,141	7,298	935	8,233	60,374
Provision for loan losses	-	132,841	132,841	-	-	-	132,841
Insurance	1,542	97	1,639	229	29	258	1,897
Subtotals	2,223,806	2,128,004	4,351,810	232,370	39,569	271,939	4,623,749
Depreciation and amortization	-	-	-	5,400	-	5,400	5,400
Total functional expenses	\$ 2,223,806	2,128,004	4,351,810	237,770	39,569	277,339	4,629,149

See the accompanying notes to the financial statements.

First Nations Oweesta Corporation
Statement of Functional Expenses
Year Ended June 30, 2018

	Program services			Supporting services			Total
	Institutional develop- ment	Lending and other	Total program services	Admini- stration	Develop- ment	Total supporting services	
Salaries, payroll taxes and benefits	\$ 585,332	86,995	672,327	151,981	7,105	159,086	831,413
Grants and stipends (note 8)	149,686	–	149,686	–	–	–	149,686
Professional and consulting fees	226,714	50	226,764	27,900	750	28,650	255,414
Operating fees	21,110	3,150	24,260	5,484	256	5,740	30,000
Travel	150,718	2,054	152,772	9,056	6,963	16,019	168,791
Printing and publications	40,263	109	40,372	–	–	–	40,372
Conferences and meetings	68,082	–	68,082	235	5,024	5,259	73,341
Interest expense	–	77,332	77,332	984	–	984	78,316
Rent and occupancy	23,413	3,850	27,263	6,163	288	6,451	33,714
Postage and delivery	4,569	130	4,699	623	496	1,119	5,818
Supplies and small equipment	14,392	433	14,825	6,148	31	6,179	21,004
Telephone	8,629	1,209	9,838	1,113	–	1,113	10,951
Other expenses	3,744	220	3,964	17,872	2	17,874	21,838
Equipment and software maintenance	48,415	3,339	51,754	5,539	–	5,539	57,293
Provision for loan losses	–	23,500	23,500	–	–	–	23,500
Insurance	–	–	–	2,594	–	2,594	2,594
Subtotals	1,345,067	202,371	1,547,438	235,692	20,915	256,607	1,804,045
Depreciation and amortization	4,367	–	4,367	987	46	1,033	5,400
Total functional expenses	<u>\$ 1,349,434</u>	<u>202,371</u>	<u>1,551,805</u>	<u>236,679</u>	<u>20,961</u>	<u>257,640</u>	<u>1,809,445</u>

See the accompanying notes to the financial statements.

First Nations Oweesta Corporation
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 3,724,152	747,374
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	5,400	5,400
Net realized and unrealized gain on investments	(44,282)	(4,906)
Provision for loan losses	132,841	23,500
Change in operating assets and liabilities		
Grants receivable	–	26,990
Government grants receivable	(463,199)	(335,729)
Other receivables	(139,984)	(16,869)
Prepaid expenses and other assets	11,124	2,398
Accounts payable and accrued liabilities	139,423	87,748
Due to affiliate	(4,840)	4,826
Deferred revenue	259,175	–
Refundable advances	(500,000)	1,000,000
Net cash provided by operating activities	<u>3,119,810</u>	<u>1,540,732</u>
Cash flows from investing activities		
Net purchases of investments	(796,756)	(862,009)
Disbursements related to notes receivable	(10,660,000)	(1,320,000)
Collections of notes receivable	2,213,375	850,000
Net cash used in investing activities	<u>(9,243,381)</u>	<u>(1,332,009)</u>
Cash flows from financing activities		
Proceeds from debt issuance	9,725,000	2,748,480
Payments on debt	(440,000)	(1,166,480)
Net cash provided by financing activities	<u>9,285,000</u>	<u>1,582,000</u>
Net increase in cash and cash equivalents	3,161,429	1,790,723
Cash and cash equivalents at beginning of year	<u>3,892,211</u>	<u>2,101,488</u>
Cash and cash equivalents at end of year	<u>\$ 7,053,640</u>	<u>3,892,211</u>
Supplemental cash flow information		
Cash paid during the year for interest	<u>\$ 195,319</u>	<u>73,163</u>

See the accompanying notes to the financial statements.

First Nations Oweesta Corporation

Notes to Financial Statements

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 Native 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.

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.

First Nations Oweesta Corporation

Notes to Financial Statements

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

Basis of Accounting

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

Basis of Presentation

The Organization is required to present information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. At June 30, 2019, there are no net assets with perpetual donor restrictions.

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.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to credit risk include cash and cash equivalents, investments, notes receivable, and government 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.

The Organization is subject to the risk of loss from certain government receivables if the government determines that certain amounts are unallowable reimbursements, although this has not happened to date. 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.

Investments

Investments are recorded at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statement of financial position. Fair value is more fully described below. Investment return consists of interest, dividends, capital gains and losses generated from investments, as well as the change in fair value of the investments. Gains and losses attributable to investments are realized and reported upon a sale or disposition of the investment. Unrealized gains and losses are included in the change in net assets in the statements of activities.

First Nations Oweesta Corporation

Notes to Financial Statements

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

Fair Value Measurements

Fair value is defined as 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. Generally accepted accounting principles in the U.S. establishes a fair value hierarchy that prioritizes investments based on the assumptions market participants would use when pricing an asset. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs).

Assets are grouped at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.
- Level 2 Inputs other than quoted market prices that are observable for the asset/liability, either directly or indirectly.
- Level 3 Unobservable inputs that cannot be corroborated by observable market data.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Level 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.

The carrying amount reported in the statements of financial position for cash and cash equivalents, receivables, and accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments. Investments in marketable equity and fixed income securities with readily determinable market values are reported at fair value based on quoted prices in active markets.

Receivables

Receivables relate to amounts due from customers for fees for program services provided and accrued interest receivable. 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 the years ended June 30, 2019 and 2018.

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 \$3,000 with a useful life of at least one year. 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.

First Nations Oweesta Corporation

Notes to Financial Statements

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

Grants and Contributions

Grants and contributions are recognized when cash, securities or other assets, and unconditional promises to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

All donor restricted support, including pledges, is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a donor restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year.

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, 2019 and 2018. 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.

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.

As part of certain loan agreements, borrowers were required to make payments to fund a loan loss reserve. In the event that the borrower goes into default on their loan, the reserve will be applied to the loan principal. After the borrower has paid the loan in full, any balance remaining on the loan loss reserve will be refunded to the borrower. Any amounts received to fund the loan loss reserve have been recognized as a refundable advance in the statements of financial position.

Functional Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statements of functional expenses. The Organization incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Organization also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e. administration and development activities). These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as headcount, square-footage, or estimates of time and effort incurred by personnel.

First Nations Oweesta Corporation

Notes to Financial Statements

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

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.

Income Tax Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and qualifies for the charitable contribution deduction. However, income from activities not directly related to its tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income incurred during 2019 and 2018. Accordingly, the accompanying financial statements do not include a provision for income taxes.

The Organization follows the *Accounting for Uncertainty in Income Taxes* accounting standard which requires the Organization to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical merits of the position. The Organization has analyzed the tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements and determined there are none. The three previous tax years remain subject to examination by the IRS.

Subsequent Events

The Organization has evaluated all subsequent events through December 10, 2019, which is the date the financial statements were available to be issued.

New Accounting Pronouncement

During 2019, the Organization adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets previously presented on the statements of financial position with two new classes of net assets which are based on the existence or absence of donor-imposed restrictions.

First Nations Oweesta Corporation

Notes to Financial Statements

Note 2 – Availability and Liquidity of Financial Assets

The following table reflects the Organization's financial assets that are available for general expenditure within one year as of June 30, 2019.

Financial assets at year-end	
Cash and cash equivalents	\$ 7,053,640
Short-term investments	1,863,920
Notes receivable within one year	294,500
Government grants receivable within one year	155,172
Other current receivables	<u>234,740</u>
Total financial assets at year-end	9,601,972
Less cash limited in use	<u>(4,408,764)</u>
Financial assets available to meet general and specific expenditures within one year	\$ <u>5,193,208</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments.

The Organization considers net assets with donor restrictions expected to be met within one year to be available for general expenditure. The Organization is substantially supported by restricted grants and contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, certain financial assets may not be available for general expenditure within one year. However, at June 30, 2019, management has estimated that all net assets with donor restrictions are available and expected to be spent within the next year.

Limited in use cash consists of cash received for loan capital that has not been disbursed, repayments from borrowers under loan capital agreements that require principal payments be redeployed as loan capital, and repayments from borrowers from certain loan funding sources that will be used by the Organization to pay off debt owed to those specific lenders.

First Nations Oweesta Corporation

Notes to Financial Statements

Note 3 - Notes Receivable

Notes receivable consist of loans made to qualified CDFIs and other Native controlled entities. There are four types of loans issued by the Organization. First In loans are available to Native CDFIs in amounts up to \$100,000 for up to three years, while Capital loans are available to Native CDFIs in amounts over \$100,000, and up to \$500,000, for up to five years. The proceeds of both First In and Capital loans must be used to make loans in the borrower's target market, as defined in their loan policies and other organizational documents. Native Fresh Food Fund (NF3) loans are available to Native CDFIs for amounts \$50,000 and over, and up to \$250,000, for up to ten years. Loan proceeds must be used to finance healthy food projects. Finally, the Native CDFI Capital Pool was created during the year ended June 30, 2018. This pool is intended to leverage larger amounts of lending capital for Native CDFIs. The pool relies on a membership-based model in which Native CDFI members must invest 5% of their overall loan request in the pool as a cash reserve. Members then receive up to \$1,000,000 in capital, and then have a choice between a low-interest loan or a higher-interest loan with a 10% grant combination. These loans carry a targeted 10-year term with an interest-only period (two years), then amortized over the remaining term of the loan. All notes accrue interest at rates from 3% to 4%.

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 over 90 days past due at June 30, 2019 and 2018.

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 \$393,991 and \$261,150 at June 30, 2019 and 2018, respectively.

First Nations Oweesta Corporation

Notes to Financial Statements

Note 3 - Notes Receivable, Continued

Annual maturities of notes receivable at June 30, 2019 are as follows for the years ending June 30:

2020	\$ 310,000
2021	2,222,500
2022	2,570,458
2023	2,180,833
2024 and thereafter	<u>6,385,834</u>
Total notes receivable	13,669,625
Less allowance for loan losses	<u>(393,991)</u>
Net notes receivable	\$ <u>13,275,634</u>

The following is an aging of the Organization's notes receivable at June 30, 2019:

	<u>Current</u>	<u>Over 30 days</u>	<u>Over 60 days</u>	<u>Over 90 days</u>	<u>Total</u>
Loan type					
Capital pool	\$ 9,780,000	-	-	-	9,780,000
Capital loans	3,519,625	-	-	-	3,519,625
NF3	210,000	-	-	-	210,000
First In loans	<u>160,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>160,000</u>
Total	\$ <u>13,669,625</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,669,625</u>

The following is an aging of the Organization's notes receivable at June 30, 2018:

	<u>Current</u>	<u>Over 30 days</u>	<u>Over 60 days</u>	<u>Over 90 days</u>	<u>Total</u>
Loan type					
Capital loans	\$ 4,210,000	300,000	-	-	4,510,000
NF3	210,000	-	-	-	210,000
First In loans	<u>503,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>503,000</u>
Total	\$ <u>4,923,000</u>	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>5,223,000</u>

First Nations Oweesta Corporation

Notes to Financial Statements

Note 3 - Notes Receivable, Continued

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:

	<u>Capital pool</u>	<u>Capital loans</u>	<u>NF3 loans</u>	<u>First In loans</u>	<u>Total</u>
Balance at June 30, 2017	\$ –	192,500	10,500	34,650	237,650
(Reversal of) provisions for loan losses	<u>–</u>	<u>33,000</u>	<u>–</u>	<u>(9,500)</u>	<u>23,500</u>
Balance at June 30, 2018	–	225,500	10,500	25,150	261,150
(Reversal of) provisions for loan losses	<u>201,000</u>	<u>(49,509)</u>	<u>–</u>	<u>(18,650)</u>	<u>132,841</u>
Balance at June 30, 2019	<u>\$ 201,000</u>	<u>175,991</u>	<u>10,500</u>	<u>6,500</u>	<u>393,991</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

The following is the credit quality classification of the notes receivable by loan type at June 30, 2019:

	<u>Capital pool</u>	<u>Capital loans</u>	<u>NF3 loans</u>	<u>First In loans</u>	<u>Total</u>
Non-delinquent	\$ 9,780,000	3,519,625	210,000	160,000	13,669,625
30 days delinquent	–	–	–	–	–
60 days delinquent	–	–	–	–	–
90 days delinquent	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total	<u>\$ 9,780,000</u>	<u>3,519,625</u>	<u>210,000</u>	<u>160,000</u>	<u>13,669,625</u>

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, 2018:

	<u>Capital loans</u>	<u>NF3 loans</u>	<u>First In loans</u>	<u>Total</u>
Non-delinquent	\$ 4,210,000	210,000	503,000	4,923,000
30 days delinquent	300,000	-	-	300,000
60 days delinquent	-	-	-	-
90 days delinquent	-	-	-	-
Total	<u>\$ 4,510,000</u>	<u>210,000</u>	<u>503,000</u>	<u>5,223,000</u>

Note 4 - Investments

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

	<u>2019</u>	<u>2018</u>
Certificates of deposit	\$ 2,405,706	1,548,032
Corporate bonds	<u>65,393</u>	<u>82,029</u>
Total	<u>\$ 2,471,099</u>	<u>1,630,061</u>

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

	<u>2019</u>	<u>2018</u>
Short-term investments	\$ 1,863,920	164,390
Investments	<u>607,179</u>	<u>1,465,671</u>
Total	<u>\$ 2,471,099</u>	<u>1,630,061</u>

Short-term investments consist of certificates of deposit with maturities of less than one year. The following table summarizes the valuation of investments by the fair value hierarchy levels as of June 30, 2019:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>
Certificates of deposit	\$ 2,405,706	2,405,706	-
Corporate bonds	<u>65,393</u>	<u>-</u>	<u>65,393</u>
Total	<u>\$ 2,471,099</u>	<u>2,405,706</u>	<u>65,393</u>

The following table summarizes the valuation of investments by the fair value hierarchy levels as of June 30, 2018:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>
Certificates of deposit	\$ 1,548,032	1,548,032	-
Corporate bonds	<u>82,029</u>	<u>-</u>	<u>82,029</u>
Total	<u>\$ 1,630,061</u>	<u>1,548,032</u>	<u>82,029</u>

First Nations Oweesta Corporation

Notes to Financial Statements

Note 5 - Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Furniture, equipment, and software	\$ 97,625	97,625
Less accumulated depreciation and amortization	(87,274)	(81,874)
Total	\$ <u>10,351</u>	<u>15,751</u>

Note 6 - 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	2019	2018
Bush Foundation	7/31/2028	1.00%	1,000,000	1,000,000
Tamalpais Trust	1/15/2021	1.00%	500,000	500,000
Mercy Investment Services, Inc.	5/1/2020	3.00%	500,000	500,000
Northwest Area Foundation	11/30/2027	1.00%	500,000	500,000
Swift Foundation	5/1/2021	1.00%	500,000	500,000
CDFI Fund 141NA012511 (a)	1/6/2028	1.95%	380,000	380,000
Client of Trillium Asset Management	3/31/2023	2.00%	50,000	50,000
Adrian Dominican Sisters	12/15/2018	2.00%	–	100,000
Client of Trillium Asset Management	3/31/2020	2.00%	100,000	100,000
Client of Trillium Asset Management	4/29/2021	2.00%	100,000	100,000
Client of Trillium Asset Management	4/1/2020	2.00%	100,000	100,000
Basilian Fathers of Toronto	4/1/2022	3.00%	100,000	100,000
Sisters of Charity of Incarnate Word	12/18/2018	1.00%	–	100,000
Client of Trillium Asset Management	10/1/2019	2.00%	100,000	100,000
Gregory Kremer	7/15/2018	1.00%	–	100,000
Edith Phippen	2/1/2022	1.00%	100,000	100,000
Client of Natural Investments	11/1/2020	0.00%	100,000	100,000
Client of Natural Investments	7/1/2019	1.00%	–	80,000
Client of Trillium Asset Management	9/30/2019	2.00%	60,000	60,000
Client of Trillium Asset Management	3/31/2021	2.00%	50,000	50,000
Client of Trillium Asset Management	3/31/2020	2.00%	50,000	50,000
Client of Trillium Asset Management	3/31/2023	2.00%	50,000	50,000
Client of Trillium Asset Management	3/31/2023	2.00%	50,000	50,000
Client of Trillium Asset Management	3/31/2023	2.00%	50,000	50,000
Client of Natural Investments	7/1/2022	1.00%	50,000	50,000
Client of Natural Investments	12/15/2022	2.00%	50,000	50,000
Susan D. Goldman Trust	11/1/2020	2.00%	41,480	41,480
Client of Trillium Asset Management	3/30/2021	2.00%	25,000	25,000
Srs. of St. Francis of Philadelphia	6/1/2019	2.50%	–	10,000
Client of Trillium Asset Management	8/1/2020	2.00%	25,000	25,000

First Nations Oweesta Corporation

Notes to Financial Statements

Note 6 - Short-Term and Long-Term Debt, Continued

Lender	Maturity	Rate	2019	2018
Client of Trillium Asset Management	4/1/2020	2.00%	25,000	25,000
Thomas J. Abood	2/11/2020	2.25%	25,000	25,000
Client of Trillium Asset Management (b)	9/30/2023	2.00%	25,000	25,000
Sisters of the Blessed Sacrament	4/5/2021	3.00%	25,000	25,000
Client of Trillium Asset Management	3/31/2023	2.00%	25,000	25,000
Client of Natural Investments	10/1/2019	1.00%	22,000	22,000
Client of Hall Capital Partners	1/15/2020	2.00%	20,000	20,000
Client of Natural Investments	6/15/2023	1.00%	20,000	20,000
Client of Natural Investments	12/15/2019	1.00%	15,000	15,000
James A Babson Revocable Trust - 2003	6/20/2019	2.00%	–	10,000
Larry Dansinger & Karen Marysdaughter	5/1/2019	0.00%	–	5,000
Peter & Sharon Moller	1/23/2020	0.00%	5,000	5,000
Client of Natural Investments	8/15/2029	3.00%	20,000	–
Client of Natural Investments	10/1/2020	1.00%	30,000	–
Tamalpais Trust	7/31/2028	1.00%	500,000	–
Client of Trillium Asset Management	3/31/2024	2.00%	50,000	–
Client of Natural Investments	12/1/2023	1.00%	120,000	–
Client of Natural Investments	1/1/2024	1.00%	20,000	–
AMERIND Risk (c)	7/31/2028	2.00%	3,000,000	–
First Nations Development Institute (c)	7/31/2028	2.00%	250,000	–
Enterprise Community Loan Fund (c)	7/31/2028	2.00%	500,000	–
Congregation of St Joseph	7/1/2023	1.50%	100,000	–
Religious Communities Impact Fund	12/15/2023	2.00%	100,000	–
Client of Natural Investments	2/1/2024	2.00%	50,000	–
Congregation of the Sisters of Charity of Incarnate Word	2/27/2024	1.00%	200,000	–
Client of Natural Investments	12/1/2023	1.00%	150,000	–
Client of Natural Investments	2/1/2022	0.00%	100,000	–
Client of Natural Investments	5/30/2024	2.00%	25,000	–
Better Way Foundation	5/31/2024	2.00%	500,000	–
Chiller/Vejlupkova Living Trust	6/1/2023	2.00%	250,000	–
Client of Natural Investments	4/28/2022	0.00%	150,000	–
Client of Natural Investments	6/1/2022	2.00%	25,000	–
Client of Natural Investments	6/15/2022	1.00%	50,000	–
Bank of America (d)	9/21/2028	2.00%	3,000,000	–
Kalliopeia Foundation	8/1/2023	1.00%	500,000	–
Total			14,528,480	5,243,480
Less current maturities			(1,022,000)	(350,000)
Long-term debt less current maturities			13,506,480	4,893,480

First Nations Oweesta Corporation

Notes to Financial Statements

Note 6 - 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) Principal payments are required beginning December 2025.
- (b) Original note as paid off on 10/1/18, and the lender disbursed a new note, totaling \$25,000, due on 9/20/23.
- (c) Principal payments are required beginning January 2021.
- (d) Principal payments are required beginning September 2020.

First Nations Oweesta is required to meet certain covenants as specified in particular debt agreements. At June 30, 2019, these covenants were met. None of the notes are collateralized. At June 30, 2019, aggregate maturities of principal under long-term debt obligations are as follows for the years ending June 30:

2020	\$ 1,022,000
2021	2,099,605
2022	1,556,250
2023	1,626,250
2024 and thereafter	<u>8,224,375</u>
	\$ <u>14,258,480</u>

Note 7 - Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following as of June 30:

	<u>2019</u>	<u>2018</u>
CDFI government grants receivable	\$ 1,146,333	771,333
Native Fresh Food Fund (Keepseagle)	1,178,119	-
Loan loss reserve	150,000	150,000
Institutional capacity building	246,941	-
Financial education and asset building	<u>-</u>	<u>146,218</u>
	\$ <u>2,721,393</u>	<u>1,067,551</u>

Net assets with donor restrictions were released from restrictions for the following purposes:

	<u>2019</u>	<u>2018</u>
CDFI government grants receivable	\$ 250,000	225,700
Lending	2,446,880	437,368
Institutional capacity building	1,856,054	-
Financial education and asset building	<u>146,215</u>	<u>364,349</u>
	\$ <u>4,699,149</u>	<u>1,027,417</u>

Note 8 - Regrants

Regranting funds are not used for the program operations of the Organization, but are instead regranted to other Native non-profits, tribal projects, and individual participants in their projects. Regrants and related stipends for the years ended June 30, 2019 and 2018 totaled \$2,354,368 and \$149,686, respectively.

First Nations Oweesta Corporation

Notes to Financial Statements

Note 9 - Commitments and Contingencies

Operating Leases

The Organization rents office space from a related party (see note 11) under a month-to-month lease agreement in an office building purchased by First Nations in Longmont. Rent is charged at \$3,250 per month, including utilities and cleaning. Rent expense for the years ended June 30, 2019 and 2018 was \$39,000 and \$33,000, 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 \$1,301,505 and \$838,306 at June 30, 2019 and June 30, 2018, respectively.

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 \$19,675 and \$17,684 during the years ended June 30, 2019 and 2018, respectively.

Note 11 - 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 \$30,000 in 2019 and 2018, respectively, to cover program and administrative costs incurred on the Organization's behalf. The Organization also sold program materials to First Nations valued at \$3,938 in 2019 and \$6,940 in 2018. The Organization also has a contractual agreement for services with First Nations in providing their grantees technical assistance and training services. The Organization earned \$55,209 and \$70,160 in revenue from First Nations under this agreement in 2019 and 2018, respectively. In addition, First Nations pays certain direct costs incurred by the Organization on its behalf. Amounts due to First Nations were \$3,016 and \$7,856 at June 30, 2019 and 2018, respectively. During 2019, First Nations provided a loan of \$250,000 to the Organization to be used as part of its capital pool. Interest accrues on the note at 2% annually and the principal balance is due in full on July 31, 2028.