



Lakota Funds is a community development financial institution leading an economic resurgence of the Oglala Lakota Oyate on the Pine Ridge Reservation through culturally appropriate strategies reigniting the traditional Lakota spirit of productivity, commerce, and trade.

## Case Statement for Lakota Funds

### Summary

Lakota Funds, Inc., seeks an equity investment of \$25,000 to assist in the purchase of an existing profitable services business, located on Pine Ridge Reservation. The purchase price of the business is \$100,000. Lakota Funds will provide an additional \$25,000 in equity and the 1st National Bank of South Dakota will provide the balance of the financing, to include \$100,000 in additional working capital. The business will employ three members of the Pine Ridge reservation on a full time basis. Profits from the business will flow to Lakota Funds and the investor. Lakota Funds will use the profits to subsidize development services in partnership with the Lakota Federal Credit Union.

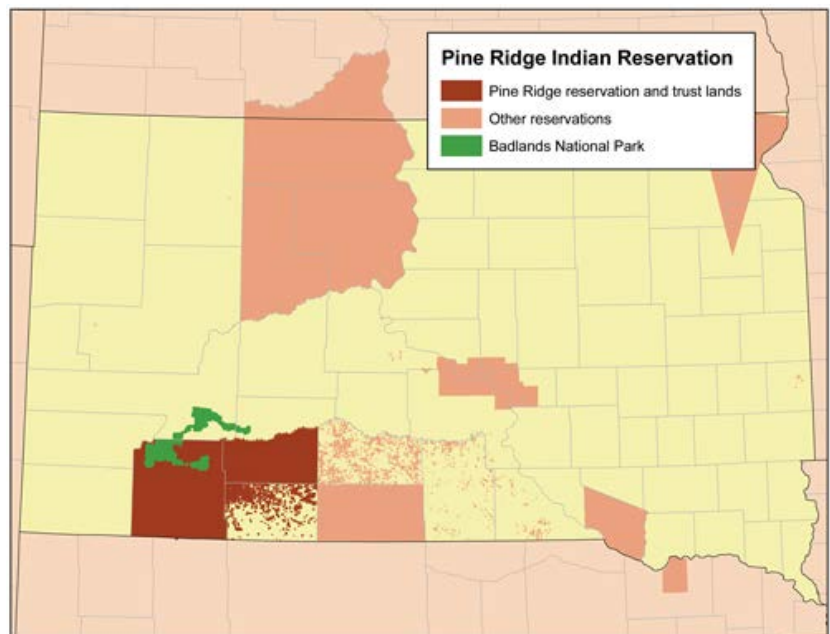
### Case Statement

This case statement is for Lakota Funds, Inc. (LF) of Kyle, South Dakota. LF is a 501 (c)(3) organization incorporated in 1986. The mission of the organization is as follows:

*“Lakota Funds is a community development financial institution (CDFI) leading an economic resurgence of the Oglala Lakota Oyate on the Pine Ridge Reservation through culturally appropriate strategies reigniting the traditional Lakota spirit of productivity, commerce, and trade.”*

The 3,500-square mile (approximately 2.7 million acres) Pine Ridge Reservation is the second-largest Native American Reservation within the United States. It is roughly the size of the State of Connecticut. According to the Oglala Sioux tribal statistics, approximately 1.7 million acres of this land are owned by the Tribe or by tribal members.

The Pine Ridge Reservation is home to approximately 40,000 persons, 35% of which are under the age of 18. The Reservation extends into 3 counties: Shannon, Bennett and Jackson, South Dakota.



The 2010 Federal Census shows the median age to be 20.6 years. Approximately half the residents of the Reservation are registered tribal members of the Oglala Lakota Sioux Nation. The tables below provide summary data for Pine Ridge Reservation from the 2010 Census and other referenced sources.

**2010 Census of Pine Ridge Indian Reservation<sup>i</sup>**

**Population: 2010**

**total**

	area	American Indian
Pine Ridge Reservation	18,834	16,906
Jackson County	3,031	1,719
Shannon County	13,586	13,146
median age	24.3	
households	4,697	
housing units	5,387	
owner occupied	2,589	
renter occupied	2,108	
% college degree <sup>ii</sup>	13%	
high school graduation rate	54%	
#18-24 year-olds without high school diploma	1,224	
poverty rate	46%	
poverty rate (children under 17 years of age)	52.7%	
per capita income	\$6,286	
median household income	\$20,916	
incidence of homelessness	1,439/5%	
affordable housing shortage (for low income families)	1,418 units	
unemployment rate (want to work)	40%	

**Employment<sup>iii</sup>**

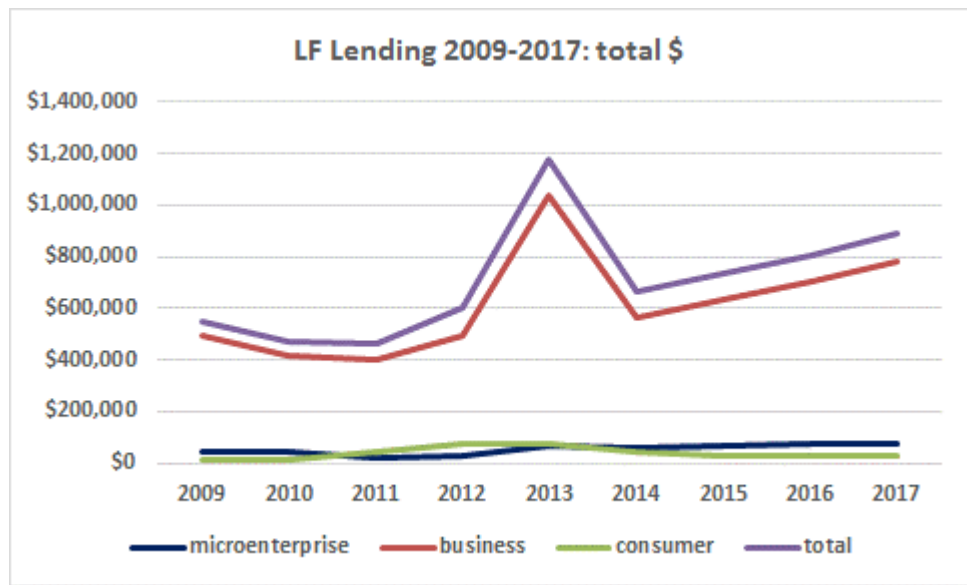
worked 50 to 52 weeks	35.9%
worked 40 to 49 weeks	1.7%
worked 27 to 39 weeks	2.1%
worked 14 to 26 weeks	3.4%
worked 1 to 13 weeks	5.9%
did not work	50.9%

**Impacts**

Certified as a Native CDFI in 2000, Lakota Funds has been quite successful.

- Lakota Funds has loaned over \$6.7 million, resulting in the creation of 1,386 jobs and nearly 473 businesses on or near the Pine Ridge Indian Reservation.
- Lakota Funds has provided training and services to over 1,600 artists and over 4,300 entrepreneurs.
- from 2010 to date, over 3,827 people have completed financial literacy, homebuyers education and business planning courses at Lakota Funds.
- a total of \$253,000 has been saved through the IDA matched savings program. In 2010, Lakota Funds' Credit Builder Loan clients increased their credit score by an average of 18.5 points.

- From 2010 to date, nearly 2,000 youth have completed financial literacy courses at Lakota Funds. In addition, Lakota Funds has provided youth financial literacy training to over 170 youth through partnerships with the Oglala Sioux Tribe Summer Youth Program, the GEAR-UP college readiness summer program, and reservation high schools.
- Lakota Funds has made more than 880 micro- and small-business loans, totaling over \$6.7 million.
- Lakota Funds has provided marketing services to more than 1,600 artists and craftsmen.
- Lakota Funds developed the first Native American-owned, tax credit-financed housing project in America (and now manages a small housing development of thirty homes near Wanblee).
- Lakota Funds developed the Lakota Trade Center in 1997, a 12,000-square-foot small business incubator and Tribal Business Information Center and,
  - co-founded the first Native American Chamber of Commerce on an Indian reservation in the United States.
- In 2012, Lakota Federal Credit Union, started by Lakota Funds, was chartered by the National Credit Union Administration.



Summary financial numbers are shown below. Attached to this statement are 2010-2012 audited statements. Projections are based on Lakota Fund's 2013 Native American CDFI Assistance (NACA) application less projected, but not committed, grant revenue. The problem should be apparent.

	2013	2014	2015	2016	2017
assets	4,807,644	4,730,458	4,389,331	4,042,667	3,705,623
net assets	9,459,510	9,201,491	8,675,808	8,139,914	7,608,837
face value portfolio	1,139,497	986,503	873,447	676,731	560,440

revenue	1,778,481	490,769	237,644	233,992	236,159
operations expense	1,426,416	567,955	578,772	580,656	573,203
earned revenue	419,693	256,295	237,644	233,992	236,159
self-sufficiency ratio	0.29	0.45	0.41	0.40	0.41
net income	352,065	(77,186)	(341,127)	(346,664)	(337,044)

### **The Issue**

Lakota Funds is at a crossroads: revenue is generated through interest, fees and grants. Typically, grants are used to cover the provision of specific development services. When these grant funds are exhausted, the need addressed by the service still exists. Yet, Lakota Funds cannot afford to provide these services. Provision of development services is jeopardizing the financial health of the organization. Additionally, continued reliance on grants to cover operations expense is not a sustainable strategy. We estimate that we need over \$1 million in grants in the next 4 fiscal years to break even. Believing that grants will solve this problem is not Plan A in the Lakota Funds strategy.

With a background study of market demand on Pine Ridge, a strategic plan developed by Craft 3 and Lakota Fund managers, the board of directors of Lakota Funds has made the following organizational assessments:

1. Lakota Funds cannot continue to provide development services at the level it has done historically. The reason is simple: the expense is too great.
2. Organization expenses must be trimmed and product delivery increased.
3. Lakota Funds must continue to provide loan capital to borrowers, with the addition of several new business loan products, more customized to the business needs of the area.
4. Lakota Funds must be more entrepreneurial and less grant dependent.
5. For profit activities that do not compete with existing companies and are owned and delivered by Lakota Funds, is the best way to ensure sustainability.

This has led to the following decisions:

1. Lakota Funds will partner with Lakota Federal Credit Union to begin the process of development services transfer. Only business development services will be retained.
2. Lakota Funds will start a new business or purchase an existing business. This is the subject of the case statement.

### **Lakota Services, Inc.**

The company Lakota Funds wishes to purchase must remain anonymous, but we will call it Lakota Services, Inc. It provides certain services all businesses require. The company is a C corporation, owned by a Native American who lives on Pine Ridge. The owner wishes to sell and has agreed to remain as advisor for one year to ensure smooth transition.

We have performed the following due diligence on the company:

1. a competitive analysis of similar Native-owned companies on Pine Ridge. There are none.
2. verified tax returns of the corporation; tax returns of the owner.
3. verified all customer accounts and sales records
4. spoken with customers who left to find out why
5. spoken with vendors to verify that accounts are current and accurate
6. obtained legal advice regarding lawsuits (none) and pending legal matters (none)
7. verified that insurance costs will remain within projections.

Additionally, we have developed financial projections for the company, which we will forward upon request. Top level results are presented below.

### The Deal

Historic sales and profit figures are shown below.

	2009	2010	2011	2012
assets	45,252	61,053	68,744	73,007
revenues	122,350	246,894	425,619	515,884
COGS	100,327	190,108	306,446	319,848
gross margin	0.180	0.230	0.280	0.380
net income	(41,987)	2,278	65,478	98,232

Projected numbers are shown below.

	2013	2014	2015	2016	2017
FTE	3	2	2	3	4
revenues	515,884	567,472	624,220	686,642	755,306
COGS	314,689	340,483	362,047	405,119	453,183
net income	45,675	95,323	124,564	143,451	151,267

We conducted a valuation using several different methodologies and believe that the sale price of \$100,000 is a fair price and will allow us to implement the strategy of the Board of Directors.

The financing of the purchase is proposed as follows:

#### Sources of Funds

Lakota Funds	25,000
investor	25,000
1st National Bank of South Dakota	50,000

#### Uses of Funds

purchase price	100,000
----------------	---------

Additionally, the 1<sup>st</sup> National Bank of South Dakota will provide \$100,000 in a working capital line of credit. This will allow Lakota Services, Inc. to increase vendor purchase to obtain greater discount. The skill sets required to run the purchased company are possessed by the Lakota Funds management. Accounting, office space, copying, legal, and other expenses will be somewhat reduced through scales achieved through Lakota Funds ownership.

One additional aspect of the purchase, and a primary reason that we believe this is a significant opportunity: Lakota Services, Inc., is eligible for certification as a SBA 8(a) Preferred Vendor, allowing us to negotiate government contracts for the services the company provides. There are only eight 8(a) certified South Dakota businesses and none provide our services.

Investor Contribution

The investor money we seek can take several forms, depending on the mission and requirements of the investor:

<b>Investor options</b>	<i>5 year return<sup>iv</sup></i>
common stock	224%
preferred stock	7%
subordinate debt	7%

**Summary**

Using the information and philosophy provided by *The Leadership Journey*, NeighborWorks and the CDFI Fund, Lakota Funds has decided to take sustainability into its own hands through a process of generating internal subsidy through the purchase and expansion of an existing business. This will allow us to continue provision of those development services related to our mission and, at the same time, develop the economy of the Pine Ridge.

---

<sup>i</sup> Source: US Census Bureau, 2010 Census, 2010 Demographic Profile Data (DP-1), Race alone or in combination with one or more other races.

<sup>ii</sup> Aged 25-64: source: 2007-2011 American Community Survey 5-Year Estimates: S2301.

<sup>iii</sup> Aged 25-64: source: 2007-2011 American Community Survey 5-Year Estimates: S2303.

<sup>iv</sup> Average of 5 years – annual calculation of return:  $[(\text{net income}/2)/\$25,000]$ .