



*REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS*

FOR

NATIONAL DANCE INSTITUTE OF NEW MEXICO

August 31, 2017 and 2016

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Table of Contents

	PAGE
REPORT OF INDEPENDENT AUDITORS	1-2
FINANCIAL STATEMENTS	
Statements of financial position	3
Statements of activities	4-5
Statements of functional expenses	6-7
Statements of cash flows	8
Notes to financial statements	9-19

Report of Independent Auditors

Board of Directors
National Dance Institute of New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of National Dance Institute of New Mexico (NDI New Mexico), a New Mexico not-for-profit corporation, which comprise the statements of financial position, as of August 31, 2017 and 2016, 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 audits 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 on 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 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 NDI New Mexico as of August 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mess Adams LLP

Albuquerque, New Mexico
November 16, 2017

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NATIONAL DANCE INSTITUTE OF NEW MEXICO
STATEMENTS OF FINANCIAL POSITION

ASSETS

	August 31,	
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 989,954	\$ 543,039
Contributions receivable	-	21,650
Pledges receivable, short-term	102,925	68,271
Grants receivable	11,550	25,000
Accounts receivable	64,482	20,273
Investments, short-term	2,241,113	2,128,159
Other assets	-	26,366
Total current assets	<u>3,410,024</u>	<u>2,832,758</u>
NON-CURRENT ASSETS		
Pledges receivable, long-term	190,000	-
Investments, long-term	24,975,768	24,073,752
Property and equipment, net	<u>10,045,899</u>	<u>9,794,047</u>
Total assets	<u>\$ 38,621,691</u>	<u>\$ 36,700,557</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 21,341	\$ 4,487
Accrued payroll and related liabilities	78,289	55,999
Other liabilities	6,724	15,827
Deferred tuition revenue	308,034	329,782
Total liabilities	<u>414,388</u>	<u>406,095</u>
COMMITMENT AND CONTINGENCIES (Note 9)		
NET ASSETS		
Net assets - unrestricted		
Operating	130,837	37,545
Property and equipment	10,045,899	9,794,047
Board designated endowment	15,366,575	13,766,117
Total net assets - unrestricted	<u>25,543,311</u>	<u>23,597,709</u>
Net assets - temporarily restricted		
Operating	1,136,650	1,079,832
Capital campaign	689,549	789,308
Total net assets - temporarily restricted	<u>1,826,199</u>	<u>1,869,140</u>
Net assets - permanently restricted	10,837,793	10,827,613
Total net assets	<u>38,207,303</u>	<u>36,294,462</u>
Total liabilities and net assets	<u>\$ 38,621,691</u>	<u>\$ 36,700,557</u>

NATIONAL DANCE INSTITUTE OF NEW MEXICO
STATEMENTS OF ACTIVITIES
AUGUST 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Contributions				
General donation	\$ 1,893,091	\$ 31,075	\$ 10,180	\$ 1,934,346
Capital campaign	60,000	190,000	-	250,000
In-kind goods and services	80,037	-	-	80,037
Total contributions	<u>2,033,128</u>	<u>221,075</u>	<u>10,180</u>	<u>2,264,383</u>
Grants				
Operating	653,488	-	-	653,488
Special events (including in-kind)	926,873	-	-	926,873
Less direct benefit costs to donors	(72,194)	-	-	(72,194)
Total special events	<u>854,679</u>	<u>-</u>	<u>-</u>	<u>854,679</u>
Merchandise sales	65,975	-	-	65,975
Advertising sales	500	-	-	500
Contract for services	565,766	-	-	565,766
Ticket sales	113,879	-	-	113,879
Tuition and fees	666,718	-	-	666,718
Rental income	67,193	-	-	67,193
Interest income	1,264	-	-	1,264
Miscellaneous income	8,958	-	-	8,958
Total revenue and other support, net	<u>5,031,548</u>	<u>221,075</u>	<u>10,180</u>	<u>5,262,803</u>
NET ASSETS RELEASED FROM RESTRICTION	<u>407,336</u>	<u>(407,336)</u>	<u>-</u>	<u>-</u>
EXPENSES				
Program services	4,611,691	-	-	4,611,691
General and administrative	475,756	-	-	475,756
Fundraising expenses	990,134	-	-	990,134
Total expenses	<u>6,077,581</u>	<u>-</u>	<u>-</u>	<u>6,077,581</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>(638,697)</u>	<u>(186,261)</u>	<u>10,180</u>	<u>(814,778)</u>
OTHER INCOME				
Dividend and interest income	446,097	-	-	446,097
Net unrealized				
gain on investments	1,755,400	143,320	-	1,898,720
Net realized				
loss on retirement of equipment	(2,004)	-	-	(2,004)
gain on investments	384,806	-	-	384,806
Total other income	<u>2,584,299</u>	<u>143,320</u>	<u>-</u>	<u>2,727,619</u>
INCREASE (DECREASE) IN NET ASSETS	1,945,602	(42,941)	10,180	1,912,841
NET ASSETS AT BEGINNING OF YEAR	<u>23,597,709</u>	<u>1,869,140</u>	<u>10,827,613</u>	<u>36,294,462</u>
NET ASSETS AT END OF YEAR	<u>\$ 25,543,311</u>	<u>\$ 1,826,199</u>	<u>\$ 10,837,793</u>	<u>\$ 38,207,303</u>

See accompanying notes.

NATIONAL DANCE INSTITUTE OF NEW MEXICO
STATEMENTS OF ACTIVITIES
AUGUST 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Contributions				
General donation	\$ 1,025,641	\$ 10,758	\$ 36,100	\$ 1,072,499
Capital campaign	-	-	-	-
In-kind goods and services	91,495	-	-	91,495
Total contributions	<u>1,117,136</u>	<u>10,758</u>	<u>36,100</u>	<u>1,163,994</u>
Grants				
Operating	790,878	-	-	790,878
Special events (including in-kind)	722,597	-	-	722,597
Less direct benefit costs to donors	(88,811)	-	-	(88,811)
Total special events	<u>633,786</u>	<u>-</u>	<u>-</u>	<u>633,786</u>
Merchandise sales	69,100	-	-	69,100
Contract for services	597,363	-	-	597,363
Ticket sales	105,598	-	-	105,598
Tuition and fees	617,367	-	-	617,367
Rental income	76,639	-	-	76,639
Interest income	1,336	-	-	1,336
Miscellaneous income	3,361	-	-	3,361
Total revenue and other support, net	<u>4,012,564</u>	<u>10,758</u>	<u>36,100</u>	<u>4,059,422</u>
 NET ASSETS RELEASED FROM RESTRICTION	 <u>283,725</u>	 <u>(283,725)</u>	 <u>-</u>	 <u>-</u>
EXPENSES				
Program services	4,319,919	-	-	4,319,919
General and administrative	510,313	-	-	510,313
Fundraising expenses	870,744	-	-	870,744
Total expenses	<u>5,700,976</u>	<u>-</u>	<u>-</u>	<u>5,700,976</u>
 CHANGE IN NET ASSETS FROM OPERATIONS	 <u>(1,404,687)</u>	 <u>(272,967)</u>	 <u>36,100</u>	 <u>(1,641,554)</u>
OTHER INCOME				
Dividend and interest income	416,185	-	-	416,185
Net unrealized gain on investments	430,761	104,491	-	535,252
Net realized gain on investments	555,177	-	-	555,177
Total other income	<u>1,402,123</u>	<u>104,491</u>	<u>-</u>	<u>1,506,614</u>
 (DECREASE) INCREASE IN NET ASSETS	 <u>(2,564)</u>	 <u>(168,476)</u>	 <u>36,100</u>	 <u>(134,940)</u>
 NET ASSETS AT BEGINNING OF YEAR	 <u>23,600,273</u>	 <u>2,037,616</u>	 <u>10,791,513</u>	 <u>36,429,402</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 23,597,709</u>	 <u>\$ 1,869,140</u>	 <u>\$ 10,827,613</u>	 <u>\$ 36,294,462</u>

**NATIONAL DANCE INSTITUTE OF NEW MEXICO
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2017**

	Program Services	Management and General	Fundraising Operations	Total
Salaries and wages	\$ 2,523,850	\$ 294,850	\$ 485,525	\$ 3,304,225
Employee benefits	254,705	28,455	58,716	341,876
Payroll taxes	208,603	32,811	39,668	281,082
Contract labor	122,808	52	29,498	152,358
Total personnel expenses	<u>3,109,966</u>	<u>356,168</u>	<u>613,407</u>	<u>4,079,541</u>
Direct production expenses	144,205	-	22,958	167,163
Outside services	102,494	49,442	59,579	211,515
Promotions and public relations	75,513	698	98,478	174,689
Office expenses	211,775	34,706	74,667	321,148
Facilities and equipment	223,512	9,331	68,654	301,497
Travel expenses	210,841	5,376	6,688	222,905
Other expenses	95,441	8,597	22,319	126,357
Total expenses before depreciation	<u>4,173,747</u>	<u>464,318</u>	<u>966,750</u>	<u>5,604,815</u>
Depreciation	<u>437,944</u>	<u>11,438</u>	<u>23,384</u>	<u>472,766</u>
Total expenses	<u>\$ 4,611,691</u>	<u>\$ 475,756</u>	<u>\$ 990,134</u>	<u>\$ 6,077,581</u>

NATIONAL DANCE INSTITUTE OF NEW MEXICO
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2016

	Program Services	Management and General	Fundraising Operations	Total
Salaries and wages	\$ 2,489,860	\$ 272,087	\$ 454,319	\$ 3,216,266
Employee benefits	195,157	20,235	42,033	257,425
Payroll taxes	203,380	24,600	36,535	264,515
Contract labor	104,266	-	24,705	128,971
Total personnel expenses	<u>2,992,663</u>	<u>316,922</u>	<u>557,592</u>	<u>3,867,177</u>
Direct production expenses	116,061	955	16,055	133,071
Outside services	54,382	148,681	37,107	240,170
Promotions and public relations	59,753	1,055	68,744	129,552
Office expenses	226,786	15,544	78,347	320,677
Facilities and equipment	190,592	6,548	63,063	260,203
Travel expenses	207,580	5,191	13,396	226,167
Other expenses	82,434	6,527	16,565	105,526
Total expenses before depreciation	<u>3,930,251</u>	<u>501,423</u>	<u>850,869</u>	<u>5,282,543</u>
Depreciation	<u>389,668</u>	<u>8,890</u>	<u>19,875</u>	<u>418,433</u>
Total expenses	<u>\$ 4,319,919</u>	<u>\$ 510,313</u>	<u>\$ 870,744</u>	<u>\$ 5,700,976</u>

NATIONAL DANCE INSTITUTE OF NEW MEXICO STATEMENTS OF CASH FLOWS

	Years Ended August 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 1,912,841	\$ (134,940)
Adjustments to reconcile change in net assets to net cash (used) from operating activities		
Depreciation	472,766	418,433
Contributions received for long-term investment	(248,645)	(187,930)
Realized and unrealized gains on investments	(2,727,020)	(1,504,862)
Loss on retirement of equipment	2,004	-
Changes in assets and liabilities		
Accounts receivable	(44,209)	2,725
Contributions receivable	21,650	1,218,350
Grants receivable	13,450	11,666
Pledges receivable	(224,654)	175,219
Other assets	26,366	(25,636)
Accounts payable	16,854	(18,353)
Accrued payroll and related liabilities	22,290	(21,722)
Other liabilities	(9,103)	6,208
Deferred tuition revenue	(21,748)	(37,638)
Net cash used by operating activities	(787,158)	(98,480)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(726,622)	(375,883)
Purchase of investments	(1,760,540)	(5,552,859)
Proceeds from sale of investments	3,721,235	2,192,503
Net cash provided (used) by investing activities	1,234,073	(3,736,239)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	446,915	(3,834,719)
CASH AND CASH EQUIVALENTS, beginning of year	543,039	4,377,758
CASH AND CASH EQUIVALENTS, end of year	\$ 989,954	\$ 543,039

NATIONAL DANCE INSTITUTE OF NEW MEXICO

NOTES TO FINANCIAL STATEMENTS

Note 1 – Description of Organization

National Dance Institute of New Mexico (NDI New Mexico) is a not-for-profit corporation which was incorporated in 1995 in the State of New Mexico. The mission of NDI New Mexico is based on the knowledge that the arts have a unique power to engage and motivate children. The purpose of the NDI New Mexico programs is to help children achieve discipline, a standard of excellence, and a belief in themselves that will carry over into all aspects of their lives. The organization operates exclusively for charitable and educational purposes.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The financial statements of NDI New Mexico are prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenditures are recognized when incurred in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations (GAAP).

Basis of presentation – NDI New Mexico reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. NDI New Mexico has all three classes of net assets as noted below:

Unrestricted Net Assets. Unrestricted Net Assets are not subject to donor-imposed stipulations. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Temporarily Restricted Net Assets. Temporarily Restricted Net Assets include gifts, unconditional promises to give, income and gains which can be expended but for which restrictions have not yet been met. If the restriction expires in the same accounting period as the contribution is received, the revenue is shown as unrestricted. Such restrictions include restrictions where donors have specified the purpose for which the net assets are to be spent, or time limitations imposed by donors or implied by the nature of the gift (capital projects, unconditional promises to give to be paid in the future, life income funds).

Permanently Restricted Net Assets. Permanently Restricted Net Assets are donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise be removed by actions of NDI New Mexico. Under donor advisement of change in intent, these assets may be reclassified.

Cash and cash equivalents – NDI New Mexico considers all highly liquid investments with an original maturity of ninety days or less to be cash equivalents. NDI New Mexico maintains the majority of its cash balances in financial institutions located in New Mexico. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution.

NATIONAL DANCE INSTITUTE OF NEW MEXICO

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Pledges receivable – Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Accounts receivable write-offs – NDI New Mexico uses the direct accounting write-off method; therefore, an allowance for doubtful accounts is not used. There were no material unconditional promises to give written off during the years ended August 31, 2017 or 2016.

Property and equipment – Property and equipment is recorded at cost, and presented net of accumulated depreciation. Donated assets are reflected as contributions at their estimated fair value at the date of donation, as determined by management. Depreciation is computed using both straight-line and accelerated methods over estimated useful lives of the respective assets, ranging from 3 to 40 years.

Functional expenses – The cost of providing various programs and supporting services has been reported on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the various programs and supporting services based on estimates made by management.

Contributions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recognized when the donor makes a promise to give to NDI New Mexico that is, in substance, unconditional.

Contributed goods and services – Donated goods and services are reflected as contributions in the accompanying statements at their estimated values at date of receipt, as determined by management.

Advertising – Advertising costs are expensed as incurred. Total advertising costs for the years ended August 31, 2017 and 2016 were \$59,080 and \$31,373, respectively.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred tuition revenue – Student tuition payments received prior to August 31 and relating to the following period are recorded as deferred tuition revenue.

Investment income – Investment income (including gains on investments, interest and dividends) is included in the Statement of Activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

NATIONAL DANCE INSTITUTE OF NEW MEXICO

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Fair value of assets and liabilities – NDI New Mexico's investments are accounted for under fair value accounting standards which provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Basis of Fair Value Measurement –

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in non-active markets; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Income taxes – NDI New Mexico is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code except to the extent of unrelated business taxable income as defined under IRC sections 511 through 515. NDI New Mexico had no unrecognized tax benefits which would require an adjustment as of August 31, 2017 or August 31, 2016. NDI New Mexico files an exempt organization return in the U.S. federal jurisdiction and with the State of New Mexico.

Net asset classifications – Endowments are recognized based on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA or the Act).

Recent accounting pronouncements – In August 2014, FASB issued ASU 2014-15, *Going Concern*: Introduces the concept of going concern into GAAP, and requires management to evaluate whether or not there is any substantial doubt about the entity's ability to continue as a going concern. Substantial doubt exists if conditions and events indicate it is probable (likely to occur) that the entity won't be able to meet its obligations as they become due within one year of issuance. The evaluation does not consider any mitigating effect of management's plans. Effective for years ending after December 15, 2016, and early adoption is permitted. There was no impact from adoption of this standard.

ASU 2016-14 – The FASB issued Accounting Standards Update 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14) during August 2016. ASU 2016-14 revises the current net asset classification requirements and information presented in financial statements and notes about a non-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. Management is evaluating the effect that implementation of ASU 2016-14 will have on the financial statements of NDI New Mexico.

NATIONAL DANCE INSTITUTE OF NEW MEXICO

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. NDI New Mexico recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued. NDI New Mexico has evaluated subsequent events through November 9, 2017.

Note 3 – Contributions, Pledges and Grants Receivables

Contributions, unconditional promises to give and grants receivables as of August 31, 2017 and 2016, were as follows:

	2017	2016
Contributions, pledges and grants receivables due in less than one year		
Contributions receivable	\$ -	\$ 21,650
Endowment pledges	400	1,600
Capital campaign	83,000	50,500
Annual pledges	19,525	16,171
Grants receivable	11,550	25,000
Total receivables less than one year	\$ 114,475	\$ 114,921
	2017	2016
Pledges and grants receivable due in one to five years		
Capital campaign	\$ 190,000	\$ -
Total receivables from one to five years	\$ 190,000	\$ -
Total contributions, pledges and grants receivables	\$ 304,475	\$ 114,921

NATIONAL DANCE INSTITUTE OF NEW MEXICO

NOTES TO FINANCIAL STATEMENTS

Note 4 – Property and Equipment

The following is a summary of property and equipment as of August 31:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 1,190,644	\$ 1,232,464
Furniture and fixtures	464,184	451,232
Buildings	12,215,906	11,560,459
Software	124,038	125,242
Other	34,800	33,750
Total	<u>14,029,572</u>	<u>13,403,147</u>
Accumulated depreciation	<u>(3,983,673)</u>	<u>(3,609,100)</u>
	<u>\$ 10,045,899</u>	<u>\$ 9,794,047</u>

Depreciation expense for the years ended August 31, 2017 and 2016 was \$472,766 and \$418,433, respectively.

Note 5 – Related Party Transactions

Members of the Board of Directors made contribution pledges that were recorded as receivables for the capital campaign, annual pledges, and endowment at August 31, 2017 and 2016. The balances due to NDI New Mexico as of August 31, 2017 and 2016 were \$252,700 and \$6,808, respectively.

An employee benefit plan is offered to the employees of NDI New Mexico. Investment opportunities include mutual funds as to which a member of the governing board is directly affiliated and another member of the board has an immediate family member who is affiliated.

Note 6 – Investments

Investment securities at August 31 consisted of the following:

	<u>2017</u>	<u>2016</u>
Equity funds	\$ 22,205,566	\$ 19,685,677
Bond funds	4,606,829	6,114,281
Bank common stock	237,500	237,500
Certificates of deposit	142,321	141,781
Other	24,665	22,672
	<u>27,216,881</u>	<u>26,201,911</u>
Less long-term portion of investments	24,975,768	24,073,752
Investments, short-term	<u>\$ 2,241,113</u>	<u>\$ 2,128,159</u>

NDI New Mexico's investments are held by Vanguard under a custodial agreement. The bank common stock is held by Los Alamos National Bank. The net realized and unrealized (loss) gains on investments for the years ended August 31, 2017 and 2016 are \$2,283,526 and \$1,090,429, respectively.

NATIONAL DANCE INSTITUTE OF NEW MEXICO NOTES TO FINANCIAL STATEMENTS

Note 7 – Fair Value Measurements

Investments held in equity funds, bond funds, common stock and certificate of deposits values are determined based on quoted market prices available in an active market and therefore are considered Level 1 securities. The bank common stock value is determined based on quoted market prices in an inactive market since the stock is not traded on a regular basis; therefore, it is considered a Level 2 security.

The following table presents the fair value measurements of investments recognized in the accompanying Statements of Financial Position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2017 and 2016:

	Investment Assets at Fair Value as of August 31, 2017			
	Level 1	Level 2	Level 3	Total
Equity dividend funds	\$ 8,698,929	\$ -	\$ -	\$ 8,698,929
International equity funds	8,085,691	-	-	8,085,691
U.S. government securities	2,098,792	-	-	2,098,792
Domestic fixed income funds	2,508,037	-	-	2,508,037
Domestic stock funds	2,234,607	-	-	2,234,607
International stock funds	3,186,339	-	-	3,186,339
Bank common stock	-	237,500	-	237,500
Certificates of deposit	142,321	-	-	142,321
Other	24,665	-	-	24,665
	<u>\$ 26,979,381</u>	<u>\$ 237,500</u>	<u>\$ -</u>	<u>\$ 27,216,881</u>
Total investments at fair value	<u>\$ 26,979,381</u>	<u>\$ 237,500</u>	<u>\$ -</u>	<u>\$ 27,216,881</u>

	Investment Assets at Fair Value as of August 31, 2016			
	Level 1	Level 2	Level 3	Total
Equity dividend funds	\$ 9,163,170	\$ -	\$ -	\$ 9,163,170
International equity funds	6,358,430	-	-	6,358,430
U.S. government securities	3,670,608	-	-	3,670,608
Domestic fixed income funds	2,443,673	-	-	2,443,673
Domestic stock funds	1,996,324	-	-	1,996,324
International stock funds	2,167,753	-	-	2,167,753
Bank common stock	-	237,500	-	237,500
Certificates of deposit	141,781	-	-	141,781
Other	22,672	-	-	22,672
	<u>\$ 25,964,411</u>	<u>\$ 237,500</u>	<u>\$ -</u>	<u>\$ 26,201,911</u>
Total investments at fair value	<u>\$ 25,964,411</u>	<u>\$ 237,500</u>	<u>\$ -</u>	<u>\$ 26,201,911</u>

Note 8 – Endowments

The National Dance Institute of New Mexico endowment consists of a pool of funds established to support operations. It includes donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NATIONAL DANCE INSTITUTE OF NEW MEXICO

NOTES TO FINANCIAL STATEMENTS

Note 8 – Endowments (continued)

From time to time, the fair value of assets associated with individual donor restricted endowment funds could fall below the level that the donor or the Act requires National Dance Institute of New Mexico to retain as a fund of perpetual duration. In accordance with GAAP, no deficiencies of this nature have been reported in unrestricted net assets as of August 31, 2017 and 2016, respectively.

The primary investment goal of National Dance Institute of New Mexico is to obtain, without undue risk, a return on investment and yield of the endowment portfolio sufficient for NDI New Mexico to meet its perceived short and long term obligations. NDI New Mexico seeks to earn at least the spending rate of its endowment (currently 4.6%), plus the inflation rate, as measured by the Consumer Price Index for All Urban Consumers (All Items), plus the costs of administration and management of the investment portfolio, if any. An annual draw from the permanent endowment shall be permitted on an “as needed” basis, not to exceed 5% of the quarterly rolling average for the most recent twelve quarters except as the NDI-NM Board may determine from time to time. The spending rate in 2017 was 4.6% of the 3 year quarterly rolling average on August 31, 2017. The spending rate in 2016 was 4.8% of the quarterly rolling average of the preceding twelve quarters.

Effective July 1, 2009, the State of New Mexico enacted the UPMIFA, the provisions of which apply to endowment funds existing on or established after that date. The Board of Directors of NDI New Mexico has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, NDI New Mexico classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by NDI New Mexico in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, NDI New Mexico considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of NDI New Mexico and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of NDI New Mexico
- (7) The investment policies of NDI New Mexico

NATIONAL DANCE INSTITUTE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS

Note 8 – Endowments (continued)

Endowment net assets consist of the following at August 31, 2017:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 10,837,793	\$ 10,837,793
Board-designated endowment funds	<u>15,366,575</u>	<u>-</u>	<u>15,366,575</u>
Total funds	<u>\$ 15,366,575</u>	<u>\$ 10,837,793</u>	<u>\$ 26,204,368</u>

Endowment net assets consist of the following at August 31, 2016:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 10,827,613	\$ 10,827,613
Board-designated endowment funds	<u>13,766,117</u>	<u>-</u>	<u>13,766,117</u>
Total funds	<u>\$ 13,766,117</u>	<u>\$ 10,827,613</u>	<u>\$ 24,593,730</u>

Changes in the endowment net assets for the year ended August 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, August 31, 2016	<u>\$ 13,766,117</u>	<u>\$ 10,827,613</u>	<u>\$ 24,593,730</u>
Investment return:			
Investment income	446,097	-	446,097
Net appreciation (realized and unrealized)	<u>2,136,142</u>	<u>-</u>	<u>2,136,142</u>
Total investment return	2,582,239	-	2,582,239
Gifts, bequests and change in restrictions	268,000	10,180	278,180
Appropriation of endowment assets for expenditure	<u>(1,249,781)</u>	<u>-</u>	<u>(1,249,781)</u>
Endowment net assets, August 31, 2017	<u>\$ 15,366,575</u>	<u>\$ 10,837,793</u>	<u>\$ 26,204,368</u>

NATIONAL DANCE INSTITUTE OF NEW MEXICO

NOTES TO FINANCIAL STATEMENTS

Note 8 – Endowments (continued)

Changes in the endowment net assets for the year ended August 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, August 31, 2015	\$ 13,563,699	\$ 10,791,513	\$ 24,355,212
Investment return:			
Investment income	416,185	-	416,185
Net appreciation (realized and unrealized)	985,419	-	985,419
Total investment return	<u>1,401,604</u>	<u>-</u>	<u>1,401,604</u>
Gifts, bequests and change in restrictions	200,000	36,100	236,100
Appropriation of endowment assets for expenditure	<u>(1,399,186)</u>	<u>-</u>	<u>(1,399,186)</u>
Endowment net assets, August 31, 2016	<u>\$ 13,766,117</u>	<u>\$ 10,827,613</u>	<u>\$ 24,593,730</u>

Total endowed investment gain of \$2,582,239 and \$1,401,604 for the years ended August 31, 2017 and 2016, respectively, consist of unrestricted earnings on the investments held within both the permanently restricted and unrestricted endowment funds.

NDI New Mexico has a replacement reserve to fund replacements of major facility components. The balance of this reserve at August 31, 2017 and 2016 was \$1,104,475 and \$1,017,012, respectively.

The Organization's operating reserve is a contingency reserve account from which NDI New Mexico pays for operations in the event of a shortfall in contributed or earned income, or for other purposes identified by the NDI New Mexico Board of Directors. The balance of this fund was \$1,000,000 at August 31, 2017 and 2016.

Campaign and reserve funds are co-invested with the endowment. At the end of the fiscal year, the investment earnings are allocated to the funds. The earnings on co-invested campaign funds for the years ended August 31, 2017 and 2016 were \$55,857 and \$48,450, respectively. The earnings allocated to the replacement reserve for the years ended August 31, 2017 and 2016 were \$87,463 and \$56,041, respectively. The operating reserve is replenished at year-end as needed. No such replenishment was required on August 31, 2017 or 2016.

NATIONAL DANCE INSTITUTE OF NEW MEXICO

NOTES TO FINANCIAL STATEMENTS

Note 9 – Commitments and Contingencies

NDI New Mexico has entered into various lease agreements including equipment leases which expire in 2018 through 2022.

Future minimum lease payments on these leases are as follows:

August 31,

2018	\$	8,249
2019		8,804
2020		5,173
2021		4,067
2022		555
	<u>\$</u>	<u>26,848</u>

NDI New Mexico entered into a lease agreement with the Board of Education of the Santa Fe Public Schools for real property (land) for a period of 50 years expiring February 6, 2052. The annual rent of \$1 is due on July 1 of each year. The nominal rent is based on the condition NDI New Mexico provides dance instruction to students in the Santa Fe School District during the term equivalent to or exceeding the leased value of the premise.

On January 13, 2009, NDI New Mexico entered into a lease agreement with Bernalillo County for the real property known as The Hiland Theater for a period of 30 years from the Commencement Date as determined by the issuance of a Certificate of Occupancy, with the option of renewing the lease for three additional terms of ten years. Upon receipt of a final Certificate of Occupancy the annual rent will be \$184,300, which is the fair market rental value of the premises. A Certificate of Occupancy was issued on July 22, 2011 for 14,050 square feet, a second on February 24, 2012 for an additional 25,000 square feet and a final temporary certificate was issued for the remaining facility on March 31, 2014.

During the lease term, NDI New Mexico shall pay the County the adjusted annual rent through (i) the provision by NDI New Mexico of services which demonstrate a consistent history of services to sick and indigent persons in the County or (ii) cash for the balance of the adjusted annual rent which is not paid through services and costs. The rent can be adjusted from time to time to appropriately reflect areas occupied by NDI New Mexico or increased to include the Consumer Price Index for US Cities in the "South Region" following each five-year anniversary of the commencement of the agreement. Rent was adjusted at the end of July, 2016 to the new annual rental rate of \$195,717.

The rental amount due in services or cash was \$195,717 and \$185,251 for the years ended August 31, 2017 and 2016, respectively. Services provided for the period July 2016 through June 2017 totaled \$1,976,172. An accounting of services provided in lieu of rent for July through September is due to Bernalillo County on October 31, 2017. NDI New Mexico does not expect to owe rent to Bernalillo County based on services already performed.

NATIONAL DANCE INSTITUTE OF NEW MEXICO

NOTES TO FINANCIAL STATEMENTS

Note 10 – Retirement Plan

NDI New Mexico has a contribution benefit SIMPLE plan covering all eligible employees. For any calendar year, instead of making matching contributions, NDI New Mexico may make non-elective contributions equal to 2% of compensation for the calendar year of each eligible employee who has at least \$5,000 in compensation for the calendar year. In addition, participants may make elective contributions up to the maximum amounts allowed under IRS regulations. All contributions are fully vested when made. NDI New Mexico's contribution to the plan for the years ended August 31, 2017 and 2016 were \$54,814 and \$51,306, respectively.