



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

NATIONAL DANCE INSTITUTE OF NEW MEXICO

August 31, 2018 and 2017

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Report of Independent Auditors

Board of Directors
National Dance Institute of New Mexico

Report on Financial Statements

We have audited the accompanying consolidated financial statements of National Dance Institute of New Mexico and subsidiary (collectively NDI New Mexico), a New Mexico not-for-profit corporation, which comprise the consolidated statements of financial position, as of August 31, 2018 and 2017, and the related consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NDI New Mexico as of August 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and 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 15, 2018

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National Dance Institute of New Mexico
Consolidated Statements of Financial Position

ASSETS

	August 31,	
	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,495,734	\$ 989,954
Contributions receivable	16,000	-
Pledges receivable, short-term	411,009	102,925
Grants receivable	6,500	11,550
Accounts receivable	31,747	64,482
Investments, short-term	4,351,356	2,241,113
Other assets	89,331	-
Total current assets	<u>6,401,677</u>	<u>3,410,024</u>
NON-CURRENT ASSETS		
Pledges receivable, long-term	1,015,747	190,000
Investments, long-term	23,173,324	24,975,768
Property and equipment, net	9,762,277	10,045,899
Total assets	<u>\$ 40,353,025</u>	<u>\$ 38,621,691</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 29,199	\$ 21,341
Accrued payroll and related liabilities	95,504	78,289
Other liabilities	12,432	6,724
Deferred tuition revenue	524,163	308,034
Total current liabilities	<u>661,298</u>	<u>414,388</u>
COMMITMENT AND CONTINGENCIES (Note 9)		
NET ASSETS		
Net assets - unrestricted		
Operating	(284,648)	130,837
Property and equipment	9,762,277	10,045,899
Board designated endowment	16,158,009	15,366,575
Total net assets - unrestricted	<u>25,635,638</u>	<u>25,543,311</u>
Net assets - temporarily restricted		
Operating	1,239,879	1,136,650
Capital campaign	478,417	689,549
Total net assets - temporarily restricted	<u>1,718,296</u>	<u>1,826,199</u>
Net assets - permanently restricted	12,337,793	10,837,793
Total net assets	<u>39,691,727</u>	<u>38,207,303</u>
Total liabilities and net assets	<u>\$ 40,353,025</u>	<u>\$ 38,621,691</u>

National Dance Institute of New Mexico
Consolidated Statements of Activities
Year Ended August 31, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Contributions				
General donation	\$ 867,504	\$ 79,100	\$ 1,500,000	\$ 2,446,604
In-kind goods and services	58,987	-	-	58,987
Total contributions	<u>926,491</u>	<u>79,100</u>	<u>1,500,000</u>	<u>2,505,591</u>
Grants				
Operating	629,713	-	-	629,713
Special events (including in-kind)	869,590	-	-	869,590
Less direct benefit costs to donors	(51,648)	-	-	(51,648)
Total special events	<u>817,942</u>	<u>-</u>	<u>-</u>	<u>817,942</u>
Merchandise sales	65,450	-	-	65,450
Contract for services	524,931	-	-	524,931
Ticket sales	109,930	-	-	109,930
Tuition and fees	726,245	-	-	726,245
Rental income	64,834	-	-	64,834
Interest income	1,742	-	-	1,742
Miscellaneous income	2,824	-	-	2,824
Total revenue and other support, net	<u>3,870,102</u>	<u>79,100</u>	<u>1,500,000</u>	<u>5,449,202</u>
NET ASSETS RELEASED FROM RESTRICTION	<u>280,482</u>	<u>(280,482)</u>	<u>-</u>	<u>-</u>
EXPENSES				
Program services	4,556,286	-	-	4,556,286
General and administrative	497,272	-	-	497,272
Fundraising expenses	1,013,854	-	-	1,013,854
Total expenses	<u>6,067,412</u>	<u>-</u>	<u>-</u>	<u>6,067,412</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>(1,916,828)</u>	<u>(201,382)</u>	<u>1,500,000</u>	<u>(618,210)</u>
OTHER INCOME				
Dividend and interest income	512,286	-	-	512,286
Net unrealized				
gain on investments	855,722	93,479	-	949,201
Net realized				
gain on investments	641,147	-	-	641,147
Total other income	<u>2,009,155</u>	<u>93,479</u>	<u>-</u>	<u>2,102,634</u>
INCREASE (DECREASE) IN NET ASSETS	92,327	(107,903)	1,500,000	1,484,424
NET ASSETS AT BEGINNING OF YEAR	<u>25,543,311</u>	<u>1,826,199</u>	<u>10,837,793</u>	<u>38,207,303</u>
NET ASSETS AT END OF YEAR	<u>\$ 25,635,638</u>	<u>\$ 1,718,296</u>	<u>\$ 12,337,793</u>	<u>\$ 39,691,727</u>

National Dance Institute of New Mexico
Consolidated Statements of Activities
Year Ended 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>

National Dance Institute of New Mexico
Consolidated Statements of Functional Expenses
Year Ended August 31, 2018

	Program Services	Management and General	Fundraising Operations	Total
Salaries and wages	\$ 2,574,724	\$ 328,263	\$ 492,189	\$ 3,395,176
Employee benefits	239,146	24,656	48,788	312,590
Payroll taxes	212,941	22,787	40,584	276,312
Contract labor	115,097	210	31,747	147,054
Total personnel expenses	3,141,908	375,916	613,308	4,131,132
Direct production expenses	106,033	222	25,382	131,637
Outside services	87,813	45,864	82,198	215,875
Promotions and public relations	47,626	1,434	94,841	143,901
Office expenses	224,588	18,423	72,136	315,147
Facilities and equipment	228,725	9,497	61,595	299,817
Travel expenses	177,401	6,049	11,347	194,797
Other expenses	78,704	20,493	28,343	127,540
Total expenses before depreciation	4,092,798	477,898	989,150	5,559,846
Depreciation	463,488	19,374	24,704	507,566
Total expenses	<u>\$ 4,556,286</u>	<u>\$ 497,272</u>	<u>\$ 1,013,854</u>	<u>\$ 6,067,412</u>

National Dance Institute of New Mexico
Consolidated 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><u>\$ 4,611,691</u></u>	<u><u>\$ 475,756</u></u>	<u><u>\$ 990,134</u></u>	<u><u>\$ 6,077,581</u></u>

National Dance Institute of New Mexico
Consolidated Statements of Cash Flows

	Years Ended August 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 1,484,424	\$ 1,912,841
Adjustments to reconcile change in net assets to net cash (used) from operating activities		
Depreciation	507,566	472,766
Contributions received for long-term investment	(178,296)	(248,645)
Realized and unrealized gains on investments	(2,092,997)	(2,727,020)
Loss on retirement of equipment	-	2,004
Changes in assets and liabilities		
Contributions receivable	(16,000)	21,650
Pledges receivable	(1,133,831)	(224,654)
Grants receivable	5,050	13,450
Accounts receivable	32,735	(44,209)
Other assets	(89,331)	26,366
Accounts payable	7,858	16,854
Accrued payroll and related liabilities	17,215	22,290
Other liabilities	5,708	(9,103)
Deferred tuition revenue	216,129	(21,748)
Net cash used by operating activities	(1,233,770)	(787,158)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(223,944)	(726,622)
Purchase of investments	(4,733,171)	(1,760,540)
Proceeds from sale of investments	6,696,665	3,721,235
Net cash provided by investing activities	1,739,550	1,234,073
NET INCREASE IN CASH AND CASH EQUIVALENTS	505,780	446,915
CASH AND CASH EQUIVALENTS, beginning of year	989,954	543,039
CASH AND CASH EQUIVALENTS, end of year	\$ 1,495,734	\$ 989,954

National Dance Institute of New Mexico

Notes to Consolidated 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.

On September 8, 2016, NDI New Mexico created single member LLC, 307 Camino Alire, LLC (Camino Alire). The wholly owned subsidiary of NDI New Mexico is organized and shall be operated for the purpose of supporting and making distributions to NDI. On September 12, 2016, 307 Camino Alire LLC acquired a property of the same address adjacent to the NDI New Mexico Dance Barns. For tax purposes, the LLC is disregarded, and all of its activities are reported on NDI's annual information return (IRS form 990).

Note 2 – Summary of Significant Accounting Policies

Consolidated Financial Statements Presentation

The consolidated financial statements included the accounts and transactions of NDI New Mexico and Camino Alire (collectively, NDI New Mexico). The Organization's consolidated financial statements 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).

National Dance Institute of New Mexico

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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.

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, 2018 and 2017.

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 long-lived 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, 2018 and 2017 were \$32,887 and \$59,080, respectively.

National Dance Institute of New Mexico

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those assumptions and 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.

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, 2018 or August 31, 2017. NDI New Mexico files an exempt organization return in the U.S. federal jurisdiction and with the State of New Mexico.

Note 2 – Summary of Significant Accounting Policies (continued)

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

FASB ASU 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.

FASB ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* – This ASU provides clarification in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and determining whether a contribution is conditional. The guidance is applicable for transactions where the entity serves as the resource recipient beginning after December 15, 2018 and for transactions in which the entity serves as the resource provider beginning after December 15, 2019. Management is in the process of determining the impact of this pronouncement.

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before consolidated financial statements are issued. NDI New Mexico recognizes in the consolidated 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 consolidated financial statements. The consolidated 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 consolidated financial statements are available to be issued. NDI New Mexico has evaluated subsequent events through November 15, 2018.

National Dance Institute of New Mexico

Notes to Consolidated Financial Statements

Note 3 – Contributions, Pledges and Grants Receivables

Contributions, unconditional promises to give and grants receivables as of August 31, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Contributions, pledges and grants receivables due in less than one year		
Contributions receivable	\$ 16,000	\$ -
Music director endowment	300,000	400
Capital campaign	54,409	83,000
Annual pledges	56,600	19,525
Grants receivable	6,500	11,550
	<u> </u>	<u> </u>
Total receivables less than one year	<u>\$ 433,509</u>	<u>\$ 114,475</u>
	<u>2018</u>	<u>2017</u>
Pledges and grants receivable due in one to five years		
Music director endowment	\$ 900,000	\$ -
Capital campaign	115,747	190,000
	<u> </u>	<u> </u>
Total receivables from one to five years	<u>\$ 1,015,747</u>	<u>\$ 190,000</u>
Total contributions, pledges and grants receivables	<u>\$ 1,449,256</u>	<u>\$ 304,475</u>

Note 4 – Property and Equipment

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

	<u>2018</u>	<u>2017</u>
Equipment	\$ 1,367,433	\$ 1,190,644
Furniture and fixtures	469,724	464,184
Buildings	12,249,492	12,215,906
Software	124,787	124,038
Other	34,800	34,800
Total	<u>14,246,236</u>	<u>14,029,572</u>
Accumulated depreciation	<u>(4,483,959)</u>	<u>(3,983,673)</u>
	<u>\$ 9,762,277</u>	<u>\$ 10,045,899</u>

Depreciation expense for the years ended August 31, 2018 and 2017 was \$507,566 and \$472,766, respectively. D

National Dance Institute of New Mexico Notes to Consolidated Financial Statements

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, 2018 and 2017. The balances due to NDI New Mexico as of August 31, 2018 and 2017 were \$197,456 and \$252,700, 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>2018</u>	<u>2017</u>
Equity funds	\$ 21,698,851	\$ 22,205,566
Bond funds	5,217,626	4,606,829
Bank common stock	439,500	237,500
Certificates of deposit	143,091	142,321
Other	25,612	24,665
	<u>27,524,680</u>	<u>27,216,881</u>
Less long-term portion of investments	<u>23,173,324</u>	<u>24,975,768</u>
Investments, short-term	<u>\$ 4,351,356</u>	<u>\$ 2,241,113</u>

NDI New Mexico's investments are held by Vanguard under a custodial agreement. The bank common stock is held by Continental Stock Transfer & Trust. The net realized and unrealized (loss) gains on investments for the years ended August 31, 2018 and 2017 are \$1,590,348 and \$2,283,526, respectively.

National Dance Institute of New Mexico

Notes to Consolidated Financial Statements

Note 7 – Fair Value Measurements

Investments held in equity funds, bond funds, common stock, bank 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 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, 2018 and 2017:

	Investment Assets at Fair Value as of August 31, 2018			
	Level 1	Level 2	Level 3	Total
Equity dividend funds	\$ 7,950,675	\$ -	\$ -	\$ 7,950,675
International equity funds	8,421,362	-	-	8,421,362
U.S. government securities	4,208,265	-	-	4,208,265
Domestic fixed income funds	1,009,361	-	-	1,009,361
Domestic stock funds	2,135,497	-	-	2,135,497
International stock funds	3,191,317	-	-	3,191,317
Bank common stock	439,500	-	-	439,500
Certificates of deposit	143,091	-	-	143,091
Other	25,612	-	-	25,612
Total investments at fair value	<u>\$ 27,524,680</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,524,680</u>

	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
Total investments at fair value	<u>\$ 27,216,881</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,216,881</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 Consolidated 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, 2018 and 2017, 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 4.9%), 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 2018 was 4.9% of the 3 year quarterly rolling average on August 31, 2018. The spending rate in 2017 was 4.6% of the 3 year quarterly rolling average on August 31, 2017.

In addition, during 2018, National Dance Institute of New Mexico took a draw of \$217,386 from its Operating Reserve, which is part of the Unrestricted, board-designated endowment. These funds will either be repaid to the Operating Reserve or replenished through future earnings.

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 Consolidated Financial Statements

Note 8 – Endowments (continued)

Endowment net assets consist of the following at August 31, 2018:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 12,337,793	\$ 12,337,793
Board-designated endowment funds	<u>16,158,009</u>	<u>-</u>	<u>16,158,009</u>
Total funds	<u>\$ 16,158,009</u>	<u>\$ 12,337,793</u>	<u>\$ 28,495,802</u>

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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>

Changes in the endowment net assets for the year ended August 31, 2018 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, August 31, 2017	<u>\$ 15,366,575</u>	<u>\$ 10,837,793</u>	<u>\$ 26,204,368</u>
Investment return:			
Investment income	512,286	-	512,286
Net appreciation (realized and unrealized)	<u>1,497,065</u>	<u>-</u>	<u>1,497,065</u>
Total investment return	2,009,351	-	2,009,351
Gifts, bequests and change in restrictions		1,500,000	1,500,000
Appropriation of endowment assets for expenditure	<u>(1,217,917)</u>	<u>-</u>	<u>(1,217,917)</u>
Endowment net assets, August 31, 2018	<u>\$ 16,158,009</u>	<u>\$ 12,337,793</u>	<u>\$ 28,495,802</u>

National Dance Institute of New Mexico
Notes to Consolidated Financial Statements

Note 8 – Endowments (continued)

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

	Unrestricted	Permanently Restricted	Total
Endowment net assets, August 31, 2016	\$ 13,766,117	\$ 10,827,613	\$ 24,593,730
Investment return:			
Investment income	446,097	-	446,097
Net appreciation (realized and unrealized)	2,136,142	-	2,136,142
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	 (1,249,781)	 -	 (1,249,781)
 Endowment net assets, August 31, 2017	 \$ 15,366,575	 \$ 10,837,793	 \$ 26,204,368

Total endowed investment gain of \$2,009,351 and \$2,582,239 for the years ended August 31, 2018 and 2017, 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, 2018 and 2017 was \$1,160,780 and \$1,104,475, 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 at August 31, 2018 and 2017 was \$841,816 and \$1,000,000, respectively.

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, 2018 and 2017 were \$20,901 and \$55,857, respectively. The earnings allocated to the replacement reserve for the years ended August 31, 2018 and 2017 were \$72,578 and \$87,463, respectively. The operating reserve is replenished at year-end as needed. No such replenishment was required on August 31, 2018 and 2017.

National Dance Institute of New Mexico

Notes to Consolidated Financial Statements

Note 9 – Commitments and Contingencies

NDI New Mexico has entered into various lease agreements including equipment leases which expire in 2019 through 2022.

Future minimum lease payments on these leases are as follows:

For Years Ending August 31,	
2019	\$ 12,803
2020	9,172
2021	8,067
2022	4,554
2023	1,000
Total	<u>\$ 35,596</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 for the years ended August 31, 2018 and 2017. Services provided for the period July 2017 through June 2018 totaled \$1,989,159. An accounting of services provided in lieu of rent for July through September is due to Bernalillo County on October 31, 2018. 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 Consolidated 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, 2018 and 2017 were \$54,771 and \$54,814, respectively.