SCHOOL FOR ADVANCED RESEARCH

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2017 AND 2016

CliftonLarsonAllen LLP

SCHOOL FOR ADVANCED RESEARCH
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YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
School for Advanced Research
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of School for Advanced Research (the School) (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, 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.

Auditors' 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 auditors' 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 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 the School as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The management's discussion and analysis on pages 3 through 5 is presented to supplement the basic financial statements. We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Emphasis-of-Matter Regarding Investments in Partnerships

As discussed in Note 3, these financial statements include investments in partnerships valued by the general partner of each partnership in the absence of readily ascertainable market values. At June 30, 2017 and 2016, that portion of the School's investment was $6,145,577 and $7,789,184, respectively, which represents 20% and 26%, respectively, of the School's total assets at that date. Because of inherent uncertainty of valuation of these estimates, the estimate by each general partner of these values may differ significantly from values that would have been used had a ready market for those investments existed, and the difference could be material.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of net assets are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules of net assets have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 8, 2017

As management of the School for Advanced Research (the School or SAR), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2017.

Financial Highlights *

- The School's net assets increased by $913,865 to $30,266,743 from June 30, 2016. Revenues increased by $2,517,262, while expenses increased by $68,851.

- Assets increased by $676,520 to $30,489,480. Liabilities decreased by $237,345 to $222,737 at June 30, 2017.

* See page 4, Financial Analysis and Investment Results, for details.

Overview of the Financial Statements

The operations of the School are accounted for in the basic financial statements, which include a statement of financial position, a statement of activities and changes in net assets, and are accompanied by a statement of cash flows. Additionally, there are notes to the financial statements that provide additional information that is essential to a full understanding of the data provided in the statements. The statement of financial position is presented as of June 30, 2017 and 2016.

Condensed Comparative Data

	2017	2016
Total Assets (Cash, Investments, Accounts Receivable, Prepaid Expenses, and Property and Equipment)	$ 30,489,480	$ 29,812,960
Total Liabilities (Accounts Payable and Debt)	222,737	460,082
Net Assets	$ 30,266,743	$ 29,352,878
Revenues:		
Contributions	$ 1,647,158	$ 1,941,949
Investment Income	2,338,702	(276,465)
Membership Income	211,421	141,137
Other	371,216	244,614
Total Revenues	4,568,497	2,051,235
Expenses:		
Program Expenses	2,560,770	2,680,630
Supporting Services	1,093,862	905,151
Total Expenses	3,654,632	3,585,781
Change in Net Assets	913,865	(1,534,546)
Net Assets - Beginning of Year	29,352,878	30,887,424
Net Assets - End of Year	$ 30,266,743	$ 29,352,878

Financial Analysis of the School

Assets of the School consist primarily of cash, investments and property and equipment. Liabilities consist of accounts payable and accrued expenses.

Total revenue increased by $2,517,262 (123%) for the year ended June 30, 2017, due to significant increases in the value of our investments. Overall, investment balances (including cash and cash equivalents) increased by $898,994 from June 30, 2016 (see investment results below). Contributions, sales and fees decreased by $97,905 (4%). Exclusive of the inventory write-down, total expenses decreased by $58,614 (10%).

Investment Results

During FY 2017 SAR liquidated $1,643,604 in alternative investments, reducing the School's investment in alternates from 32% to 20% as a percentage of total assets. SAR intends to continue to reduce exposure to alternative investments in FY 2018.

Total cash and investments increased $1,147,464 from $24,975,473 at June 30, 2016 to $26,122,937 at June 30, 2017. Net investment income, including interest, dividends and unrealized gains, increased to a net gain of $2,338,702 in fiscal year 2017 from a net loss of $276,465 in fiscal year 2016. SAR paid $119,782 in investment fees.

Property, Plant and Equipment

The School disposed of property, plant and equipment in the amount of $79,490 during fiscal year 2017. $48,335 in capital purchases were made during the year, primarily consisting of renovations to an apartment on SAR's campus.

Inventory

There was a $41,145 decrease in the SAR press book inventory as part of the restructuring of the division. Management increased the book inventory allowance by $10,237 to $220,237 based on the opinion that this better represents the real monetary value of the inventory to SAR.

Long-term Debt

The School made the final debt payment on September 7th, 2016. The School has now paid off all long term debt.

Current Trends and Conditions

- With the support of the SAR board of directors, the School hired a Donor Relations Manager, a new fundraising position for the organization. Ms. Archuleta is responsible for "moves management", the organized process of planning and tracking donor engagement for all of SAR's fundraising efforts.

- In FY2016 SAR received a $350,000 three-year grant from the Andrew W. Mellon Foundation. One major foundation reduced their grant by $170,000 in order to bring their annual giving to a more sustainable level. However, exclusive of these two donors, other contributions in FY2017 were up over $250,000.

Current Trends and Conditions (Continued)

- SAR increased the number of members by 180, plus a 40% increase in the number of President's Circle and Founder's Society members. The Founder's Society is a new giving level that commits donors to at least $5,000 in annual contributions.

- SAR continues to work to heighten its profile through increased marketing efforts via social media, print, and radio promotions as well as newspaper and magazine coverage. As a result, SAR's programs have been featured in key local, regional, and national publications, including Native American Arts Magazine, The Santa Fe New Mexican, and The Albuquerque Journal, that bring recognition to the impact of our programs both within our community and across the nation.

- SAR's co-publishing agreement with UNM Press continues to reduce SAR Press' prior years' losses. While gross sales of books were 29% below FY2016, FY2017 book sales, net of the cost of books sold and the commission paid to UNM Press, increased by $10,000.

- The School made the final mortgage payment on the adjacent Howells property.

- At the direction of the board, SAR increased rental income by $33,000. These funds are used to maintain the seminar house and other rental units.

- In planning for the FY2018 budget, SAR was able to maintain the draw percentage at 4.9%. Management still has a goal of reducing the draw rate to a more sustainable 4% over the next few years.

- As mentioned in the FY2016 MD&A, SAR changed its asset managers from Graystone Consulting in Ohio to REDW Stanley Financial Advisors LLC in Albuquerque in September, 2016. Custody was moved from Morgan Stanley to Charles Schwab. Overall, both management and board are pleased with the results. In the nine months after the move, the portfolio grew by 7.5% compared to the benchmark return of 7.2%.

- SAR has made good progress in liquidating the alternative investments that had proven to be too illiquid for SAR's needs. As of the date of this report, the majority of the holdings have been redeemed, although approximately $1MM will take one or two years to liquidate because of the long term nature of the underlying investments.

- Finally, it bears noting that the School remains committed to a "year-ahead funding" model in which all funds needed for operations are raised in the prior fiscal year. This careful planning enables us to meet current financial obligations while achieving the program goals outlined in our strategic plan. The staff is pleased with FY2017's progress and looks ahead to FY2018 with a solid strategic plan, continued sensible budgeting, and a prudent investment strategy.

SCHOOL FOR ADVANCED RESEARCH
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 497,923	$ 360,634
Pledges Receivable	253,347	237,455
Accounts Receivable:		
Grants	506,095	750,994
Publications	83,217	78,794
Other	262	122
Prepaid Expenses	66,801	47,913
Inventory, Net of Allowance	258,079	309,462
Total Current Assets	1,665,724	1,785,374
PROPERTY AND EQUIPMENT, Net	3,198,092	3,390,247
OTHER ASSETS		
Investments	25,625,014	24,614,839
Long-Term Pledges Receivable, Net of Discount	650	22,500
Total Other Assets	25,625,664	24,637,339
Total Assets	$ 30,489,480	$ 29,812,960
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 46,624	$ 43,670
Accrued Payroll and Related Liabilities	176,113	134,836
Accrued Interest Payable	-	11,155
Current Maturities of Long-Term Debt	-	270,421
Total Current Liabilities	222,737	460,082
NET ASSETS		
Unrestricted	17,215,427	16,103,455
Temporarily Restricted	2,034,159	2,232,266
Permanently Restricted	11,017,157	11,017,157
Total Net Assets	30,266,743	29,352,878
Total Liabilities and Net Assets	$ 30,489,480	$ 29,812,960

See accompanying Notes to Financial Statements.

SCHOOL FOR ADVANCED RESEARCH
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Contributions and Grants	$ 525,702	$ 1,121,456	$ -	$ 1,647,158
Membership Dues	211,421	-	-	211,421
Book Sales and Royalties	145,866	-	-	145,866
Interest and Dividend	520,944	-	-	520,944
Net Realized and Unrealized Gain on Investment	1,817,758	-	-	1,817,758
Rental	36,469	-	-	36,469
Other	188,881	-	-	188,881
Net Assets Released from Restrictions	1,319,563	(1,319,563)	-	-
Total Revenues	4,766,604	(198,107)	-	4,568,497
EXPENSES				
Program Services	2,560,770	-	-	2,560,770
Supporting Services:				
Management and General	748,323	-	-	748,323
Fundraising	345,539	-	-	345,539
Total Expenses	3,654,632	-	-	3,654,632
CHANGE IN NET ASSETS	1,111,972	(198,107)	-	913,865
Net Assets - Beginning of Year	16,103,455	2,232,266	11,017,157	29,352,878
NET ASSETS - END OF YEAR	$ 17,215,427	$ 2,034,159	$ 11,017,157	$ 30,266,743

See accompanying Notes to Financial Statements.

SCHOOL FOR ADVANCED RESEARCH
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Contributions and Grants	$ 298,163	$ 1,643,786	$ -	$ 1,941,949
Membership Dues	141,137	-	-	141,137
Book Sales and Royalties	188,839	-	-	188,839
Interest and Dividend	426,988	-	-	426,988
Net Realized and Unrealized Gain on Investment	(703,453)	-	-	(703,453)
Rental	2,809	-	-	2,809
Other	52,966	-	-	52,966
Net Assets Released from Restrictions	1,358,443	(1,358,443)	-	-
Total Revenues	1,765,892	285,343	-	2,051,235
EXPENSES				
Program Services	2,680,630	-	-	2,680,630
Supporting Services:				
Management and General	638,343	-	-	638,343
Fundraising	266,808	-	-	266,808
Total Expenses	3,585,781	-	-	3,585,781
CHANGE IN NET ASSETS	(1,819,889)	285,343	-	(1,534,546)
Net Assets - Beginning of Year	17,923,344	1,946,923	11,017,157	30,887,424
NET ASSETS - END OF YEAR	$ 16,103,455	$ 2,232,266	$ 11,017,157	$ 29,352,878

See accompanying Notes to Financial Statements.

SCHOOL FOR ADVANCED RESEARCH
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 913,865	$ (1,534,546)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Net Realized Gain on Investments	(1,680,004)	(672,064)
Net Unrealized (Gain) Loss on Investments	(137,754)	1,375,517
Reinvested Gains and Interest	(316,978)	(332,157)
Depreciation	173,360	182,045
Excess Inventory Allowance	10,237	210,000
Donated Land	(12,415)	-
Write off of previously capitalized costs	79,545	-
Effects of Changes in Operating Assets and Liabilities:		
Pledges Receivable	5,958	104,860
Accounts Receivable	240,336	(812,378)
Prepaid Expenses	(18,888)	(21,231)
Inventory	41,146	90,629
Accounts Payable	2,954	8,765
Accrued Payroll and Related Liabilities	30,122	14,720
Accrued Interest Payable	-	(17,816)
Net Cash Used by Operating Activities	(668,516)	(1,403,656)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	18,721,638	8,067,478
Purchases of Investments	(17,597,077)	(6,498,371)
Purchases of Property and Equipment	(48,335)	(14,789)
Net Cash Provided by Investing Activities	1,076,226	1,554,318
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of Long-Term Debt	(270,421)	(256,324)
NET CHANGE IN CASH AND CASH EQUIVALENTS	137,289	(105,662)
Cash and Cash Equivalents - Beginning of Year	360,634	466,296
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 497,923	$ 360,634
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 11,155	$ 28,971

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Definition of Reporting Entity

The School for Advanced Research (formerly The School for Advanced Research on the Human Experience) (the School) provides a dynamic environment for the advanced study and communication of knowledge about human culture, evolution, history and creative expression.

The School draws upon its century-deep roots in the American Southwest, anthropology, and indigenous arts to present programs, publications and initiatives that impart the learning of social scientists, humanists, and artists to inform the thoughts and actions of scholars, artists, educators, and the interested public.

Use of Estimates in Preparing Financial Statements

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 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 revenues and expenses during the reporting period. Significant estimates include the methods and lives used to compute depreciation expense. Actual results could differ from those estimates.

Basis of Accounting

The accompanying financial statements have been prepared using the accrual method of accounting. Under the accrual method of accounting, revenues are recognized when earned rather than received, and expenses are recognized when the related liability is incurred rather than when paid.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under ASC 958, the School is required to report information regarding its financial position and activities according to three classes of net assets.

Unrestricted Net Assets

These assets represent sources whose use is not limited to or restricted by donors. Unrestricted net assets have arisen from exchange transactions, receipt of unrestricted contributions and expirations or satisfaction of existing restrictions.

The School treats restricted contributions whose restrictions are satisfied during the same fiscal year as unrestricted support. All contributions made to the School are considered to be available for unrestricted use unless specifically restricted by the donor.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

Temporarily Restricted Net Assets

These assets result from (a) contributions and other inflows of assets whose use by the School is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations; (b) other assets enhancements and diminishments subject to the same kinds of stipulations; and (c) imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the School pursuant to those stipulations.

Permanently Restricted Net Assets

These assets have donor-imposed restrictions that stipulate that resources be maintained permanently but permit the School to use up or expend part or all of the income or economic benefits derived from the donated assets.

Cash and Cash Equivalents

For purposes of preparing the statements of cash flows, the School considers all cash and financial instruments with original maturities of three months or less as cash and cash equivalents. Cash and cash equivalents include cash on hand, cash in banks, and money market accounts held with a brokerage firm.

The School maintains its depository accounts with various financial institutions. Balances in these accounts periodically exceed federally insured limits. The School has not experienced any losses from, and believes it is not exposed to, significant credit risk from these deposits.

Investments

Investments include marketable equity, corporate and government debt securities that are carried at current market value based on year-end quoted stock market prices. Market alternatives include ownership of funds and single manager funds carried at estimated value as determined in good faith by the general partner of each investment. The general partners of these limited partnerships determine market value based upon fair value of the underlying investments of the limited partnerships, as there is no ready market for these investments. Realized gains and losses are recorded on a specific identification method upon the sale or write-off of investment assets of the limited partnerships. Investment valuation adjustments are determined by general partners based on an increase or impairment in value in underlying investments during the investment-holding period.

Accounts Receivable

Management reviews the collectability of its receivables and, if necessary, records a reserve for its estimate of uncollectible accounts. Historical write-offs and current facts and circumstances are the primary bases for this estimate. When an account is deemed uncollectible, it is charged off against the reserve. Management has deemed all amounts to be collectible and, accordingly, has not recorded an allowance for uncollectible accounts at June 30, 2017 and 2016.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory consists primarily of books and publications, and is carried at the lower of cost or market. Cost is determined by specific identification. On June 25, 2015, the School entered into a distribution agreement with The University of New Mexico Press (UNM Press). Under the agreement, UNM Press warehouses, distributes, and markets in-print titles previously published by the School. In return, the School pays UNM Press a commission equal to 32% of net receipts of each print and/or electronic book distributed. SAR also entered into an agreement with UNM Press to co-publish new titles. Under the co-publishing agreement, SAR pays the acquisition costs and author royalties (if any), UNM press pays all costs related to the book production and marketing. UNM Press pays SAR a 10% royalty on the net sales of these new titles.

During FY 17 SAR's management reviewed the valuation of inventory. The analysis reviewed the three prior year's sales for each title and compared it to the current stock of each title. As a result of this analysis SAR increased the preexisting allowance by $10,237 resulting in an allowance for excess inventory in the amount of $220,237.

Property and Equipment

The School owns and occupies a campus that encompasses approximately 16 acres. The School has 11 buildings with over 51,900 square feet which are home to all of the activities of the School.

Property and equipment is stated at cost or, if donated, at the estimated fair market value at the date of donation. Expenditures exceeding $2,500 that enhance or extend the useful life of property and equipment are capitalized. Maintenance and repair costs are expensed as incurred. Depreciation is provided for all depreciable assets on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 39 years.

The School reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Impairment of Long-lived Assets and Long-lived Assets to be Disposed of

The School reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amounts of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of, if any, are reported as the lower of the carrying amount or the fair value less costs to sell. There was no impairment of long-lived assets at June 30, 2017 and 2016.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Collection and Library

The collections, which were acquired through purchases and contributions since the School's inception, are not recognized as assets on the statements of financial position. The School adheres to the policies of the American Association of Museums, which discourages the assignment of dollar values to collections not intended for sale in the marketplace. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as decreases in temporarily restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions are reflected as increases in the appropriate net asset classes and are designated for collection acquisition and care.

Permanently Restricted Net Assets

Authoritative guidance includes the following financial statement disclosure requirements for the School for the years ended June 30, 2017 and 2016.

Classification of Net Assets

Endowment funds are used to account for investments in which the principal is temporarily or permanently restricted or board-designated for a specific purpose.

Interpretation of Relevant Law

The School has interpreted the Uniform Prudent Management of Institutions Funds Act (UPMIFA) 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, the School classifies as permanent restricted net assets: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the School, and (7) the School investment policies.

Income Taxes

The School is a nonprofit corporation and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified as other than a private foundation. As such, their normal activities do not result in any income tax liability. The School pays taxes on unrelated business income.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The School would recognize accrued interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no such interest or penalties recorded for the years ended June 30, 2017 and 2016.

The School files informational tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the School is subject to examination by federal, state, local and foreign jurisdictions, where applicable.

Support and Revenue

Contributions received, including unconditional promises, are recognized as revenue in the period received and are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence of any donor or time restrictions.

Pledges are recorded at the net present value of their estimated future cash flows. The discount on pledges is computed using the risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. The School believes pledges receivable are presented at net realizable value.

The School reports gifts of cash and other assets as restricted support if such gifts are received with donor stipulations on the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Contributions of services are recognized only if the services received create or enhance nonfinancial assets, require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Grants

The School performs services under reciprocal contracts with the National Science Foundation. Revenues from these contracts are recognized as the services are performed and related expenses are recorded as incurred.

Functional Allocation of Expense

The School reports its expenses according to four functional classifications: Program Services, Management and General, Membership Programming and Fundraising. Direct costs are recorded to the functional classification that the expense relates to. All other expenses are allocated among these classifications on the basis of programs and services benefited.

Advertising Costs

The School incurs certain advertising costs in connection with the promotion of its mission. Advertising costs are expensed as incurred. Advertising expense totaled $15,402 and $13,679 for the years ended June 30, 2017 and 2016, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Payroll and Related Liabilities

Accrued payroll and related liabilities include $100,806 and $84,238 of accrued vacation as of June 30, 2017 and 2016, respectively.

Subsequent Events

Management evaluated subsequent events through November 8, 2017, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2017, but prior to November 8, 2017, that provided additional evidence about conditions that existed at June 30, 2017 have been recognized in the financial statements for the year ended June 30, 2017. Events or transactions that provided evidence about conditions that did not exist at June 30, 2017, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2017.

NOTE 2 CONDITIONAL PROMISE TO GIVE

The School is the beneficiary of a revocable bequest totaling $5,880,000. Due to the revocable nature of the bequest it has not been recorded.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, the School uses various valuation approaches within the ASC 820 fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. ASC 820 defines levels within the hierarchy based on the reliability of inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Marketable securities traded in active markets are measured at fair value using Level 1 inputs. The fair values are based on quoted market prices at the reporting date.

Market alternatives are classified within Level 3 of the valuation hierarchy and are valued at market value as determined in good faith by the general partner of each fund, in accordance with Cooperative Agreements. The general partners of these limited partnerships determine market value based upon fair value of the underlying investments of the limited partnerships, as there is no ready market for these investments. Realized gains and losses are recorded on a specific identification method upon the sale or write off of investment assets of the limited partnerships.

The following table present assets and liabilities measured at fair value by classification within the fair value hierarchy as of June 30, 2017:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Stocks:				
Common Stocks	$ 10,422,730	$ -	$ -	$ 10,422,730
Exchange Traded Funds:				
Large Value Funds	5,882,723	-	-	5,882,723
Mutual Funds:				
Bond Funds	3,173,984	-	-	3,173,984
Market Alternatives:				
Partnerships	-	-	6,145,577	6,145,577
Total	$ 19,479,437	$ -	$ 6,145,577	$ 25,625,014

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table present assets and liabilities measured at fair value by classification within the fair value hierarchy as of June 30, 2016:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Stocks:				
Common Stocks	$ 6,019,840	$ -	$ -	$ 6,019,840
Exchange Traded Funds:				
Large Value Funds	3,509,108	-	-	3,509,108
Mutual Funds:				
Bond Funds	7,296,707	-	-	7,296,707
Market Alternatives:				
Partnerships	-	-	7,789,184	7,789,184
Total	$ 16,825,655	$ -	$ 7,789,184	$ 24,614,839

The following information summarizes the difference between cost and the estimated fair value for investments as of June 30, 2017:

	Cost	Estimated Fair Value	Market Value Over (Under) Cost
Stocks:			
Common Stocks	$ 9,324,105	$ 10,422,730	$ 1,098,625
Exchange Traded Funds:			
Large Value Funds	5,919,171	5,882,723	(36,448)
Mutual Funds:			
Bond Funds	3,234,719	3,173,984	(60,735)
Market Alternatives:			
Partnerships	2,622,187	6,145,577	3,523,390
Total Assets at Fair Value	$ 21,100,182	$ 25,625,014	$ 4,524,832

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following information summarizes the difference between cost and the estimated fair value for investments as of June 30, 2016:

	Cost	Estimated Fair Value	Market Value Over (Under) Cost
Stocks:			
Common Stocks	$ 6,152,967	$ 6,019,840	$ (133,127)
Exchange Traded Funds:			
Large Value Funds	3,005,625	3,509,108	503,483
Mutual Funds:			
Bond Funds	7,203,454	7,296,707	93,253
Market Alternatives:			
Partnerships	3,866,524	7,789,184	3,922,660
Total Assets at Fair Value	$ 20,228,570	$ 24,614,839	$ 4,386,269

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended June 30, 2017 and 2016.

	2017	2016
Beginning Balance	$ 7,789,184	$ 9,871,485
Sales at Cost	(1,244,337)	(971,785)
Realized Gain	(1,210,649)	869,543
Net Change in Unrealized Gains and Losses	811,379	(1,980,059)
Ending Balance	$ 6,145,577	$ 7,789,184

Unrealized gains and losses applicable to instruments valued using significant unobservable inputs (Level 3) are included in the statements of activities and changes in net assets for the years ended June 30, 2017 and 2016.

The following summarizes information related to Level 3 investments whose fair value is determined based upon Net Asset Value per Share (NAV).

	Estimated Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Canyon	$ 1,620,239	None	Quarterly	60-95 Days
GoldenTree	$ 4,525,338	None	Quarterly	60-95 Days

Canyon Capital is a group of partnerships (funds) incorporated in the Cayman Islands and registered under Cayman Islands Mutual Funds Law. The funds invest in both U.S. and non-U.S. bank debt, private notes, real estate, common stock, preferred stock, and corporate bonds. The principal investment objective of the funds is to seek capital appreciation and current income by investing (through the master fund) in financial instruments that are perceived to be inefficiently priced as a result of business, financial, or legal uncertainties. This includes traded equity and debt securities, as well as derivatives thereof. Investments are listed at approximate fair market value.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

GoldenTree is a group of partnerships (funds) incorporated in the Cayman Islands and registered under Cayman Islands Mutual Funds Law. The funds invest in both U.S. and non-U.S. bank debt, private notes, real estate, common stock, preferred stock, and corporate bonds. The principal investment objective of the funds is to achieve superior risk-adjusted total returns by investing, directly or indirectly through investments in the Master Fund, primarily in public and private noninvestment grade and nonrated debt securities. Investments are listed at approximate fair market value.

As of June 30, 2017, orders were in process to redeem all the outstanding holdings. These redemptions are expected to be completed during the fiscal year ending June 30, 2018.

NOTE 4 PLEDGES RECEIVABLE

Pledges receivable are discounted and recorded at the net present value of estimated future cash flows. The School believes that all pledges receivable will be fully collectible when due and, therefore, has not recorded an allowance on pledges receivable.

	2017	2016
Expected Cash Collection	$ 253,997	$ 259,955
Less Discount to Present Value	-	-
Present Value of Pledges Receivables	$ 253,997	$ 259,955

The amount of pledges receivable expected to be collected in the next five years follows:

2018	$ 253,347
2019	650
Total Contribution Receivable	$ 253,997

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2017	2016
Buildings and Improvements	$ 6,001,170	$ 6,001,171
Land Improvements	401,309	401,309
Equipment	905,588	905,588
Furniture and Fixtures	146,519	135,679
Total	7,454,586	7,443,747
Less Accumulated Depreciation	(6,323,622)	(6,150,209)
	1,130,964	1,293,538
Land	2,032,075	2,015,744
* Projects in Process	35,053	80,965
	2,067,128	2,096,709
Total Property and Equipment	$ 3,198,092	$ 3,390,247

* Projects in process consist of projects for the master campus and the Kidder Garage remodel.

Depreciation expense for the years ended June 30, 2017 and 2016, was $173,360 and $182,045, respectively.

NOTE 6 LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

	2017	2016
5.50% note with certain individuals, due in four annual installments of $285,294, including interest, commencing September 7, 2013 and continuing through September 7, 2016, when the remaining balance is due. Property is pledged as collateral.	$ -	$ 270,421
Less: Current Maturities	-	(270,421)
Total Long-Term Debt, Net of Current Maturities	$ -	$ -

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30:

	2017	2016
Capital Construction	$ 470,136	$ 750,435
Indian Arts Research Center	546,732	453,875
Scholarships and Internship Programs	555,946	665,981
Discounted Value of Unconditional Promises to Give	241,497	241,205
Program	219,848	120,770
Total	$ 2,034,159	$ 2,232,266

Net assets are released from restrictions by incurring expenses satisfying the restricted purposes. Net assets released from restrictions were comprised of the following:

	2017	2016
Capital Construction	$ 307,299	$ 308,053
Indian Arts Research Center	405,738	399,054
Collections on Pledges	339,704	486,433
Program	125,039	96,537
Scholarships and Internship Programs	141,783	62,366
Seminars	-	6,000
Total	$ 1,319,563	$ 1,358,443

NOTE 8 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is unrestricted and has been board-designated to support the following at June 30, 2017 and 2016:

	2017	2016
Operating Endowment	$ 2,978,344	$ 2,978,344
Weatherhead Endowment	2,166,000	2,166,000
Centennial Endowment	1,288,800	1,288,800
Indian Arts Research Endowment	1,057,258	1,057,258
J.I. Staley Endowment	925,148	925,148
Lamon Native American Research Endowment	864,762	864,762
King Artist Endowment	500,000	500,000
Annenburg Conversations Program	500,000	500,000
Dobkin Artist Endowment	422,936	422,936
F. Crichton Lecture Endowment	155,000	155,000
Dubin Artist Endowment	145,000	145,000
Retirement & Benefit Endowment	13,909	13,909
Total	$ 11,017,157	$ 11,017,157

NOTE 9 ENDOWMENTS

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides industry guidance to organizations similar to the School. The state of New Mexico adopted UPMIFA effective July 1, 2009. The School's board of directors has determined that all permanently restricted net assets meet the definition of endowment funds under UPMIFA.

Endowment Investment and Spending Policies

The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for programs supported by its endowments while seeking to maintain the purchasing power of the endowments.

The School's current spending policy is to distribute a percentage of the rolling five-year average of the fair market value of the endowments, as determined each year by the board of directors. As there are no donor restrictions on the investment earnings this spending policy is utilized to ensure the longevity of the endowments.

The investment policies establish a return objective through diversification of asset classes. The current long-term return objective is the rate of inflation plus spending, net of investment fees. To satisfy its long-term rate of return objectives, the School relies on a total return strategy in which investment returns may be achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The School targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

Changes in Endowment Net Assets

The composition of the School's endowments by net asset class, and a reconciliation of beginning and ending balances, are reflected in permanently restricted net assets in the accompanying statements of activities and changes in net assets.

NOTE 10 COLLECTIONS

The School's collection of Native American pottery, art, artifacts, library of research materials and scholarly works is maintained for research and educational purposes in furtherance of its mission and public service. Each of the items is cataloged, preserved and cared for, and activities verifying its existence and assessing its condition are performed continuously. Proceeds from the disposition of collection and library items, if any, are designated for collection acquisition and care. Investments include amounts restricted ($264,130 in 2017 and $252,636 in 2016) for acquisition or maintenance of collection items.

NOTE 11 COMMITMENTS

Leases

The School leases equipment under a long-term operating lease. The long-term operating lease expires September 2019. Rental expense was $9,070 and $6,520 for the years ended June 30, 2017 and 2016, respectively. Future minimum lease payments required under long-term operating leases follow:

Year Ending June 30,	Amount
2018	$ 9,128
2019	6,840
2020	1,710
2021	-
2021 and thereafter	-
Total	$ 17,678

Retirement Plans

The School has a Defined Contribution Retirement Plan that covers all eligible employees. The plan includes provisions for mandatory participation beginning after one year of employment and the attainment of age 21, with required participation at three years and age 30. Contributions are based on percentages of regular salary, and total 2% by the School and 4% by the participant. The expense related to this plan was $56,148 and $49,811 in 2017 and 2016, respectively. The pension plan is administered by TIAA.

The School offers all employees the option of participating in a Tax Deferred Annuity Plan through the fund sponsors of the Teachers Insurance and Annuity Association or the College Retirement Equities Fund. Employees are eligible to participate beginning on the first of the month following employment. Employees contribute to this plan according to a salary reduction agreement. There are no employer contributions under this plan.

NOTE 12 RELATED PARTY TRANSACTIONS

The School receives contributions, pledges, and bequests from members of the board of directors. During the year ended June 30, 2017, the School received $364,851 from 16 members of the board of directors. The total pledges receivable balance at June 30, 2017, for seven members of the board of directors was $227,547. During the year ended June 30, 2016, the School received $434,061 from 19 members of the board of directors. The total pledges receivable balance at June 30, 2016, for two members of the board of directors was $201,305. All receivables from the board of directors are considered collectible.

SCHOOL FOR ADVANCED RESEARCH
SCHEDULES OF NET ASSETS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating Endowment	$ 10,839,291	$ 10,492,837
Invested in Plant Fund	3,146,710	2,350,777
Weatherhead Endowment	2,793,964	2,718,257
Indian Arts Research Endowment	2,412,712	2,232,781
Lamon Native American Research Endowment	1,390,523	1,347,943
Retirement & Benefit Endowment	1,164,120	1,122,275
Centennial Endowment	1,002,638	966,282
Operating Funds	977,315	1,540,750
Cash Reserves	928,479	1,126,779
J.I. Staley Endowment	879,448	839,818
Lambert House Fund	682,006	624,983
Annenberg Conversations Endowment	565,099	543,849
Dobkin Artist Endowment	510,573	454,407
King Artist Endowment	503,786	491,246
Mellon Resident Fellowship	282,441	355,558
ARCT Collections Improvement & Dissemination Grant	258,126	227,272
ARCT Native Museum Professionals Training Grant	249,228	161,197
IARC Collections Endowment	248,115	239,121
Dubin Artist Endowment	200,982	196,435
President's Circle	182,844	58,207
Adams Scholar Fund	180,353	170,701
F. Crichton Lecture Endowment	142,047	136,900
Indian Arts Fund Endowment	120,631	117,474
V. Campbell Resident Scholar fund	113,431	144,471
Bunting Summer Scholar Fund	106,292	103,156
ARF CEO Directed Grant	73,669	-
Linda S. Cordell book award	52,246	59,165
Paloheimo Annual Report Fund	35,600	35,000
White Antelope Blanket Fund	29,356	26,672
ARF Campus Safety Grant	27,000	-
J.I. Staley Program	24,541	26,587
DWS Memorial Fund	23,341	-
Feld Bosavi Digital Project	22,668	-
Dobkin Social Change Initiative Projects Fund	18,029	18,044
IARC Collections Fund	16,015	13,515
Library Book Purchase Fund	12,750	9,486
Lannan Literary Art Program	12,617	14,882
Website Redesign Project	10,563	-
Schwartz Arroyo Hondo Fund	6,902	8,737
Frost Foundation Grant	6,841	-
Archaeology Grant Program	6,677	10,690
Paloheimo Communication Grant	5,792	-
Santa Fe Community Foundation Grant	982	-
ARCT grant for Tract 6B purchase	-	307,299
ARCT Capacity Grant	-	54,506
Indian Arts Fund	-	4,437
Native Arts Forum	-	382
TOTAL NET ASSETS	$ 30,266,743	$ 29,352,878