SCHOOL FOR ADVANCED RESEARCH

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2018 AND 2017

SCHOOL FOR ADVANCED RESEARCH
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YEARS ENDED JUNE 30, 2018 AND 2017

CliftonLarsonAllen LLP
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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, 2018 and 2017, 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.

Board of Directors
School for Advanced Research

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, 2018 and 2017, 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 6 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, 2018 and 2017, that portion of the School's investment was $946,054 and $6,145,577, respectively, which represents 3% and 20%, 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
October 23, 2018

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, 2018.

Financial Highlights *

- The School's net assets increased by $326,493 to $30,593,236 from June 30, 2017. Revenues decreased by $695,156, while expenses decreased by $107,784.

- Assets increased by $388,065 to $30,877,545 from June 30, 2017. Liabilities increased by $61,572 to $284,309 from 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, 2018 and 2017.

Condensed Comparative Data

	2018	2017
Total Assets (Cash, Investments, Accounts Receivable, Prepaid Expenses, and Property and Equipment)	$ 30,877,545	$ 30,489,480
Total Liabilities (Accrued Expenses and Deferred Revenue)	284,309	222,737
Net Assets	$ 30,593,236	$ 30,266,743
Revenues:		
Contributions	$ 1,943,255	$ 1,647,158
Investment Income	1,370,905	2,338,702
Membership Income	226,556	211,422
Other	332,625	371,215
Total Revenues	3,873,341	4,568,497
Expenses:		
Program Expenses	2,385,283	2,560,770
Supporting Services	1,161,565	1,093,862
Total Expenses	3,546,848	3,654,632
Change in Net Assets	326,493	913,865
Net Assets - Beginning of Year	30,266,743	29,352,878
Net Assets - End of Year	$ 30,593,236	$ 30,266,743

Financial Analysis of the School

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

Total revenue decreased by $695,156 (15%) for the year ended June 30, 2018, due to significant increases in the value of our investments in the prior year. Overall, investment balances (including cash and cash equivalents) increased by $803,571 from June 30, 2017 (see investment results below). Contributions, sales, and fees increased by $272,641 (12%). Total expenses decreased by $107,784 (3%).

Investment Results

During FY2017, SAR liquidated $5,199,253 in alternative investments, reducing the School's investment in alternates from 20% to 3% as a percentage of total assets. SAR intends to continue to reduce exposure to alternative investments in FY 2019.

Total cash and investments increased $803,571 from $26,122,937 at June 30, 2017 to $26,926,508 at June 30, 2018. Net investment income, including interest, dividends, and unrealized gains, decreased to a net gain of $1,370,906 in fiscal year 2018 from a net gain of $2,338,702 in fiscal year 2017 primarily due to liquidation of alternative investments in the prior year. SAR paid $48,180 in investment fees.

Property, Plant and Equipment

$12,811 in capital purchases were made during the year, solely consisting of upgrades to payroll software.

Current Trends and Conditions

- The Indian Arts Research Center (IARC) completed collaborative guidelines for museums and Native American communities. These guidelines are being accepted by many other museums nationwide.

- The IARC also celebrated its 40th anniversary this year with a fundraising event attended by 220 people at the Poeh Cultural Center, which netted just over $64,000 in revenue for the center. IARC tours included 2,179 visitors in FY2018, an increase of 30 percent from FY2017.

- SAR received 191 applications for six FY2019 Resident Scholar Fellowships.

- Former resident scholar and FY2018 Staley Prize winner Jason De León was awarded a MacArthur "Genius Grant."

- With the approval of the SAR board of directors, the School hired Meredith Davidson as the director of Public Programs and Communications, a new division of SAR dedicated to improving and expanding our community relations, adult education, and outreach. Her duties will include planning classes, public lectures, and salon-style discussions, as well as administering our public relations planning, communications, and marketing. Her creativity and professional demeanor have brought so much to the public face of SAR.

Current Trends and Conditions (Continued)

- The 2017–2018 Creative Thought Forum welcomed over 1,300 audience members to programs throughout the year. Events addressed the topic of Designing the Future and included the annual president's lecture at the Lensic Performing Arts Center with Elizabeth Kolbert, Pulitzer Prize–winning author of The Sixth Extinction: An Unnatural History, among other noted scholars.

- SAR hosted two summer salons as part of the Creative Thought Forum series. They featured Dan Flores, author of Coyote America: A Natural and Supernatural History, and conservationist William deBuys, author of Enchantment and Exploitation: The Life and Hard Times of a New Mexico Mountain Range.

- Membership in SAR increased by 78 people, or 14 percent, for a total of 718 members. We also saw a 14 percent increase in the number of President's Circle (PC) and Founders' Society (FS) members and a 33 percent increase in revenue from the PC and FS, from $96,656 to $128,750. The FS is a new giving level that commits donors to at least $5,000 in annual contributions. We now have twenty-eight member couples in the FS and forty non-board members in the PC.

- SAR continues to heighten its profile through increased marketing efforts via social media, print, and radio promotions, as well as newspaper and magazine coverage. We partnered with the Department of Cultural Affairs and seven other cultural institutions dedicated to the support of Native American arts on a public relations effort called "Project Indigene" to examine perspectives on and create awareness of some of the issues facing indigenous artists: authenticity, appropriation, activism, and artistic identity. We also partnered with Native American Art magazine to promote awareness about the IARC's 40th anniversary celebration

- We garnered over forty mentions in the press, including Pasatiempo (the Santa Fe New Mexican's weekly magazine), and a higher profile in Native American Art magazine.

- In planning for the FY2019 budget, SAR was able to maintain the draw percentage at 4.9 percent. Management will continue its efforts to reduce the draw rate to a more sustainable 4 percent over the next few years.

- SAR partnered with CapTrust to provide co-fiduciary services as described by ERISA under section 3(38) for SAR's retirement plan with TIAA. CapTrust has created a portfolio of investments for our staff to invest their contributions, and will work with TIAA and SAR to provide transparency into the fees associated with the investments, and in supporting us with meeting federal department of labor requirements.

- SAR has made good progress in liquidating the alternative investments that had proven to be too illiquid for our needs. As of the date of this report, the majority of the holdings have been sold, although approximately $900K will take one or two years to liquidate because of the long-term nature of the underlying investments.

Current Trends and Conditions (Continued)

- With the financial support of the Anne Ray Foundation, the physical plant installed new railings campus-wide and made repairs to the flagstone, resulting in significant safety improvements.
- We remodeled former office space into an additional scholar residence, reducing our need to rent off-campus housing.
- We doubled our broadband capacity.

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 FY2018's progress and looks ahead to FY2019 based on our solid strategic plan, continued sensible budgeting, and prudent investment strategy.

SCHOOL FOR ADVANCED RESEARCH
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,075,586	$ 497,923
Pledges Receivable	281,687	253,347
Accounts Receivable:		
Grants	249,025	506,095
Publications	65,028	83,217
Other	-	262
Prepaid Expenses	79,587	66,801
Inventory, Net of Allowance	218,000	258,079
Total Current Assets	1,968,913	1,665,724
PROPERTY AND EQUIPMENT, Net	3,057,710	3,198,092
OTHER ASSETS		
Investments	25,850,922	25,625,014
Long-Term Pledges Receivable, Net of Discount	-	650
Total Other Assets	25,850,922	25,625,664
Total Assets	$ 30,877,545	$ 30,489,480
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 54,305	$ 46,624
Accrued Payroll and Related Liabilities	192,779	176,113
Deferred Revenue	37,225	-
Total Current Liabilities	284,309	222,737
NET ASSETS		
Unrestricted	17,313,524	17,215,427
Temporarily Restricted	2,007,555	2,034,159
Permanently Restricted	11,272,157	11,017,157
Total Net Assets	30,593,236	30,266,743
Total Liabilities and Net Assets	$ 30,877,545	$ 30,489,480

See accompanying Notes to Financial Statements.

SCHOOL FOR ADVANCED RESEARCH
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Contributions and Grants	$ 866,560	$ 821,695	$ 255,000	$ 1,943,255
Membership Dues	226,556	-	-	226,556
Book Sales and Royalties	147,014	-	-	147,014
Interest and Dividend	640,494	-	-	640,494
Net Realized and Unrealized Gain on Investment	730,411	-	-	730,411
Rental	42,570	-	-	42,570
Other	143,041	-	-	143,041
Net Assets Released from Restrictions	848,299	(848,299)	-	-
Total Revenues	3,644,945	(26,604)	255,000	3,873,341
EXPENSES				
Program Services	2,385,283	-	-	2,385,283
Supporting Services:				
Management and General	765,365	-	-	765,365
Fundraising	396,200	-	-	396,200
Total Expenses	3,546,848	-	-	3,546,848
CHANGE IN NET ASSETS	98,097	(26,604)	255,000	326,493
Net Assets - Beginning of Year	17,215,427	2,034,159	11,017,157	30,266,743
NET ASSETS - END OF YEAR	$ 17,313,524	$ 2,007,555	$ 11,272,157	$ 30,593,236

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	211,422	-	-	211,422
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	188,880	-	-	188,880
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
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 326,493	$ 913,865
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Net Realized Gain on Investments	(2,900,558)	(1,680,004)
Net Unrealized (Gain) Loss on Investments	2,170,147	(137,754)
Reinvested Gains and Interest	(447,942)	(316,978)
Gain on Sale of Property and Equipment	(1,450)	-
Depreciation	153,193	173,360
Donated Land	-	(12,415)
Donated Stock	(62,996)	-
Write-off of Previously Capitalized Costs	-	79,545
Effects of Changes in Operating Assets and Liabilities:		
Pledges Receivable	(27,690)	5,958
Accounts Receivable	275,521	240,336
Prepaid Expenses	(12,786)	(18,888)
Inventory	48,954	41,146
Excess Inventory Allowance	(8,875)	10,237
Accounts Payable	7,681	2,954
Accrued Payroll and Related Liabilities	16,666	30,122
Deferred Revenue	37,225	-
Net Cash Used by Operating Activities	(426,417)	(668,516)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	8,327,128	18,721,638
Purchases of Investments	(7,311,687)	(17,597,077)
Proceeds from Sale of Property and Equipment	1,450	-
Purchases of Property and Equipment	(12,811)	(48,335)
Net Cash Provided by Investing Activities	1,004,080	1,076,226
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of Long-Term Debt	-	(270,421)
NET INCREASE IN CASH AND CASH EQUIVALENTS	577,663	137,289
Cash and Cash Equivalents - Beginning of Year	497,923	360,634
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,075,586	$ 497,923
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ -	$ 11,155

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, allowance for overstocked inventory, allocation of functional expenses, and valuation of alternative investments. 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, 2018 and 2017.

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 net realizable value. 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.

Annually, SAR’s management reviews the valuation of inventory. The analysis includes a comparison of the three prior year’s sales for each title to the current stock of each title. The allowance for excess inventory was $211,362 and $220,237 at June 30, 2018 and 2017.

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, 2018 and 2017.

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.

Endowment Funds

Authoritative guidance includes the following financial statement disclosure requirements for the School for the years ended June 30, 2018 and 2017.

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, unless otherwise directed by donor, or 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. There was no unrelated business income for the years ended June 30, 2018 and 2017.

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, 2018 and 2017.

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, 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 $14,295 and $15,402 for the years ended June 30, 2018 and 2017, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Payroll and Related Liabilities

Accrued payroll and related liabilities include $104,131 and $100,806 of accrued vacation as of June 30, 2018 and 2017, respectively.

Subsequent Events

Management evaluated subsequent events through October 23, 2018, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2018, but prior to October 23, 2018, that provided additional evidence about conditions that existed at June 30, 2018 have been recognized in the financial statements for the year ended June 30, 2018. Events or transactions that provided evidence about conditions that did not exist at June 30, 2018, 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, 2018.

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, 2018:

	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	$ 13,481,342	$ -	$ -	$ 13,481,342
Exchange Traded Funds:				
Large Value Funds	7,338,974	-	-	7,338,974
Mutual Funds:				
Bond Funds	4,084,552	-	-	4,084,552
Market Alternatives:				
Partnerships	-	-	946,054	946,054
Total	$ 24,904,868	$ -	$ 946,054	$ 25,850,922

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, 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

The following information summarizes the difference between cost and the estimated fair value for investments as of June 30, 2018:

	Cost	Estimated Fair Value	Market Value Over (Under) Cost
Stocks:			
Common Stocks	$ 11,430,829	$ 13,481,342	$ 2,050,513
Exchange Traded Funds:			
Large Value Funds	7,471,772	7,338,974	(132,798)
Mutual Funds:			
Bond Funds	4,213,070	4,084,552	(128,518)
Market Alternatives:			
Partnerships	380,566	946,054	565,488
Total Assets at Fair Value	$ 23,496,237	$ 25,850,922	$ 2,354,685

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, 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

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, 2018 and 2017.

	2018	2017
Beginning Balance	$ 6,145,577	$ 7,789,184
Realized Gains	2,783,874	1,377,851
Net change in Unrealized Gains	(2,957,902)	(399,270)
Withdrawals	(5,025,495)	(2,622,188)
Ending Balance	$ 946,054	$ 6,145,577

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, 2018 and 2017.

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	$ 946,054	None	Quarterly	60-95 Days
GoldenTree	$ -	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.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

This includes traded equity and debt securities, as well as derivatives thereof. Investments are listed at approximate fair market value.

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, 2018, outstanding Canyon holdings were not eligible for redemption given the long-term nature of underlying investments. GoldenTree holdings were liquidated in full during the year ended June 30, 2018.

NOTE 4 PLEDGES RECEIVABLE

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

	2018	2017
Expected Cash Collection	$ 281,687	$ 253,997
Less Discount to Present Value	-	-
Present Value of Pledges Receivables	$ 281,687	$ 253,997

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2018	2017
Buildings and Improvements	$ 6,034,747	$ 6,001,169
Land Improvements	401,309	401,309
Equipment	899,883	905,588
Furniture and Fixtures	146,519	146,519
Total	7,482,458	7,454,585
Less: Accumulated Depreciation	(6,458,298)	(6,323,621)
	1,024,160	1,130,964
Land	2,032,075	2,032,075
Projects in Process	1,475	35,053
	2,033,550	2,067,128
Total Property and Equipment	$ 3,057,710	$ 3,198,092

Depreciation expense for the years ended June 30, 2018 and 2017, was $153,193 and $173,360, respectively.

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

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

	2018	2017
Capital Construction	$ 453,794	$ 470,136
Indian Arts Research Center	609,659	546,732
Scholarships and Internship Programs	472,663	555,946
Discounted Value of Unconditional Promises to Give	281,685	241,497
Program	189,754	219,848
Total	$ 2,007,555	$ 2,034,159

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

	2018	2017
Capital Construction	$ 16,342	$ 307,299
Indian Arts Research Center	474,610	405,738
Collections on Pledges	135,697	339,704
Program	133,367	125,039
Scholarships and Internship Programs	88,283	141,783
Total	$ 848,299	$ 1,319,563

NOTE 7 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:

	2018	2017
Operating Endowment	$ 2,978,345	$ 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
Vortman Endowment	250,000	-
F. Crichton Lecture Endowment	160,000	155,000
Dubin Artist Endowment	145,000	145,000
Retirement & Benefit Endowment	13,908	13,909
Total	$ 11,272,157	$ 11,017,157

NOTE 8 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 9 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 ($267,330 and $264,130 for the years ended June 30, 2018 and 2017, respectively) for acquisition or maintenance of collection items.

NOTE 10 COMMITMENTS

Leases

The School leases equipment under a long-term operating lease. The long-term operating lease expires December 2022. Rental expense was $10,318 and $9,070 for the years ended June 30, 2018 and 2017, respectively. Future minimum lease payments required under long-term operating leases follow:

Year Ending June 30,	Amount
2019	$ 6,438
2020	6,438
2021	6,438
2022	6,438
2023 and thereafter	3,219
Total	$ 28,971

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 $63,062 and $56,148 in 2018 and 2017, 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 11 RELATED PARTY TRANSACTIONS

The School receives contributions, pledges, and bequests from members of the board of directors. During the year ended June 30, 2018, the School received $381,360 from 13 members of the board of directors. The total pledges receivable balance at June 30, 2018 for four members of the board of directors was $260,685. 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. All receivables from the board of directors are considered collectible.

NOTE 12 NEW ACCOUNTING PRONOUNCEMENTS EFFECTIVE IN FUTURE ACCOUNTING PERIOD

Accounting Standards Updates

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which is expected to impact the information presented in financial statements and notes about a nonprofit entity's liquidity, financial performance, and cash flows. The guidance is required to be applied by the Organization for the year ended June 30, 2019; however, early application is permitted. The Organization is currently evaluating the impact this guidance will have on its consolidated financial statements.

Accounting for Contributions Received and Contributions Made

In August 2017, FASB issued a proposed update related to the accounting for contributions received and contributions made. The estimated effective date is to follow guidance for Topic 606, *Revenue from Contracts and Customers*, with early adoption permitted. This update assists in evaluating whether a transfer of assets is an exchange transaction or a contribution and also assists with distinguishing between conditional and unconditional contributions. Distinguishing between contributions and exchange transactions determines which guidance should be applied. For contributions, the guidance in Subtopic 958-605 should be followed and for exchange transactions, Topic 606 should be followed. The Organization is currently evaluating the impact this guidance will have on its financial statements.

SCHOOL FOR ADVANCED RESEARCH
UNAUDITED SCHEDULES OF NET ASSETS
(SEE INDEPENDENT AUDITORS' REPORT)
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Operating Endowment	$ 10,832,829	$ 10,839,291
Invested in Plant Fund	2,978,408	3,146,710
Weatherhead Endowment	2,801,886	2,793,964
Indian Arts Research Endowment	2,424,274	2,412,712
Lamon Endowment	1,402,504	1,390,523
Retirement & Benefit Endowment	1,167,385	1,164,120
Operating Funds	1,200,609	977,315
Centennial Endowment	1,005,470	1,002,638
Cash Reserves	964,191	928,479
J.I. Staley Endowment	873,838	879,448
Lambert House Fund	717,316	682,006
Annenberg Conversations Endowment	566,691	565,099
King Artist Endowment	530,049	503,786
Dobkin Artist Endowment	527,851	510,573
ARF Native Museum Professionals Training Grant	260,000	249,228
ARF Collections Improvement & Dissemination Grant	259,289	258,126
B. & L. Vortman Endowment	250,000	-
IARC Collections Endowment	248,815	248,115
Mellon Resident Fellowship	204,955	282,441
Dubin Artist Endowment	200,821	200,982
Adams Scholar Fund	188,863	180,353
President's Circle	179,079	182,844
F. Crichton Lecture Endowment	147,492	142,047
Indian Arts Fund Endowment	120,975	120,631
Bunting Summer Scholar Fund	115,489	106,292
V. Campbell Resident Scholar Fund	113,431	113,431
Linda S. Cordell Book Award	51,944	52,246
Paloheimo Communication Grant	38,603	5,792
Paloheimo Annual Report Fund	35,600	35,600
White Antelope Blanket Fund	31,017	29,356
Feld Bosavi Digital Project	27,554	22,668
J.I. Staley Program	24,473	24,541
DWS Memorial Fund	23,341	23,341
IARC Collections Fund	18,515	16,015
Frost Foundation Grant	14,942	6,841
Library Book Purchase Fund	14,813	12,750
Lannan Literary Art Program	11,071	12,617
Archaeology Grant Program	7,667	6,677
Schwartz Arroyo Hondo Fund	6,902	6,902
NM Humanities Council Grant	3,916	-
Website Redesign Project	368	10,563
ARF CEO Directed Grant	-	73,669
ARF Campus Safety Ggrant	-	27,000
Dobkin Social Change Initiative Projects Fund	-	18,029
Santa Fe Community Foundation Grant	-	982
Total Net Assets	$ 30,593,236	$ 30,266,743