

SOUTHWESTERN ASSOCIATION FOR
INDIAN ARTS

FINANCIAL STATEMENTS

DECEMBER 31, 2018

Southwestern Association for Indian Arts

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Independent Auditor's Report

Board of Directors
Southwestern Association for Indian Arts
Albuquerque, New Mexico

We have audited the accompanying financial statements of the Southwestern Association for Indian Arts (SWAIA, a nonprofit organization), which comprise the statements of financial position as of December 31, 2018, and the related statements of activities, functional expense and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence 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 Southwestern Association for Indian Arts as of December 31, 2018, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Albuquerque, NM

A handwritten signature in black ink, appearing to read "M.P. Group, Inc." followed by a stylized flourish.

October 28, 2019

Financial Statements

Southwestern Association for Indian Arts
Statements of Financial Position
December 31, 2018

Assets

Current assets	
Cash and cash equivalents	\$ 141,179
Other receivables	19,457
Other assets	<u>19,725</u>
Total current assets	<u>180,361</u>
Investments	233,316
Equipment, net	<u>57,128</u>
Total assets	<u><u>470,805</u></u>

Liabilities and Net Assets

Current liabilities	
Accounts payable	47,204
Accrued expenses	14,662
Capital lease obligations	<u>15,367</u>
Total current liabilities	<u>77,233</u>
Capital lease obligation, less current portion	<u>24,667</u>
Total liabilities	<u><u>101,900</u></u>
Net assets	
Without donor restrictions	179,734
With donor restrictions	<u>189,171</u>
Total net assets	<u>368,905</u>
Total liabilities and net assets	<u><u>\$ 470,805</u></u>

The accompanying notes are an integral part of these financial statements.

Southwestern Association for Indian Arts
Statement of Activities
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Artist fee income	\$ 534,399	\$ -	\$ 534,399
Merchandise sales	32,228	-	32,228
Less cost of goods sold	(17,210)	-	(17,210)
Net merchandise sales	15,018	-	15,018
Marketing and licensing income	70,000	-	70,000
Membership and contributions	214,248	8,150	222,398
Grants and endowments	55,200	-	55,200
Special events	331,962	-	331,962
Less cost of direct benefits to donors	(75,059)	-	(75,059)
Net special events revenue	256,903	-	256,903
In-kind contributions	153,209	-	153,209
Net investment return	(7,248)	-	(7,248)
Miscellaneous	5,376	-	5,376
Net assets released			
from restrictions - other	8,190	(8,190)	-
Total support and revenue	1,305,295	(40)	1,305,255
Expenses			
Program services			
Indian Market	571,330	-	571,330
Fellowships and awards	112,168	-	112,168
Support services			
Management and general	181,186	-	181,186
Fundraising	336,695	-	336,695
Total expenses	1,201,379	-	1,201,379
Change in net assets	103,916	(40)	103,876
Net assets, beginning of year	75,818	189,211	265,029
Net assets, end of year	\$ 179,734	\$ 189,171	\$ 368,905

The accompanying notes are an integral part of these financial statements.

Southwestern Association for Indian Arts
Statement of Functional Expenses
For the Year Ended December 31, 2018

	<u>Program Services</u>		<u>Supporting Services</u>		
	Indian	Fellowships	Management		
	<u>Market</u>	<u>and Awards</u>	<u>and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 224,982	\$ 1,750	\$ 71,001	\$ 102,036	\$ 399,769
Production expense	246,807	7,583	7,885	135,304	397,579
Awards/Fellowships	10,852	83,797	-	-	94,649
Professional services	33,341	637	19,364	29,914	83,256
Promotional expense	17,642	1,913	5,587	41,074	66,216
Occupancy	36,149	281	11,408	16,394	64,232
Office expense	1,557	16,207	12,546	11,502	41,812
Administrative expense	-	-	34,000	471	34,471
Depreciation	-	-	16,792	-	16,792
Interest	-	-	2,603	-	2,603
Total expenses	<u>\$ 571,330</u>	<u>\$ 112,168</u>	<u>\$ 181,186</u>	<u>\$ 336,695</u>	<u>\$1,201,379</u>

The accompanying notes are an integral part of these financial statements.

Southwestern Association for Indian Arts
Statements of Cash Flows
For the Year Ended December 31, 2018

Cash flows from operating activities

Cash received from artist fees and special events	\$ 791,302
Cash received from contributions and membership	276,051
Other receipts	108,095
Cash paid to employees and suppliers	(1,042,188)
Interest expense	<u>(2,603)</u>
Net cash provided by operating activities	<u>130,657</u>

Cash flows from investing activities

Proceeds from sale of investments	4,000
Purchase of equipment	<u>(16,045)</u>
Net cash used by investing activities	<u>(12,045)</u>

Cash flows from financing activities

Principal payments on capital lease obligations	<u>(14,556)</u>
Increase in cash	104,056
Cash, beginning of year	<u>37,123</u>
Cash, end of year	<u>\$ 141,179</u>

**Reconciliation of change in net assets to net cash
provided by operating activities**

Change in net assets	\$ 103,876
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	16,792
Unrealized loss on investments	24,949
Changes in assets and liabilities	
Accounts receivable	17,910
Other receivables	(19,457)
Other assets	(12,457)
Accounts payable	733
Accrued expenses	<u>(1,689)</u>
Total adjustments	<u>26,781</u>
Net cash provided by operating activities	<u>\$ 130,657</u>

The accompanying notes are an integral part of these financial statements.

Southwestern Association for Indian Arts

Notes to Financial Statements

December 31, 2018

1) Summary of Significant Accounting Policies

Nature of Business

The Southwestern Association for Indian Arts (SWAIA) is a not-for-profit organization incorporated in June 1971 under the laws of the State of New Mexico. SWAIA's mission is to develop, sponsor and promote the Santa Fe Indian Market and other educational programs and events that encourage cultural preservation, intercultural understanding and economic opportunities for American Indians through excellence in the arts. For the year ended December 31, 2018, SWAIA's main sources of revenue were from memberships, donations, grants, artist fees and special events. The programs of SWAIA are as follows:

Indian Market – includes the annual organization and administration of the Southwest's largest arts market to display and judge artwork representing 1,200 artists from 43 states and Canada. Winter Indian Market is a relatively new expansion of this program.

Awards and fellowships – consists of the judging process and presentation of awards and fellowships to participating Indian Market artists based on predefined standards and criteria of their work.

Outreach programs – consists of providing support to and recognition of Native American artists of all ages.

Furniture and Equipment

Furniture and equipment additions over \$1,500 are recorded at cost if purchased or at the estimated fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to ten years, or in the case of capitalized leased assets, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Southwestern Association for Indian Arts
Notes to Financial Statements
December 31, 2018

1) Summary of Significant Accounting Policies — continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, SWAIA considers all short-term highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Investments

Investments are recorded at cost if purchased or, if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair value in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

The fair value of investments is subject to ongoing fluctuations. The amount ultimately realized upon disposition may differ than the amounts reported in these financial statements. Fair value estimates for securities are currently volatile, difficult to predict, and subject to material changes that could affect SWAIA's financial condition and results of operations in the future.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expense

Expenses are charged directly to program, management and general, and fundraising activities based on specific identification. Costs benefiting more than one service are allocated based on measures such as management's estimates of time spent and square footage, as applicable.

Allowance for Doubtful Accounts

Management reviews the collectability of its receivables and, if necessary, records an allowance for its estimate of uncollectible accounts. Bad debt history and current facts and circumstances are the primary basis for this estimate. When an account is deemed uncollectible, it is charged off against the allowance. Management estimates the receivables to be fully collectible; therefore, no allowance for doubtful accounts has been recorded.

Southwestern Association for Indian Arts
Notes to Financial Statements
December 31, 2018

1) Summary of Significant Accounting Policies — continued

Donated Services and Materials

Donated services are recorded if the services create or enhance nonfinancial assets or require specialized skills. Recognized in-kind donations are recorded at fair value on the date of donation. In-kind contributions of advertising, food, meeting space and auctioneer services related to the Indian Market totaled \$153,209 for the year ended December 31, 2018. Additional in-kind contributions of art and jewelry for the purposes of auction fundraising totaled \$108,771 for the year ended December 31, 2018. Donation items be used for auction are valued at their final sales price and recorded as contributions. During 2018, volunteers contributed approximately 5,238 hours to the Indian Market at a value of \$52,380. These services do not meet the requirements and have not been recorded in the financial statements.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restriction. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restriction.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed (or certain grantor-imposed) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Contributions restricted by donors are reported as increases in net assets without donor restriction if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assts without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Southwestern Association for Indian Arts
Notes to Financial Statements
December 31, 2018

1) Summary of Significant Accounting Policies — continued

Income Taxes

SWAIA is exempt from federal income taxes on related income under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as an organization described in IRS Section 501(c)(3). Further, SWAIA has been classified as an organization that is not a private foundation and, as such, contributions to SWAIA qualify for deduction as charitable contributions.

Accounting standards prescribe a comprehensive model for how an organization should measure, recognize, present and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. Management has determined that there are no material uncertain income tax positions.

Advertising

SWAIA expenses advertising costs as incurred. Total advertising costs were \$59,618 for the year ended December 31, 2018.

Financial Instruments

SWAIA's financial instruments consist of accounts and contracts receivable and accounts payable. It is management's opinion that SWAIA is not exposed to significant interest rate or credit risks arising from these instruments. Unless otherwise noted, the fair values of these financial instruments approximate their carrying value. The maximum potential loss from credit risk is equal to the carrying value. SWAIA does not require collateral on these financial instruments.

Change in Accounting Principle

In 2016, FASB issued Accounting Standards Update (ASU) 2016-14 – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. In 2018, SWAIA implemented ASU 2016-14.

Subsequent Events

Subsequent events were evaluated through October 28, 2019, which is the date the financial statements were available for issue.

Southwestern Association for Indian Arts

Notes to Financial Statements

December 31, 2018

2) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at December 31, 2018:

Cash and cash equivalents	\$ 141,179
Contracts and grants receivable	19,457
Prepaid expense	15,000
Operating investments	<u>44,145</u>
	<u>\$ 219,781</u>

The endowment fund consists primarily of donor-restricted funds. There is a portion of investments that is available to be liquidated and used for current needs. The underlying assets are maintained in publicly traded funds; selling them in the near term would not be an undue burden. Interest, dividends and capital gains from the endowment fund and other investments is available for general expenditure.

3) Fair Value Measurements

SWAIA carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the changes in net assets in the accompanying statement of activities and changes in net assets.

The following presents information about SWAIA assets that are measured at fair value on a recurring basis as of December 31, 2018, and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. The three levels for measuring fair value are based on the reliability of inputs and are as follows:

Level 1 – Inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly for substantially the full term of the financial instrument.

Southwestern Association for Indian Arts

Notes to Financial Statements

December 31, 2018

3) Fair Value Measurements — continued

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

Equities and debt securities – Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, although SWAIA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets measured at fair value on a recurring basis are as follows at December 31, 2018:

	<u>Fair Value Measurements Using</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment securities				
Equity mutual fund	\$ 196,472	\$ -	\$ -	\$ 196,472
Bond mutual fund	36,844	-	-	36,844
	<u>\$233,316</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 233,316</u>

Southwestern Association for Indian Arts

Notes to Financial Statements

December 31, 2018

4) Equipment

Equipment consists of the following as of December 31:

Furniture, fixtures and equipment	\$ 124,322
Computer software	<u>31,113</u>
	<u>155,435</u>
Less accumulated depreciation	<u>(98,307)</u>
Total	<u><u>\$ 57,128</u></u>

5) Concentrations

SWAIA has cash depository accounts with one financial institution that sometimes exceeds the Federal Deposit Insurance Corporation (FDIC) coverage limit of \$250,000. SWAIA has not experienced any losses in these balances and believes it is not exposed to any significant credit risk to any uninsured balances. The majority of SWAIA's income is attributable to the annual Indian Market.

6) Commitments

SWAIA has a three-year lease for office space in Santa Fe through May 2020. The monthly lease payment is \$3,599 per month. Rent expense was \$43,188 for the year ended December 31, 2018. Future minimum lease payments are as follows:

2019	\$ 43,188
2020	<u>17,995</u>
Total	<u><u>\$ 61,183</u></u>

SWAIA leases equipment under a capital lease agreement, which expires June 2021. Amortization of assets held under capital leases is included with depreciation expense.

Southwestern Association for Indian Arts

Notes to Financial Statements

December 31, 2018

6) Commitments— continued

The capitalized leased assets included in leased equipment consisted of the following at December 31, 2018:

Equipment	\$ 75,000
Accumulated amortization	<u>(37,500)</u>
Total	<u>\$ 37,500</u>

Future capital lease payments are as follows:

2019	\$ 17,160
2020	17,160
2021	<u>8,580</u>
Minimum lease payments	42,900
Amount representing interest	<u>(2,866)</u>
Present value of lease payments	40,034
Current portion	<u>(15,367)</u>
Long-term obligations under lease	<u>\$ 24,667</u>

7) Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

Subject to expenditure for specified purpose:

Artist Awards	\$ 8,150
Grants - artist assistance	3,960
Grants - equipment and hardware	<u>3,236</u>
	<u>15,346</u>

Southwestern Association for Indian Arts

Notes to Financial Statements

December 31, 2018

7) Net Assets with Donor Restrictions— continued

Endowments:

Not subject to appropriation:

William Randolph Hearst	
Foundation Fellowship	100,000
John Moore's Endowment	50,000
Helen Naha Memorial Award Fund	11,825
Messengers of Healing Winds	
Foundation Endowment	10,000
John Moore's Endowment	2,000
	<hr/>
Total endowments	173,825
	<hr/>
	\$ 189,171

8) Endowment

SWAIA's endowment consists of donor-restricted endowment funds and does not include any funds designated by the Board of Directors to function as endowments. Net assets associated with endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

Based on the interpretation of New Mexico's Uniform Prudent Management of Institutional Funds Act (UPMIFA) by the Board of Directors of SWAIA and absent explicit donor stipulation to the contrary, SWAIA retains in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, SWAIA considers the following factors in determining to appropriate or accumulate donor-restricted endowment funds:

- the duration and preservation of the fund
- the purposes of SWAIA and the donor-restricted endowment fund
- general economic conditions
- the possible effect of inflation and deflation
- the expected total return from income and the appreciation of investments
- other resources of SWAIA
- the investment policies of SWAIA

Southwestern Association for Indian Arts
Notes to Financial Statements
December 31, 2018

8) Endowment — continued

Endowment net asset classification by type of is as follows as of December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds			
Original donor-restricted gift	<u>\$ -</u>	<u>\$ 173,825</u>	<u>\$ 173,825</u>

Endowment net assets changes are as follows for the year ended December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2017	<u>\$ -</u>	<u>\$ 173,825</u>	<u>\$ 173,825</u>
Investment return	(24,835)	-	(24,835)
Appropriation of endowment assets pursuant to policy	<u>24,835</u>	<u>-</u>	<u>24,835</u>
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 173,825</u>	<u>\$ 173,825</u>
<u>Funds with deficiencies</u>			

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the fund. There were no funds with deficiencies at December 31, 2018.

Southwestern Association for Indian Arts
Notes to Financial Statements
December 31, 2018

8) Endowment — continued

Return objectives and risk parameters

SWAIA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the historical dollar value of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a mix of relevant benchmarks, while assuming a moderate level of investment risk. SWAIA currently expects its endowment funds to produce a total investment rate of return over the long term which exceeds the rate of inflation as measured by the Consumer Price Index (CPI) by at least 5%. Actual returns in any given year may vary from this amount.

10) **Retirement Plan**

SWAIA participates in a 403(b) retirement plan for eligible employees, generally after six months of employment. Contributions to the plan are based on a percentage of employee salaries, determined by specific provision of the plan. There were no contributions to the plan for the year ended December 31, 2018.