

ARCHAEOLOGY SOUTHWEST

**AUDITED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

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Certified Public Accountants

Gerald H. Beal, CPA
Marianne E. DeVries, CPA
Michael J. DeVries, CPA
Jacquie Ivey, CPA
Coleen A. Krogen, CPA
John P. Lauer, CPA
Laura Randol, CPA, CFE

INDEPENDENT AUDITORS' REPORT

Board of Directors
Archaeology Southwest
Tucson, Arizona

Report on the financial statements

We have audited the accompanying financial statements of Archaeology Southwest (an Arizona nonprofit corporation), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

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 of 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 auditors consider 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.

5656 E. Grant Road, Suite 200 · Tucson, Arizona 85712 · www.hblcpa.com · Ph. 520-886-3181 · Fx. 520-885-3699

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Archaeology Southwest as of December 31, 2015 and 2014, 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.

HBL CPAs, P.C.

HBL CPAs, P.C.

August 2, 2016

ARCHAEOLOGY SOUTHWEST
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 319,106	\$ 364,850
Investments	4,734,721	4,611,858
Grants receivable	33,997	30,382
Accounts receivable	25,279	6,035
Prepaid expenses	2,460	1,285
Equity investment in limited liability partnership	442,925	456,624
Land held for conservation	240,738	194,738
Property and equipment	104,730	103,122
	\$ 5,903,956	\$ 5,768,894

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 21,846	\$ 31,147
Accrued expenses	9,976	8,011
Deferred revenue	8,009	3,250
Note payable	-	1,099
	39,831	43,507
Unrestricted net assets:		
Available for operations	229,183	280,311
Expended for property and equipment and land held for conservation	345,468	296,761
Board designated	1,187,879	1,273,233
	1,762,530	1,850,305
Temporarily restricted net assets	1,404,395	1,699,065
Permanently restricted net assets	2,697,200	2,176,017
	5,864,125	5,725,387
	\$ 5,903,956	\$ 5,768,894

ARCHAEOLOGY SOUTHWEST
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Totals
Public support and revenues:				
Governmental grants	\$ 336,358	\$ -	\$ -	\$ 336,358
Contributions and foundation grants	184,693	355,069	521,183	1,060,945
Program service fees	95,788	-	-	95,788
Investment income (loss)	(4,869)	(56,946)	-	(61,815)
Other revenue	3,760	-	-	3,760
In-kind contributions	25,008	-	-	25,008
Sales of professional literature	20,916	-	-	20,916
	<u>661,654</u>	<u>298,123</u>	<u>521,183</u>	<u>1,480,960</u>
Releases from restrictions	592,793	(592,793)	-	-
Total revenues	<u>1,254,447</u>	<u>(294,670)</u>	<u>521,183</u>	<u>1,480,960</u>
Expenses:				
Program services	1,122,658	-	-	1,122,658
Administration	111,267	-	-	111,267
Fundraising	94,598	-	-	94,598
Total expenses	<u>1,328,523</u>	<u>-</u>	<u>-</u>	<u>1,328,523</u>
Change in value of equity investment in limited liability partnership	(13,699)	-	-	(13,699)
	<u>(13,699)</u>	<u>-</u>	<u>-</u>	<u>(13,699)</u>
Change in net assets	(87,775)	(294,670)	521,183	138,738
Net assets, beginning of year	<u>1,850,305</u>	<u>1,699,065</u>	<u>2,176,017</u>	<u>5,725,387</u>
Net assets, end of year	<u>\$ 1,762,530</u>	<u>\$ 1,404,395</u>	<u>\$ 2,697,200</u>	<u>\$ 5,864,125</u>

ARCHAEOLOGY SOUTHWEST
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Totals
Public support and revenues:				
Governmental grants	\$ 292,017	\$ -	\$ -	\$ 292,017
Contributions and foundation grants	183,392	344,140	18,598	546,130
Program service fees	69,083	-	-	69,083
Investment income	130,404	111,098	-	241,502
Other revenue	3,436	-	-	3,436
In-kind contributions	32,178	-	-	32,178
Sales of professional literature	8,792	-	-	8,792
	<u>719,302</u>	<u>455,238</u>	<u>18,598</u>	<u>1,193,138</u>
Releases from restrictions	593,948	(593,948)	-	-
Total revenues	<u>1,313,250</u>	<u>(138,710)</u>	<u>18,598</u>	<u>1,193,138</u>
Expenses:				
Program services	1,119,810	-	-	1,119,810
Administration	104,226	-	-	104,226
Fundraising	91,230	-	-	91,230
Total expenses	<u>1,315,266</u>	<u>-</u>	<u>-</u>	<u>1,315,266</u>
Change in value of:				
Equity investment in limited liability partnership	(12,298)	-	-	(12,298)
Land held for conservation	44,568	-	-	44,568
	<u>32,270</u>	<u>-</u>	<u>-</u>	<u>32,270</u>
Change in net assets	30,254	(138,710)	18,598	(89,858)
Net assets, beginning of year	<u>1,820,051</u>	<u>1,837,775</u>	<u>2,157,419</u>	<u>5,815,245</u>
Net assets, end of year	<u>\$ 1,850,305</u>	<u>\$ 1,699,065</u>	<u>\$ 2,176,017</u>	<u>\$ 5,725,387</u>

ARCHAEOLOGY SOUTHWEST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	Program services							
	Research	Outreach and education	Preservation fellowship	Site protection	Total program services	Adminis- tration	Fundraising	Total
Salaries and wages	\$ 292,875	\$ 171,879	\$ 28,249	\$ 63,911	\$ 556,914	\$ 75,160	\$ 43,917	\$ 675,991
Payroll taxes and benefits	52,225	30,695	5,037	11,397	99,354	13,403	8,702	121,459
	<u>345,100</u>	<u>202,574</u>	<u>33,286</u>	<u>75,308</u>	<u>656,268</u>	<u>88,563</u>	<u>52,619</u>	<u>797,450</u>
Accounting fees	5,556	3,261	536	1,212	10,565	1,426	833	12,824
Bank fees	2,149	1,261	207	469	4,086	551	322	4,959
Depreciation	5,808	3,409	560	1,267	11,044	1,491	871	13,406
Insurance	5,611	3,294	541	1,720	11,166	1,440	842	13,448
Interest	111	66	11	24	212	29	17	258
Investment fees	-	-	-	-	-	-	34,367	34,367
Miscellaneous	43	25	4	4,226	4,298	41	6	4,345
Office supplies and expenses	22,429	13,653	698	2,410	39,190	1,857	5,499	46,546
Postage and printing	4,020	25,601	355	1,844	31,820	944	13,521	46,285
Professional services	90,866	38,958	1,523	56,253	187,600	4,052	2,868	194,520
Stipends and program supplies	38,023	73	47	1,502	39,645	32	974	40,651
Rent	39,466	25,637	3,662	8,286	77,051	9,744	5,694	92,489
Repairs and maintenance	2,045	893	147	866	3,951	391	228	4,570
Telephone	1,854	1,087	179	564	3,684	475	278	4,437
Travel	28,104	8,824	1,057	4,093	42,078	231	10,026	52,335
Total functional expenses	<u>591,185</u>	<u>328,616</u>	<u>42,813</u>	<u>160,044</u>	<u>1,122,658</u>	<u>111,267</u>	<u>128,965</u>	<u>1,362,890</u>
Less investment fees netted against revenue	-	-	-	-	-	-	(34,367)	(34,367)
Total expenses	<u>\$ 591,185</u>	<u>\$ 328,616</u>	<u>\$ 42,813</u>	<u>\$ 160,044</u>	<u>\$ 1,122,658</u>	<u>\$ 111,267</u>	<u>\$ 94,598</u>	<u>\$ 1,328,523</u>

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

ARCHAEOLOGY SOUTHWEST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014

Program services

	<u>Research</u>	<u>Outreach and education</u>	<u>Preservation fellowship</u>	<u>Site protection</u>	<u>Total program services</u>	<u>Adminis- tration</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 259,813	\$ 166,520	\$ 24,461	\$ 61,941	\$ 512,735	\$ 69,988	\$ 45,400	\$ 628,123
Payroll taxes and benefits	49,488	31,967	4,659	11,798	97,912	13,331	9,258	120,501
	309,301	198,487	29,120	73,739	610,647	83,319	54,658	748,624
Accounting fees	5,223	3,348	492	1,245	10,308	1,407	913	12,628
Bank fees	1,634	1,047	154	390	3,225	440	286	3,951
Depreciation	6,813	4,367	641	1,624	13,445	1,835	1,191	16,471
Insurance	4,931	3,161	464	1,726	10,282	1,329	862	12,473
Interest	44	29	4	11	88	12	8	108
Investment fees	-	-	-	-	-	-	30,658	30,658
Miscellaneous	832	535	79	5,583	7,029	225	146	7,400
Office supplies and expenses	25,208	15,633	590	2,349	43,780	1,685	4,312	49,777
Postage and printing	3,663	40,203	198	2,131	46,195	565	10,374	57,134
Professional services	121,036	52,538	1,156	45,866	220,596	3,359	2,151	226,106
Stipends and program supplies	34,795	164	24	1,611	36,594	69	45	36,708
Rent	39,138	20,788	3,054	7,732	70,712	8,737	5,668	85,117
Repairs and maintenance	2,736	1,618	238	602	5,194	680	441	6,315
Telephone	2,025	1,322	191	703	4,241	546	354	5,141
Travel	21,516	11,576	650	3,732	37,474	18	9,821	47,313
Total functional expenses	578,895	354,816	37,055	149,044	1,119,810	104,226	121,888	1,345,924
Less investment fees netted against revenue	-	-	-	-	-	-	(30,658)	(30,658)
Total expenses	<u>\$ 578,895</u>	<u>\$ 354,816</u>	<u>\$ 37,055</u>	<u>\$ 149,044</u>	<u>\$ 1,119,810</u>	<u>\$ 104,226</u>	<u>\$ 91,230</u>	<u>\$ 1,315,266</u>

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

ARCHAEOLOGY SOUTHWEST
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 138,738	\$ (89,858)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Unrealized (gains) losses on investments	218,087	(9,337)
Realized (gains) losses on investments	441	(98,223)
Donated securities	(68,171)	(53,316)
Change in value of equity investment in limited liability partnership	13,699	12,298
Change in value of land held for conservation	-	(44,568)
Depreciation	13,406	16,471
Donated land held for conservation	-	(15,000)
Loss on sale of asset	-	1,361
(Increase) decrease in operating assets:		
Grants receivable	(3,615)	(27,596)
Accounts receivable	(19,244)	375
Prepaid expenses	(1,175)	(24)
Increase (decrease) in operating liabilities:		
Accounts payable	(9,301)	23,556
Accrued expenses	1,965	(18,637)
Deferred revenue	4,759	(1,700)
Proceeds from sales of donated securities	68,881	53,067
Net cash provided by (used in) operating activities	<u>358,470</u>	<u>(251,131)</u>
Cash flows from investing activities:		
Purchases of investments	(1,468,716)	(2,206,377)
Proceeds from sales of investments	1,126,615	2,315,443
Purchases of land held for conservation	(46,000)	(22,473)
Purchases of equipment	(15,014)	(3,412)
Net cash provided by (used in) investing activities	<u>(403,115)</u>	<u>83,181</u>
Cash flows (used in) financing activities -		
Repayment of note payable	<u>(1,099)</u>	<u>(2,121)</u>
Change in cash and cash equivalents	(45,744)	(170,071)
Cash and cash equivalents, beginning of year	<u>364,850</u>	<u>534,921</u>
Cash and cash equivalents, end of year	<u>\$ 319,106</u>	<u>\$ 364,850</u>
<u>Supplemental cash flow information:</u>		
Cash paid for interest	<u>\$ 258</u>	<u>\$ 108</u>
No cash paid for income taxes in 2015 or 2014.		

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 – Organization

Archaeology Southwest is an Arizona nonprofit corporation established in 1989. Through its practice of conservation-based archaeology, which includes conducting low-impact scientific inquiry, sharing findings with the public and developing powerful site protection strategies, the organization seeks to create meaningful connections to the past and respectfully protect its increasingly endangered resources. Revenues and support consist primarily of grants and contributions from the public and from other nonprofit organizations.

Archaeology Southwest has the following programs:

- Research – engaging in archaeological research to improve the understanding of the Southwest.
- Outreach and education – educating the general public about the history of the Southwest.
- Preservation fellowship – a fellowship that supports archaeology PhD candidates.
- Site protection – protecting sites that have archaeological significance.

NOTE 2 – Summary of significant accounting policies

Financial statement presentation

Archaeology Southwest is required under generally accepted accounting principles to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Cash and cash equivalents

Archaeology Southwest considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents. Archaeology Southwest maintains its cash in bank deposit and investment accounts which, for short periods of time, may exceed federally insured limits. There was \$263,824 in uninsured cash at December 31, 2015.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Accounts receivable

Accounts receivable are stated at unpaid balances. Management believes all accounts receivable are fully collectible and therefore no allowance for uncollectible accounts has been recorded. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is Archaeology Southwest's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2015 AND 2014

NOTE 2 – Summary of significant accounting policies, continued

Archaeological excavation and conservation easements

Archaeology Southwest is a conservation organization having among its purposes the protection on behalf of the public historic and archaeologically significant lands. As the holder of archaeological excavation and conservation easements, Archaeology Southwest is generally responsible for ensuring that the terms of the easement have not been violated. At December 31, 2015 and 2014, Archaeology Southwest held ten easements in Arizona and New Mexico. Archaeology Southwest has opted to expense purchased easements, which are reported as conservation expense in the statement of functional expenses, and donated easements are not recorded as either revenue or expense.

Furniture and equipment

Purchased property and equipment with a useful life of more than one year are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Photos utilized in traveling exhibitions and included in equipment are not depreciated, as the useful lives of these items are not reasonably estimable. Archaeology Southwest capitalizes all furniture and equipment in excess of \$1,000 and with a useful life of more than one year.

Endowments

Archaeology Southwest's endowments consist of several individual funds established under donor restriction. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of Archaeology Southwest has interpreted the of Arizona's Prudent Management of Institutional Funds Act (PMIFA) (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Archaeology Southwest classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, Archaeology Southwest considers the following factors in making a determination to appropriate or accumulate endowment funds:

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

Advertising

Advertising costs are expensed as incurred and reported in office supplies and expenses in the accompanying statement of functional expenses. Total advertising expense was \$800 and \$449 for the years ended December 31, 2015 and 2014, respectively.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2015 AND 2014

NOTE 2 – Summary of significant accounting policies, continued

Contributions and pledges

Contributions are recognized as revenue when they are received or unconditionally pledged. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. Time and purpose restrictions are reported as temporarily restricted support and then reclassified to unrestricted net assets upon expiration of the time or purpose restriction. Endowment contributions are reported as additions to permanently restricted net assets.

Donated goods, facilities and services

Donated goods and facilities are valued at their fair market value. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Although Archaeology Southwest utilizes the services of many outside volunteers, the fair value of some of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

Income tax status

Archaeology Southwest is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to Archaeology Southwest's tax-exempt purpose is subject to taxation as unrelated business income. In addition, Archaeology Southwest qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(VI) and has been classified as an organization other than a private foundation under Section 509(a)(1).

Archaeology Southwest has not identified any uncertain tax positions that require reporting under U.S. generally accepted accounting principles. Archaeology Southwest would recognize costs related to any such uncertainties as interest expense and penalties in operating expenses. During the years ended December 31, 2015 and 2014, Archaeology Southwest recognized no such interest or penalties.

Archaeology Southwest files information returns in the U.S. federal jurisdiction. The State of Arizona accepts a copy of the federal information return. No examinations by any such taxing jurisdictions are pending or anticipated. In general, Archaeology Southwest is subject to examination of its U.S. federal information returns for three years after the date the returns were filed.

NOTE 3 – Equity investment in limited liability partnership

Archaeology Southwest owns 50% of Prudent Preservation Partners, L.L.C. (PPP), a limited liability partnership which holds the real property used by Archaeology Southwest as office and program space. Archaeology Southwest's investment in the partnership on an equity basis was \$442,925 and \$456,624 at December 31, 2015 and 2014, respectively. See Notes 14 and 15 for related party transactions with PPP.

NOTE 4 – Fair value measurements and investments

Fair value measurements are determined based on the assumptions—referred to as inputs—that market participants would use in pricing the asset. A fair value hierarchy distinguishes between market participant assumptions and Archaeology Southwest's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources; while unobservable inputs are Archaeology Southwest's own assumptions about what market participants would assume based on the best information available in the circumstances.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2015 AND 2014

NOTE 4 – Fair value measurements and investments, continued

Level 1 inputs. A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value. The fair value of Archaeology Southwest’s publicly traded securities are determined by reference to quoted prices in active markets for identical assets and other relevant information generated by market transactions.

Level 2 inputs. These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. Archaeology Southwest does not have assets or liabilities measured using Level 2 inputs.

Level 3 inputs. These inputs are unobservable and are used to measure fair value only when observable inputs are not available. Hedge funds are valued based on information provided by the investment brokerage. The fair value of land held for conservation is primarily based on current tax assessor values, which management believes approximates fair value.

Fair values of assets measured on a recurring basis at December 31, 2015 were as follows:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Investments			
Mutual funds:			
Bond funds	\$ 1,901,308	\$ -	\$ 1,901,308
Equity funds - domestic	342,538	-	342,538
Equity funds - international	890,989	-	890,989
Exchange-traded funds	255,662	-	255,662
U.S. equity securities	1,017,520	-	1,017,520
Hedge funds	-	326,704	326,704
Land held for conservation	-	240,738	240,738
	<u>4,408,017</u>	<u>567,442</u>	<u>4,975,459</u>
Less permanently restricted	<u>(2,697,200)</u>	<u>-</u>	<u>(2,697,200)</u>
Available for operations	<u>\$ 1,710,817</u>	<u>\$ 567,442</u>	<u>\$ 2,278,259</u>

Fair values of assets measured on a recurring basis at December 31, 2014 were as follows:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Investments			
Mutual funds:			
Bond funds	\$ 1,883,736	\$ -	\$ 1,883,736
Equity funds - domestic	407,081	-	407,081
Equity funds - international	703,308	-	703,308
Exchange-traded funds	313,531	-	313,531
U.S. equity securities	1,022,895	-	1,022,895
Hedge funds	-	281,307	281,307
Land held for conservation	-	194,738	194,738
	<u>4,330,551</u>	<u>476,045</u>	<u>4,806,596</u>
Less permanently restricted	<u>(2,176,017)</u>	<u>-</u>	<u>(2,176,017)</u>
Available for operations	<u>\$ 2,154,534</u>	<u>\$ 476,045</u>	<u>\$ 2,630,579</u>

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2015 AND 2014

NOTE 4 – Fair value measurements and investments, continued

Activity for assets valued using Level 3 inputs was as follows for the year ended December 31, 2015:

	Beginning balance	Purchases	Conversion of easement to ownership	Change in value	Ending balance
Hedge funds	\$ 281,307	\$ 45,605	\$ -	\$ (208)	\$ 326,704
Land held for conservation	194,738	46,000	-	-	240,738
	<u>\$ 476,045</u>	<u>\$ 91,605</u>	<u>\$ -</u>	<u>\$ (208)</u>	<u>\$ 567,442</u>

Activity for assets valued using Level 3 inputs was as follows for the year ended December 31, 2014:

	Beginning balance	Purchases	Conversion of easement to ownership	Change in value	Ending balance
Hedge funds	\$ 238,277	\$ 39,754	\$ -	\$ 3,276	\$ 281,307
Land held for conservation	112,697	22,473	15,000	44,568	194,738
	<u>\$ 350,974</u>	<u>\$ 62,227</u>	<u>\$ 15,000</u>	<u>\$ 47,844</u>	<u>\$ 476,045</u>

Investment income (loss) is summarized as follows for the years ended December 31, 2015 and 2014:

	2015	2014
Interest, dividends and partnership income	\$ 191,080	\$ 163,979
Unrealized gains (losses)	(218,087)	9,958
Realized gains (losses)	(441)	98,223
Investment fees	(34,367)	(30,658)
	<u>\$ (61,815)</u>	<u>\$ 241,502</u>

NOTE 5 – Property and equipment

Property and equipment at December 31, 2015 and 2014 consisted of the following:

	2015	2014
Leasehold improvements	\$ 26,718	\$ 26,718
Furniture, fixtures and equipment	147,163	132,149
Vehicles	13,859	13,859
Software	14,000	14,000
	<u>201,740</u>	<u>186,726</u>
Less accumulated depreciation	(97,010)	(83,604)
	<u>\$ 104,730</u>	<u>\$ 103,122</u>

NOTE 6 – Deferred revenue

Deferred revenue consists of contract payments received in advance of provision of services, and totaled \$8,009 and \$3,250 at December 31, 2015 and 2014, respectively.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2015 AND 2014

NOTE 7 – Board-designated net assets

Board-designated net assets consisted of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Board-designated quasi endowment	\$ 1,100,293	\$ 1,168,952
Preservation fellowship	62,657	74,728
Site protection	24,929	29,553
	<u>\$ 1,187,879</u>	<u>\$ 1,273,233</u>

See Note 15 for activity in the board-designated quasi endowment for the years ended December 31, 2015 and 2014.

NOTE 8 – In-kind contributions

In-kind contributions consisted of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
In-kind expenses -		
Professional services	\$ 25,008	\$ 17,178
Donated land held for conservation	-	15,000
In-kind contributions	<u>\$ 25,008</u>	<u>\$ 32,178</u>

NOTE 9 – Pension plan

Archaeology Southwest sponsors a qualified 401(k) retirement plan (Plan) covering substantially all employees who have completed at least one year of service and 1,000 hours. The Plan provides that 20% of each participant's contributions will be matched by Archaeology Southwest. Employees become vested in the Plan based years of service, with full vesting occurring after 5 years. Total pension expense for the years ended December 31, 2015 and 2014 was \$14,126 and \$11,739, respectively.

NOTE 10 – Related party transactions

During the years ended December 31, 2015 and 2014, Archaeology Southwest paid \$54,320 and \$121,424, respectively, in consulting fees to a company owned by the President/CEO of Archaeology Southwest. Amounts payable to the company totaled \$13,773 and \$4,551 at December 31, 2015 and 2014, respectively.

Archaeology Southwest also made lease payments of \$87,637 and \$78,413 to the limited liability partnership in which they have a 50% equity ownership interest during the years ended December 31, 2015 and 2014, respectively.

NOTE 11 – Operating leases

Archaeology Southwest leases office space and equipment under non-cancelable and month-to-month operating leases expiring through December 2019. Lease expense for the years ended December 31, 2015 and 2014 was \$92,489 and \$85,117, respectively. Future minimum payments required under the leases are as follows:

Year ending December 31, 2016	\$ 72,060
2017	72,060
2018	72,060
2019	69,909
	<u>\$ 286,089</u>

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2015 AND 2014

NOTE 12 – Temporarily restricted net assets

Temporarily restricted net assets had the following activity during the year ended December 31, 2015:

	Beginning balance	Contributions	Investment income (loss)	Releases	Ending balance
Education	\$ 36,700	\$ 34,000	\$ -	\$ (56,842)	\$ 13,858
Fellowship	622,991	-	-	(29,038)	593,953
Marketing and fundraising	9,091	8,035	-	(15,888)	1,238
Preservation	120,723	809	-	(71,131)	50,401
Site protection	165,241	110,735	-	(93,802)	182,174
Research	429,022	1,490	-	(9,065)	421,447
Various	170,000	200,000	-	(230,196)	139,804
Accumulated endowment earnings:					
Publications	24,100	-	(10,271)	(13,024)	805
Research	2,596	-	(1,013)	(868)	715
General operations	66,384	-	(25,573)	(40,811)	-
Preservation	52,217	-	(20,089)	(32,128)	-
	<u>145,297</u>	<u>-</u>	<u>(56,946)</u>	<u>(86,831)</u>	<u>1,520</u>
	<u>\$ 1,699,065</u>	<u>\$ 355,069</u>	<u>\$ (56,946)</u>	<u>\$ (592,793)</u>	<u>\$ 1,404,395</u>

Temporarily restricted net assets had the following activity during the year ended December 31, 2014:

	Beginning balance	Contributions	Investment income	Releases	Ending balance
Education	\$ 43,369	\$ 71,000	\$ -	\$ (77,669)	\$ 36,700
Fellowship	649,100	3,300	-	(29,409)	622,991
Marketing and fundraising	5,519	9,950	-	(6,378)	9,091
Preservation	158,519	34,812	-	(72,608)	120,723
Site protection	171,841	55,078	-	(61,678)	165,241
Research	527,228	-	-	(98,206)	429,022
Various	170,000	170,000	-	(170,000)	170,000
Accumulated endowment earnings:					
Publications	17,647	-	16,593	(10,140)	24,100
Research	1,766	-	1,610	(780)	2,596
General operations	51,773	-	52,051	(37,440)	66,384
Preservation	41,013	-	40,844	(29,640)	52,217
	<u>112,199</u>	<u>-</u>	<u>111,098</u>	<u>(78,000)</u>	<u>145,297</u>
	<u>\$ 1,837,775</u>	<u>\$ 344,140</u>	<u>\$ 111,098</u>	<u>\$ (593,948)</u>	<u>\$ 1,699,065</u>

NOTE 13 – Contingencies

PPP, in which Archaeology Southwest has a 50% ownership interest, has entered into notes payable agreements with a financial institution for \$160,000 and \$50,000. Archaeology Southwest is a guarantor for \$80,000 (50%) and \$25,000 (50%) of the loans, respectively.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2015 AND 2014

NOTE 14 – Permanently restricted net assets

Permanently restricted net assets relate to endowments, for which the corpus is restricted in perpetuity and earnings on the endowments are available for operations upon appropriation by the Board of Directors. Permanently restricted net asset activity was as follows for the year ended December 31, 2015:

	Beginning balance	Contributions	Ending balance
General operations	\$ 1,019,479	\$ -	\$ 1,019,479
Publications	325,000	10,000	335,000
Research	31,538	2,000	33,538
Preservation	800,000	9,183	809,183
ASW future fund	-	500,000	500,000
	<u>\$ 2,176,017</u>	<u>\$ 521,183</u>	<u>\$ 2,697,200</u>

Activity in permanently restricted net assets was as follows for the year ended December 31, 2014:

	Beginning balance	Contributions	Ending balance
General operations	\$ 1,017,979	\$ 1,500	\$ 1,019,479
Publications	310,000	15,000	325,000
Research	29,440	2,098	31,538
Preservation	800,000	-	800,000
	<u>\$ 2,157,419</u>	<u>\$ 18,598</u>	<u>\$ 2,176,017</u>

NOTE 15 – Endowments

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Organization to retain as a fund of perpetual duration. Fund deficiencies totaled \$18,889 and \$0 at December 31, 2015 and 2014, respectively.

Return objectives and risk parameters

Archaeology Southwest has adopted investment policies for endowment assets that attempt to maintain sufficient cash to sustain operations and to invest excess cash to achieve capital growth and to maintain purchasing power. The objective is to grow the aggregate portfolio value, net of spending, at 3% to 5% above the rate of inflation over a full market cycle of five years.

Investment strategies

To satisfy its long-term rate-of-return objectives, Archaeology Southwest relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) to achieve capital growth and maintain spending power. Archaeology Southwest targets a diversified asset allocation that minimizes the risk of large losses.

Spending policies

Archaeology Southwest has a formally adopted spending policy, which indicates appropriation of 4% of a three-year rolling average of returns from the fund each year. Such percentage is determined by the Board of Directors based on a reasonable rate of return, taking into account the long and short-term needs of the organization, the expected total return on the organization's investment assets, the desirability of maintaining the real value of the fund, and other factors as may be deemed relevant by the Board.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2015 AND 2014

NOTE 15 – Endowments, continued

Endowment fund net assets

Net assets in the endowment funds consisted of the following at December 31, 2015:

	Unrestricted				Total
	Board-designated quasi endowment	Fund deficiencies	Temporarily restricted	Permanently restricted	
Balance December 31, 2014	\$ 1,168,952	\$ -	145,297	\$ 2,176,017	\$ 3,490,266
Contributions	-	-	-	521,183	521,183
Interest and dividends	34,242	-	68,702	-	102,944
Unrealized (losses)	(44,496)	(18,889)	(101,054)	-	(164,439)
Realized (losses)	(5,336)	-	(6,970)	-	(12,306)
Investment fees	(8,069)	-	(17,624)	-	(25,693)
Appropriations	(45,000)	-	(86,831)	-	(131,831)
Balance December 31, 2015	\$ 1,100,293	\$ (18,889)	1,520	\$ 2,697,200	\$ 3,780,124

Net assets in the endowment funds consisted of the following at December 31, 2014:

	Unrestricted				Total
	Board-designated quasi endowment	Fund deficiencies	Temporarily restricted	Permanently restricted	
Balance December 31, 2013	\$ 1,157,558	\$ -	\$ 112,199	\$ 2,157,419	\$ 3,427,176
Contributions	-	-	-	18,598	18,598
Interest and dividends	30,795	-	60,083	-	90,878
Unrealized gains (losses)	(3,113)	-	13,901	-	10,788
Realized gains	33,361	-	51,933	-	85,294
Investment fees	(7,649)	-	(14,819)	-	(22,468)
Appropriations	(42,000)	-	(78,000)	-	(120,000)
Balance December 31, 2014	\$ 1,168,952	\$ -	\$ 145,297	\$ 2,176,017	\$ 3,490,266

See Note 12 for endowment-related activities in temporarily restricted net assets and Note 14 for endowment-related activities in permanently restricted net assets.

NOTE 16 – Subsequent events

Subsequent events have been evaluated through August 2, 2016 which is the date the financial statements were available to be issued.