

**ARCHAEOLOGY SOUTHWEST**

**AUDITED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

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## 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, 2017 and 2016, 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.

**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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

HBL CPAs, P.C.

**HBL CPAs, P.C.**

September 20, 2018

**ARCHAEOLOGY SOUTHWEST**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 422,120	\$ 199,576
Investments	6,025,776	5,418,886
Beneficial interest in funds held at Community Foundation of Southern Arizona	139,610	-
Grants receivable	61,855	20,863
Accounts receivable	9,364	13,295
Pledges receivable	473,650	35,183
Prepaid expenses	2,918	2,679
Land held for sale	28,273	28,273
Equity investment in limited liability partnership	424,746	432,343
Land held for conservation	307,413	278,647
Property and equipment	92,276	96,424
	\$ 7,988,001	\$ 6,526,169

**LIABILITIES AND NET ASSETS**

Liabilities:		
Accounts payable	\$ 22,023	\$ 21,718
Accrued expenses	17,641	13,654
Deferred revenue	8,095	14,589
	47,759	49,961
Unrestricted net assets:		
Available for operations	261,532	143,437
Expended for property and equipment and land held for conservation	399,689	375,071
Board designated	1,324,410	1,284,519
	1,985,631	1,803,027
Temporarily restricted net assets	1,913,317	1,417,726
Permanently restricted net assets	4,041,294	3,255,455
	7,940,242	6,476,208
	\$ 7,988,001	\$ 6,526,169

**ARCHAEOLOGY SOUTHWEST**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2017**

	<u>Unrestricted net assets</u>	<u>Temporarily restricted net assets</u>	<u>Permanently restricted net assets</u>	<u>Totals</u>
Public support and revenues:				
Contributions and foundation grants	\$ 217,384	\$ 851,246	\$ 785,839	\$ 1,854,469
Governmental grants	347,482	-	-	347,482
Program service fees	73,416	-	-	73,416
Investment income	306,759	443,012	-	749,771
Other revenue	3,534	-	-	3,534
Sales of professional literature	16,617	-	-	16,617
	<u>965,192</u>	<u>1,294,258</u>	<u>785,839</u>	<u>3,045,289</u>
Releases from restrictions	<u>798,667</u>	<u>(798,667)</u>	<u>-</u>	<u>-</u>
Total revenues	1,763,859	495,591	785,839	3,045,289
Expenses:				
Program services	1,182,623	-	-	1,182,623
Administration	212,359	-	-	212,359
Fundraising	161,526	-	-	161,526
Total expenses	<u>1,556,508</u>	<u>-</u>	<u>-</u>	<u>1,556,508</u>
Change in value of:				
Equity investment in limited liability partnership	(7,597)	-	-	(7,597)
Land held for conservation	<u>(17,150)</u>	<u>-</u>	<u>-</u>	<u>(17,150)</u>
	<u>(24,747)</u>	<u>-</u>	<u>-</u>	<u>(24,747)</u>
Change in net assets	182,604	495,591	785,839	1,464,034
Net assets, beginning of year	<u>1,803,027</u>	<u>1,417,726</u>	<u>3,255,455</u>	<u>6,476,208</u>
Net assets, end of year	<u>\$ 1,985,631</u>	<u>\$ 1,913,317</u>	<u>\$ 4,041,294</u>	<u>\$ 7,940,242</u>

**ARCHAEOLOGY SOUTHWEST**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted net assets</u>	<u>Temporarily restricted net assets</u>	<u>Permanently restricted net assets</u>	<u>Totals</u>
Public support and revenues:				
Contributions and foundation grants	\$ 195,625	\$ 453,626	\$ 558,255	\$ 1,207,506
Governmental grants	431,836	-	-	431,836
Program service fees	75,934	-	-	75,934
Investment income	216,979	202,070	-	419,049
Other revenue	4,360	-	-	4,360
In-kind contributions	62,931	-	-	62,931
Sales of professional literature	7,893	-	-	7,893
(Loss) on disposal of property and equipment	(698)	-	-	(698)
	<u>994,860</u>	<u>655,696</u>	<u>558,255</u>	<u>2,208,811</u>
Releases from restrictions	<u>642,365</u>	<u>(642,365)</u>	<u>-</u>	<u>-</u>
Total revenues	1,637,225	13,331	558,255	2,208,811
Expenses:				
Program services	1,276,288	-	-	1,276,288
Administration	162,123	-	-	162,123
Fundraising	<u>135,636</u>	<u>-</u>	<u>-</u>	<u>135,636</u>
Total expenses	1,574,047	-	-	1,574,047
Change in value of:				
Equity investment in limited liability partnership	(10,582)	-	-	(10,582)
Land held for conservation	<u>(12,099)</u>	<u>-</u>	<u>-</u>	<u>(12,099)</u>
	<u>(22,681)</u>	<u>-</u>	<u>-</u>	<u>(22,681)</u>
Change in net assets	40,497	13,331	558,255	612,083
Net assets, beginning of year	<u>1,762,530</u>	<u>1,404,395</u>	<u>2,697,200</u>	<u>5,864,125</u>
Net assets, end of year	<u>\$ 1,803,027</u>	<u>\$ 1,417,726</u>	<u>\$ 3,255,455</u>	<u>\$ 6,476,208</u>

**ARCHAEOLOGY SOUTHWEST**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2017**

	<b>Program services</b>							<b>Total</b>
	<b>Research</b>	<b>Outreach and education</b>	<b>Preservation fellowship</b>	<b>Site protection</b>	<b>program services</b>	<b>Adminis- tration</b>	<b>Fundraising</b>	
Salaries and wages	\$ 246,805	\$ 185,428	\$ 31,974	\$ 141,058	\$ 605,265	\$ 152,525	\$ 84,087	\$ 841,877
Payroll taxes and benefits	41,097	30,901	5,328	23,507	100,833	25,418	14,353	140,604
	<u>287,902</u>	<u>216,329</u>	<u>37,302</u>	<u>164,565</u>	<u>706,098</u>	<u>177,943</u>	<u>98,440</u>	<u>982,481</u>
Accounting fees	4,072	3,062	528	2,330	9,992	2,519	1,389	13,900
Bank fees	1,679	1,262	218	960	4,119	1,038	572	5,729
Depreciation	2,595	1,952	337	1,485	6,369	1,606	885	8,860
Insurance	3,461	2,604	449	2,541	9,055	2,142	1,181	12,378
Interest	88	67	11	51	217	55	30	302
Investment fees	11,308	7,380	1,273	5,614	25,575	6,071	3,347	34,993
Miscellaneous	924	135	23	2,370	3,452	111	61	3,624
Office supplies and expenses	20,437	17,576	713	4,774	43,500	3,186	6,035	52,721
Postage and printing	3,608	30,371	445	2,184	36,608	2,123	15,562	54,293
Professional services	134,455	43,069	977	8,942	187,443	3,624	6,573	197,640
Stipends and program supplies	37,680	1,164	46	2,701	41,591	217	270	42,078
Rent	29,198	21,018	3,339	14,729	68,284	15,927	8,780	92,991
Repairs and maintenance	1,042	553	95	421	2,111	455	251	2,817
Telephone	1,421	1,068	184	853	3,526	879	484	4,889
Travel	29,144	9,728	1,008	20,378	60,258	534	21,013	81,805
Total functional expenses	<u>569,014</u>	<u>357,338</u>	<u>46,948</u>	<u>234,898</u>	<u>1,208,198</u>	<u>218,430</u>	<u>164,873</u>	<u>1,591,501</u>
Less investment fees netted against revenue	<u>(11,308)</u>	<u>(7,380)</u>	<u>(1,273)</u>	<u>(5,614)</u>	<u>(25,575)</u>	<u>(6,071)</u>	<u>(3,347)</u>	<u>(34,993)</u>
Total expenses	<u>\$ 557,706</u>	<u>\$ 349,958</u>	<u>\$ 45,675</u>	<u>\$ 229,284</u>	<u>\$ 1,182,623</u>	<u>\$ 212,359</u>	<u>\$ 161,526</u>	<u>\$ 1,556,508</u>

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



**ARCHAEOLOGY SOUTHWEST**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2016**

	<b>Program services</b>							
		<b>Outreach and education</b>	<b>Preservation fellowship</b>	<b>Site protection</b>	<b>Total program services</b>	<b>Adminis- tration</b>	<b>Fundraising</b>	<b>Total</b>
	<b>Research</b>							
Salaries and wages	\$ 248,839	\$ 212,025	\$ 21,978	\$ 129,040	\$ 611,882	\$ 111,955	\$ 63,548	\$ 787,385
Payroll taxes and benefits	51,702	44,387	4,575	27,012	127,676	23,306	13,783	164,765
	<u>300,541</u>	<u>256,412</u>	<u>26,553</u>	<u>156,052</u>	<u>739,558</u>	<u>135,261</u>	<u>77,331</u>	<u>952,150</u>
Accounting fees	4,198	3,591	372	2,186	10,347	1,896	1,076	13,319
Bank fees	1,692	1,447	150	881	4,170	764	434	5,368
Depreciation	3,985	3,409	353	2,075	9,822	1,800	1,022	12,644
Insurance	3,982	3,407	353	2,679	10,421	1,799	1,021	13,241
Interest	39	34	4	21	98	18	10	126
Investment fees	10,061	8,609	892	5,240	24,802	4,546	2,580	31,928
Miscellaneous	876	-	-	2,587	3,463	-	-	3,463
Office supplies and expenses	22,294	15,849	604	4,567	43,314	3,074	7,562	53,950
Postage and printing	3,891	26,435	228	5,056	35,610	1,163	15,562	52,335
Professional services	167,860	58,881	427	15,952	243,120	2,173	8,646	253,939
Stipends and program supplies	41,607	303	31	2,140	44,081	160	91	44,332
Rent	29,528	26,783	2,450	14,382	73,143	12,477	7,083	92,703
Repairs and maintenance	1,388	1,174	118	696	3,376	598	340	4,314
Telephone	1,309	1,120	116	817	3,362	592	336	4,290
Travel	31,185	9,480	1,588	10,150	52,403	348	15,122	67,873
	<u>624,436</u>	<u>416,934</u>	<u>34,239</u>	<u>225,481</u>	<u>1,301,090</u>	<u>166,669</u>	<u>138,216</u>	<u>1,605,975</u>
Total functional expenses								
Less investment fees netted against revenue	<u>(10,061)</u>	<u>(8,609)</u>	<u>(892)</u>	<u>(5,240)</u>	<u>(24,802)</u>	<u>(4,546)</u>	<u>(2,580)</u>	<u>(31,928)</u>
Total expenses	<u>\$ 614,375</u>	<u>\$ 408,325</u>	<u>\$ 33,347</u>	<u>\$ 220,241</u>	<u>\$ 1,276,288</u>	<u>\$ 162,123</u>	<u>\$ 135,636</u>	<u>\$ 1,574,047</u>

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

**ARCHAEOLOGY SOUTHWEST**  
**STATEMENTS OF CASH FLOWS**  
YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,464,034	\$ 612,083
Adjustments to reconcile change in net assets to net cash from operating activities:		
Unrealized (gains) on investments	(490,617)	(267,202)
Realized (gains) losses on investments	(68,412)	10,592
Donated securities	(78,489)	(23,208)
Change in value of beneficial interest funds	(13,037)	-
Provision for discount to present value for pledges receivable	8,248	421
Change in value of equity investment in limited liability partnership	7,597	10,582
Change in value of land held for conservation	17,150	12,099
Depreciation	8,860	12,644
Donated land held for conservation	-	(34,658)
Donated land held for sale	-	(28,273)
Loss on disposal of property and equipment	-	698
(Increase) decrease in operating assets:		
Grants receivable	(40,992)	13,134
Accounts receivable	3,931	11,984
Pledges receivable	(324,855)	(20,604)
Prepaid expenses	(239)	(219)
Increase (decrease) in operating liabilities:		
Accounts payable	305	(128)
Accrued expenses	3,987	3,678
Deferred revenue	(6,494)	6,580
Proceeds from sales of donated securities	77,402	22,210
Less contributions received for long-term purposes	<u>(785,418)</u>	<u>(558,255)</u>
Net cash (used in) operating activities	(217,039)	(215,842)
Cash flows from investing activities:		
Purchases of investments	(2,099,069)	(1,884,097)
Proceeds from sales of investments	2,052,295	1,457,540
Additions to beneficial interest in funds held	(126,573)	-
Purchases of land held for conservation	(45,916)	(15,350)
Purchases of equipment	<u>(4,712)</u>	<u>(5,036)</u>
Net cash (used in) investing activities	(223,975)	(446,943)
Cash flows from financing activities:		
Contributions and pledge payments restricted for long-term purposes	663,558	543,255
Borrowing from line of credit	187,000	40,000
Repayment of line of credit	<u>(187,000)</u>	<u>(40,000)</u>
Net cash provided by financing activities	663,558	543,255
Change in cash and cash equivalents	222,544	(119,530)
Cash and cash equivalents, beginning of year	<u>199,576</u>	<u>319,106</u>
Cash and cash equivalents, end of year	<u>\$ 422,120</u>	<u>\$ 199,576</u>

**ARCHAEOLOGY SOUTHWEST**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**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. Uninsured cash totaled \$91,317 at December 31, 2017.

*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, 2017 AND 2016

**NOTE 2 – Summary of significant accounting policies, continued**

*Pledges receivable*

Pledges receivable consist of unconditional promises to give, which are recognized as receivables and revenue in the period in which Archaeology Southwest is notified in writing by the donor of his or her commitment to make a contribution. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value. Management has determined that all such promises to give are fully collectible and, accordingly, no allowance for uncollectible pledges has been recorded.

*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, 2017 and 2016, Archaeology Southwest held eleven 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.

*Property and equipment*

Purchased property and equipment over \$1,000 with a useful life of more than one year are capitalized. Property and equipment are stated at cost except for donated property and equipment which are recorded 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.

*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 Directors of Archaeology Southwest has interpreted the State of Arizona's Management of Charitable Funds Act (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.

**ARCHAEOLOGY SOUTHWEST**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
DECEMBER 31, 2017 AND 2016

**NOTE 2 – Summary of significant accounting policies, continued**

*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 \$2,080 and \$0 for the years ended December 31, 2017 and 2016, respectively.

*Contributions*

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.

*Donated securities*

As Archaeology Southwest has adopted the policy to convert donated marketable securities nearly immediately into cash, the proceeds from the sale of the securities are reported as an operating activity in the statement of cash flows unless donor restrictions stipulate the use of the contribution to a long-term purpose. Proceeds of donated securities donor-restricted for long-term purposes are reported as financing activities in the statement of cash flows.

*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).

**NOTE 3 – 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.

*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.

**ARCHAEOLOGY SOUTHWEST**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
DECEMBER 31, 2017 AND 2016

**NOTE 3 – Fair value measurements and investments, continued**

*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 and land held for sale 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, 2017 were as follows:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Investments:			
Mutual funds:			
Bond funds	\$ 2,174,232	\$ -	\$ 2,174,232
Equity funds - domestic	846,509	-	846,509
Equity funds - international	1,196,699	-	1,196,699
Exchange-traded funds	504,693	-	504,693
U.S. equity securities	923,086	-	923,086
Real estate investment trusts	135,498	-	135,498
Hedge funds	-	245,059	245,059
	<u>5,780,717</u>	<u>245,059</u>	<u>6,025,776</u>
Beneficial interests in funds held at Community Foundation of Southern Arizona	-	139,610	139,610
Land held for conservation	-	307,413	307,413
Land held for sale	-	28,273	28,273
	<u>5,780,717</u>	<u>720,355</u>	<u>6,501,072</u>
Less permanently restricted, excluding receivables	<u>(3,927,682)</u>	<u>-</u>	<u>(3,927,682)</u>
Available for operations	<u>\$ 1,853,035</u>	<u>\$ 720,355</u>	<u>\$ 2,573,390</u>

Fair values of assets measured on a recurring basis at December 31, 2016 were as follows:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Investments:			
Mutual funds:			
Bond funds	\$ 1,923,815	\$ -	\$ 1,923,815
Equity funds - domestic	675,260	-	675,260
Equity funds - international	885,211	-	885,211
Exchange-traded funds	924,626	-	924,626
U.S. equity securities	677,397	-	677,397
Hedge funds	-	332,577	332,577
	<u>5,086,309</u>	<u>332,577</u>	<u>5,418,886</u>
Land held for conservation	-	278,647	278,647
Land held for sale	-	28,273	28,273
	<u>5,086,309</u>	<u>639,497</u>	<u>5,725,806</u>
Less permanently restricted, excluding receivables	<u>(3,230,851)</u>	<u>-</u>	<u>(3,230,851)</u>
Available for operations	<u>\$ 1,855,458</u>	<u>\$ 639,497</u>	<u>\$ 2,494,955</u>

**ARCHAEOLOGY SOUTHWEST**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
DECEMBER 31, 2017 AND 2016

**NOTE 3 – Fair value measurements and investments, continued**

Activity for assets valued using Level 3 inputs was as follows for the year ended December 31, 2017:

	Beginning balance	Donations/ Purchases	Sales	Change in value	Ending balance
Hedge funds	\$ 332,577	\$ 23,000	\$ (134,181)	\$ 23,663	\$ 245,059
Beneficial interests in funds held by CFSA	-	126,573	-	13,037	139,610
Land held for conservation	278,647	45,916	-	(17,150)	307,413
Land held for sale	28,273	-	-	-	28,273
	<u>\$ 639,497</u>	<u>\$ 195,489</u>	<u>\$ (134,181)</u>	<u>\$ 19,550</u>	<u>\$ 720,355</u>

Activity for assets valued using Level 3 inputs was as follows for the year ended December 31, 2016:

	Beginning balance	Donations/ Purchases	Sales	Change in value	Ending balance
Hedge funds	\$ 326,704	\$ -	\$ (5,029)	\$ 10,902	\$ 332,577
Land held for conservation	240,738	50,008	-	(12,099)	278,647
Land held for sale	-	28,273	-	-	28,273
	<u>\$ 567,442</u>	<u>\$ 78,281</u>	<u>\$ (5,029)</u>	<u>\$ (1,197)</u>	<u>\$ 639,497</u>

Investment income is summarized as follows for the years ended December 31, 2017 and 2016:

	2017	2016
Interest, dividends and partnership income	\$ 211,204	\$ 194,367
Unrealized gains	490,617	267,202
Realized gains (losses)	68,412	(10,592)
Change in value of beneficial interest in funds at CFSA	13,037	-
Investment fees	(33,499)	(31,928)
	<u>\$ 749,771</u>	<u>\$ 419,049</u>

**NOTE 4 – 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 \$424,746 and \$432,343 at December 31, 2017 and 2016, respectively. See Notes 14 and 17 for related party transactions with PPP.

**NOTE 5 – Line of credit**

During 2017, Archaeology Southwest had a \$50,000 unsecured revolving line of credit which matured in June, 2017. The line of credit was subsequently renewed and increased to \$150,000 with a maturity date of June, 2018. The outstanding balance of the line of credit was \$0 at December 31, 2017 and 2016, respectively. Bank advances on the line of credit are payable on demand and bear interest at the prime rate (3.75% at December 31, 2017).

**ARCHAEOLOGY SOUTHWEST**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
DECEMBER 31, 2017 AND 2016

**NOTE 6 – Property and equipment**

Property and equipment at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 26,718	\$ 26,718
Furniture, fixtures and equipment	153,999	151,035
Vehicles	13,859	13,859
Software	<u>14,000</u>	<u>14,000</u>
	208,576	205,612
Less accumulated depreciation	<u>(116,300)</u>	<u>(109,188)</u>
	<u>\$ 92,276</u>	<u>\$ 96,424</u>

**NOTE 7 – Pledges receivable**

Pledges receivable at December 31, 2017 consisted of the following:

	<u>Annual gift</u>	<u>Endowment</u>	<u>Total</u>
Pledges receivable due in less than one year	\$ 93,985	\$ 35,853	\$ 129,838
Pledges receivable due in one to five years	<u>276,618</u>	<u>101,067</u>	<u>377,625</u>
	370,603	136,920	507,463
Discount to present value at 3.25%	<u>(25,114)</u>	<u>(8,699)</u>	<u>(33,813)</u>
	<u>\$ 345,489</u>	<u>\$ 128,221</u>	<u>\$ 473,650</u>

Pledges receivable at December 31, 2016 consisted of the following:

	<u>Annual gift</u>	<u>Endowment</u>	<u>Total</u>
Pledges receivable due in less than one year	\$ 4,500	\$ 11,000	\$ 15,500
Pledges receivable due in one to five years	<u>18,000</u>	<u>4,000</u>	<u>22,000</u>
	22,500	15,000	37,500
Discount to present value at 3.25%	<u>(1,896)</u>	<u>(421)</u>	<u>(2,317)</u>
	<u>\$ 20,604</u>	<u>\$ 14,579</u>	<u>\$ 35,183</u>

**NOTE 8 – Board-designated net assets**

Board-designated net assets consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Board-designated quasi endowment	\$ 1,066,661	\$ 1,135,156
Preservation fellowship	195,326	110,482
Site protection	<u>62,423</u>	<u>38,881</u>
	<u>\$ 1,324,410</u>	<u>\$ 1,284,519</u>

See Note 9 for activity in the board-designated quasi endowment for the years ended December 31, 2017 and 2016.



**ARCHAEOLOGY SOUTHWEST**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 9 – 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 \$0 at both December 31, 2017 and 2016.

*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.

*Endowment fund net assets*

Net assets in the endowment funds consisted of the following at December 31, 2017:

	<u>Unrestricted</u>				
	<u>Board-desig- nated quasi endowment</u>	<u>Fund deficiencies</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Balance December 31, 2016	\$ 1,135,156	\$ -	106,750	\$ 3,255,455	\$ 4,497,361
Contributions	36,573	-	-	785,839	822,412
Interest and dividends	25,551	-	103,149	-	128,700
Unrealized gains	86,566	-	324,131	-	410,697
Realized gains	21,695	-	36,872	-	58,567
Investment fees	(6,281)	-	(21,140)	-	(27,421)
Change in value of beneficial interest in funds at CFSA	13,037	-	-	-	13,037
Appropriations	(245,636)	-	(96,852)	-	(342,488)
Balance December 31, 2017	<u>\$ 1,066,661</u>	<u>\$ -</u>	<u>\$ 452,910</u>	<u>\$ 4,041,294</u>	<u>\$ 5,560,865</u>

**ARCHAEOLOGY SOUTHWEST**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 9 – Endowments, continued**

Net assets in the endowment funds consisted of the following at December 31, 2016:

	<u>Unrestricted</u>				<u>Total</u>
	<u>Board-designated quasi endowment</u>	<u>Fund deficiencies</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	
Balance December 31, 2015	\$ 1,100,293	\$ (18,889)	\$ 1,520	\$ 2,697,200	\$ 3,780,124
Contributions	-	-	-	558,255	558,255
Interest and dividends	30,416	-	85,952	-	116,368
Unrealized gains	58,971	18,889	144,635	-	222,495
Realized (losses)	(1,359)	-	(10,503)	-	(11,862)
Investment fees	(7,169)	-	(18,014)	-	(25,183)
Appropriations	(45,996)	-	(96,840)	-	(142,836)
Balance December 31, 2016	<u>\$ 1,135,156</u>	<u>\$ -</u>	<u>\$ 106,750</u>	<u>\$ 3,255,455</u>	<u>\$ 4,497,361</u>

See Note 10 for endowment-related activities in temporarily restricted net assets and Note 11 for endowment-related activities in permanently restricted net assets.

**NOTE 10 – Temporarily restricted net assets**

Temporarily restricted net assets had the following activity during the year ended December 31, 2017:

	<u>Beginning balance</u>	<u>Contributions</u>	<u>Investment income</u>	<u>Releases/ appropriations</u>	<u>Ending balance</u>
Education	\$ 17,869	\$ 19,000	\$ -	\$ (17,177)	\$ 19,692
Fellowship	566,797	-	-	(32,118)	534,679
Marketing and fundraising	500	18,347	-	(16,756)	2,091
Preservation	44,785	500	-	(24,960)	20,325
Site protection	250,900	175,408	-	(195,647)	230,661
Research	373,831	-	-	(72,650)	301,181
Future contributions	20,604	426,252	-	(101,397)	345,459
Various	35,690	211,739	-	(241,110)	6,319
Accumulated endowment earnings:					
General operations	64,472	-	298,526	(61,368)	301,630
Publications	14,018	-	41,788	(10,263)	45,543
Research	2,038	-	4,183	(1,027)	5,194
Preservation	26,222	-	98,515	(24,194)	100,543
	<u>106,750</u>	<u>-</u>	<u>443,012</u>	<u>(96,852)</u>	<u>452,910</u>
	<u>\$ 1,417,726</u>	<u>\$ 851,246</u>	<u>\$ 443,012</u>	<u>\$ (798,667)</u>	<u>\$ 1,913,317</u>

**ARCHAEOLOGY SOUTHWEST**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
DECEMBER 31, 2017 AND 2016

**NOTE 10 – Temporarily restricted net assets**

Temporarily restricted net assets had the following activity during the year ended December 31, 2016:

	Beginning balance	Contributions	Investment income	Releases/ appropriations	Ending balance
Education	\$ 13,858	\$ 22,050	\$ -	\$ (18,039)	\$ 17,869
Fellowship	593,953	-	-	(27,156)	566,797
Marketing and fundraising	1,238	12,067	-	(12,805)	500
Preservation	50,401	-	-	(5,616)	44,785
Site protection	182,174	147,655	-	(78,929)	250,900
Research	421,447	51,250	-	(98,866)	373,831
Future contributions	-	20,604	-	-	20,604
Various	139,804	200,000	-	(304,114)	35,690
Accumulated endowment earnings:					
General operations	-	-	119,027	(54,555)	64,472
Publications	805	-	25,241	(12,028)	14,018
Research	715	-	2,527	(1,204)	2,038
Preservation	-	-	55,275	(29,053)	26,222
	<u>1,520</u>	<u>-</u>	<u>202,070</u>	<u>(96,840)</u>	<u>106,750</u>
	<u>\$ 1,404,395</u>	<u>\$ 453,626</u>	<u>\$ 202,070</u>	<u>\$ (642,365)</u>	<u>\$ 1,417,726</u>

**NOTE 11 – 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, 2017:

	Beginning balance	Contributions	Ending balance
General operations	\$ 2,062,583	\$ 785,839	\$ 2,848,422
Publications	345,000	-	345,000
Research	34,538	-	34,538
Preservation	813,334	-	813,334
	<u>\$ 3,255,455</u>	<u>\$ 785,839</u>	<u>\$ 4,041,294</u>

Permanently restricted net asset activity was as follows for the year ended December 31, 2016:

	Beginning balance	Contributions	Ending balance
General operations	\$ 1,519,479	\$ 543,104	\$ 2,062,583
Publications	335,000	10,000	345,000
Research	33,538	1,000	34,538
Preservation	809,183	4,151	813,334
	<u>\$ 2,697,200</u>	<u>\$ 558,255</u>	<u>\$ 3,255,455</u>

**ARCHAEOLOGY SOUTHWEST**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
DECEMBER 31, 2017 AND 2016

**NOTE 12 – Deferred revenue**

Deferred revenue consists of contract payments received in advance of provision of services, and totaled \$8,095 and \$14,589 at December 31, 2017 and 2016, respectively.

**NOTE 13 – In-kind contributions**

In-kind contributions consisted of the following at December 31, 2017 and 2016:

	2017	2016
Donated land held for conservation	\$ -	\$ 34,658
Donated land held for sale	-	28,273
In-kind contributions	\$ -	\$ 62,931

**NOTE 14 – Related party transactions**

During the years ended December 31, 2017 and 2016, Archaeology Southwest paid \$143,443 and \$155,071, respectively, in consulting fees to Desert Archaeology, a company owned by the President/CEO of Archaeology Southwest. Amounts payable to the company totaled \$12,765 and \$10,335 at December 31, 2017 and 2016, respectively.

Archaeology Southwest also made lease payments of \$87,887 and \$87,692 to the limited liability partnership in which they have a 50% equity ownership interest during the years ended December 31, 2017 and 2016, respectively.

**NOTE 15 – 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 on years of service, with full vesting occurring after 5 years. Total pension expense for the years ended December 31, 2017 and 2016 was \$13,420 and \$14,573, respectively.

**NOTE 16 – 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, 2017 and 2016 was \$97,393 and \$97,586, respectively. Future minimum payments required under the leases are as follows:

Year ending December 31, 2018	\$ 70,980
2019	68,574
	\$ 139,554

**NOTE 17 – 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, 2017 AND 2016

**NOTE 18 – Supplemental cash flow information**

No cash paid for interest or income taxes during either of the years ended December 31, 2017 or 2016.

**NOTE 19 – Subsequent events**

Subsequent events have been evaluated through September 20, 2018, which is the date the financial statements were available to be issued.