

ARCHAEOLOGY SOUTHWEST

**AUDITED FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS AND SCHEDULES
YEARS ENDED DECEMBER 31, 2019 AND 2018**

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Certified Public Accountants

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 (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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, 2019 and 2018, 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.

5470 E Broadway · Tucson, Arizona 85711 · www.hblcpa.com · Ph. 520-886-3181 · Fx. 520-885-3699

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Other matters

Other information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2020, on our consideration of Archaeology Southwest's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Archaeology Southwest's internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Archaeology Southwest's internal control over financial reporting and compliance.

HBL CPAs, P.C.

HBL CPAs, P.C.

August 27, 2020

ARCHAEOLOGY SOUTHWEST
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 650,882	\$ 678,458
Investments	7,267,002	5,812,564
Grants receivable	161,759	79,519
Accounts receivable	11,338	33,712
Pledges receivable	207,060	366,610
Prepaid expenses	12,584	1,837
Land held for sale	28,273	28,273
Equity investment in limited liability partnership	400,981	415,684
Beneficial interest in funds held at Community Foundation of Southern Arizona	145,153	124,368
Land held for conservation	369,019	348,929
Property and equipment	101,795	95,245
Total assets	\$ 9,355,846	\$ 7,985,199
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 25,204	\$ 57,153
Accrued expenses	27,925	17,919
Deferred revenue	3,134	22,010
Total liabilities	56,263	97,082
Net assets:		
Net assets without donor restrictions:		
Available for operations	430,842	408,347
Expended for property and equipment and land held for conservation	470,814	444,174
Board designated	1,299,712	1,007,996
	2,201,368	1,860,517
Net assets with donor restrictions:		
Subject to the passage of time	184,410	279,964
Subject to purpose restrictions	1,144,992	1,080,728
Subject to appropriation and expenditure - accumulated earnings (deficit) on original perpetual endowment gifts	570,470	(27,581)
Restricted by donors in perpetuity	5,198,343	4,694,489
	7,098,215	6,027,600
Total net assets	9,299,583	7,888,117
Total liabilities and net assets	\$ 9,355,846	\$ 7,985,199

ARCHAEOLOGY SOUTHWEST
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	<u>Net assets without donor restrictions</u>	<u>Net assets with donor restrictions</u>	<u>Totals</u>
Public support and revenues:			
Contributions and foundation grants	\$ 313,242	\$ 1,053,182	\$ 1,366,424
Governmental grants	1,193,534	-	1,193,534
Other contract revenue	9,600	-	9,600
Program service fees	30,124	-	30,124
Investment income	347,818	760,253	1,108,071
Other revenue	4,017	-	4,017
Sales of professional literature	29,458	-	29,458
	<u>1,927,793</u>	<u>1,813,435</u>	<u>3,741,228</u>
Releases from restrictions	740,820	(740,820)	-
Total support and revenues	2,668,613	1,072,615	3,741,228
Expenses and losses:			
Expenses:			
Program services	1,913,958	-	1,913,958
Administration	253,666	-	253,666
Fundraising	164,781	-	164,781
Total expenses	<u>2,332,405</u>	<u>-</u>	<u>2,332,405</u>
Losses:			
Loss on disposal of property and equipment	744	-	744
Bad debt losses	-	2,000	2,000
Total losses	<u>744</u>	<u>2,000</u>	<u>2,744</u>
Total expenses and losses	2,333,149	2,000	2,335,149
Change in value of:			
Equity investment in limited liability partnership	(14,703)	-	(14,703)
Land held for conservation	20,090	-	20,090
	<u>5,387</u>	<u>-</u>	<u>5,387</u>
Change in net assets	340,851	1,070,615	1,411,466
Net assets, beginning of year	<u>1,860,517</u>	<u>6,027,600</u>	<u>7,888,117</u>
Net assets, end of year	<u>\$ 2,201,368</u>	<u>\$ 7,098,215</u>	<u>\$ 9,299,583</u>

ARCHAEOLOGY SOUTHWEST
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

	<u>Net assets without donor restrictions</u>	<u>Net assets with donor restrictions</u>	<u>Totals</u>
Public support and revenues:			
Contributions and foundation grants	\$ 196,831	\$ 1,199,094	\$ 1,395,925
Governmental grants	865,966	-	865,966
Other contract revenue	54,676	-	54,676
Program service fees	72,708	-	72,708
Investment income	(77,891)	(330,916)	(408,807)
Other revenue	2,999	-	2,999
Sales of professional literature	24,933	-	24,933
	<u>1,140,222</u>	<u>868,178</u>	<u>2,008,400</u>
Releases from restrictions	793,189	(793,189)	-
Total support and revenues	<u>1,933,411</u>	<u>74,989</u>	<u>2,008,400</u>
Expenses and losses:			
Expenses:			
Program services	1,665,784	-	1,665,784
Administration	232,793	-	232,793
Fundraising	144,946	-	144,946
Total expenses	<u>2,043,523</u>	<u>-</u>	<u>2,043,523</u>
Losses:			
Loss on disposal of property and equipment	7,119	-	7,119
Bad debt losses	-	2,000	2,000
Total losses	<u>7,119</u>	<u>2,000</u>	<u>9,119</u>
Total expenses and losses	<u>2,050,642</u>	<u>2,000</u>	<u>2,052,642</u>
Change in value of:			
Equity investment in limited liability partnership	(9,062)	-	(9,062)
Land held for conservation	1,179	-	1,179
	<u>(7,883)</u>	<u>-</u>	<u>(7,883)</u>
Change in net assets	(125,114)	72,989	(52,125)
Net assets, beginning of year	<u>1,985,631</u>	<u>5,954,612</u>	<u>7,940,243</u>
Net assets, end of year	<u>\$ 1,860,517</u>	<u>\$ 6,027,601</u>	<u>\$ 7,888,118</u>

ARCHAEOLOGY SOUTHWEST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	<u>Program services</u>					<u>Supporting services</u>			
	<u>Research</u>	<u>Outreach and education</u>	<u>Preservation fellowship</u>	<u>cyberSW</u>	<u>Site protection</u>	<u>Total program services</u>	<u>Adminis- tration</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 201,546	\$ 170,032	\$ 26,768	\$ 77,220	\$ 309,090	\$ 784,656	\$ 178,400	\$ 74,480	\$ 1,037,536
Payroll taxes and benefits	36,794	30,517	4,798	13,932	55,563	141,604	32,367	13,347	187,318
	<u>238,340</u>	<u>200,549</u>	<u>31,566</u>	<u>91,152</u>	<u>364,653</u>	<u>926,260</u>	<u>210,767</u>	<u>87,827</u>	<u>1,224,854</u>
Accounting fees	4,798	3,975	626	1,806	7,227	18,432	4,170	1,740	24,342
Bank fees	1,271	1,144	166	479	1,916	4,976	1,105	461	6,542
Depreciation	2,722	2,267	360	1,038	3,997	10,384	2,402	985	13,771
Dues and subscriptions	90	100	-	-	195	385	-	180	565
Insurance	1,994	1,651	260	750	3,593	8,248	1,732	723	10,703
Investment fees	7,927	6,567	1,034	2,984	11,940	30,452	6,889	2,876	40,217
Miscellaneous	1,022	-	-	3,500	3,442	7,964	382	-	8,346
Office supplies and expenses	22,161	15,882	876	2,529	37,839	79,287	6,071	15,203	100,561
Postage and printing	2,799	43,954	361	1,042	8,258	56,414	2,405	21,415	80,234
Professional services	76,756	20,262	594	1,714	389,701	489,027	3,957	12,756	505,740
Rent	20,406	14,098	2,191	6,324	32,901	75,920	14,601	6,094	96,615
Repairs and maintenance	1,713	1,404	179	518	3,676	7,490	1,195	499	9,184
Stipends and program supplies	44,721	1,000	-	-	47,524	93,245	244	1,250	94,739
Telephone	2,433	2,015	317	916	3,664	9,345	2,114	882	12,341
Travel	<u>14,545</u>	<u>9,219</u>	<u>1,252</u>	<u>5,326</u>	<u>96,239</u>	<u>126,581</u>	<u>2,521</u>	<u>14,766</u>	<u>143,868</u>
Total functional expenses	443,698	324,087	39,782	120,078	1,016,765	1,944,410	260,555	167,657	2,372,622
Less investment fees netted against revenue	<u>(7,927)</u>	<u>(6,567)</u>	<u>(1,034)</u>	<u>(2,984)</u>	<u>(11,940)</u>	<u>(30,452)</u>	<u>(6,889)</u>	<u>(2,876)</u>	<u>(40,217)</u>
Total expenses	<u>\$ 435,771</u>	<u>\$ 317,520</u>	<u>\$ 38,748</u>	<u>\$ 117,094</u>	<u>\$ 1,004,825</u>	<u>\$ 1,913,958</u>	<u>\$ 253,666</u>	<u>\$ 164,781</u>	<u>\$ 2,332,405</u>

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

ARCHAEOLOGY SOUTHWEST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	<u>Program services</u>				<u>Supporting services</u>			
	<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	\$ 282,130	\$ 170,722	\$ 26,482	\$ 219,377	\$ 698,711	\$ 164,756	\$ 75,226	\$ 938,693
Payroll taxes and benefits	48,987	29,642	4,598	38,090	121,317	28,607	13,061	162,985
	<u>331,117</u>	<u>200,364</u>	<u>31,080</u>	<u>257,467</u>	<u>820,028</u>	<u>193,363</u>	<u>88,287</u>	<u>1,101,678</u>
Accounting fees	5,535	3,350	520	4,305	13,710	3,233	1,476	18,419
Bank fees	1,996	1,208	187	1,552	4,943	1,165	532	6,640
Depreciation	2,957	1,789	278	2,299	7,323	1,727	788	9,838
Dues and subscriptions	172	105	16	738	1,031	101	46	1,178
Insurance	3,571	2,161	335	3,366	9,433	2,085	952	12,470
Interest	60	36	6	46	148	35	16	199
Investment fees	11,266	6,818	1,058	8,761	27,903	6,579	3,004	37,486
Miscellaneous	(216)	497	77	1,971	2,329	480	219	3,028
Office supplies and expenses	24,861	12,395	660	32,629	70,545	3,539	7,778	81,862
Postage and printing	10,913	23,946	502	6,569	41,930	3,121	17,343	62,394
Professional services	84,283	35,284	925	319,527	440,019	5,757	4,279	450,055
Rent	30,092	17,895	2,486	20,660	71,133	15,468	7,063	93,664
Repairs and maintenance	942	558	87	717	2,304	538	246	3,088
Stipends and program supplies	46,578	1,406	1	9,683	57,668	6	123	57,797
Telephone	1,578	954	148	1,226	3,906	921	420	5,247
Travel	29,397	6,607	868	82,462	119,334	1,254	15,378	135,966
Total functional expenses	585,102	315,373	39,234	753,978	1,693,687	239,372	147,950	2,081,009
Less investment fees netted against revenue	<u>(11,266)</u>	<u>(6,818)</u>	<u>(1,058)</u>	<u>(8,761)</u>	<u>(27,903)</u>	<u>(6,579)</u>	<u>(3,004)</u>	<u>(37,486)</u>
Total expenses	<u>\$ 573,836</u>	<u>\$ 308,555</u>	<u>\$ 38,176</u>	<u>\$ 745,217</u>	<u>\$ 1,665,784</u>	<u>\$ 232,793</u>	<u>\$ 144,946</u>	<u>\$ 2,043,523</u>

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

ARCHAEOLOGY SOUTHWEST
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,411,466	\$ (52,125)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Unrealized (gains) losses on investments, including change in value of hedge funds included in investments	(751,916)	581,452
Realized (gains) losses on investments	(134,030)	25,837
Donated investments	(23,365)	(29,598)
Provision for discount to present value for pledges receivable	(11,413)	(15,036)
Bad debt losses	2,000	2,000
Change in value of equity investment in limited liability partnership	14,703	9,062
Change in value of beneficial interest in funds held by others	(24,137)	15,242
Change in value of land held for conservation	(20,090)	(1,179)
Depreciation expense	13,771	9,838
Loss on disposal of property and equipment	744	7,119
(Increase) decrease in operating assets:		
Grants receivable	(82,240)	(17,664)
Accounts receivable	22,374	(24,348)
Pledges receivable	101,863	74,466
Prepaid expenses	(10,747)	1,081
Increase (decrease) in operating liabilities:		
Accounts payable	(31,949)	35,130
Accrued expenses	10,006	278
Deferred revenue	(18,876)	13,915
Proceeds from sales of donated investments	23,365	28,667
Less contributions received for long-term purposes	<u>(504,854)</u>	<u>(649,100)</u>
Net cash provided by (used in) operating activities	(13,325)	15,037
Cash flows from investing activities:		
Purchases of investments	(2,152,508)	(2,133,545)
Proceeds from sales of investments	1,584,014	1,740,399
Proceeds from sales of land held for conservation	-	54,000
Purchases of land held for conservation	-	(101,037)
Distributions from beneficial interest in funds held by others	3,352	-
Purchases of property and equipment	<u>(21,063)</u>	<u>(13,226)</u>
Net cash (used in) investing activities	(586,205)	(453,409)
Net cash provided by financing activities -		
Contributions and pledge payments restricted for long-term purposes	<u>571,954</u>	<u>694,710</u>
Change in cash and cash equivalents	(27,576)	256,338
Cash and cash equivalents, beginning of year	<u>678,458</u>	<u>422,120</u>
Cash and cash equivalents, end of year	<u>\$ 650,882</u>	<u>\$ 678,458</u>

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 federal contracts and grants, including Cooperative Ecosystem Study Units (CESU), as well as contributions from the public and 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.
- cyberSW – creating a single scalable, networked database from existing sources to facilitate research and analysis.

NOTE 2 – Summary of significant accounting policies

Basis of presentation

The financial statements of Archaeology Southwest have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require the organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. While board designated funds are considered without donor restrictions for financial reporting purposes, the Board does not intend to use or make these funds available for general expenditures.

Net assets with donor restrictions – net assets subject to donor- (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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose of which the resource was restricted has been fulfilled, or both.

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 \$192,069 and \$222,636 at December 31, 2019 and 2018, respectively.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 2 – Summary of significant accounting policies, continued

Investments

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

Accounts and pledges 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.

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, 2019, 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 statements 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.

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). In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 740-10 (ASC 740-10), Archaeology Southwest holds no uncertain tax positions and, therefore, has not policy for evaluating them.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019 AND 2018

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 \$6,837 and \$8,061 for the years ended December 31, 2019 and 2018.

Functional allocation of expenses

The costs of program and supporting service activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present expenses by natural classification and by function in a matrix format, as required by US GAAP. Certain costs have been allocated between the program services and supporting services.

Management allocates overhead and indirect costs by percentage of staff time and direct costs dedicated to projects within the administrative, fundraising, and program categories. The percentage of staff time and cost attributed to each category is used to allocate general operating expenses such as employee benefits, office rent, office supplies, utilities, equipment, information technology services, printing and postage, professional fees, software, depreciation, vehicle maintenance, investment fees, insurance premiums and bank charges.

Endowments

Archaeology Southwest's endowments consist of several individual funds established under donor restriction and a quasi-endowment fund designated by the Board of Directors. As required by generally accepted accounting principles, net assets associated with endowment funds (including funds designated the Board of Directors to function as endowments) 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 net assets with donor restriction in perpetuity (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 net assets with donor restrictions in perpetuity is classified as net assets with donor restrictions satisfied by time or action 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.

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 with donor-restriction for long-term purposes are reported as financing activities in the statement of cash flows.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 2 – Summary of significant accounting policies, continued

Revenue and revenue recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the nature of the restrictions. When a restriction expires, that is, when funds are expended in accordance with donor restrictions, net assets with donor restriction are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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.

New accounting pronouncements

In January of 2016, FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. FASB subsequently issued 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which clarifies certain aspects of the guidance in ASU 2016-01. This guidance expands the scope of fair value reporting for investments on the statement of financial position with changes included in the change in net assets on the statement of activities to include equity investments in partnerships, unincorporated joint ventures, and limited liabilities companies; collectively referred to as equity securities. The updated standard allows equity securities for which there is not a readily determinable fair value and do not qualify to use the practical expedient to estimate fair value using net asset value may elect to measure value at cost less impairment, if any, and observable price changes in orderly transactions for identical or similar investments. During the year ended December 31, 2019, Archaeology Southwest implemented the provisions of ASU 2016-01 and ASU 2018-03 applicable to investments in the accompanying financial statements on a retrospective basis. Implementation of these ASUs did not result in any reclassification or restatements of net assets, by class or in total, as originally reported in any previous accounting period.

In November of 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU was issued to clarify guidance on the classification and presentation of restricted cash in the statement of cash flows and reduce diversity in practice. The amendments to the ASU require that amounts generally described as restricted cash and cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Archaeology Southwest implemented this ASU during the year ended December 31, 2019 on a full retrospective basis, with no impact on net assets, by class or in total, as originally reported in any previous accounting period.

In of 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The ASU provides guidance on the classification of certain transactions in the statement of cash flows and reduces diversity in practice. During the year ended, December 31, 2019, Archaeology Southwest implemented the provisions of ASU 2016-15 on a full retrospective basis, with no impact on net assets, by class or in total, as originally reported in any previous accounting period.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 2 – Summary of significant accounting policies, continued

New accounting pronouncements, continued

In June of 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions by providing criteria for determining whether a resource provider is receiving commensurate value in return for resources transferred. The guidance makes clear that a resource provider, including a foundation, a government agency or other, is not synonymous with the general public, and that a benefit received by the public or the execution of a resource provider’s mission by providing a benefit to the public, is not equivalent to commensurate value received by the resource provider. The ASU also provides guidance for determining whether a contribution is conditional. During the year ended December 31, 2019, Archaeology Southwest implemented the provisions of ASU 2018-08 applicable to contributions in the accompanying financial statements on a prospective basis.

NOTE 3 – Availability and liquidity

Archaeology Southwest utilizes a 30-day time horizon to assess its liquidity needs. This period of time was established based on management’s review of the typical life cycle of converting its financial assets to cash and typical payments of its accounts receivable. Board members receive liquidity report updates monthly.

- In the event of an unanticipated liquidity need, Archaeology Southwest draws upon the \$150,000 available line of credit, followed by a board approved withdrawal from the quasi-endowment, if needed, to pay off the line of credit. Liquidating quasi-endowment assets typically takes 30-45 days.
- Utilizing the line of credit and withdrawals from the quasi-endowment has historically met liquidity needs; therefore, the board chooses not to establish a liquidity reserve.

The following reflects Archaeology Southwest’s financial assets, amounts with donor or other restrictions limiting their use and accordingly not available for general expenditure within one year of the date of the statement of financial position, and amounts set aside for long term investing that would be drawn upon as of December 31, 2019 and 2018:

Financial assets:	2019	2018
Cash and cash equivalents	\$ 650,882	\$ 678,458
Investments	7,267,002	5,812,564
Grants receivable	161,759	79,519
Accounts receivable	11,338	33,712
Pledges receivable	207,060	366,610
Less amounts not available to be used within 30 days:		
Board designated net assets, excluding the quasi-endowment used as a component of ASW’s liquidity management	(352,685)	(201,997)
Net assets with donor restrictions	(7,098,215)	(6,027,600)
Net financial assets available to be used within one year to meet general obligations	\$ 847,141	\$ 741,266

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019 AND 2018

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.

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 investments comprising 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 included in investments 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, 2019 were as follows:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Investments:			
Mutual funds:	\$ 5,123,951	\$ -	\$ 5,123,951
U.S. equity securities	934,556	-	934,556
Corporate and taxable bonds	544,398	-	544,398
Real estate investment trusts	142,905	-	142,905
Hedge funds	-	521,192	521,192
	<u>6,745,810</u>	<u>521,192</u>	<u>7,267,002</u>
Land held for sale	-	28,273	28,273
Beneficial interests in funds held at Community Foundation of Southern Arizona	-	145,153	145,153
Land held for conservation	-	369,019	369,019
	<u>6,745,810</u>	<u>1,063,637</u>	<u>7,809,447</u>
Less restricted in perpetuity, excluding receivables	<u>(5,177,193)</u>	<u>-</u>	<u>(5,177,193)</u>
Available for operations	<u>\$ 1,568,617</u>	<u>\$ 1,063,637</u>	<u>\$ 2,632,254</u>

Activity for assets valued using Level 3 inputs was as follows for the year ended December 31, 2019:

	<u>Hedge funds</u>	<u>Land held for sale</u>	<u>Beneficial interests in funds held by CFSA</u>	<u>Land held for conservation</u>	<u>Total</u>
Beginning balance	\$ 471,371	\$ 28,273	\$ 124,368	\$ 348,929	\$ 972,941
Donations/purchases	424,247	-	-	-	424,247
Sales/Distributions	(397,964)	-	(3,352)	-	(401,316)
Change in value	23,538	-	24,137	20,090	67,765
Ending balance	<u>\$ 521,192</u>	<u>\$ 28,273</u>	<u>\$ 145,153</u>	<u>\$ 369,019</u>	<u>\$ 1,063,637</u>

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 4 – Fair value measurements and investments, continued

Fair values of assets measured on a recurring basis at December 31, 2018 were as follows:

	Level 1	Level 3	Total
Investments:			
Mutual funds	\$ 3,896,306	\$ -	\$ 3,896,306
U.S. equity securities	751,112	-	751,112
Corporate and taxable bonds	604,610	-	604,610
Real estate investment trusts	89,165	-	89,165
Hedge funds	-	471,371	471,371
	<u>5,341,193</u>	<u>471,371</u>	<u>5,812,564</u>
Land held for sale	-	28,273	28,273
Beneficial interests in funds held at Community Foundation of Southern Arizona	-	124,368	124,368
Land held for conservation	-	348,929	348,929
	<u>5,341,193</u>	<u>972,941</u>	<u>6,314,134</u>
Less restricted in perpetuity, excluding receivables	<u>(4,607,843)</u>	-	<u>(4,607,843)</u>
Available for operations	<u>\$ 733,350</u>	<u>\$ 972,941</u>	<u>\$ 1,706,291</u>

Activity for assets valued using Level 3 inputs was as follows for the year ended December 31, 2018:

	Hedge funds	Land held for sale	Beneficial interests in funds held by CFSA	Land held for conservation	Total
Beginning balance	\$ 431,565	\$ 28,273	\$ 139,610	\$ 307,413	\$ 906,861
Donations/purchases	96,886	-	-	101,037	197,923
Sales	(28,665)	-	-	(54,000)	(82,665)
(Loss) on disposal	-	-	-	(6,700)	(6,700)
Change in value	<u>(28,415)</u>	-	<u>(15,242)</u>	<u>1,179</u>	<u>(42,478)</u>
Ending balance	<u>\$ 471,371</u>	<u>\$ 28,273</u>	<u>\$ 124,368</u>	<u>\$ 348,929</u>	<u>\$ 972,941</u>

Investment income and (losses) are summarized as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Interest and dividends	\$ 191,487	\$ 203,505
Partnership income	45,000	46,000
Unrealized gains (losses)	728,378	(524,920)
Change in value of hedge funds included in investments	23,538	(56,532)
Realized gains (losses)	134,030	(25,837)
Change in value of beneficial interest in funds at CFSA	24,137	(15,242)
Investment fees	<u>(38,499)</u>	<u>(35,781)</u>
	<u>\$ 1,108,071</u>	<u>\$ (408,807)</u>

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 5 – 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 \$400,981 and \$415,684 at December 31, 2019 and 2018, respectively. See Notes 14 and 16 for related party transactions with PPP.

NOTE 6 – Pledges receivable

Pledges receivable at December 31, 2019 consisted of the following:

	<u>Annual gift</u>	<u>Endowment</u>	<u>Total</u>
Pledges receivable due in less than one year	\$ 93,171	\$ 8,217	\$ 101,388
Pledges receivable due in one to five years	<u>99,133</u>	<u>13,933</u>	<u>113,066</u>
	192,304	22,150	214,454
Discount to present value at 3.25%	<u>(6,394)</u>	<u>(1,000)</u>	<u>(7,394)</u>
	<u>\$ 185,910</u>	<u>\$ 21,150</u>	<u>\$ 207,060</u>

Pledges receivable at December 31, 2018 consisted of the following:

	<u>Annual gift</u>	<u>Endowment</u>	<u>Total</u>
Pledges receivable due in less than one year	\$ 99,000	\$ 43,917	\$ 142,917
Pledges receivable due in one to five years	<u>196,167</u>	<u>46,333</u>	<u>242,500</u>
	295,167	90,250	385,417
Discount to present value at 3.25%	<u>(15,203)</u>	<u>(3,604)</u>	<u>(18,807)</u>
	<u>\$ 279,964</u>	<u>\$ 86,646</u>	<u>\$ 366,610</u>

NOTE 7 – Property and equipment

Property and equipment at December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 33,400	\$ 26,718
Furniture, fixtures and equipment	120,320	119,282
Vehicles	13,859	13,859
Software	<u>16,254</u>	<u>15,080</u>
	183,833	174,939
Less accumulated depreciation	<u>(82,038)</u>	<u>(79,694)</u>
	<u>\$ 101,795</u>	<u>\$ 95,245</u>

NOTE 8 – Deferred revenue

Deferred revenue consists of contract payments received in advance of provision of services, and totaled \$3,134 and \$22,010 at December 31, 2019 and 2018, respectively.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 9 – Board-designated net assets

Board-designated net assets consisted of the following at December 31, 2019 and 2018:

	2019	2018
Board-designated quasi endowment	\$ 947,027	\$ 805,999
Preservation fellowship	270,944	152,570
Site protection	81,741	49,427
	\$ 1,299,712	\$ 1,007,996

See Note 11 for activity in the board-designated quasi endowment for the years ended December 31, 2019 and 2018.

NOTE 10 – Line of credit

In 2018, Archaeology Southwest renewed a \$150,000 unsecured revolving line of credit, which matures in June, 2020. The outstanding balance of the line of credit was \$0 at December 31, 2019 and 2018. Bank advances on the line of credit, if any, are payable on demand and bear interest at the prime rate (4.75% at December 31, 2019).

NOTE 11 – 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. The Board of Archaeology Southwest has interpreted the Act to permit spending from underwater funds in accordance with the prudent measure required by law.

At December 31, 2018, Archaeology Southwest had an endowment fund of this nature with an original gift value of \$3,501,617 and fair value of related investment assets of \$3,457,633, resulting in a deficiency of \$43,984. The deficiency is reported in net assets with donor restrictions subject to appropriation and expenditure at December 31, 2018. The deficiency was the result of unfavorable market fluctuations and continued distributions during the life of the endowment fund. In 2018, \$104,702 was disbursed from this underwater endowment in accordance with the spending policy for endowments.

In 2019, distributions from the fund were \$162,202, and the fund earned investment income of \$576,867. As a result, the deficiency at December 31, 2018 was recouped during the year ended December 31, 2019, and the fund had no deficiency at that year end. There were no underwater funds at December 31, 2019.

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.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 11 – Endowments, continued

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.

Activity in net assets in the endowment funds consisted of the following during the year ended December 31, 2019:

	Without donor restrictions - Board-designated quasi endowment	With donor restrictions		Total
		Restricted for time/purpose	Restricted in perpetuity	
Balance December 31, 2018	\$ 805,999	\$ (27,581)	\$ 4,694,489	\$ 5,472,907
Contributions	39,000	-	504,854	543,854
Interest and dividends	18,151	142,883	-	161,034
Unrealized gains	86,092	545,139	-	631,231
Realized gains	19,143	100,589	-	119,732
Investment fees	(4,210)	(28,358)	-	(32,568)
Change in value of beneficial interest in funds at CFSA	24,137	-	-	24,137
Bad debt losses	-	-	(1,000)	(1,000)
Appropriations	(41,285)	(162,202)	-	(203,487)
Balance December 31, 2019	<u>\$ 947,027</u>	<u>\$ 570,470</u>	<u>\$ 5,198,343</u>	<u>\$ 6,715,840</u>

Activity in net assets in the endowment funds consisted of the following during the year ended December 31, 2018:

	Without donor restrictions - Board-designated quasi endowment	With donor restrictions		Total
		Restricted for time/purpose	Restricted in perpetuity	
Balance December 31, 2017	\$ 1,066,661	\$ 452,910	\$ 4,041,294	\$ 5,560,865
Contributions	5,000	-	654,195	659,195
Interest and dividends	26,401	140,022	-	166,423
Unrealized (losses)	(74,657)	(423,770)	-	(498,427)
Realized (losses)	(1,989)	(22,157)	-	(24,146)
Investment fees	(4,675)	(25,011)	-	(29,686)
Change in value of beneficial interest in funds at CFSA	(15,242)	-	-	(15,242)
Bad debt losses	-	-	(1,000)	(1,000)
Appropriations	(195,500)	(149,575)	-	(345,075)
Balance December 31, 2018	<u>\$ 805,999</u>	<u>\$ (27,581)</u>	<u>\$ 4,694,489</u>	<u>\$ 5,472,907</u>

See Note 14 for endowment-related activities in net assets with donor restrictions for time and purpose and with donor restrictions in perpetuity.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 12 – 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, 2019 and 2018 was \$20,373 and \$17,513, respectively.

NOTE 13 – Supplemental cash flow information

Cash paid for interest totaled \$0 and \$199 during the years ended December 31, 2019 and 2018, respectively. There was no cash paid for income taxes during the years ended December 31, 2019 and 2018.

NOTE 14 – Net assets with donor restrictions

Net assets with donor restrictions consisted of the following at December 31, 2019 and 2018:

	2019	2018
Subject to the passage of time - future contributions	\$ 184,410	\$ 279,964
Subject to purpose restrictions:		
Education	23,730	3,141
Fellowship	478,264	505,900
Preservation	121,922	40,903
Site Protections	234,132	247,169
Research	256,215	279,207
Other	30,729	4,408
	1,144,992	1,080,728
Endowments:		
Subject to appropriation and expenditure - accumulated earnings on original perpetual endowment gifts expendable to support:		
Publications	47,735	6,050
Research	4,780	1,092
General operations	411,231	(43,984)
Preservation	106,724	9,261
	570,470	(27,581)
With donor restrictions perpetual in nature - not subject to spending policy or appropriation:		
Publications	345,000	345,000
Research	34,538	34,538
General operations	4,005,471	3,501,617
Preservation	813,334	813,334
	5,198,343	4,694,489
	\$ 7,098,215	\$ 6,027,600

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 14 – Net assets with donor restrictions, continued

Activity in net assets with donor restrictions comprised the following for the year ended December 31, 2019:

	<u>Contributions</u>	<u>Interest/dividends and changes in investment values</u>	<u>Releases/ appropri- ations</u>	<u>Bad debt</u>
Subject to the passage of time - Contributions for future years, including pledges receivable	\$ 11,309	\$ -	\$ (105,863)	\$ (1,000)
Subject to purpose restrictions:				
Education	30,000	-	(9,411)	-
Fellowship	-	-	(27,636)	-
Marketing and fundraising	13,500	-	(13,500)	-
Preservation	101,890	-	(20,871)	-
Site protection	146,615	-	(159,653)	-
Research	-	-	(31,306)	-
Other	245,014	-	(210,378)	-
Total purpose restrictions	<u>537,019</u>	<u>-</u>	<u>(472,755)</u>	<u>-</u>
Endowments:				
Subject to appropriation and expenditure - accumulated endowment earnings:				
Publications	-	53,038	(11,354)	-
Research	-	5,310	(1,622)	-
General operations	-	576,868	(121,652)	-
Preservation	-	125,037	(27,574)	-
	<u>-</u>	<u>760,253</u>	<u>(162,202)</u>	<u>-</u>
With donor restrictions perpetual in nature - not subject to spend- ing policy or appropriations -				
General operations	504,854	-	-	(1,000)
Total endowments	<u>504,854</u>	<u>760,253</u>	<u>(162,202)</u>	<u>(1,000)</u>
	<u>\$ 1,053,182</u>	<u>\$ 760,253</u>	<u>\$ (740,820)</u>	<u>\$ (2,000)</u>

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 14 – Net assets with donor restrictions, continued

Activity in net assets with donor restrictions comprised the following for the year ended December 31, 2018:

	<u>Contributions</u>	<u>Interest/dividends and changes in investment values</u>	<u>Releases/ appropri- ations</u>	<u>Bad debt</u>
Subject to the passage of time - Contributions for future years, including pledges receivable	\$ 27,441	\$ -	\$ (91,936)	\$ (1,000)
Subject to purpose restrictions:				
Education	-	-	(16,551)	-
Fellowship	-	-	(28,778)	-
Marketing and fundraising	9,598	-	(11,689)	-
Preservation	80,300	-	(59,722)	-
Site protection	221,410	-	(204,902)	-
Research	-	-	(21,975)	-
Other	206,150	-	(208,061)	-
Total purpose restrictions	<u>544,899</u>	<u>-</u>	<u>(643,614)</u>	<u>(1,000)</u>
Endowments:				
Subject to appropriation and expenditure - accumulated endowment earnings:				
Publications	-	(26,137)	(13,462)	-
Research	-	(2,617)	(1,496)	-
General operations	-	(240,543)	(104,702)	-
Preservation	-	(61,619)	(29,915)	-
	<u>-</u>	<u>(330,916)</u>	<u>(149,575)</u>	<u>-</u>
With donor restrictions perpetual in nature - not subject to spend- ing policy or appropriations -				
General operations	626,754	-	91,936	-
Total endowments	<u>626,754</u>	<u>(330,916)</u>	<u>(57,639)</u>	<u>-</u>
	<u>\$ 1,199,094</u>	<u>\$ (330,916)</u>	<u>\$ (793,189)</u>	<u>\$ (2,000)</u>

NOTE 15 – Operating leases

Archaeology Southwest leases office space and equipment under non-cancelable and month-to-month operating leases expiring at various times through July 2020. Lease expense for the years ended December 31, 2019 and 2018 was \$99,989 and \$93,664, respectively. Future minimum lease payments required under the leases are as follows:

Year ending December 31, 2020	\$ 131,695
2021	131,338
2022	131,338
2023	2,266
	<u>\$ 396,637</u>

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 16 – Related party transactions

During the years ended December 31, 2019 and 2018, Archaeology Southwest paid \$122,914 and \$129,865, respectively in consulting fees to Desert Archaeology, a company partially owned by the President/CEO of Archaeology Southwest. Amounts payable to the company (net of amounts receivable from Desert Archaeology) totaled \$2,227 at December 31, 2019 and \$10,197 at December 31, 2018.

Archaeology Southwest also made lease payments of \$103,529 and \$88,129 to Prudent Preservation Partners, LLC (the partnership) for the years ended December 31, 2019 and 2018, respectively. Archaeology Southwest has a 50% equity ownership interest in the limited liability partnership

Prudent Preservation Partners, LLC., in which Archaeology Southwest has a 50% ownership interest, has entered into two notes payable agreements with a financial institution for \$160,000 and \$50,000. Archaeology Southwest is a guarantor for 50% of the loans. At December 31, 2019 and 2018 balances owed by Prudent Preservation Partners, LLC and the portions guaranteed by Archaeology Southwest were as follows:

	2019	2018
Note payable 1		
Balance owed by Prudent Preservation Partners, LLC.	\$ <u>125,544</u>	\$ <u>131,897</u>
Guaranteed by Archaeology Southwest	\$ <u>62,772</u>	\$ <u>65,949</u>
Note payable 2		
Balance owed by Prudent Preservation Partners, LLC.	\$ <u>38,843</u>	\$ <u>40,804</u>
Guaranteed by Archaeology Southwest	\$ <u>19,422</u>	\$ <u>20,402</u>

NOTE 17 – Subsequent events

Subsequent events have been evaluated through August 27, 2020, which is the date the financial statements were available to be issued.

The negative impacts on the local and national economy resulting from the COVID-19 pandemic are likely to reduce donations, limit outreach and educational opportunities, and could reduce revenue from government sources. In May of 2020, Archaeology Southwest received a \$230,000 loan through a local bank through the federal government’s Paycheck Protection Plan.

SINGLE AUDIT REPORTS AND SCHEDULES



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Archaeology Southwest
Tucson, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Archaeology Southwest (an Arizona nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated August 27, 2020.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered Archaeology Southwest's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Archaeology Southwest's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Archaeology Southwest's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

Compliance and other matters

As part of obtaining reasonable assurance about whether Archaeology Southwest's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

Archaeology Southwest's response to findings

Archaeology Southwest's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Archaeology Southwest's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HBL CPAs, P.C.

HBL CPAs, P.C.

August 27, 2020



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Archaeology Southwest
Tucson, Arizona

Report on compliance for each major federal program

We have audited Archaeology Southwest's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Archaeology Southwest's major federal programs for the year ended December 31, 2019. Archaeology Southwest major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' responsibility

Our responsibility is to express an opinion on compliance for each of Archaeology Southwest's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Archaeology Southwest's compliance.

Opinion on each major federal program

In our opinion, Archaeology Southwest complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Other matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

Archaeology Southwest's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Archaeology Southwest's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on internal control over compliance

Management of Archaeology Southwest is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Archaeology Southwest's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance. Accordingly, we do not express an opinion on the effectiveness of Archaeology Southwest's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-002, that we consider to be a material weakness.

Archaeology Southwest's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Archaeology Southwest's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

HBL CPAs, P.C.

HBL CPAs, P.C.

August 27, 2020

ARCHAEOLOGY SOUTHWEST.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	2019-001
No noncompliance material to financial statements noted.	

Federal awards

Internal control over major programs:	
Material weaknesses identified?	2019-002
Significant deficiencies identified?	No
Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	2019-002
Identification of major programs:	
15.159 Cultural Resources Management	
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

ARCHAEOLOGY SOUTHWEST.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED DECEMBER 31, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

The following represents a significant deficiency in internal control over financial reporting in accordance with *Government Auditing Standards*:

Finding: 2019-001	Program: <i>Government Auditing Standards</i>	Questioned Cost: None
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Criteria: The accounting software should reflect a true and accurate record of the activities of the organization, including the timing of cash disbursements. The integrity of the check register and bank activity is absolutely essential to ensure accurate capture of ASW's economic activity and condition at any given time.

Condition: For the year audited, we noted the following related to cash disbursements:

- 1) Twenty-two checks totaling \$25,954 were written on December 31, 2019, as noted in our review of the cancelled check images on the January 2020 bank statement. The check register in the accounting software reflected a date of January 2, 2020 for those checks, and the total amount was included in accounts payable.
- 2) One check written in January of 2019 showed a 2018 date in the check register.
- 3) Seven checks were listed in the check register as having been voided, although they had cleared the bank account.

Cause and effect:

- 1) Subsequent to the issuance of the twenty-two checks, ASW staff modified the records in the accounting software to show that they had been written on a different date. The effect of the change is that the accounting records did not accurately reflect the timing of disbursements made, and accounts payable was misstated. Additionally, three IRS Forms 1099 issued to independent contractors were incorrect due to this manipulation of data.
- 2) The check issued in January 2019 was subsequently modified to void the check and backdate it into 2018. The effect of the change is that the accounting records did not accurately reflect the timing of disbursements made, and asset and net asset accounts that had previously been closed and whose balances had been reported in audited financial statements were changed.
- 3) It was represented to us that the seven checks that cleared the bank account but were listed as voided in the check register were the result of voiding checks in FundEZ and, in the system, reissuing the same check number to correct amounts reported for non-employee compensation on the IRS Forms 1099.

Recommendation: We recommend that check register and banking activity in the accounting software never be manually overridden after the fact to reflect a timing, nature, amount, or payee other than what actually occurred. Any errors to cash disbursements should be resolved by having the vendor return the incorrect check, voiding the check, and reissuing a new check. In such cases, the voided check returned by the vendor should be maintained. We further recommend that ASW outsource or manually prepare IRS Forms 1099 if they cannot be issued correctly from FundEZ.

ARCHAEOLOGY SOUTHWEST.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED DECEMBER 31, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS, CONTINUED

Finding: 2019-001, continued	Program: <i>Government Auditing Standards</i>	Questioned Cost: None
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Management response: The errors in our accounting system appear to be related to a miscommunication between our previous Director of Operations and a new Office Manager. Instructions were given to make adjustments that mistakenly resulted in changing 2019 expenses to 2020 expenses. We have since implemented data entry protocols that will assist in eliminating these potential errors. Only the Office Manager can make changes in the accounting data, and only with written explanations as journal entry back-up. The Director of Operations will no longer complete journal entries but will review each entry along with the back-up prior to delivering the monthly report to the Founder and CEO for review

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The following represents a material weakness in internal control over compliance and noncompliance with the requirements of the major program.

Finding: 2019-002	Program: <i>All programs</i>	Questioned Cost: None
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Criteria: Under *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) 2 CFR 200.318(a) and 2 CFR 200.318(c), a non-federal entity must use its own documented procurement procedures conforming to applicable State and local laws and regulations and the Uniform Guidance, and must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts.

Condition: For the year audited, we found that ASW had not adopted a procurement policy and had not implemented the minimum procedures described in the Uniform Guidance.

Cause and effect: Since no policy governing compliance with the Procurement and Suspension and Debarment rules was approved and no procedures for ensuring compliance had been implemented, contractors used for work on the major program were not selected in a manner that complied with 2 CFR 200.300(b) *Procurement by small purchase procedures*.

Recommendation: We recommend that the board adopt a policy governing compliance with the federal rules for procurement and suspension and debarment pursuant to the Uniform Guidance. We further recommend that procedures be implemented to ensure that annual purchases of goods and services over the micro-purchase threshold for any vendor or contractor comply with 2 CFR 200.300.

Management response: Archaeology Southwest is currently drafting a procurement policy in compliance with 2 C.F.R. 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award*; and will adhere to all guidelines set within.

INFORMATION PREPARED BY AUDITEE

ARCHAEOLOGY SOUTHWEST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019

<u>Federal grantor/Pass-through grantor/ Program or cluster title</u>	<u>Federal CFDA number</u>	<u>Grant number</u>	<u>Passed through to sub- recipients</u>	<u>Federal expenditures</u>
Research and development cluster:				
<u>Department of the Interior -</u>				
<u>National Park Service -</u>				
<i>Direct programs:</i>				
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P14AC01090	\$ - \$	12,435
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P17AC00804	-	758
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P17AC01378	-	17,085
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P17AC01455	-	11,736
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P18AC00883	-	44,613
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P19AC00889	-	63,055
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P19AC00705	-	13,063
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P19AC00904	-	2,578
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P19AC00892	-	7,314
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P15AC00329	-	6,320
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P18AC00589	-	18,150
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P15AC00912	-	1,763
<i>Total CFDA 15.945, total Research and development cluster expenditures of awards from Department of the Interior</i>			-	198,870

ARCHAEOLOGY SOUTHWEST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED DECEMBER 31, 2019

<u>Federal grantor/Pass-through grantor/ Program or cluster title</u>	<u>Federal CFDA number</u>	<u>Grant number</u>	<u>Passed through to sub- recipients</u>	<u>Federal expenditures</u>
Research and development cluster, continued:				
<u>National Endowment for the Humanities:</u>				
<i>Direct program -</i>				
Promotion of the Humanities Research	45.161	RZ-255760-17	\$ -	\$ 119,344
<i>Total CFDA 45.161, total Research and development cluster expenditures of awards from National Endowment for the Humanities</i>			-	119,344
<u>National Science Foundation:</u>				
<i>Direct programs:</i>				
Social, Behavioral, and Economic Sciences	47.075	1851763	-	86,266
Social, Behavioral, and Economic Sciences	47.075	1560465	-	4,154
Social, Behavioral, and Economic Sciences	47.075	1524079	-	11,463
Social, Behavioral, and Economic Sciences	47.075	1460385	-	7,984
Social, Behavioral, and Economic Sciences	47.075	1738062	-	109,713
<i>Total CFDA 47.075, total Research and development cluster expenditures of awards from National Science Foundation</i>			-	219,580
Total research and development cluster			-	537,794
Other programs:				
<u>Department of the Interior -</u>				
<i>Bureau of Indian Affairs -</i>				
<i>Direct program -</i>				
Cultural Resources Management	15.159	A18AC00026	-	630,230
<i>National Park Service -</i>				
<i>Passed through San Juan County Museum Association -</i>				
Native American Graves Protection and Repatriation Act	15.922	P18AP00348	-	18,532
<i>Total Department of the Interior, other programs</i>			-	648,762

ARCHAEOLOGY SOUTHWEST
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
 YEAR ENDED DECEMBER 31, 2019

<u>Federal grantor/Pass-through grantor/ Program or cluster title</u>	<u>Federal CFDA number</u>	<u>Grant number</u>	<u>Passed through to sub- recipients</u>	<u>Federal expenditures</u>
Other programs, continued:				
<u>National Endowment for the Humanities:</u>				
<i>Passed through AZ Humanities -</i>				
Promotion of Humanities - Federal/State Partnership	45.129	71012019	\$ -	\$ 1,406
Promotion of Humanities - Federal/State Partnership	45.129	70782018	-	5,572
<i>Total National Endowment for the Humanities, other programs</i>			-	6,978
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 1,193,534

NOTE 1: Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Archaeology Southwest under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Archaeology Southwest, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Archaeology Southwest.

NOTE 2: Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Archaeology Southwest has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

ARCHAEOLOGY SOUTHWEST
SUMMARY OF PRIOR YEAR FINDINGS
YEARS ENDED DECEMBER 31, 2019 AND 2018

FINDINGS AND QUESTIONED COSTS

None.