

**ARCHAEOLOGY SOUTHWEST
AND PRUDENT PRESERVATION PARTNERS, LLC.**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION AND
SINGLE AUDIT REPORTS AND SCHEDULES
YEAR ENDED DECEMBER 31, 2021**

ARCHAEOLOGY SOUTHWEST AND PRUDENT PRESERVATION PARTNERS, LLC.
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SINGLE AUDIT REPORTS AND SCHEDULES
YEAR ENDED DECEMBER 31, 2021

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Archaeology Southwest
Tucson, Arizona

Qualified opinion

We have audited the accompanying consolidated financial statements of Archaeology Southwest and Prudent Preservation Partners, LLC. (a single member LLC), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, except for the effects of not reporting the activity related to the purchase of the other half of Prudent Preservation Partners, LLC, as of the date of the purchase, described in the *Basis for qualified opinion* section of our report, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Archaeology Southwest and Prudent Preservation Partners, LLC as of December 31, 2021, 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.

Basis for qualified opinion

We did not obtain sufficient appropriate audit evidence about the financial results of Archaeology Southwest and Prudent Preservation Partners, LLC, as of the date of Archaeology Southwest becoming the sole member of Prudent Preservation Partners, LLC. We were unable to obtain sufficient appropriate audit evidence regarding the financial results as of that date by other auditing procedures.

We conducted our audit 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. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organizations' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the consolidated 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*, and the consolidating schedules of financial position and activities on pages 21 and 22 are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 July 13, 2022, on our consideration of Archaeology Southwest and Prudent Preservation Partners, LLC'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 solely 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 Archaeology Southwest and Prudent Preservation Partners, LLC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Archaeology Southwest and Prudent Preservation Partners, LLC's internal control over financial reporting and compliance.

HBL CPAs, P.C.

HBL CPAs, P.C.

Tucson, AZ

July 13, 2022

**ARCHAEOLOGY SOUTHWEST
AND PRUDENT PRESERVATION PARTNERS, LLC.**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021

ASSETS

Cash and cash equivalents	\$ 1,290,933
Investments	8,805,038
Grants receivable	67,566
Accounts receivable	5,630
Pledges receivable	9,607
Prepaid expenses	2,212
Beneficial interest in funds held at Community Foundation for Southern Arizona	166,789
Land held for conservation	435,269
Property and equipment	<u>1,902,396</u>
 Total assets	 \$ <u><u>12,685,440</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 110,393
Accrued expenses	52,248
Deferred revenue	28,046
Notes payable	1,029,471
Conditional contributions refundable	155,110
Security deposits refundable	<u>8,748</u>
Total liabilities	1,384,016
Net assets:	
Net assets without donor restrictions:	
Available for operations	451,028
Expended for property and equipment and land held for conservation	1,308,194
Board designated	<u>1,671,437</u>
	3,430,659
Net assets with donor restrictions:	
Subject to the passage of time	5,169
Subject to purpose restrictions	982,666
Endowments:	
Subject to appropriation and expenditure - accumulated earnings on original perpetual endowment gifts	1,444,200
Restricted by donors in perpetuity	<u>5,438,730</u>
	<u>7,870,765</u>
Total net assets	<u>11,301,424</u>
 Total liabilities and net assets	 \$ <u><u>12,685,440</u></u>

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

**ARCHAEOLOGY SOUTHWEST
AND PRUDENT PRESERVATION PARTNERS, LLC.**
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

	<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	\$ 286,172	\$ 508,680	\$ 794,852
Governmental grants	1,552,565	-	1,552,565
Other contract revenue	176,414	-	176,414
Program service fees	46,822	-	46,822
Investment income	599,444	820,956	1,420,400
Rental income	96,117	-	96,117
Other revenue	4,465	-	4,465
Sales of professional literature	17,687	-	17,687
	<u>2,779,686</u>	<u>1,329,636</u>	<u>4,109,322</u>
Releases from restrictions	<u>1,037,865</u>	<u>(1,037,865)</u>	<u>-</u>
Total support and revenues	3,817,551	291,771	4,109,322
Expenses and losses:			
Expenses:			
Program services	2,415,716	-	2,415,716
Administration	281,939	-	281,939
Fundraising	109,597	-	109,597
Total expenses	<u>2,807,252</u>	<u>-</u>	<u>2,807,252</u>
Losses:			
Loss on disposal of property and equipment	(8,455)	-	(8,455)
Bad debt losses	-	(1,500)	(1,500)
Total losses	<u>(8,455)</u>	<u>(1,500)</u>	<u>(9,955)</u>
Total expenses and losses	2,798,797	(1,500)	2,797,297
Change in value of land held for conservation and land held for sale	<u>(500)</u>	<u>-</u>	<u>(500)</u>
Change in net assets	1,001,344	290,271	1,291,615
Net assets, beginning of year, as restated	<u>2,429,315</u>	<u>7,580,494</u>	<u>10,009,809</u>
Net assets, end of year	<u><u>3,430,659</u></u>	<u><u>7,870,765</u></u>	<u><u>11,301,424</u></u>

ARCHAEOLOGY SOUTHWEST AND PRUDENT PRESERVATION PARTNERS, LLC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	<u>Program services</u>				<u>Supporting services</u>			
	<u>Research</u>	<u>Outreach and education</u>	<u>cyberSW</u>	<u>Site protection</u>	<u>Total program services</u>	<u>Adminis- tration</u>	<u>Fundraising</u>	
Salaries and wages	\$ 303,934	\$ 159,635	\$ 129,035	\$ 378,712	\$ 971,316	\$ 202,149	\$ 53,990	\$ 1,227,455
Payroll taxes and benefits	53,754	28,234	22,822	67,955	172,765	36,291	9,549	218,605
	357,688	187,869	151,857	446,667	1,144,081	238,440	63,539	1,446,060
Accounting fees	6,191	3,251	2,628	7,713	19,783	4,117	1,100	25,000
Bank fees	2,972	1,412	1,016	3,212	8,612	1,591	425	10,628
Depreciation	8,792	4,617	3,732	10,953	28,094	5,846	1,561	35,501
Insurance	3,749	1,969	1,592	5,355	12,665	2,494	666	15,825
Interest	1,379	724	586	1,719	4,408	917	245	5,570
Investment fees	11,059	5,808	4,695	13,779	35,341	7,355	1,964	44,660
Miscellaneous	218	88	71	2,300	2,677	111	30	2,818
Office supplies and expenses	3,785	4,135	1,105	43,001	52,026	1,730	3,366	57,122
Postage and printing	2,376	18,294	553	2,856	24,079	867	12,831	37,777
Professional services	89,011	20,131	4,442	607,738	721,322	6,554	12,697	740,573
Rent	54,154	1,823	1,388	3,737	61,102	4,442	2,255	67,799
Repairs and maintenance	4,328	2,219	1,794	5,264	13,605	2,810	750	17,165
Stipends and program supplies	47,637	5,234	1,609	129,744	184,224	2,521	7,506	194,251
Taxes	8,097	4,253	3,438	10,089	25,877	5,385	1,438	32,700
Telephone	7,817	6,338	2,420	10,941	27,516	3,791	1,012	32,319
Travel	28,524	2,222	206	54,693	85,645	323	176	86,144
Total functional expenses	637,777	270,387	183,132	1,359,761	2,451,057	289,294	111,561	2,851,912
Less investment fees netted against revenue	(11,059)	(5,808)	(4,695)	(13,779)	(35,341)	(7,355)	(1,964)	(44,660)
Total expenses	<u>\$ 626,718</u>	<u>\$ 264,579</u>	<u>\$ 178,437</u>	<u>\$ 1,345,982</u>	<u>\$ 2,415,716</u>	<u>\$ 281,939</u>	<u>\$ 109,597</u>	<u>\$ 2,807,252</u>

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

**ARCHAEOLOGY SOUTHWEST
AND PRUDENT PRESERVATION PARTNERS, LLC.**
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021

Cash flows from operating activities:	
Change in net assets	\$ 1,291,615
Adjustments to reconcile change in net assets to net cash from operating activities:	
Unrealized (gains) on investments, including change in value of hedge funds included in investments	(531,919)
Realized (gains) losses on investments	(149,693)
Donated investments	(2,984)
Provision for discount to present value for pledges receivable	(552)
Bad debt losses	1,000
Change in value of investment in partnership	(226,393)
Change in value of beneficial interest in funds held by others	(16,187)
Change in value of land held for conservation	500
Change in value of property and equipment held by partnership	(1,216,000)
Loss on sale of land held for sale	8,455
Depreciation expense	35,501
(Increase) decrease in operating assets:	
Grants receivable	60,951
Accounts receivable	72,955
Pledges receivable	89,759
Prepaid expenses	(572)
Increase (decrease) in operating liabilities:	
Accounts payable	65,384
Accrued expenses	8,115
Deferred revenue	(25,579)
Conditional grant advances	6,218
Proceeds from sales of donated investments	2,994
Deposits	(5,474)
Net cash provided by (used in) operating activities	<u>(531,906)</u>
Cash flows from investing activities:	
Purchases of investments	(1,391,800)
Proceeds from sales of investments	1,721,592
Proceeds from sales of land held for sale	10,905
Purchases of land held for conservation	-
Distributions from beneficial interest in funds held by others	5,453
Purchases of property and equipment	(46,210)
Net cash (used in) investing activities	<u>299,940</u>
Net cash provided by financing activities -	
Advance on note payable	911,269
Repayments on notes payable	(45,608)
Contributions and pledge payments restricted for long-term purposes	4,950
Net cash provided by financing activities -	<u>870,611</u>
Change in cash and cash equivalents	638,645
Cash and cash equivalents, beginning of year	<u>652,288</u>
Cash and cash equivalents, end of year	<u>\$ 1,290,933</u>
<u>Supplemental cash flow information:</u>	
Interest	\$ 3,249
Unrelated business income tax	\$ 12,560

ARCHAEOLOGY SOUTHWEST AND PRUDENT PRESERVATION PARTNERS, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

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.
- Site protection – protecting sites and cultural landscapes that have archaeological significance.
- cyberSW – creating a single scalable, networked database from existing sources to facilitate research and analysis.

In the year ended December 31, 2021, Archaeology Southwest purchased the other 50% of Prudent Preservation Partners, LLC (PPP) that it did not already own. PPP owns real estate, Archaeology Southwest leases their offices from PPP. The two entities are collectively referred to as ASW/PPP.

NOTE 2 – Summary of significant accounting policies

Basis of presentation

The consolidated financial statements of ASW/PPP 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 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.

Principles of consolidation

The consolidated financial statements as presented include all accounts of Archaeology Southwest and PPP. All significant interorganization accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of consolidated 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.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021

NOTE 2 – Summary of significant accounting policies, continued

Cash and cash equivalents

ASW/PPP considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents. ASW/PPP maintains its cash in bank deposit and investment accounts which, for short periods of time, may exceed federally insured limits. Uninsured cash totaled \$780,725 at December 31, 2021.

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, 2021, 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 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.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021

NOTE 2 – Summary of significant accounting policies, continued

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 may be 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 no policy for evaluating them.

As of the purchase of the 50% interest in PPP that Archaeology Southwest did not own, PPP is now a single-member LLC, and therefore, the activity of PPP will be included with Archaeology Southwest's Form 990. Because PPP has unrelated business income, Archaeology Southwest will also be required to file a Form 990-T, and may be required to pay unrelated business income tax. Management believes such a tax liability is not material to these consolidated financial statements.

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 \$1,397 for the year ended December 31, 2021.

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

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021

NOTE 2 – Summary of significant accounting policies, continued

Endowments, continued

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.

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.

Revenue from contracts with customers consists of sales of publications and memberships. Revenue from these contracts is recognized when goods are provided to customers. See Note 17 for additional information related to revenue from contracts with customers.

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.

PPP recognizes rental revenue in accordance with the written leases, normally on a monthly basis.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021

NOTE 2 – Summary of significant accounting policies, continued

New accounting pronouncements

Standards updated issued but not effective or adopted by Archaeology Southwest as of December 31, 2021

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842), to increase transparency and comparability among entities by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The new standard is effective for fiscal years beginning after December 15, 2021 and may be adopted early. SALA is in the process of determining the effect on the financial statements due to adopting this standard update.

In September 2020, FASB issued ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958), to increase transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. The new standard is effective for fiscal years beginning after June 15, 2022, and may be adopted early. SALA is in the process of determining the effect on the financial statements due to adopting this standard update.

NOTE 3 – Availability and liquidity

ASW/PPP 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 ASW/PPP’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, 2021.

Financial assets:	
Cash and cash equivalents	\$ 1,290,933
Investments	8,805,038
Grants receivable	67,566
Accounts receivable	5,630
Pledges receivable	9,607
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	(633,011)
Net assets with donor restrictions	<u>(7,870,765)</u>
Net financial assets available to be used within one year to meet general obligations	<u>\$ 1,674,998</u>

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021

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, 2021 were as follows:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Investments:			
Mutual funds:	\$ 6,835,915	\$ -	\$ 6,835,915
U.S. equity securities	1,312,754	-	1,312,754
Corporate and taxable bonds	362,164	-	362,164
Real Estate Investment Trusts	72,722	-	72,722
Hedge funds	-	221,483	221,483
	<u>8,583,555</u>	<u>221,483</u>	<u>8,805,038</u>
Beneficial interests in funds held at Community Foundation of Southern Arizona	-	166,789	166,789
Land held for conservation	-	435,269	435,269
	<u>8,583,555</u>	<u>823,541</u>	<u>9,407,096</u>
Less restricted in perpetuity, excluding receivables	<u>(5,434,292)</u>	<u>-</u>	<u>(5,434,292)</u>
Available for operations	<u>\$ 3,149,263</u>	<u>\$ 823,541</u>	<u>\$ 3,972,804</u>

Activity for assets valued using Level 3 inputs was as follows for the year ended December 31, 2021:

	<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	\$ 396,970	\$ 19,360	\$ 156,055	\$ 435,769	\$ 1,008,154
Donations/purchases	-	-	-	-	-
Sales/Distributions	-	-	(5,453)	-	(5,453)
Change in value	<u>(175,487)</u>	<u>(19,360)</u>	<u>16,187</u>	<u>(500)</u>	<u>(179,160)</u>
Ending balance	<u>\$ 221,483</u>	<u>\$ -</u>	<u>\$ 166,789</u>	<u>\$ 435,269</u>	<u>\$ 823,541</u>

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021

NOTE 5 – Purchase of other membership interest in LLC

In May 2021, Archaeology Southwest purchased the 50% interest in Prudent Preservation Partners, LLC (PPP) that it did not already own. Previously Archaeology Southwest reported the value of its 50% interest in PPP on the equity basis.

In June 2021, PPP entered into a note payable agreement with a financial institution for a principal amount of \$1,063,000 to finance the purchase of the remaining partnership interest. The loan is guaranteed in full by Archaeology Southwest. The terms of the note call for 180 monthly principal and interest payments ranging from \$6,321 and \$7,258 at interest rates which vary over the term of the loan. The note bears interest at 0.9% for the first 12 months, 2.99% for the following 108 months, and a variable rate equal to 5-year US Treasury rate plus 2% for the final 60 months.

Approximately \$166,000 of the proceeds from the loan were used to pay off PPP's notes payable, which were 50% guaranteed by Archaeology Southwest. The purchase of the partnership interest was funded from the following sources.

- The balance of proceeds from the new note payable, totaling approximately \$897,000 after payoff of the existing notes payable and closing costs.
- PPP's cash on deposit at a financial institution in the amount of approximately \$25,000.
- Archaeology Southwest's board-designated quasi-endowment held in marketable securities, in the amount of approximately \$177,000.

Below is a schedule of the changes in members' equity based on this transaction:

	Member 1	Member 2	Member 3	Total
Member equity, January 1, 2021	\$ 243,599	\$ 121,799	\$ 121,799	\$ 487,197
Net income to date of acquisition	2,961	1,481	1,481	5,923
Gain on land and building	611,007	302,499	302,495	1,216,001
Member distributions	(17,500)	(10,960)	(10,960)	(39,420)
Sale of member interest	-	(546,773)	(546,773)	(1,093,546)
True-up to acquisition price	(263,912)	131,954	131,958	-
Member contribution	169,676	-	-	169,676
Member equity, May 28, 2021	<u>\$ 745,831</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 745,831</u>

NOTE 6 – Pledges receivable

Pledges receivable at December 31, 2021 consisted of the following:

	Annual gift	Endowment	Total
Pledges receivable due in less than one year	\$ 4,700	\$ 3,500	\$ 8,200
Pledges receivable due in one to five years	500	1,000	1,500
	5,200	4,500	9,700
Discount to present value at 3.25%	(31)	(62)	(93)
	<u>\$ 5,169</u>	<u>\$ 4,438</u>	<u>\$ 9,607</u>

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021

NOTE 7 – Property and equipment

Property and equipment at December 31, 2021 consisted of the following:

Archaeology Southwest:	
Leasehold improvements	\$ 33,400
Furniture, fixtures and equipment	121,861
Vehicles	18,622
Software	<u>14,000</u>
	187,883
Less accumulated depreciation	<u>(87,611)</u>
	<u>100,272</u>
Prudent Preservation Partners, LLC:	
Land	409,804
Building	1,636,196
Building improvements	15,547
Furniture and equipment	<u>10,500</u>
	(269,923)
Less accumulated depreciation	<u>(269,923)</u>
	<u>1,802,124</u>
Total	<u>\$ 1,902,396</u>

NOTE 8 – Deferred revenue

Deferred revenue consists of contract payments received in advance of provision of services and membership revenue in which Archaeology Southwest still owes members some sort of performance obligation, and totaled \$183,155 at December 31, 2021.

NOTE 9 – Board-designated net assets

Board-designated net assets consisted of the following at December 31, 2021:

Board-designated quasi endowment	\$ 1,038,426
Preservation fellowship	491,484
Site protection	<u>141,527</u>
	<u>\$ 1,671,437</u>

See Note 11 for activity in the board-designated quasi endowment for the year ended December 31, 2021.

NOTE 10 – Line of credit

In 2018, Archaeology Southwest renewed a \$150,000 unsecured revolving line of credit, which matures in June 2021. The outstanding balance of the line of credit was \$0 at December 31, 2021. 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, 2021).

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021

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. There were no underwater funds at December 31, 2021.

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.

Activity in net assets in the endowment funds consisted of the following during the year ended December 31, 2021:

	Without donor restrictions - Board-designated quasi endowment	With donor restrictions		
		Restricted for time/purpose	Restricted in perpetuity	Total
Balance December 31, 2020	\$ 1,130,599	\$ 1,212,345	\$ 5,319,484	\$ 7,662,428
Contributions	13,698	-	109,746	123,444
Interest and dividends	48,539	324,642	-	373,181
Unrealized gains	41,887	403,895	-	445,782
Realized gains	23,939	125,755	-	149,694
Investment fees	(11,324)	(33,336)	-	(44,660)
Change in value of beneficial interest in funds at CFSA	16,187	-	-	16,187
Bad debt losses	-	-	(500)	(500)
Appropriations	(225,099)	(589,100)	10,000	(804,199)
Balance December 31, 2021	<u>\$ 1,038,426</u>	<u>\$ 1,444,200</u>	<u>\$ 5,438,730</u>	<u>\$ 7,921,357</u>

See Note 13 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, 2021

NOTE 12 – Pension plan

Archaeology Southwest sponsors a qualified 401(k) retirement plan (Plan) covering substantially all employees who reached age 21 years or older. 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 year ended December 31, 2021 was \$24,577.

NOTE 13 – Net assets with donor restrictions

Net assets with donor restrictions consisted of the following at December 31, 2021:

Subject to the passage of time - future contributions	\$ 5,169
Subject to purpose restrictions:	
Education	13,340
Fellowship	420,858
Preservation	30,408
Site Protection	123,940
Research	234,120
Cyber SW	160,000
	982,666
Endowments:	
Subject to appropriation and expenditure - accumulated earnings on original perpetual endowment gifts expendable to support:	
Publications	139,683
Research	15,854
General operations	1,042,026
Preservation	246,637
	1,444,200
With donor restrictions perpetual in nature - not subject to spending policy or appropriation:	
Publications	635,000
Research	74,038
General operations	3,879,692
Preservation	850,000
	5,438,730
Total endowments	6,882,930
Total net assets with donor restrictions	\$ 7,870,765

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021

NOTE 13 – Net assets with donor restrictions, continued

Activity in net assets with donor restrictions comprised the following for the year ended December 31, 2021:

	<u>Contributions</u>	<u>Interest/dividends and changes in investment values</u>	<u>Releases/ appropriations and transfers</u>	<u>Bad debt</u>
Subject to the passage of time - Contributions for future years, including pledges receivable	\$ 306	\$ -	\$ (75,988)	\$ (1,000)
Subject to purpose restrictions:				
Education	5,453	-	(11,822)	-
Fellowship	-	-	(28,932)	-
Preservation	13,900	-	(20,838)	-
Site protection	2,000	-	(4,096)	-
Research	217,275	-	(317,089)	-
Cyber SW	160,000	-	-	-
Total purpose restrictions	<u>398,628</u>	<u>-</u>	<u>(382,777)</u>	<u>-</u>
Endowments:				
Subject to appropriation and expenditure - accumulated endowment earnings:				
Publications	-	89,545	(59,439)	-
Research	-	10,682	(7,281)	-
General operations	-	592,151	(429,054)	-
Preservation	-	128,578	(93,326)	-
	<u>-</u>	<u>820,956</u>	<u>(589,100)</u>	<u>-</u>
With donor restrictions perpetual in nature - not subject to spend- ing policy or appropriations:				
Publications	100,000	-	-	-
Research	1,000	-	-	-
General operations	8,746	-	-	-
Preservation	-	-	10,000	(500)
	<u>109,746</u>	<u>-</u>	<u>10,000</u>	<u>(500)</u>
Total endowments	<u>109,746</u>	<u>820,956</u>	<u>(579,100)</u>	<u>(500)</u>
	<u>\$ 508,680</u>	<u>\$ 820,956</u>	<u>\$ (1,037,865)</u>	<u>\$ (1,500)</u>

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021

NOTE 14 – Operating leases

Archaeology Southwest leases office space and equipment under non-cancelable and month-to-month operating leases expiring at various times through December 2025. Lease expense for the year ended December 31, 2021 was \$148,140. However, of this expense, \$76,338 was paid by Archaeology Southwest to Prudent Preservation Partners, LLC., after May 28, 2021 when Archaeology Southwest purchased the ownership of the other partners, and was eliminated in consolidation.

Future minimum payments, including amounts due to Prudent Preservation Partners, LLC. by Archaeology Southwest pursuant to the existing office lease and amounts due to outside parties, are as follows:

	Gross minimum payments	Due to PPP from ASW	Due to outside parties
Year ending December 31, 2022	\$ 110,554	\$ (107,149)	\$ 3,405
2023	3,529	-	3,529
2024	612	-	612
2025	612	-	612
	<u>\$ 115,307</u>	<u>\$ (107,149)</u>	<u>\$ 8,158</u>

NOTE 15 – Related party transactions

During the year ended December 31, 2021, Archaeology Southwest paid \$77,268 in consulting fees to Desert Archaeology, a company partially owned by the President/CEO of Archaeology Southwest. Amounts (payable to) Desert Archaeology totaled \$13,106 at December 31, 2021.

NOTE 16 – Revenue from contracts with customers

Management has assessed recognition of each type of revenue generated by Archaeology Southwest, as described below. There were no revenue streams present that are recognized at a point in time or through the passage of time.

Recognized through performance of activities

Sales of professional literature are recognized at the time the publication is shipped to the customer.

There were no contract receivables or contract assets as of January 1, 2020 or December 31, 2020.

Archaeology Southwest recognized \$17,687 related to sales of professional literature (contracts with customers) for the year ended December 31, 2021. There are no outstanding performance obligations related to the sales of professional literature.

A portion of each membership sold constitutes revenue from contracts with customers, as each member receives a quarterly magazine from Archaeology Southwest. The publication is the primary tangible benefit of membership. The transaction price in excess of the fair value of the magazine, if any, represents contribution revenue, which is recognized at the time the membership is purchased. The exchange portion of membership revenue is recognized ratably throughout the year as the quarterly magazine is mailed to members. Outstanding performance obligations related to future magazine deliveries to members totaled \$28,046 at December 31, 2021.

ARCHAEOLOGY SOUTHWEST
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021

NOTE 17 – Prior period adjustment

Management of Archaeology Southwest determined that four grants totaling \$208,892 that were recorded as revenue in 2020 were conditional grants, and therefore a prior period adjustment was made to place the balance of those conditional grants in conditional grant advances as of December 31, 2020.

Management also determined that the value of the real estate owned by PPP had been marked up to an estimated fair value in prior years. Generally accepted accounting principles in the United States of America does not allow for the value of real estate to be marked up except in specific events. A prior period adjustment was made to correct the balance of the equity investment in limited liability partnership.

The impact on net assets was as follows:

	Net assets with donor restrictions	Net assets without donor restrictions	Total net assets
Net assets at December 31, 2020, as originally stated	\$ 7,789,386	\$ 2,588,259	\$ 10,377,645
Decrease in receivables of conditional grants	(60,000)	-	(60,000)
Decrease in investment in PPP	-	(158,944)	(158,944)
Increase in conditional grant advances	(148,892)	-	(148,892)
	\$ 7,580,494	\$ 2,429,315	\$ 10,009,809

NOTE 18 – Subsequent events

Subsequent events have been evaluated through July 13, 2022, which is the date the financial statements were available to be issued.

The negative impacts on the local and national economy resulting from the continuing COVID-19 pandemic are likely to continue to affect donations, limit outreach and educational opportunities, and could reduce revenue from government sources.

SUPPLEMENTARY INFORMATION

ARCHAEOLOGY SOUTHWEST AND PRUDENT PRESERVATION PARTNERS, LLC.
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 2021

	Archaeology Southwest	Prudent Preservation Partners, LLC.	Elimina- tions	Total
ASSETS				
Cash and cash equivalents	\$ 1,263,659	\$ 27,274	\$ -	\$ 1,290,933
Investments	8,805,038	-	-	8,805,038
Grants receivable	67,566	-	-	67,566
Accounts receivable	5,630	-	-	5,630
Pledges receivables	9,607	-	-	9,607
Prepaid expenses and deposits	2,212	-	-	2,212
Investment in partnership	786,303	-	(786,303)	-
Beneficial interest in funds held at Community Foundation of Southern Arizona	166,789	-	-	166,789
Land held for conservation	435,269	-	-	435,269
Property and equipment	100,272	1,802,124	-	1,902,396
	\$ 11,642,345	\$ 1,829,398	\$ (786,303)	\$ 12,685,440
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable	\$ 106,673	\$ 3,720	\$ -	\$ 110,393
Accrued expenses	51,092	1,156	-	52,248
Deferred revenue	28,046	-	-	28,046
Notes payable	-	1,029,471	-	1,029,471
Conditional contributions refundable	155,110	-	-	155,110
Security deposits refundable	-	8,748	-	8,748
Total liabilities	340,921	1,043,095	-	1,384,016
Net assets and member equity:				
Without donor restrictions	3,440,715	-	-	3,440,715
Member equity	-	786,303	(786,303)	-
With donor restrictions for purpose	7,860,709	-	-	7,860,709
Total net assets	11,301,424	786,303	(786,303)	11,301,424
Total liabilities, net assets and member equity	\$ 11,642,345	\$ 1,829,398	\$ (786,303)	\$ 12,685,440

ARCHAEOLOGY SOUTHWEST AND PRUDENT PRESERVATION PARTNERS, LLC.
CONSOLIDATING SCHEDULE OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021 (ARCHAEOLOGY SOUTHWEST)
PERIOD MAY 28 - DECEMBER 31, 2021 (PRUDENT PRESERVATION PARTNERS, LLC.)

	<u>Archaeology Southwest</u>	<u>Prudent Preservation Partners, LLC.</u>	<u>Eliminations</u>	<u>Total</u>
Net assets without donor restrictions and member equity:				
Support and revenues:				
Contributions and foundation grants	\$ 286,172	\$ -	\$ -	\$ 286,172
Governmental grants	1,552,565	-	-	1,552,565
Other contract revenue	176,414	-	-	176,414
Program service fees	46,822	-	-	46,822
Investment income	669,416	-	(69,972)	599,444
Rental revenue	-	172,455	(76,338)	96,117
Other revenue	4,465	-	-	4,465
Sales of professional literature	17,687	-	-	17,687
Net assets released from restrictions	1,037,865	-	-	1,037,865
Total support and revenues	<u>3,791,406</u>	<u>172,455</u>	<u>(146,310)</u>	<u>3,817,551</u>
Expenses:				
Salaries and wages	1,227,455	-	-	1,227,455
Payroll taxes and benefits	218,605	-	-	218,605
Accounting fees	25,000	-	-	25,000
Bank fees	8,355	2,273	-	10,628
Depreciation	11,411	24,090	-	35,501
Insurance	13,895	1,930	-	15,825
Interest	-	5,570	-	5,570
Miscellaneous expenses	2,818	-	-	2,818
Office supplies and expenses	54,780	2,342	-	57,122
Postage and printing	37,777	-	-	37,777
Professional services	717,381	23,192	-	740,573
Rent	144,137	-	(76,338)	67,799
Repairs and maintenance	4,965	12,200	-	17,165
Stipends and program supplies	194,251	-	-	194,251
Taxes	12,560	20,140	-	32,700
Telephone and utilities	21,573	10,746	-	32,319
Travel	86,144	-	-	86,144
Total expenses	<u>2,781,107</u>	<u>102,483</u>	<u>(76,338)</u>	<u>2,807,252</u>
(Loss) on sale of land held for sale	(8,455)	-	-	(8,455)
Change in value of land held for conservation	(500)	-	-	(500)
Change in net assets without donor restrictions	1,001,344	-	6,366	1,007,710
Net income (loss)	-	69,972	(76,338)	(6,366)
	<u>1,001,344</u>	<u>69,972</u>	<u>(69,972)</u>	<u>1,001,344</u>
Net assets with donor restrictions:				
Contributions and grants	508,680	-	-	508,680
Investment income	820,956	-	-	820,956
Net assets released from restrictions	(1,037,865)	-	-	(1,037,865)
Bad debt losses	(1,500)	-	-	(1,500)
Change in net assets with donor restrictions	<u>290,271</u>	<u>-</u>	<u>-</u>	<u>290,271</u>
Net change in net assets and member equity	1,291,615	69,972	(69,972)	1,291,615
Net assets and member equity, beginning				
Net assets, beginning of year, as restated	10,009,809	-	-	10,009,809
Member equity, May 28, 2021	-	745,831	-	745,831
Less member draws	-	(29,500)	-	(29,500)
Net assets and member equity, end of year	<u>\$ 11,301,424</u>	<u>\$ 786,303</u>	<u>\$ -</u>	<u>\$ 12,017,755</u>

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
Member
Prudent Preservation Partnership, LLC
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 consolidated financial statements of Archaeology Southwest (ASW) (an Arizona nonprofit organization) and Prudent Preservation Partners, LLC. (PPP) (an Arizona LLC), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 13, 2022.

Report on internal control over financial reporting

In planning and performing our audit of the consolidated financial statements, we considered ASW and PPP's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of ASW and PPP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ASW and PPP'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 the 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 that we consider to be a significant deficiency.

Board of Directors
Archaeology Southwest
Member
Prudent Preservation Partnership, LLC

Report on compliance and other matters

As part of obtaining reasonable assurance about whether ASW and PPP's consolidated 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*.

ASW and PPP's response to findings

Government Auditing Standards requires the auditor to perform limited procedures on the ASW and PPP's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. ASW and PPP's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

July 13, 2022



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

Opinion on each major federal program

We have audited Archaeology Southwest's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on Archaeology Southwest's major federal program for the year ended December 31, 2021. Archaeology Southwest major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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 its major federal program for the year ended December 31, 2021.

Basis for opinion on each major federal program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' responsibilities for the audit of compliance section of our report.

We are required to be independent of Archaeology Southwest and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Archaeology Southwest's compliance with the compliance requirements referred to above.

Responsibilities of management for compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Archaeology Southwest's federal programs.

Auditors' responsibilities for the audit of compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Archaeology Southwest's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Auditors' responsibilities for the audit of compliance, continued

Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Archaeology Southwest's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Archaeology Southwest's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Archaeology Southwest's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Archaeology Southwest's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on internal control over compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Archaeology Southwest's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response

Board of Directors
Archaeology Southwest

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.

July 13, 2022

ARCHAEOLOGY SOUTHWEST.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2021

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?	2021-001

No noncompliance material to financial statements noted.

Federal awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	2021-001

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)?	None noted

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, 2021

SECTION II - FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

The following represent significant deficiencies in internal control over financial reporting in accordance with *Government Auditing Standards*:

Finding: 2021-001	Program: <i>Government Auditing Standards</i>	Questioned Cost: None
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Criteria: A control deficiency 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 material errors related to financial reporting.

Condition: During the audit, we noted several transaction cycles for which there was a lack of approval as follows:

Journal entries

- a) During our testing of 25 journal entries we noted that 20 were not properly reviewed and approved. There was adequate support for the entries present. We recommend that an individual review and approve all journal entries made, documenting that review on the support for the entry.

Payroll

- b) During our testing of payroll, 9 out of 38 timesheets did not have documentation of review and approval by an appropriate individual. We recommend that supervisors review and approve their staff's timesheets, and document that review.

Perspective: The lack of approval increases the risk that an error may not be identified and corrected timely.

Cause and effect: Due to a change in staff during the year, there was a failure to document proper approval, and as a result, the internal control system for financial reporting did not appear to be working as designed. The effect of the insufficient monitoring activities was an increased risk of misstatement of the financial statements and loss of assets, whether due to error or fraud.

View of responsible officials: See Corrective Action Plan, which follows the Schedule of Expenditures and of Federal Awards.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

We consider finding 2021-001 above to also be a significant deficiency in internal control over compliance with the requirements of the major program.

INFORMATION PREPARED BY AUDITEE

ARCHAEOLOGY SOUTHWEST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021

<u>Federal grantor/Pass-through grantor/ Program or cluster title</u>	<u>Assistance Listing 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	P17AC01455	\$ - \$	29,466
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P18AC00883	-	40,662
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P19AC00889	-	43,440
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P19AC00705	-	22,353
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P19AC00904	-	5,985
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P19AC00892	-	16,042
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P18AC00589	-	41,386
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P15AC00912	-	2,644
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P20AC00766	-	5,313
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P20AC00762	-	17,172

ARCHAEOLOGY SOUTHWEST
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
 YEAR ENDED DECEMBER 31, 2021

<u>Federal grantor/Pass-through grantor/ Program or cluster title</u>	<u>Assistance Listing number</u>	<u>Grant number</u>	<u>Passed through to sub- recipients</u>	<u>Federal expenditures</u>
Research and development cluster, continued:				
<u>Department of the Interior -</u>				
<i>National Park Service - continued</i>				
<i>Direct programs:</i>				
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P20AC00790	-	375
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P21AC11453	-	6,531
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P21AC10496	-	<u>25,745</u>
<i>Total ALN 15.945, total Research and development cluster expenditures of awards from Department of the interior</i>				257,114
 <u>National Endowment for the Humanities:</u>				
<i>Direct programs:</i>				
Promotion of the Humanities - Research	45.161	RJ-274018-20	-	<u>23,662</u>
<i>Total CFDA 45.161, total Research and development cluster expenditures of awards from National Endowment for the Humanities</i>				23,662
 <u>National Science Foundation:</u>				
<i>Direct programs:</i>				
Social, Behavioral, and Economic Sciences	47.075	1851763	-	100,673
Social, Behavioral, and Economic Sciences	47.075	2121925	-	45,830
Social, Behavioral, and Economic Sciences	47.075	1738062	-	<u>87,872</u>
<i>Total CFDA 47.075, total Research and development cluster expenditures of awards from National Science Foundation</i>				<u>234,375</u>
Total Research and development cluster			-	515,151

ARCHAEOLOGY SOUTHWEST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED DECEMBER 31, 2021

<u>Federal grantor/Pass-through grantor/ Program or cluster title</u>	<u>Assistance Listing number</u>	<u>Grant number</u>	<u>through to sub- recipients</u>	<u>Federal expenditures</u>
Other programs:				
<i>Department of the Interior:</i>				
<i>Bureau of Indian Affairs -</i>				
<i>Direct program -</i>				
Cultural Resources Management	15.159	A18AC00026	-	1,030,656
<i>National Park Service -</i>				
<i>Passed through San Juan County Museum Association -</i>				
Native American Graves Protection and Repatriation Act	15.922	P18AP00348	-	6,757
<i>Total Department of the Interior, other programs</i>			-	1,037,413
TOTAL EXPENDITURES OF FEDERAL AWARDS			-	1,552,564

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, 2021. 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 elected to not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.



**ARCHAEOLOGY SOUTHWEST
CORRECTIVE ACTION PLANS
YEAR ENDED DECEMBER 31, 2021**

7/14/2022

Archaeology Southwest provides the following corrective action plans for the findings identified by HBL CPAs, P.C. during the audit of year ending 2021.

Archaeology Southwest acknowledges these findings and will implement the respective corrections and improvements below.

Journal entries

- a) *During our testing of 25 journal entries we noted that 20 were not properly reviewed and approved. There was adequate support for the entries present. We recommend that an individual review and approve all journal entries made, documenting that review on the support for the entry.*

Corrective Action Plan

With a more complete staff, Archaeology Southwest has implemented processes of better backup for each journal entry, better documentation of those entries and respective backup, monthly “packet” review by CEO to compare journal entries summary to journal entry detail and backup supporting the necessity of the entry. Finally, more comprehensive and organized record retention of these journal entries packets by month.

Payroll

- b) *During our testing of payroll, 9 out of 38 timesheets did not have documentation of review and approval by an appropriate individual. We recommend that supervisors review and approve their staff’s timesheets, and document that review.*

Corrective Action Plan

Timesheets are submitted to Director of Operations for review and reconciliation to salary budgets. Emails accompanying these timesheets are printed and retained with their respective timesheet. The Director of Operations submits their timesheet to CEO for review and approval. Coded and approved timesheets are then submitted to Office Manager/Bookkeeper for entry into consolidated PayGrid to be submitted to Basic for data entry. This generates a pre-process register to be reviewed by both Director of Operations and Office Manager/Bookkeeper. Once determined the batch is complete and correct, authorization is given to (vendor) Basic to process payroll. Journal entries are done by Office Manager/Bookkeeper based on timesheets reviewed, reconciled, and approved by Director of Operations. Entire final payroll packet is reviewed and approved by CEO to ensure Director of Operations is paid correct rate for correct hours, and to ensure paid individuals match employee roster.



ARCHAEOLOGY SOUTHWEST
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2020

Finding: 2020-001	Program: All federal programs	Questioned Cost: None
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Criteria and condition: 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. 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. This is a repeat of prior year finding 2019-002.

Context: In the absence of a specific procurement policy indicating otherwise, for the purposes of our testing of compliance with the procurement requirements of the major federal program, the micro-purchase threshold was assumed to be \$10,000 and the simplified acquisition threshold was assumed to be \$250,000, as defined by 48 CFR § 2.101. Since the Uniform Guidance imposes no pre-purchase activities related to micro-purchases, none of ASW’s purchases under this threshold were found to be noncompliant with the procurement requirements of the Uniform Guidance. No goods or services in excess of the simplified acquisition threshold were made using funds from the major federal program during the year ended December 31, 2020.

We tested 37 non-payroll cash disbursements for purchases charged to the major federal program. These cash disbursements and 23 payroll disbursements resulted in a sample size of 60 expenditures for the *Activities allowed or unallowed* and *Allowable costs/cost principles* compliance requirements of the major federal program. The results of our testing indicated that the 37 cash disbursements were supported by corroborating documentation and the transactions were performed in accordance with ASW’s system of internal control applicable to all cash disbursements. However, as noted below, lack of a policy led to noncompliance with requirements related to small purchases.

Cause: 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(a)(2) *Procurement by small purchase procedures*.

Effect: Purchases under four contracts that were each individually over the micro-purchase threshold, totaling \$70,055 in the aggregate, did not comply with 2 CFR § 200.320(a)(2)(i), which requires that small purchases may only be made after price or rate quotations are obtained from an adequate number of qualified sources. However, we reviewed written proposals and documentation of approval by a BIA representative approving the contract; therefore, there are no questioned costs.

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 of \$10,000 for any vendor or contractor comply with the provisions of 2 CFR § 200.318 – 2 CFR § 200.327.

Current year status: Resolved