



Keegan Linscott & Associates, PC

Certified Public Accountants

Certified Fraud Examiners

Certified Insolvency & Restructuring Advisors

## **ARCHAEOLOGY SOUTHWEST**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Archaeology Southwest  
Tucson, Arizona

### Report on the Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Archaeology Southwest (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2024 and 2023, and the related consolidated statements of activities and changes in net assets, expenses by function and nature, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2024 and 2023, 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 Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("*Government Auditing Standards*"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 consolidated financial statements, management is required to evaluate whether 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 one year after the date that the consolidated financial statements are issued (or within one year after the date that the consolidated financial statements are available to be issued, when applicable).

***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated 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 GAAS 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 consolidated financial statements.

In performing an audit in accordance with GAAS 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 consolidated 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 consolidated 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 consolidated 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2025, on our consideration of the Organization'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 the Organization'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 the Organization's internal control over financial reporting and compliance.

*Keegan Linseott & Associates, PC*

Tucson, Arizona  
September 19, 2025

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31,

	2024	2023
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 895,460	\$ 1,157,073
Investments	9,980,909	8,708,596
Grants receivable	121,402	158,768
Accounts receivable	1,606	672
Prepaid expenses and other current assets	-	16,034
Total current assets	<u>10,999,377</u>	<u>10,041,143</u>
Beneficial interest in funds held by others	148,278	140,352
Land held for conservation	435,269	435,269
Property and equipment, net	<u>1,763,287</u>	<u>1,796,370</u>
Total assets	<u><u>\$ 13,346,211</u></u>	<u><u>\$ 12,413,134</u></u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 83,507	\$ 131,772
Accrued expenses	29,985	7,319
Deferred revenue	47,126	51,729
Finance lease liability, current	1,477	1,428
Notes payable, current	<u>62,992</u>	<u>61,139</u>
Total current liabilities	225,087	253,387
Security deposits refundable	5,948	5,948
Finance lease liability	2,708	4,185
Notes payable	<u>784,774</u>	<u>847,309</u>
Total liabilities	1,018,517	1,110,829
<b>Net Assets</b>		
Without donor restrictions	3,266,885	2,987,723
With donor restrictions	<u>9,060,809</u>	<u>8,314,582</u>
Total net assets	<u>12,327,694</u>	<u>11,302,305</u>
Total liabilities and net assets	<u><u>\$ 13,346,211</u></u>	<u><u>\$ 12,413,134</u></u>

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31,

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues and Other Support</b>						
Contributions and foundation grants	\$ 548,879	\$ 807,115	\$ 1,355,994	\$ 297,783	\$ 1,184,099	\$ 1,481,882
Government grants	1,906,285	-	1,906,285	1,559,036	-	1,559,036
Other contract revenue	207,067	-	207,067	159,831	-	159,831
Program service fees	28,805	-	28,805	7,293	8,000	15,293
Sales of professional literature	12,247	-	12,247	11,501	-	11,501
Rental income	80,951	-	80,951	73,190	-	73,190
Investment income, net	283,869	786,238	1,070,107	306,432	840,535	1,146,967
Other income	11,099	-	11,099	6,007	-	6,007
Net assets released from restrictions	847,126	(847,126)	-	637,790	(637,790)	-
Total revenues and other support	3,926,328	746,227	4,672,555	3,058,863	1,394,844	4,453,707
<b>Expenses</b>						
Program services	2,984,630	-	2,984,630	2,604,089	-	2,604,089
General and administrative	422,566	-	422,566	230,833	-	230,833
Fundraising	239,970	-	239,970	234,098	-	234,098
Total expenses	3,647,166	-	3,647,166	3,069,020	-	3,069,020
Total change in net assets	279,162	746,227	1,025,389	(10,157)	1,394,844	1,384,687
Net assets, beginning of year	2,987,723	8,314,582	11,302,305	2,997,880	6,919,738	9,917,618
Net assets, end of year	\$ 3,266,885	\$ 9,060,809	\$ 12,327,694	\$ 2,987,723	\$ 8,314,582	\$ 11,302,305

CONSOLIDATED STATEMENT OF EXPENSES BY FUNCTION AND NATURE  
FOR THE YEAR ENDED DECEMBER 31, 2024

	Research	Outreach and Education	CyberSW	Site Protection	Total Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 294,269	\$ 212,464	\$ 321,871	\$ 541,133	\$ 1,369,737	\$ 165,736	\$ 137,334	\$ 1,672,807
Employee related expenses	54,478	38,570	59,126	99,805	251,979	30,009	25,885	307,873
Total personnel	348,747	251,034	380,997	640,938	1,621,716	195,745	163,219	1,980,680
Accounting fees	-	-	-	-	-	41,000	-	41,000
Bank fees	1,566	1,046	1,554	2,960	7,126	1,698	663	9,487
Depreciation	12,974	5,187	7,848	38,925	64,934	4,043	3,347	72,324
Insurance	4,846	2,610	3,954	8,341	19,751	2,036	1,687	23,474
Interest expense	4,841	1,756	2,659	15,180	24,436	1,369	1,134	26,939
Miscellaneous	655	5,630	-	823	7,108	15,992	12,600	35,700
Office supplies and expenses	15,035	13,450	4,035	76,977	109,497	13,163	7,487	130,147
Postage and printing	1,231	17,157	626	20,559	39,573	7,599	17,785	64,957
Professional services	77,301	28,507	2,439	564,203	672,450	109,769	21,115	803,334
Rent	-	6,918	-	332	7,250	-	-	7,250
Repairs and maintenance	6,566	3,519	3,932	19,820	33,837	2,025	1,678	37,540
Stipends and program supplies	8,989	7,472	40,524	25,840	82,825	1,275	47	84,147
Taxes	1,199	432	655	3,770	6,056	338	279	6,673
Telephone and utilities	7,514	7,979	5,827	21,369	42,689	2,895	2,665	48,249
Travel	42,260	17,644	4,034	181,444	245,382	23,619	6,264	275,265
Total expenses	<u>\$ 533,724</u>	<u>\$ 370,341</u>	<u>\$ 459,084</u>	<u>\$ 1,621,481</u>	<u>\$ 2,984,630</u>	<u>\$ 422,566</u>	<u>\$ 239,970</u>	<u>\$ 3,647,166</u>



CONSOLIDATED STATEMENT OF EXPENSES BY FUNCTION AND NATURE  
FOR THE YEAR ENDED DECEMBER 31, 2023

	Research	Outreach and Education	CyberSW	Site Protection	Total Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 231,617	\$ 201,132	\$ 304,033	\$ 454,385	\$ 1,191,167	\$ 158,970	\$ 122,380	\$ 1,472,517
Employee related expenses	41,022	35,537	53,717	80,803	211,079	28,086	21,623	260,788
Total personnel	272,639	236,669	357,750	535,188	1,402,246	187,056	144,003	1,733,305
Accounting fees	7,269	6,312	9,542	14,260	37,383	4,989	3,841	46,213
Bank fees	1,644	1,074	1,528	3,572	7,818	799	615	9,232
Depreciation	11,699	10,159	15,357	22,951	60,166	8,029	6,181	74,376
Insurance	2,927	2,542	3,843	6,447	15,759	2,009	1,547	19,315
Interest expense	4,518	3,923	5,930	8,863	23,234	3,101	2,387	28,722
Miscellaneous	-	4,314	-	25	4,339	1,508	2,270	8,117
Office supplies and expenses	5,188	12,378	5,769	143,255	166,590	2,817	10,358	179,765
Postage and printing	2,069	20,343	1,778	45,107	69,297	943	12,083	82,323
Professional services	54,395	52,914	17,257	302,801	427,367	8,766	39,876	476,009
Rent	-	2,790	-	-	2,790	-	-	2,790
Repairs and maintenance	6,634	5,744	8,682	13,428	34,488	4,539	3,495	42,522
Stipends and program supplies	276	4,600	138,276	44,190	187,342	42	32	187,416
Taxes	1,024	889	1,344	2,009	5,266	703	541	6,510
Telephone and utilities	6,736	11,226	9,054	14,929	41,945	4,716	3,630	50,291
Travel	4,910	3,223	2,789	107,137	118,059	816	3,239	122,114
Total expenses	<u>\$ 381,928</u>	<u>\$ 379,100</u>	<u>\$ 578,899</u>	<u>\$ 1,264,162</u>	<u>\$ 2,604,089</u>	<u>\$ 230,833</u>	<u>\$ 234,098</u>	<u>\$ 3,069,020</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

	2024	2023
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 1,025,389	\$ 1,384,687
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	72,324	74,376
Net realized and unrealized gain on investments	(701,827)	(909,779)
Net realized and unrealized gain on beneficial interest	(10,959)	(19,316)
Changes in operating assets and liabilities		
Grants receivable	37,366	(34,333)
Accounts receivable	(934)	23,201
Prepaid expenses and other current assets	16,034	(1,972)
Accounts payable	(48,265)	68,106
Accrued expenses	22,666	(39,817)
Deferred revenue	(4,603)	(42,020)
Net cash provided by operating activities	<u>407,191</u>	<u>503,133</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(39,241)	(38,862)
Purchase of investments	(1,862,730)	(2,420,712)
Proceeds from sale of investments	1,292,244	1,675,896
Distributions from beneficial interest in funds held by others	5,359	5,560
Reinvestments in beneficial interest in funds held by others	(2,326)	(1,395)
Net cash used in investing activities	<u>(606,694)</u>	<u>(779,513)</u>
<b>Cash Flows from Financing Activities</b>		
Principal payments on finance lease	(1,428)	(1,380)
Repayments on notes payable	(60,682)	(58,946)
Net cash used in financing activities	<u>(62,110)</u>	<u>(60,326)</u>
Net change in cash and cash equivalents	(261,613)	(336,706)
Cash and cash equivalents, beginning of year	<u>1,157,073</u>	<u>1,493,779</u>
Cash and cash equivalents, end of year	<u>\$ 895,460</u>	<u>\$ 1,157,073</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 26,939</u>	<u>\$ 28,722</u>
Cash paid for amounts included in measurement of lease liabilities		
Operating cash outflows - interest payments on finance lease	<u>\$ 164</u>	<u>\$ 211</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Organization

Archaeology Southwest ("ASW") 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 Studies 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.
- **CyberSW** – Creating a single scalable, networked database from existing sources to facilitate research and analysis.
- **Site protection** – Protecting sites and cultural landscapes that have archaeological significance.

ASW is the sole member of Prudent Preservation Partners, LLC ("PPP"). PPP owns real estate and ASW leases their offices from PPP.

### 2. Summary of Significant Accounting Policies

#### *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of ASW and PPP, a single member LLC (collectively the "Organization"). All intercompany accounts and transactions have been eliminated in consolidation.

#### *Basis of Presentation*

The Organization follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("U.S. GAAP") that the Organization follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to U.S. GAAP issued by the FASB are to the FASB Accounting Standards Codification ("ASC").

The Organization's consolidated financial statements have been prepared on the accrual basis of accounting in accordance with the provisions of ASC 958, *Not-for-Profit Entities*. Under this authoritative guidance, the Organization is required to provide consolidated financial statements which are prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions.

In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- **Without Donor Restrictions** – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. All contributions are considered to be available for use without restriction unless specifically restricted by the donor.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Summary of Significant Accounting Policies (continued)

#### *Basis of Presentation (continued)*

- **With Donor Restrictions** – Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire through the passage of time. Net assets with donor restrictions also includes net assets that are subject to donor-imposed stipulations such that assets must be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the investment return of these assets on continuing operations which may be subject to certain restrictions.

Expenses are generally reported as decreases in net assets without donor restrictions. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as increases in net assets with donor restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as increases in net assets without donor restrictions.

#### *Endowment Funds*

The Organization's endowments were established to support, further and enhance the mission of the Organization. The Organization'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 Organization has interpreted the "Management of Charitable Funds Act" (Arizona's version of the Uniform Prudent Management of Institutional Funds Act or "UPMIFA"), which underlies the Organization's net asset classification of donor-restricted endowment funds, as requiring the preservation of the fair value of the original gift. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts to the endowment, and (3) accumulations to the 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 is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the law, at which time those amounts will be reported as net assets without donor restrictions.

Accordingly, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Summary of Significant Accounting Policies (continued)*****Endowment Funds (continued)***

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment funds. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods. The Organization 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. To satisfy its long-term objectives, the Organization 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 while minimizing the risk of large losses. The Organization has a formally adopted spending policy, which indicates appropriation of 4% of a three year rolling average of the balance 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.

The Organization has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless precluded by donor intent or relevant laws and regulations. The Organization did not spend from underwater endowment funds during the year ended December 31, 2024.

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 current law requires the Organization to retain for a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of December 31, 2024 and 2023, respectively.

***Cash and Cash Equivalents***

For financial statement reporting purposes, the Organization considers all highly liquid instruments purchased with original maturities of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates their fair values. The Organization places its cash and cash equivalents with high credit quality institutions. At times, such deposits may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit (see Note 16). The Organization has not experienced any losses and does not believe it is exposed to any significant credit risk on cash balances. All such accounts are monitored by management to mitigate risk.

***Investments***

Investments are accounted for in accordance with ASC 958-320, *Investments - Debt and Equity Securities*. Investments in debt and equity securities are valued at their fair values in the accompanying consolidated statements of financial position. Investment income, gains and losses are reported net of related investment fees in the consolidated statement of activities and changes in net assets as increases or decreases in net assets. Gains and investment income limited to specific uses by donor-imposed restrictions are reported as increases in net assets without donor restrictions if the restrictions are met in the same reporting period as the gains and income are recognized. Interest income is recorded as earned. Dividends are recorded on the ex-dividend date. Purchases and sales of securities are recorded on a trade-date basis. Donated investments are recorded at fair value.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Summary of Significant Accounting Policies (continued)*****Investments (continued)***

The Organization invests in professionally managed portfolios that contain equity and fixed income securities. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Organization employs a systematic methodology on an annual basis that considers available quantitative and qualitative evidence in evaluating potential impairment of its investments. If the cost of an investment exceeds its fair value, management evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and the intent and ability to hold the investment. The Organization also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established. Through December 31, 2024, the Organization has not experienced other-than-temporary impairment losses on its investments.

***Grants and Accounts Receivable***

Grants receivable consist principally of uncollateralized amounts due from state and local governments under contractual agreements. The carrying amount of grants receivables is reduced by an allowance for doubtful accounts that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific accounts and the aging of the receivables. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. As of December 31, 2024 and 2023, management considered all grants and accounts receivable to be collectible, therefore, no allowance for doubtful accounts has been provided.

Accounts receivable consist principally of uncollateralized amounts due from the Organization's other funding sources such as other not-for-profit organizations under contractual agreements. The carrying amount of accounts receivables is reduced by an allowance for credit losses. The allowance for credit losses is the Organization's best estimate of the amount of probable credit losses in the Organization's existing accounts receivable. Receivables are written off when deemed collectible. Recoveries of receivables previously written off are recorded when received.

***Allowance for Credit Losses and Doubtful Accounts***

The measurement of expected credit losses under the current expected credit loss ("CECL") methodology is applicable to financial assets measured at amortized cost, which include accounts receivable. An allowance for credit losses under the CECL methodology is determined using the loss-rate approach and measured on a collective (pool) basis when similar risk characteristics exist. Where financial instruments do not share risk characteristics, they are evaluated on an individual basis. The CECL allowance is based on relevant available information, from internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Management determined no allowance for credit losses was deemed necessary for accounts receivable as of December 31, 2024 and 2023.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Summary of Significant Accounting Policies (continued)

#### ***Beneficial Interest in Funds Held by Others***

In accordance with ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*, the Organization measures the fair value of donor specified beneficiary funds held at the Community Foundation for Southern Arizona (“CFSA”) using the fair value of the underlying assets. Annual distributions from the funds are reported as investment income. Investment income, gains and losses are reported in the accompanying statements of activities and changes in net assets as increases or decreases in net assets. Gains and investment income limited to specific uses by donor-imposed restrictions are reported as increases in net assets without donor restrictions if the restrictions are met in the same reporting period as the gains and income are recognized.

The CFSA on behalf of the Organization invests in professionally managed portfolios that contain equity and fixed income securities. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the accompanying consolidated financial statements.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Organization employs a systematic methodology on an annual basis that considers available quantitative and qualitative evidence in evaluating potential impairment of its investments. If the cost of an investment exceeds its fair value, the Organization evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and its intent and ability to hold the investment. The Organization also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established. Through December 31, 2024, the Organization has not experienced other-than-temporary losses on its investments.

#### ***Land Held for Conservation***

Land held for conservation purposes is land that the Organization has no current plans to sell or transfer. Land held for conservation includes purchased or donated land and is stated at the lower of acquisition cost or fair value. Purchased land is initially recorded at cost or, if donated, at fair value measured on the date the land is donated. The Organization reviews the carrying value of the land held for conservation for possible impairment on an annual basis. Management has determined that there was no impairment for the years ended December 31, 2024 and 2023, respectively.

#### ***Archaeological Excavation and Conservation Easements***

The Organization 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. As of December 31, 2024 and 2023, the Organization held eleven and ten easements, respectively, in Arizona and New Mexico. The Organization has opted to expense purchased easements, which are reported as conservation expense in the consolidated statements of expenses by function and nature, and donated easements are not recorded as either revenue or expense.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Summary of Significant Accounting Policies (continued)*****Property and Equipment, Net***

Property and equipment are stated at cost or, if donated, at fair value measured on the date the asset is donated. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets or the applicable lease terms. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets:

Buildings and improvements	10 – 30 years
Furniture, fixtures and equipment	5 – 10 years
Vehicles	5 years

Acquisitions of property and equipment and repairs or betterments that materially prolong the useful lives of assets in excess of \$1,000 are capitalized. Repairs and maintenance for normal upkeep are charged to expense as incurred. When property and equipment are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reported in the consolidated statement of activities and changes in net assets. Amortization of leasehold improvements is computed using the straight-line method over estimated useful lives based upon the lesser of the related lease term or the estimated useful life of the improvement.

Large museum-grade aerial photographs by a well-known artist that are utilized in traveling exhibitions and professionally maintained are included within equipment, but are not depreciated as these items are considered collections with indefinite or extraordinarily long useful lives. Proceeds from the sale of collection items are recorded as revenue without donor restrictions and per the Organization's policy are available for use in operations. As of December 31, 2024 and 2023, the capitalized value of these collections totaled \$68,493.

In accordance with ASC 360-10, *Property, Plant and Equipment*, the Organization periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. Through December 31, 2024, the Organization had not experienced impairment losses on its long-lived assets.

***Leases******Lessee Leases***

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization recognizes most leases on its consolidated statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the consolidated statements of activities and changes in net assets.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Summary of Significant Accounting Policies (continued)*****Leases (continued)*****Lessee Leases (continued)**

The Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Organization has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate and equipment asset classes. The non-lease components typically represent additional services transferred to the Organization, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

**Lessor Leases**

The Organization leases certain of its land, buildings and fixtures to third parties. These leases may contain extension and termination options that are predominantly at the sole discretion of the lessee, provided certain conditions are satisfied.

As a lessor, the Organization's leases with tenants for its real estate assets generally provide for the lease of space, as well as common area maintenance. Under Topic 842, the lease of space is considered a lease component while the common area maintenance billings are considered nonlease components, which fall under revenue recognition guidance in FASB ASC Topic 606, *Revenue from Contracts with Customers*. However, upon adopting the guidance in Topic 842, the Organization determined that its tenant leases met the criteria to apply the practical expedient provided by ASU 2018-11 to recognize the lease and non-lease components together as one single component. This conclusion was based on the consideration that 1) the timing and pattern of transfer of the nonlease components and associated lease component are the same, and 2) the lease component, if accounted for separately, would be classified as an operating lease. As the lease of space is the predominant component of the Organization's leasing arrangements, the Organization accounted for all lease and non-lease components as one single component under Topic 842.

In addition, under Topic 842, lessors will only capitalize incremental direct leasing costs. The Organization does not capitalize non-incremental direct leasing costs. These costs are expensed as incurred and are included within general and administrative expenses on the consolidated statements of activities and changes in net assets.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Summary of Significant Accounting Policies (continued)

#### ***Revenue Recognition***

##### **Contributions**

*Government Grants and Other Contract Revenue* – The Organization accounts for its government grants and other contract revenue by first determining whether the transaction is an exchange transaction or a contribution. If the transaction is one in which each party to the transaction directly receives commensurate value, then the transaction is considered an exchange transaction and the Organization recognizes revenue in accordance with ASC 606. Government grants and other contract revenue from exchange transactions are recognized as performance obligations are satisfied, which in most cases are as related costs are incurred or services are provided. If the transaction is considered a contribution, then the Organization recognizes revenue in accordance with ASC 958-605. None of the Organization's government grants and other contract revenues were considered exchange transactions for the years ended December 31, 2024 and 2023.

*Contributions* - Contributions are classified based on the existence or absence of donor-imposed restrictions as either conditional or unconditional as follows:

- **Conditional** – Includes all contributions with donor-imposed conditions or stipulations representing a barrier that must be overcome before the recipient is entitled to the assets being transferred or promised. A failure to overcome the barrier gives the contributor a right of return of the assets it has transferred or the ability to rescind an obligation to transfer.
- **Unconditional** – Includes all contributions that do not contain a barrier to use and therefore are recorded as revenue once cash or a pledge is received. Donor imposed restrictions for time and/or purpose are not considered a significant barrier and thus these contributions are recorded as unconditional.

Contribution revenue is recorded when the unconditional promise to give is received. Under this method, the recognition of support for financial statement purposes bears no relation to the period in which the expenses are incurred. Revenue related to conditional contributions is recognized once the relevant barriers of each contribution are met. If the funds are received from the donor before the relevant barriers are met, deferred revenue is recorded on the consolidated statement of financial position for the amount of funds provided by the donor. Consequently, government funded grant and contract funds which are considered conditional contributions are recognized when the related barriers to provide services are delivered and/or expenditures are incurred.

*Donated Securities* – As the Organization 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 consolidated statements 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 consolidated statements of cash flows.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Summary of Significant Accounting Policies (continued)

#### ***Revenue Recognition (continued)***

##### **Contributions (continued)**

*Donated Goods, Property and Services* – Contributions of donated non-cash assets including goods and property are recorded at their fair values on the date the asset is donated. Absent explicit donor stipulations, contributions of long-lived assets or cash or other assets to be used to acquire or construct long-lived assets are reported as net assets without donor restrictions when placed in service. Donated services are recognized in the consolidated financial statements at their fair value. Donated services are recognized when the services are received and (a) create or enhance non-financial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Although the Organization utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization, the fair value of some of these services are not reflected in the accompanying consolidated financial statements because the above criteria was not met.

##### **Exchange Transactions**

The Organization recognizes program service fees and sales of professional literature revenues in accordance with ASC 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

*Program Service Fees* – Program Service Fees revenues primarily consist of charges by the Organization for providing consulting services and educational public services. The Organization bills individuals or entities receiving the services based upon level of service provided. Revenue is recognized when the individual or entity is billed by the Organization at the time the services are administered. Performance obligations are determined based on the nature of the services provided. Each service, as described above, are paid according to their respective fees and are considered a standalone performance obligation. The Organization recognizes revenue at a point in time, once the service has been performed and the performance obligation has been satisfied. Related contract assets and contract liabilities as of December 31, 2024, 2023 and 2022 were not significant to the consolidated financial statements.

*Sales of Professional Literature* – Sales are recognized when publications are shipped to the customer. There were no related contract assets or contract liabilities as of December 31, 2024, 2023 or 2022, respectively.

*Rental Income* – The Organization recognizes rental income in accordance with ASC 842, *Leases*. Rental income is recognized evenly over the terms of the tenant leases on the accrual basis. Rental receipts received in advance are deferred until earned.

##### ***Advertising***

Advertising costs are expensed as incurred. Advertising costs totaled \$3,053 and \$1,088 for the years ended December 31, 2024 and 2023, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Summary of Significant Accounting Policies (continued)

#### *Functional Allocation of Expenses*

The costs of program and supporting service activities have been summarized on a functional basis in the consolidated statement of activities and changes in net assets. The consolidated statements of expenses by function and nature present expenses by natural classification and by function in a matrix format, as required by U.S. 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.

#### *Tax Exempt Status*

ASW is exempt from federal and state income taxes under the Federal Internal Revenue Code ("IRC") Section 501(c)(3) and Arizona income tax laws and is classified as other than a private foundation under IRC Section 509(a)(1). ASW also qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(a). PPP is a single-member limited liability company which is a disregarded entity for income tax purposes. PPP's income from certain activities not directly related to the ASW's tax-exempt purpose may be subject to taxation as unrelated business income. Management believes such a tax liability is not material to these consolidated financial statements.

Management has considered its tax positions in accordance with the accounting standard for uncertainty in income taxes and believes that all positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. In addition, Management is not aware of any matters which would cause the Organization to lose its tax-exempt status. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

Should the Organization ever be subject to interest and penalties related to unrecognized tax benefits, they would be classified in general and administrative expenses in its accompanying consolidated financial statements. During the years ended December 31, 2024 and 2023, the Organization did not recognize any interest and penalties.

#### *Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**3. Recent Accounting Pronouncements*****Adopted as of December 31, 2024***

In March 2023, the FASB issued ASU No. 2023-01, *Leases (Topic 842): Common Control Arrangements*, which addresses the terms and conditions to be considered when classifying and accounting for leases and leasehold improvements in leases between entities under common control. This guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. This ASU is effective for the Organization beginning on January 1, 2024. The adoption of this ASU did not have a material effect on the Organization's consolidated financial statements or disclosures.

***Not Adopted as of December 31, 2024***

In July 2025, the FASB issued ASU No. 2025-05, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*. ASU 2025-05 introduces a practical expedient and, for entities other than public business entities, an accounting policy election to simplify the application of Topic 326, *Financial Instruments—Credit Losses* (Topic 326), to current accounts receivable and current contract assets arising from revenue transactions accounted for under Topic 606, *Revenue from Contracts with Customers* (Topic 606). ASU 2025-05 provides the following relief when estimating expected credit losses for current accounts receivable and current contract assets arising from transactions accounted for under Topic 606, including those acquired in a business combination under Topic 805, *Business Combinations*. (1) Practical expedient (available to all entities): Allows an entity to assume that current conditions as of the balance sheet date remain unchanged over the remaining life of an asset in developing reasonable and supportable forecasts as part of estimating expected credit losses. This removes the requirement to incorporate macroeconomic forecasts for assets within the scope of the ASU; and (2) Accounting policy election (available to entities other than public business entities): Provided that the practical expedient is elected, this policy election permits eligible entities to consider post-balance sheet collection activity when estimating expected credit losses. The amendments in the ASU are effective for annual periods beginning after December 15, 2025, including interim periods within those annual periods. Early adoption is permitted in both interim and annual reporting periods in which financial statements have not yet been issued or made available for issuance. If an entity adopts the amendments in ASU 2025-05 in an interim reporting period, it must apply the amendments as of the beginning of the annual reporting period that includes that interim reporting period. Entities should apply the amendments prospectively. For entities other than public business entities, no preferability assessment is required when adopting the practical expedient and, if applicable, the accounting policy election after the effective date. The Organization is currently evaluating the impact of adopting this new guidance on its consolidated financial statements and disclosures and does not expect the impact to be significant.

**4. Liquidity and Availability of Resources**

The Organization 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, the Organization can obtain a board approved withdrawal from the quasi-endowment, if needed. Liquidating quasi-endowment assets typically takes 30-45 days.
- Utilizing withdrawals from the quasi-endowment has historically met liquidity needs; therefore, the board chooses not to establish a liquidity reserve.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Liquidity and Availability of Resources (continued)

The following table shows a determination of the Organization's financial assets that are available to meet cash needs for general expenditures within one year as of December 31:

	2024	2023
Cash and cash equivalents	\$ 895,460	\$ 1,157,073
Investments	9,980,909	8,708,596
Grants receivable	121,402	158,768
Accounts receivable	1,606	672
Total financial assets	<u>10,999,377</u>	<u>10,025,109</u>
Less amounts unavailable for general expenditure within one year, due to		
Contractual or donor-imposed restrictions		
Endowment Funds	6,531,092	6,525,592
Other donor restrictions	2,529,717	1,788,990
Board designations		
Board designated net assets, excluding quasi-endowment use as a component of the ASW's liquidity management	<u>709,848</u>	<u>575,065</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,228,720</u>	<u>\$ 1,135,462</u>

### 5. Investments

Investments consist of the following as of December 31:

	2024	2023
Mutual funds	\$ 8,459,447	\$ 7,353,098
Equity securities	1,369,011	1,166,510
Real estate investment trusts	17,982	14,461
Hedge funds	<u>134,469</u>	<u>174,527</u>
	<u>\$ 9,980,909</u>	<u>\$ 8,708,596</u>

Included in investment income, net, for the years ended December 31:

	2024	2023
Interest and dividends	\$ 406,639	\$ 262,255
Net realized and unrealized gain on investments	701,827	909,779
Net realized and unrealized gain on beneficial interest	10,959	19,316
Investment fees	<u>(49,318)</u>	<u>(44,383)</u>
Total investment income, net	<u>\$ 1,070,107</u>	<u>\$ 1,146,967</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 6. Fair Value Measurements

The Organization utilizes the fair value hierarchy required by ASC 820, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

- Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Organization's financial assets are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using readily determinable fair values or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on readily determinable fair values in active markets include the Organization's mutual funds, equity securities and real estate investment trusts. Such instruments are classified within Level 1 of the fair value hierarchy.

The investments held at CFSA are categorized as Level 3 due to the lack of a market in which the Organization's units of participation in CFSA's pooled income trust (i.e., the beneficial interest) could be bought or sold. The Organization measures the fair value of its beneficial interest by taking its proportionate share of the fair value of the underlying assets. Hedge funds included in investments are valued based on information provided by the investment brokerage.

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis as of December 31, 2024:

Description	12/31/2024	Level 1	Level 2	Level 3
Mutual funds				
U.S. Equity Funds	\$ 3,680,320	\$ 3,680,320	\$ -	\$ -
International Developed	925,549	925,549	-	-
Emerging Markets	364,506	364,506	-	-
Taxable Funds	2,951,739	2,951,739	-	-
Extended Fixed Funds	537,333	537,333	-	-
	8,459,447	8,459,447	-	-
Equity securities (a)	1,369,011	1,369,011	-	-
Real estate investment trusts	17,982	17,982	-	-
Hedge funds				
Long/Short Equity	103,211	-	-	103,211
Multi-Strategy	31,258	-	-	31,258
	134,469	-	-	134,469
	9,980,909	9,846,440		134,469
Beneficial interest in funds held by others	148,278	-	-	148,278
Total	\$ 10,129,187	\$ 9,846,440	\$ -	\$ 282,747

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Fair Value Measurements (continued)**

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis as of December 31, 2023:

Description	12/31/2023	Level 1	Level 2	Level 3
Mutual funds				
U.S. Equity Funds	\$ 3,268,334	\$ 3,268,334	\$ -	\$ -
International Developed	756,536	756,536	-	-
Emerging Markets	297,827	297,827	-	-
Commodities	185,302	185,302	-	-
Taxable Funds	2,332,630	2,332,630	-	-
Extended Fixed Funds	512,469	512,469	-	-
	<u>7,353,098</u>	<u>7,353,098</u>	<u>-</u>	<u>-</u>
Equity securities (a)	1,166,510	1,166,510	-	-
Real estate investment trusts	14,461	14,461	-	-
Hedge funds				
Long/Short Equity	96,055	-	-	96,055
Multi-Strategy	78,472	-	-	78,472
	<u>174,527</u>	<u>-</u>	<u>-</u>	<u>174,527</u>
	8,708,596	8,534,069		174,527
Beneficial interest in funds held by others	140,352	-	-	140,352
Total	<u>\$ 8,848,948</u>	<u>\$ 8,534,069</u>	<u>\$ -</u>	<u>\$ 314,879</u>

(a) On the basis of its analysis of the nature, characteristic, and risks of equity securities, the Organization has determined that presenting them as a single class is appropriate.

The following table presents a reconciliation of the Level 3 hedge funds measured at fair value for the years ended December 31:

	2024	2023
Fair value as of January 1	\$ 174,527	\$ 239,995
Investment loss included in change in net assets	(40,058)	(2,832)
Purchases	-	90,001
Sales	-	(152,637)
Fair value as of December 31	<u>\$ 134,469</u>	<u>\$ 174,527</u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Fair Value Measurements (continued)

The following table presents a reconciliation of the Level 3 beneficial interest in assets held by others measured at fair value for the year ended December 31:

	2024	2023
Fair value as of January 1	\$ 140,352	\$ 125,201
Investment gain included in change in net assets	15,258	22,344
Fees	(1,973)	(1,633)
Distributions	(5,359)	(5,560)
Fair value as of December 31	<u>\$ 148,278</u>	<u>\$ 140,352</u>

### 7. Property and Equipment, Net

Property and equipment, net consist of the following as of December 31:

	2024	2023
Land and improvements	\$ 397,770	\$ 397,770
Buildings and improvements	1,743,329	1,711,420
Furniture, fixtures and equipment	149,035	141,703
Vehicles	18,622	18,622
	2,308,756	2,269,515
Less accumulated depreciation and amortization	(545,469)	(473,145)
	<u>\$ 1,763,287</u>	<u>\$ 1,796,370</u>

### 8. Lessee Leases

The Organization leases certain office equipment under a finance lease agreement that has a term of 5 years. Any options to extend or terminate the lease are included in the lease terms when it is reasonably certain that the Organization will exercise those options. The Organization's finance lease generally does not contain any material restrictive covenants or residual value guarantees. Finance lease cost is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the lease term.

The components of lease cost are as follows for the year ended December 31:

	2024	2023
Finance lease cost – amortization of ROU assets	\$ 1,488	\$ 1,489
Finance lease cost – interest on lease liabilities	164	211
Short-term lease cost	6,052	3,856
Total lease cost	<u>\$ 7,704</u>	<u>\$ 5,556</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Lessee Leases (continued)**

Supplemental consolidated statements of financial position information related to leases is as follows as of December 31:

	2024	2023
Finance leases		
Equipment	\$ 7,443	\$ 7,443
Accumulated amortization	(3,473)	(1,985)
Finance lease, right-of-use assets, net*	<u>\$ 3,970</u>	<u>\$ 5,458</u>
Finance lease liabilities, current	\$ 1,477	\$ 1,428
Finance lease liabilities, non-current	2,708	4,185
Total finance lease liabilities	<u>\$ 4,185</u>	<u>\$ 5,613</u>
Weighted-average remaining lease term:		
Finance leases	2.67 years	3.67 years
Weighted-average discount rate:		
Finance leases	3.39%	3.39%

\*The ROU asset for the finance lease is included in property and equipment, net in the accompanying consolidated statements of financial position.

Future undiscounted cash flows for each of the next three years and a reconciliation to the lease liabilities recognized on the consolidated statement of financial position are as follows as of December 31, 2024:

<u>Year Ending December 31,</u>	<u>Finance Leases</u>
2025	\$ 1,592
2026	1,592
2027	1,193
Total lease payments	4,377
Less imputed interest	(192)
Total present value of lease liabilities	<u>4,185</u>
Less lease liabilities, current	(1,477)
Lease liabilities, non-current	<u>\$ 2,708</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 9. Long-Term Debt

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 its remaining partnership interest. The loan is guaranteed in full by ASW. The terms of the note call for 180 monthly principal and interest payments ranging from \$6,321 and \$7,288 at interest rates which vary over the term of the loan and matures in June 2036. 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 the 5-year US Treasury rate plus 2% for the final 60 months. The note is collateralized by an assignment of rents and a deed of trust and fixture filing and is subject to prepayments penalties as specified in the agreement.

The note payable agreement contains several financial covenants, the most restrictive of which include maintaining: a global debt service coverage ratio as a percentage of operating revenues not to exceed 25% over the previous three-year average and a liquid asset test requiring the borrower to maintain liquidity in the form of unencumbered cash, cash equivalents and marketable securities of no less than \$130,000. The Organization was in compliance with these financial covenants as of December 31, 2024 and 2023, respectively.

The scheduled principal maturities of the long-term debt are as follows as of December 31, 2024:

<u>Year Ending</u>	<u>Amount</u>
2025	\$ 62,992
2026	64,902
2027	66,869
2028	68,896
2029	70,984
Thereafter	<u>513,123</u>
Total	\$ <u>847,766</u>

### 10. Board Designated Net Assets

Board-designated net assets consisted of the following as of December 31:

	<u>2024</u>	<u>2023</u>
Board-designated quasi endowment	\$ 1,286,437	\$ 990,945
Preservation fellowship	551,753	445,905
Site protection	<u>158,095</u>	<u>129,160</u>
	\$ <u>1,996,285</u>	\$ <u>1,566,010</u>

See Note 12 for activity in the board-designated quasi endowment for the years ended December 31, 2024 and 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**11. Net Assets With Donor Restrictions**

Net assets with donor restrictions were restricted for the following purposes as of December 31:

	2024	2023
Subject to expenditure for specified purpose		
Education	\$ 11,859	\$ 20,819
Fellowship	328,451	357,170
Preservation	366,084	415,099
Site protection	191,792	14,819
Research	190,680	216,003
Cyber SW	214,986	53,393
Fundraising	-	1,000
General	44,146	33,950
	<u>1,347,998</u>	<u>1,112,253</u>
Subject to spending policy and appropriation		
Original donor-restricted endowment gift amounts required to be maintained by donor		
Publications	1,025,000	1,025,000
Research	282,038	278,038
General operations	4,347,054	4,347,054
Preservation	877,000	875,500
	<u>6,531,092</u>	<u>6,525,592</u>
Accumulated investment earnings, which, once appropriated, are expendable to support		
Publications	138,035	58,768
Research	39,893	18,151
General operations	815,253	479,077
Preservation	188,538	120,741
	<u>1,181,719</u>	<u>676,737</u>
Total	<u>\$ 9,060,809</u>	<u>\$ 8,314,582</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**12. Endowment Funds**

Changes in endowment net assets for the year ended December 31, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2023	\$ 990,945	\$ 7,202,329	\$ 8,193,274
Contributions	224,057	5,500	229,557
Investment return			
Investment income, net	32,172	264,101	296,273
Net appreciation	78,138	522,137	600,275
Total investment return	110,310	786,238	896,548
Appropriation of endowment funds for expenditure	(38,875)	(281,256)	(320,131)
Endowment net assets, December 31, 2024	\$ 1,286,437	\$ 7,712,811	\$ 8,999,248

Changes in endowment net assets for the year ended December 31, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2022	\$ 823,332	\$ 6,024,035	\$ 6,847,367
Contributions	75,881	598,051	673,932
Investment return			
Investment income, net	18,347	160,556	178,903
Net depreciation	112,989	679,979	792,968
Total investment return	131,336	840,535	971,871
Appropriation of endowment funds for expenditure	(39,604)	(260,292)	(299,896)
Endowment net assets, December 31, 2023	\$ 990,945	\$ 7,202,329	\$ 8,193,274

The board designated quasi endowment and donor-restricted endowments are included in cash and cash equivalents and investments, which are maintained in professionally managed investment accounts. Expenditures from the accounts must be approved by the Board of Directors.

**13. Rental Income**

During 2024 and 2023, PPP leased office space to one third-party tenant under a non-cancelable operating lease expiring January 2029. The tenant has the option to extend the lease for two additional forty-eight month periods provided certain conditions are met as specified in the lease agreement. Additionally, rental income includes variable lease payments for common area maintenance charges which are adjusted annually based on the terms of the agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Rental Income (continued)**

Components of rental income are as follows for the years ended December 31:

	2024	2023
Operating lease income related to lease payments	\$ 78,439	\$ 71,376
Variable lease payments	2,512	1,814
Total rental income	\$ <u>80,951</u>	\$ <u>73,190</u>

Assets held under operating leases by major class of assets are as follows as of December 31:

	2024	2023
Land and improvements	\$ 159,893	\$ 159,893
Buildings and improvements	678,953	678,953
Furniture, fixtures and equipment	10,500	10,500
	849,346	849,346
Less accumulated depreciation and amortization	(214,231)	(187,843)
	\$ <u>635,115</u>	\$ <u>661,503</u>

Future undiscounted cash flows for each of the next five years and thereafter are as follows as of December 31, 2024:

<u>Year Ending December 31,</u>	<u>Operating Leases</u>
2025	\$ 78,439
2026	78,439
2027	78,439
2028	78,439
Total lease payments	\$ <u>313,756</u>

**14. Retirement 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 years ended December 31, 2024 and 2023, were \$38,067 and \$28,051, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 15. Related Party Transactions

During the years ended December 31, 2024 and 2023, the Organization paid \$71,693 and \$51,104, respectively, in consulting fees to Desert Archaeology, a company partially owned by the former President/CEO and current employee of the Organization. Amounts payable to Desert Archaeology totaled \$5,157 and \$6,190 as of December 31, 2024 and 2023, respectively. In addition, during the years ended December 31, 2024 and 2023, the Organization received \$194,200 and \$201,385, respectively, in contributions from a related party.

### 16. Concentrations of Credit Risk

#### *Government Grants*

The Organization derives the majority of its revenues and support from governmental grants for various programs. At times, grants for certain programs may constitute a concentration as defined by the accounting standards. As of December 31, 2024 and 2023, gross government grant receivables comprised 90% and 99%, respectively, of total gross receivables. For the years ended December 31, 2024 and 2023, government fees and grants accounted for approximately 41% and 35%, respectively, of total revenues and other support.

#### *Cash Deposits at Banks*

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the FDIC up to \$250,000. As of December 31, 2024 and 2023, the Organization had \$452,752 and \$675,318, respectively, in excess of FDIC insured limits.

#### *Investments*

Investments held by other institutions are insured up to \$500,000, including up to \$250,000 for cash balances per institution, by the Securities Investor Protection Corporation ("SIPC"). As of December 31, 2024 and 2023, the Organization had approximately \$9.4 million and \$8.2 million, respectively, in excess of SIPC insured limits.

### 17. Evaluation of Subsequent Events

The Organization evaluated subsequent events through September 19, 2025, which represents the date the consolidated financial statements were available to be issued and, concluded that no additional disclosures are required.