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, 2023 AND 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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.

Emphasis of Matter

As discussed in Note 3 to the consolidated financial statements, effective January 1, 2023, the Organization adopted ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Our opinion is not modified with respect to this matter.

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 May 31, 2024, 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 Linscott & Associates, PC

Tucson, Arizona
May 31, 2024

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31,

	2023	2022
Assets		
Current assets		
Cash and cash equivalents	$ 1,157,073	$ 1,493,779
Investments	8,708,596	7,054,001
Grants receivable	158,768	124,435
Accounts receivable	672	23,873
Prepaid and other current assets	16,034	14,062
Total current assets	10,041,143	8,710,150
Beneficial interest in funds held by others	140,352	125,201
Land held for conservation	435,269	435,269
Property and equipment, net	1,796,370	1,831,884
Total assets	$ 12,413,134	$ 11,102,504
Liabilities		
Current liabilities		
Accounts payable	$ 131,772	$ 63,666
Accrued expenses	7,319	47,136
Deferred revenue	51,729	93,749
Finance lease liability, current	1,428	1,380
Notes payable, current	61,139	59,340
Total current liabilities	253,387	265,271
Security deposits refundable	5,948	5,948
Finance lease liability	4,185	5,613
Notes payable	847,309	908,054
Total liabilities	1,110,829	1,184,886
Net Assets		
Without donor restrictions	2,987,723	2,997,880
With donor restrictions	8,314,582	6,919,738
Total net assets	11,302,305	9,917,618
Total liabilities and net assets	$ 12,413,134	$ 11,102,504

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

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support						
Contributions and foundation grants	$ 297,783	$ 1,184,099	$ 1,481,882	$ 295,107	$ 769,828	$ 1,064,935
Government grants	1,559,036	-	1,559,036	1,387,050	-	1,387,050
Other contract revenue	159,831	-	159,831	226,066	-	226,066
Program service fees	7,293	8,000	15,293	65,612	-	65,612
Sales of professional literature	11,501	-	11,501	17,423	-	17,423
Rental income	73,190	-	73,190	119,386	-	119,386
Investment income (loss), net	306,432	840,535	1,146,967	(343,957)	(1,106,422)	(1,450,379)
Other income	6,007	-	6,007	16,444	300	16,744
Net assets released from restrictions	637,790	(637,790)	-	614,733	(614,733)	-
Total revenues and other support	3,058,863	1,394,844	4,453,707	2,397,864	(951,027)	1,446,837
Expenses						
Program services	2,604,089	-	2,604,089	2,310,110	-	2,310,110
General and administrative	230,833	-	230,833	276,881	-	276,881
Fundraising	234,098	-	234,098	184,418	-	184,418
Total expenses	3,069,020	-	3,069,020	2,771,409	-	2,771,409
Total change in net assets	(10,157)	1,394,844	1,384,687	(373,545)	(951,027)	(1,324,572)
Net assets, beginning of year	2,997,880	6,919,738	9,917,618	3,371,425	7,870,765	11,242,190
Net assets, end of year	$ 2,987,723	$ 8,314,582	$ 11,302,305	$ 2,997,880	$ 6,919,738	$ 9,917,618

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	$ 381,928	$ 379,100	$ 578,899	$ 1,264,162	$ 2,604,089	$ 230,833	$ 234,098	$ 3,069,020

CONSOLIDATED STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED DECEMBER 31, 2022

	Research	Outreach and Education	CyberSW	Site Protection	Total Program Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 333,671	$ 174,739	$ 168,712	$ 414,451	$ 1,091,573	$ 196,542	$ 80,333	$ 1,368,448
Employee related expenses	61,357	32,106	30,998	93,288	217,749	36,111	14,760	268,620
Total personnel	395,028	206,845	199,710	507,739	1,309,322	232,653	95,093	1,637,068
								-
Accounting fees	6,878	3,602	3,478	8,543	22,501	4,051	1,656	28,208
Bank fees	1,957	1,134	989	2,430	6,510	1,152	471	8,133
Depreciation	16,435	8,607	8,310	20,413	53,765	9,679	3,957	67,401
Insurance	4,377	2,292	2,213	5,978	14,860	2,578	1,054	18,492
Interest expense	4,794	2,511	2,424	5,955	15,684	2,824	1,154	19,662
Miscellaneous	785	128	123	336	1,372	143	59	1,574
Office supplies and expenses	26,787	12,936	3,083	63,207	106,013	3,726	11,117	120,856
Postage and printing	2,357	32,558	969	24,268	60,152	1,128	17,565	78,845
Professional services	68,044	15,988	3,956	309,055	397,043	4,609	43,122	444,774
Rent	484	298	244	1,093	2,119	286	116	2,521
Repairs and maintenance	8,840	4,465	4,311	10,808	28,424	5,022	2,053	35,499
Stipends and program supplies	48,164	3,066	42,818	17,203	111,251	-	-	111,251
Taxes	5,041	2,640	2,549	6,262	16,492	2,969	1,214	20,675
Telephone and utilities	11,447	8,688	5,142	13,778	39,055	5,992	2,448	47,495
Travel	25,492	8,006	52	91,997	125,547	69	3,339	128,955
Total expenses	$ 626,910	$ 313,764	$ 280,371	$ 1,089,065	$ 2,310,110	$ 276,881	$ 184,418	$ 2,771,409

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

	2023	2022
Cash Flows from Operating Activities		
Change in net assets	$ 1,384,687	$ (1,324,572)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	74,376	67,401
Net realized and unrealized (gain) loss on investments	(909,779)	1,619,342
Net realized and unrealized (gain) loss on beneficial interest	(19,316)	37,033
Changes in operating assets and liabilities		
Grants receivable	(34,333)	(56,869)
Accounts receivable	23,201	(8,636)
Prepaid expenses and other current assets	(1,972)	(11,850)
Accounts payable	68,106	(46,727)
Accrued expenses	(39,817)	(5,112)
Deferred revenue	(42,020)	(89,407)
Security deposits refundable	-	(2,800)
Net cash provided by operating activities	503,133	177,803
Cash Flows from Investing Activities		
Purchase of property and equipment	(38,862)	(48,680)
Purchase of investments	(2,420,712)	(2,635,619)
Proceeds from sale of investments	1,675,896	2,767,314
Distributions from beneficial interest in funds held by others	5,560	5,865
Reinvestments in beneficial interest in funds held by others	(1,395)	(1,310)
Net cash (used in) provided by investing activities	(779,513)	87,570
Cash Flows from Financing Activities		
Principal payments on finance lease	(1,380)	(450)
Repayments on notes payable	(58,946)	(62,077)
Net cash used in financing activities	(60,326)	(62,527)
Net change in cash and cash equivalents	(336,706)	202,846
Cash and cash equivalents, beginning of year	1,493,779	1,290,933
Cash and cash equivalents, end of year	$ 1,157,073	$ 1,493,779
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 28,722	$ 19,662
Cash paid for amounts included in measurement of lease liabilities		
Operating cash outflows - interest payments on finance lease	$ 211	$ 81
Right-of-use assets obtained in exchange for new lease obligations		
Finance lease	$ -	$ 7,443

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 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.

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, 2023.

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, 2023. Deficiencies existed in 2 donor-restricted endowment funds, which together had an original gift value of $896,038, a current fair value of $863,877, and a deficiency of $32,161 as of December 31, 2022. These deficiencies resulted from unfavorable market fluctuations that occurred during 2022 and continued appropriation totaling $31,456 for certain programs that was deemed prudent by the Board of Directors.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Investments (continued)

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.

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, 2023, 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. 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 the 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 and is based upon historical loss patterns, the number of days that billings are past due, and an evaluation of the potential risk of loss associated with specific accounts. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Uncollectible receivables are written off during the year in which they are identified. Recoveries of accounts receivable previously written off are recorded when received.

Allowance for Credit Losses and Doubtful Accounts

The Organization adopted ASC 326, *Financial Instruments – Credit Losses*, as of January 1, 2023, with the cumulative-effect transition method with the required prospective approach. 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 trade receivables. 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 loss was deemed necessary as of December 31, 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Allowance for Credit Losses and Doubtful Accounts (continued)
Prior to adoption of ASC 326, the Organization maintained an allowance for doubtful accounts to reserve for potentially uncollectible receivables; however, management determined no allowance for doubtful accounts was necessary as of December 31, 2022.

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, 2023, 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, 2023 and 2022, 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Archaeological Excavation and Conservation Easements (continued)
easement have not been violated. As of December 31, 2023 and 2022, the Organization held ten easements in Arizona and New Mexico, respectively. 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.

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, 2023 and 2022, 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, 2023, the Organization had not experienced impairment losses on its long-lived assets.

Leases
Lessee Leases
In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their 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. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the statements of activities and changes in net

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Leases (continued)

Lessee Leases (continued)

assets. The Organization adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period consolidated financial statements. Under this transition provision, the Organization has applied Topic 842 to reporting periods beginning on January 1, 2022.

The Organization elected the “package of practical expedients” under the transition guidance within Topic 842, in which the Organization does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Organization has not elected to adopt the “hindsight” practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Leases (continued)

Lessor Leases

On January 1, 2022, the Organization adopted FASB ASC Topic 842, *Leases*, using the modified retrospective approach by electing a package of practical expedients including (1) to not reassess its prior conclusions under ASC Topic 840, *Leases*, regarding (a) whether a preexisting contract is or contains a lease, (b) whether a preexisting lease should be classified as an operating or finance lease and (c) whether the initial direct costs capitalized for a preexisting lease under Topic 840 qualify for capitalization.

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, we accounted for all lease and non-lease components as one single component under Topic 842. As a result, the adoption of Topic 842 did not have any impact on the Organization's timing or pattern of recognition of rental revenues as compared to previous guidance.

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 statement of activities.

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, 2023 and 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)
Contributions (continued)
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 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 consolidated statement of cash flows.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

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.

Sales of Professional Literature – Sales are recognized when publications are shipped to the customer.

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 $1,088 and $14,055 for the years ended December 31, 2023 and 2022, respectively.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

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, 2023 and 2022, 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.

3. Recent Accounting Pronouncements

Adopted as of December 31, 2023

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statements of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The adoption of ASC 326 and all related subsequent amendments thereto resulted in new disclosures about the Organization's allowance for credit losses and did not materially impact the consolidated financial statements and did not result in a cumulative-effect adjustment to opening net assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

Not Adopted as of December 31, 2023

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 ASU No. 2023-01 is not expected to have a significant impact on the Organization's financial statements. The Organization is currently evaluating the impact of this new guidance on its financial statements.

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.

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:

	2023	2022
Cash and cash equivalents	$ 1,157,073	$ 1,493,779
Investments	8,708,596	7,054,001
Grants receivable	158,768	124,435
Accounts receivable	672	23,873
Total financial assets	10,025,109	8,696,088
Less amounts unavailable for general expenditure within one year, due to		
Contractual or donor-imposed restrictions		
Endowment Funds	6,525,592	5,927,541
Other donor restrictions	1,788,990	992,197
Board designations		
Board designated net assets, excluding quasi-endowment used as a component of the ASW's liquidity management	575,065	430,699
Financial assets available to meet cash needs for general expenditures within one year	$ 1,135,462	$ 1,345,651

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Investments

Investments consist of the following as of December 31:

	2023	2022
Mutual funds	$ 7,353,098	$ 5,600,840
Equity securities	1,166,510	1,029,656
Corporate and taxable bonds	-	148,070
Real estate investment trusts	14,461	35,440
Hedge funds	174,527	239,995
	$ 8,708,596	$ 7,054,001

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

	2023	2022
Interest and dividends	$ 262,255	$ 248,808
Net realized and unrealized gain (loss) on investments	909,779	(1,619,342)
Net realized and unrealized gain (loss) on beneficial interest	19,316	(37,033)
Investment fees	(44,383)	(42,812)
Total investment income (loss), net	$ 1,146,967	$ (1,450,379)

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, corporate and taxable bonds and real estate investment trusts. Such instruments are classified within Level 1 of the fair value hierarchy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements (continued)

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, 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	-	-
	7,353,098	7,353,098	-	-
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
	174,527	-	-	174,527
	8,708,596	8,534,069		174,527
Beneficial interest in funds held by others	140,352	-	-	140,352
Total	$ 8,848,948	$ 8,534,069	$ -	$ 314,879

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, 2022:

Description	12/31/2022	Level 1	Level 2	Level 3
Mutual funds				
U.S. Equity Funds	$ 2,681,764	$ 2,681,764	$ -	$ -
International Developed	597,845	597,845	-	-
Emerging Markets	242,566	242,566	-	-
Commodities	186,513	186,513	-	-
Taxable Funds	1,544,804	1,544,804	-	-
Extended Fixed Funds	347,348	347,348	-	-
	5,600,840	5,600,840	-	-
Equity securities (a)	1,029,656	1,029,656	-	-
Corporate and taxable bonds	148,070	148,070	-	-
Real estate investment trusts	35,440	35,440	-	-
Hedge funds				
Long/Short Equity	161,569	-	-	161,569
Multi-Strategy	78,426	-	-	78,426
	239,995	-	-	239,995
	7,054,001	6,814,006	-	239,995
Beneficial interest in funds held by others	125,201	-	-	125,201
Total	$ 7,179,202	$ 6,814,006	$ -	$ 365,196

(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:

	2023	2022
Fair value as of January 1	$ 239,995	$ 221,483
Investment (loss) gain included in change in net assets	(2,832)	18,512
Purchases	90,001	-
Sales	(152,637)	-
Fair value as of December 31	$ 174,527	$ 239,995

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:

	2023	2022
Fair value as of January 1	$ 125,201	$ 166,789
Investment gain (loss) included in change in net assets	22,344	(34,041)
Fees	(1,633)	(1,682)
Distributions	(5,560)	(5,865)
Fair value as of December 31	$ 140,352	$ 125,201

7. Property and Equipment, Net

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

	2023	2022
Land and improvements	$ 397,770	$ 397,770
Buildings and improvements	1,711,420	1,678,870
Furniture, fixtures and equipment	141,703	144,305
Vehicles	18,622	18,622
	2,269,515	2,239,567
Less accumulated depreciation and amortization	(473,145)	(407,683)
	$ 1,796,370	$ 1,831,884

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:

	2023	2022
Finance lease cost – amortization of ROU assets	$ 1,489	$ 496
Finance lease cost – interest on lease liabilities	211	81
Short-term lease cost	3,856	5,169
Total lease cost	$ 5,556	$ 5,746

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:

	2023	2022
Finance leases		
Equipment	$ 7,443	$ 7,443
Accumulated amortization	(1,985)	(496)
Finance lease, right-of-use assets, net*	$ 5,458	$ 6,947
Finance lease liabilities, current	$ 1,428	$ 1,380
Finance lease liabilities, non-current	4,185	5,613
Total finance lease liabilities	$ 5,613	$ 6,993
Weighted-average remaining lease term:		
Finance leases	3.67 years	4.67 years
Weighted-average discount rate:		
Finance leases	3.39%	3.39%

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

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the consolidated statement of financial position are as follows as of December 31, 2023:

Year Ending December 31,	Finance Leases
2024	$ 1,592
2025	1,592
2026	1,592
2027	1,192
Total lease payments	5,968
Less imputed interest	(355)
Total present value of lease liabilities	5,613
Less lease liabilities, current	(1,428)
Lease liabilities, non-current	$ 4,185

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, 2023 and 2022, respectively.

The scheduled principal maturities of the long-term debt are as follows as of December 31, 2023:

Year Ending	Amount
2024	$ 61,139
2025	62,992
2026	64,902
2027	66,869
2028	68,896
Thereafter	583,650
Total	$ 908,448

10. Board Designated Net Assets

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

	2023	2022
Board-designated quasi endowment	$ 990,945	$ 823,332
Preservation fellowship	445,905	332,832
Site protection	129,160	97,867
	$ 1,566,010	$ 1,254,031

See Note 12 for activity in the board-designated quasi endowment for the years ended December 31, 2023 and 2022.

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:

	2023	2022
Subject to expenditure for specified purpose		
Education	$ 20,819	$ 23,050
Fellowship	357,170	388,948
Preservation	415,099	130,866
Site protection	14,819	14,819
Research	216,003	218,782
Cyber SW	53,393	119,238
Fundraising	1,000	-
General	33,950	-
	1,112,253	895,703
Subject to spending policy and appropriation		
Original donor-restricted endowment gift amounts required to be maintained by donor		
Publications	1,025,000	815,000
Research	278,038	81,038
General operations	4,347,054	4,156,503
Preservation	875,500	875,000
	6,525,592	5,927,541
Accumulated investment earnings, which, once appropriated, are expendable to support		
Publications	58,768	(29,635)
Research	18,151	(2,526)
General operations	479,077	87,643
Preservation	120,741	41,012
	676,737	96,494
Total	$ 8,314,582	$ 6,919,738

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Endowment Funds

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 appreciation	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

Changes in endowment net assets for the year ended December 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2021	$ 1,038,426	$ 6,882,930	$ 7,921,356
Contributions	16,541	488,811	505,352
Investment return			
Investment income, net	16,700	163,090	179,790
Net depreciation	(209,386)	(1,269,512)	(1,478,898)
Total investment return	(192,686)	(1,106,422)	(1,299,108)
Appropriation of endowment funds for expenditure	(38,949)	(241,284)	(280,233)
Endowment net assets, December 31, 2022	$ 823,332	$ 6,024,035	$ 6,847,367

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 2023 and 2022, 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. During 2022, PPP leased an additional office space to a third-party tenant under a non-cancelable operating lease expiring in June 2022. In June 2022, the tenant did not renew their lease and vacated the premises. 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 year ended December 31:

	2023	2022
Operating lease income related to lease payments	$ 71,376	$ 87,756
Variable lease payments	1,814	31,630
Total rental income	$ 73,190	$ 119,386

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

	2023	2022
Land and improvements	$ 159,893	$ 196,398
Buildings and improvements	678,953	824,698
Furniture, fixtures and equipment	10,500	10,500
	849,346	1,031,596
Less accumulated depreciation and amortization	(187,843)	(160,809)
	$ 661,503	$ 870,787

Future undiscounted cash flows for each of the next five years and thereafter are as follows as of December 31, 2023:

Year Ending December 31,	Operating Leases
2024	$ 71,376
2025	78,439
2026	78,439
2027	78,439
2028	78,439
Total lease payments	$ 385,132

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, 2023 and 2022, were $28,051 and $26,774, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Related Party Transactions

During the years ended December 31, 2023 and 2022, the Organization paid $51,104 and $70,078, respectively, in consulting fees to Desert Archaeology, a company partially owned by the President/CEO of the Organization. Amounts payable to Desert Archaeology totaled $6,190 and $4,012 as of December 31, 2023 and 2022, respectively. In addition, during the years ended December 31, 2023 and 2022, the Organization received $201,385 and $198,749, 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, 2023 and 2022, gross government grant receivables comprised 99% and 84%, respectively, of total gross receivables. For the years ended December 31, 2023 and 2022, government fees and grants accounted for approximately 35% and 96%, 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, 2023 and 2022, the Organization had $675,318 and $968,774, 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, 2023 and 2022, the Organization had approximately $8.2 million and $6.5 million, respectively, in excess of SIPC insured limits.

17. Evaluation of Subsequent Events

The Organization evaluated subsequent events through May 31, 2024, which represents the date the consolidated financial statements were available to be issued and, concluded that no additional disclosures are required.