

ARCHAEOLOGICAL INSTITUTE OF AMERICA

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2013 AND 2012

ARCHAEOLOGICAL INSTITUTE OF AMERICA

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Archaeological Institute of America

We have audited the accompanying financial statements of Archaeological Institute of America (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Archaeological Institute of America as of June 30, 2013 and 2012, 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.

Lotz + Carr, LLP

New York, New York
September 24, 2013

ARCHAEOLOGICAL INSTITUTE OF AMERICA

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Assets		
Cash and cash equivalents (Notes 1b and 10)	\$ 347,630	\$ 355,955
Unconditional promises to give (Notes 1c and 3)		
Unrestricted	\$15,647	\$42,015
Temporarily restricted	<u>125,435</u>	<u>205,527</u>
Accounts receivable, net of allowance of \$48,282 (2013) and \$52,589 (2012)	380,962	380,281
Prepaid expenses and other assets	138,206	163,930
Prepaid direct mail costs (Note 1g)	868,708	868,796
Investments (Notes 1d, 1e, 4 and 6)	8,524,084	8,307,474
Property and equipment, net (Notes 1f and 5)	<u>35,285</u>	<u>23,809</u>
Total Assets	<u><u>\$10,435,957</u></u>	<u><u>\$10,347,787</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 274,780	\$ 308,163
Accrued expenses	198,610	199,652
Deferred revenue (Note 1h)	<u>3,427,101</u>	<u>3,471,783</u>
Total Liabilities	<u>3,900,491</u>	<u>3,979,598</u>
Commitments (Notes 8 and 9)		
Net Assets (Note 6)		
Unrestricted	(1,340,780)	(1,281,739)
Temporarily restricted (Note 2b)	4,254,211	4,041,803
Permanently restricted (Note 2c)	<u>3,622,035</u>	<u>3,608,125</u>
Total Net Assets	<u>6,535,466</u>	<u>6,368,189</u>
Total Liabilities and Net Assets	<u><u>\$10,435,957</u></u>	<u><u>\$10,347,787</u></u>

See notes to financial statements.

ARCHAEOLOGICAL INSTITUTE OF AMERICA

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2013 AND 2012

	2013						2012					
	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General Operating	Funds Functioning as Endowments	Total Unrestricted				General Operating	Funds Functioning as Endowments	Total Unrestricted			
Changes in Unrestricted Net Assets												
Revenues, Gains (Losses) and Other Support												
Subscriptions and Newsstand Revenue												
Subscriptions, net of cancellations	\$ 3,409,220	\$ -	\$ 3,409,220	\$ -	\$ -	\$3,409,220	\$ 3,497,984	\$ -	\$ 3,497,984	\$ -	\$ -	\$3,497,984
Newsstand revenue	271,021	-	271,021	-	-	271,021	229,851	-	229,851	-	-	229,851
	<u>3,680,241</u>	<u>-</u>	<u>3,680,241</u>	<u>-</u>	<u>-</u>	<u>3,680,241</u>	<u>3,727,835</u>	<u>-</u>	<u>3,727,835</u>	<u>-</u>	<u>-</u>	<u>3,727,835</u>
Other Earned Revenue												
Advertising revenue	629,049	-	629,049	-	-	629,049	695,671	-	695,671	-	-	695,671
Net investment income (loss) (Note 4)	2,556	122,474	125,030	634,324	13,700	773,054	2,763	(47,701)	(44,938)	(142,591)	15,401	(172,128)
Other revenue	534,000	-	534,000	-	-	534,000	529,122	-	529,122	-	-	529,122
	<u>1,165,605</u>	<u>122,474</u>	<u>1,288,079</u>	<u>634,324</u>	<u>13,700</u>	<u>1,936,103</u>	<u>1,227,556</u>	<u>(47,701)</u>	<u>1,179,855</u>	<u>(142,591)</u>	<u>15,401</u>	<u>1,052,665</u>
Public Support												
Contributions and grants	414,906	6,102	421,008	246,972	3,133	671,113	345,046	1,000	346,046	318,993	6,534	671,573
Benefit income	294,459	-	294,459	-	-	294,459	329,253	-	329,253	-	-	329,253
Less: Direct benefit expenses	(45,000)	-	(45,000)	-	-	(45,000)	(56,688)	-	(56,688)	-	-	(56,688)
Donated services and materials (Note 7)	312,800	-	312,800	-	-	312,800	159,832	-	159,832	-	-	159,832
Membership revenue	297,063	-	297,063	-	-	297,063	296,148	-	296,148	-	-	296,148
	<u>1,274,228</u>	<u>6,102</u>	<u>1,280,330</u>	<u>246,972</u>	<u>3,133</u>	<u>1,530,435</u>	<u>1,073,591</u>	<u>1,000</u>	<u>1,074,591</u>	<u>318,993</u>	<u>6,534</u>	<u>1,400,118</u>
Appropriations and Net Asset Reclassifications												
Contributions and grants released from restriction	318,554	-	318,554	(318,554)	-	-	332,833	-	332,833	(332,833)	-	-
Reclassification pursuant to donor stipulation	-	(968)	(968)	3,891	(2,923)	-	-	-	-	-	-	-
Accumulated investment income released from restriction	354,225	-	354,225	(354,225)	-	-	210,678	-	210,678	(210,678)	-	-
Appropriations to operations	24,380	(24,380)	-	-	-	-	104,714	(104,714)	-	-	-	-
	<u>697,159</u>	<u>(25,348)</u>	<u>671,811</u>	<u>(668,888)</u>	<u>(2,923)</u>	<u>-</u>	<u>648,225</u>	<u>(104,714)</u>	<u>543,511</u>	<u>(543,511)</u>	<u>-</u>	<u>-</u>
Total Revenues, Gains (Losses) and Other Support	<u>6,817,233</u>	<u>103,228</u>	<u>6,920,461</u>	<u>212,408</u>	<u>13,910</u>	<u>7,146,779</u>	<u>6,677,207</u>	<u>(151,415)</u>	<u>6,525,792</u>	<u>(367,109)</u>	<u>21,935</u>	<u>6,180,618</u>
Expenses												
Program Services	5,434,335	-	5,434,335	-	-	5,434,335	5,188,570	-	5,188,570	-	-	5,188,570
Supporting Services												
General and administrative	691,280	-	691,280	-	-	691,280	598,263	-	598,263	-	-	598,263
Fundraising and membership development	853,887	-	853,887	-	-	853,887	866,582	-	866,582	-	-	866,582
Total Supporting Services	<u>1,545,167</u>	<u>-</u>	<u>1,545,167</u>	<u>-</u>	<u>-</u>	<u>1,545,167</u>	<u>1,464,845</u>	<u>-</u>	<u>1,464,845</u>	<u>-</u>	<u>-</u>	<u>1,464,845</u>
Total Expenses	<u>6,979,502</u>	<u>-</u>	<u>6,979,502</u>	<u>-</u>	<u>-</u>	<u>6,979,502</u>	<u>6,653,415</u>	<u>-</u>	<u>6,653,415</u>	<u>-</u>	<u>-</u>	<u>6,653,415</u>
Increase (decrease) in net assets	(162,269)	103,228	(59,041)	212,408	13,910	167,277	23,792	(151,415)	(127,623)	(367,109)	21,935	(472,797)
Net assets, beginning of year	(1,515,846)	234,107	(1,281,739)	4,041,803	3,608,125	6,368,189	(1,539,638)	385,522	(1,154,116)	4,408,912	3,586,190	6,840,986
Net Assets, End of Year	<u><u>\$(1,678,115)</u></u>	<u><u>\$ 337,335</u></u>	<u><u>\$(1,340,780)</u></u>	<u><u>\$4,254,211</u></u>	<u><u>\$ 3,622,035</u></u>	<u><u>\$6,535,466</u></u>	<u><u>\$(1,515,846)</u></u>	<u><u>\$ 234,107</u></u>	<u><u>\$(1,281,739)</u></u>	<u><u>\$4,041,803</u></u>	<u><u>\$3,608,125</u></u>	<u><u>\$6,368,189</u></u>

See notes to financial statements.

ARCHAEOLOGICAL INSTITUTE OF AMERICA

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities - Sources (Uses)		
Increase (decrease) in net assets	\$ 167,277	\$(472,797)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Change in allowance for bad debts	(4,307)	(2,911)
Depreciation	9,799	13,933
Donated securities	(61,261)	(62,918)
Realized gain on sale of investments	(72,706)	(5,974)
Unrealized (gain) loss on investments	(521,694)	405,647
(Increase) decrease in:		
Unconditional promises to give	106,460	146,882
Accounts receivable	3,626	(83,820)
Prepaid expenses and other assets	25,724	(25,110)
Prepaid direct mail costs	88	(208,867)
Increase (decrease) in:		
Accounts payable	(33,383)	75,750
Accrued expenses	(1,042)	(14,869)
Deferred revenue	(44,682)	(132,888)
Net Cash Used By Operating Activities	(426,101)	(367,942)
 Cash Flows From Investing Activities - Sources (Uses)		
Purchase of property and equipment	(21,275)	(23,008)
Purchase of investments	(175,327)	(223,894)
Proceeds from sale of investments	614,378	312,032
Net Cash Provided By Investing Activities	417,776	65,130
 Net decrease in cash and cash equivalents	(8,325)	(302,812)
Cash and cash equivalents, beginning of year	355,955	658,767
 Cash and Cash Equivalents, End of Year	\$ 347,630	\$ 355,955

See notes to financial statements.

ARCHAEOLOGICAL INSTITUTE OF AMERICA**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

The Archaeological Institute of America (the "Institute") is a not-for-profit organization founded in 1879 and chartered by an Act of Congress in 1906. The Institute is dedicated to the greater understanding of archaeology, to the protection and preservation of the world's archaeological resources and the information they contain, and to the encouragement and support of archaeological research and publication. Program services include the following publications and activities of the Institute:

Archaeology Magazine

Archaeology is a bi-monthly illustrated magazine recognized worldwide as the premier publication on archaeology for the general public. With a circulation principally in the United States, *Archaeology* provides accounts of the latest discoveries in archaeology worldwide to over 700,000 readers.

American Journal of Archaeology

The *American Journal of Archaeology* (the "Journal") is a scholarly quarterly publication containing articles on research in archaeology by some of the world's most distinguished archaeologists. The Journal has a circulation of about 2,700 institutions and individuals across the globe.

Professional and Auxiliary Programs

The Institute has over 200,000 members, principally in the United States. The Institute provides lectures, publishes newsletters, and bulletins, holds an annual meeting and grants fellowships in order to promote archaeological studies. The Institute promotes education in the field of archaeology by conducting teacher workshops and providing educational material to elementary schools, secondary schools and other institutions. The Institute also sponsors a tour program, runs fairs with hands-on activities for children in order to encourage interest in the field among young people, and has a site preservation program which is designated to help other countries manage and protect their archaeological heritage.

b - Cash and Cash Equivalents

For purposes of the statement of cash flows, the Institute considers all unrestricted highly liquid investments, with an initial maturity of three months or less, to be cash equivalents, except for those short-term investments held in the Institute's investment portfolio as part of its long-term investment strategies.

ARCHAEOLOGICAL INSTITUTE OF AMERICA**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****c - Contributions and Unconditional Promises to Give**

Contributions are recognized when the donor makes a promise to give to the Institute, that is in substance, unconditional. Contributions are recognized as restricted support if they are received with donor stipulations that limit their use; otherwise, they are presented as unrestricted support. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Institute uses the allowance method to determine uncollectible promises to give. The determination of whether an allowance is necessary is based on prior years' experience and management's analysis of specific promises made.

d - Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-based measurement. Generally accepted accounting principles establish a framework for measuring fair value which maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those the market participants would use in pricing the asset based on market data obtained from sources independent of the Institute. Unobservable inputs reflect the Institute's assumptions about the inputs market participants would use in pricing the asset developed based on the best information available in the circumstances. Fair value measurements are categorized into three levels as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the institute has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 Inputs that are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

ARCHAEOLOGICAL INSTITUTE OF AMERICA**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****e - Investments**

Investments are measured at fair value on a recurring basis. The value of the Institute's cash equivalents, fixed income mutual fund and equity securities are based on quoted market prices in active markets, and are therefore, classified within Level 1.

The value of the Institute's US Treasury securities that trade in markets that are not considered to be active, but are valued based on quoted process, dealer quotations, or alternative pricing sources by observable inputs are classified within Level 2.

Certain non-public traded common stock investments are classified within Level 3 of the fair value hierarchy because they trade infrequently (or not at all), and therefore, have little or no readily available pricing. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. Fair value has been determined by management of the Institute based on company valuations. The values assigned to these investments and any unrealized gains or losses reported are based on available information and do not necessarily represent amounts that might be realized if a ready market existed. The ultimate realization of such amounts depends on future events and circumstances, and therefore, valuation estimates may differ from the value realized upon disposition of individual positions.

Interest, dividends and gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Gains and other investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

f - Property and Equipment

Property and equipment are reported at cost, or if donated, at the fair market value at date of receipt. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

ARCHAEOLOGICAL INSTITUTE OF AMERICA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 1 - Organization and Summary of Significant Accounting Policies (continued)g - Direct Mail Costs

Direct response marketing costs incurred in connection with the Institute's direct mail magazine subscription advertising are capitalized and amortized over a three year period on the basis of separate cost pools. Amortization is computed using the income forecast method. Unamortized direct mail costs reported as prepaid expenses assets at June 30, 2013 and 2012 was \$868,708 and \$868,796, respectively. Direct mail expenses totaled \$595,962 and \$537,427 for the years ended June 30, 2013 and 2012, respectively.

h - Publication Revenue and Expenses

Subscription and advertising revenue are recognized, and the related production costs are expensed when the publications are released. Subscription revenue and advertising revenue, received in advance of the publication's release, are recorded as deferred revenue. Production, editorial and circulation costs are recorded as prepaid when incurred for publications that have not been released. When the publications are released, these costs are charged to expense.

i - Financial Statement Presentation

The Institute reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

j - Estimates

The Institute uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses.

k - Tax Status

The Institute is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as a publicly supported organization which is not a private foundation.

The Institute is subject to federal and state income taxes on any net income derived from advertising revenue, a business activity which is regularly conducted, and is by statute, unrelated to its exempt purpose. Management believes that it has appropriate support for any tax positions taken and does not have any uncertain tax positions that are material to the financial statements. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed.

ARCHAEOLOGICAL INSTITUTE OF AMERICA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

I - Subsequent Events

The Institute has evaluated subsequent events through September 24, 2013, the date that the financial statements are considered available to be issued.

Note 2 - Restrictions on Assets

a - Funds Functioning as Endowments

The Board of Trustees maintains designated funds for certain specific programs and activities. Appropriations are made from these funds for use in the Institute's annual operations in accordance with the Institute's spending policy. During the years ended June 30, 2013 and 2012, a total of \$24,380 and \$104,714, respectively, was appropriated from these funds for use in general operations based on this spending policy.

b - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of amounts restricted for future programs and operations of the Institute and are summarized as follows:

	2013	2012
Accumulated endowment investment earnings	\$3,838,082	\$3,554,092
Grants and contributions	416,129	487,711
	\$4,254,211	\$4,041,803

For the years ended June 30, 2013 and 2012, \$354,225 and \$210,678, respectively, was released from restriction in accordance with the Institute's spending policy and pursuant to discretionary appropriations for use in programs and operations.

c - Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment contributions received from donors stipulating that the principal be retained in perpetuity, and except as otherwise provided under the terms specified by the donor, specifying that investment earnings be used for specific programs and the operations of the Institute.

ARCHAEOLOGICAL INSTITUTE OF AMERICA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 3 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	<u>2013</u>	<u>2012</u>
Due in less than one year	\$141,082	\$147,015
Due in one to five years	-	105,000
	<u>141,082</u>	<u>252,015</u>
Less: Discount to present value	-	(4,473)
	<u>\$141,082</u>	<u>\$247,542</u>

Uncollectible promises are expected to be insignificant. Unconditional promises to give are discounted to net present value using a discount rate of 3%.

Note 4 - Investments

Investments at June 30 consist of the following:

	<u>2013</u>		<u>2012</u>	
	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Cost Basis</u>	<u>Fair Value</u>
Money market funds and cash held for investment	\$ 2,221	\$ 2,221	\$ 3,093	\$ 3,093
US Treasury securities	99,175	105,109	99,175	114,576
Fixed income mutual fund	2,623,008	2,655,527	2,714,874	2,873,079
Equity securities	<u>5,017,992</u>	<u>5,761,227</u>	<u>5,230,338</u>	<u>5,316,726</u>
	<u>\$7,742,396</u>	<u>\$8,524,084</u>	<u>\$8,047,480</u>	<u>\$8,307,474</u>

Investment income (loss) is summarized as follows:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$178,654	\$ 227,545
Realized gain on sale of investments	72,706	5,974
Unrealized gain (loss) on investments	<u>521,694</u>	<u>(405,647)</u>
Net Investment Income (loss)	<u>\$773,054</u>	<u>\$(172,128)</u>

ARCHAEOLOGICAL INSTITUTE OF AMERICA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 4 - Investments (continued)

The following summarizes the Institute's investments by the levels within the fair value hierarchy used to measure their respective fair values at June 30, 2013 and 2012:

	2013			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents	\$ 2,221	\$ 2,221	\$ -	\$ -
US Treasury securities	105,109	-	105,109	-
Fixed income mutual fund	2,655,527	2,655,527	-	-
Equity securities	<u>5,761,227</u>	<u>5,729,727</u>	<u>-</u>	<u>31,500</u>
	<u>\$8,524,084</u>	<u>\$8,387,475</u>	<u>\$105,109</u>	<u>\$31,500</u>
	2012			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents	\$ 3,093	\$ 3,093	\$ -	\$ -
US Treasury securities	114,576	-	114,576	-
Fixed income mutual fund	2,873,079	2,873,079	-	-
Equity securities	<u>5,316,726</u>	<u>5,281,226</u>	<u>-</u>	<u>35,500</u>
	<u>\$8,307,474</u>	<u>\$8,157,398</u>	<u>\$114,576</u>	<u>\$35,500</u>

Preferred stock of Real Estate Investment Trusts (Level 3 investment) totaling \$4,000 and \$2,000 were redeemed during the years ended June 30, 2013 and 2012, respectively.

Note 5 - Property and Equipment

Property and equipment at June 30 consisted of the following:

	<u>Life</u>	<u>2013</u>	<u>2012</u>
Property and Equipment			
Boston office	3-7 years	\$ 71,918	\$138,585
New York office	3-7 years	<u>83,431</u>	<u>76,878</u>
		155,349	215,463
Less: Accumulated depreciation		<u>(120,064)</u>	<u>(191,654)</u>
		<u>\$ 35,285</u>	<u>\$ 23,809</u>

ARCHAEOLOGICAL INSTITUTE OF AMERICA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 5 - Property and Equipment (continued)

Depreciation expense for years ended June 30, 2013 and 2012 was \$9,799 and \$13,933, respectively. During the years ended June 30, 2013 and 2012, the Institute wrote off \$81,389 and \$97,329, respectively, of fully depreciated property and equipment.

Note 6 - Endowment Funds

The Institute's endowment consists of numerous funds established for a variety of purposes and includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Consistent with the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of any applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (i) the duration and preservation of the endowment fund;
- (ii) the purposes of the Institute and the endowment fund;
- (iii) general economic conditions;
- (iv) the possible effect of inflation or deflation;
- (v) the expected total return from income and the appreciation of investments;
- (vi) other resources of the Institute; and
- (vii) the investment policy of the Institute

ARCHAEOLOGICAL INSTITUTE OF AMERICA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 6 - Endowment Funds (continued)

As of June 30, 2013 and 2012, the Institute's invested endowment fund composition, by type of fund and net asset classification, is summarized as follows:

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ (31,004)	\$3,838,082	\$3,622,035	\$7,429,113
Board designated endowment funds	<u>368,339</u>	-	-	<u>368,339</u>
Total Endowment Funds	<u>\$337,335</u>	<u>\$3,838,082</u>	<u>\$3,622,035</u>	<u>\$7,797,452</u>

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$(121,381)	\$3,554,092	\$3,608,125	\$7,040,836
Board designated endowment funds	<u>355,488</u>	-	-	<u>355,488</u>
Total Endowment Funds	<u>\$234,107</u>	<u>\$3,554,092</u>	<u>\$3,608,125</u>	<u>\$7,396,324</u>

Changes in the Institute's endowment funds for the years ended June 30, 2013 and 2012 are summarized as follows:

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment funds, beginning of year	\$234,107	\$3,554,092	\$3,608,125	\$7,396,324
Investment return	122,474	634,324	13,700	770,498
Contributions received	6,102	-	3,133	9,235
Reclassification pursuant to donor stipulation	(968)	3,891	(2,923)	-
Appropriation of endowment assets for expenditure	<u>(24,380)</u>	<u>(354,225)</u>	-	<u>(378,605)</u>
Endowment Funds, End of Year	<u>\$337,335</u>	<u>\$3,838,082</u>	<u>\$3,622,035</u>	<u>\$7,797,452</u>

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment funds, beginning of year	\$385,522	\$3,907,361	\$3,586,190	\$7,879,073
Investment return (loss)	(47,701)	(142,591)	15,401	(174,891)
Contributions received	1,000	-	6,534	7,534
Appropriation of endowment assets for expenditure	<u>(104,714)</u>	<u>(210,678)</u>	-	<u>(315,392)</u>
Endowment Funds, End of Year	<u>\$234,107</u>	<u>\$3,554,092</u>	<u>\$3,608,125</u>	<u>\$7,396,324</u>

ARCHAEOLOGICAL INSTITUTE OF AMERICA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 6 - Endowment Funds (continued)

The fair value of assets associated with individual donor restricted endowment funds may fall below the level required to be retained as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$31,004 and \$121,381 as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriations for operations in accordance with the Institute's spending policy.

The Institute has adopted investment and spending policies for endowment assets that endeavor to provide a stream of funding for the Institute's operations while seeking to enhance the purchasing power of the endowment's assets.

The Institute has a policy of appropriating for distribution each year 5% of the average fair value of endowment funds over the prior twelve quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Institute considered the long-term expected return on its endowment. Accordingly, over the long term, the Institute's objective is to achieve a real return that will cover the 5% draw and enhance the purchasing power of the endowment.

Note 7 - Donated Services and Materials

The Institute received donated services and materials in connection with its program and supporting services valued at \$312,800 and \$159,832 for the years ended June 30, 2013 and 2012, respectively. These donated services and materials consisted of the following:

	<u>2013</u>	<u>2012</u>
Legal services	\$170,000	\$ 21,432
Rent	142,800	114,400
Fundraising services	<u>-</u>	<u>24,000</u>
	<u>\$312,800</u>	<u>\$159,832</u>

Note 8 - Pension Plan

The Institute has a defined contribution pension plan funded by contributions to annuity accounts covering all eligible employees. Pension expense amounted to \$94,160 and \$93,765 for the years ended June 30, 2013 and 2012, respectively, which represents 5% of each eligible employee's salary.

ARCHAEOLOGICAL INSTITUTE OF AMERICA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 9 - Commitments

- a - The Institute occupies facilities in New York City under a lease with a term ending August 31, 2015. The future minimum annual rental obligation under this lease is as follows:

<u>Year Ending June 30,</u>	
2014	\$100,693
2015	103,729
Two months ending August 31, 2015	17,373

Rent expense under this lease for the years ended June 30, 2013 and 2012 totaled \$98,330 and \$95,024, respectively.

- b - The Institute receives donated office space from Boston University under a lease which expired May 31, 2012, valued at \$142,800 and \$114,400 for the years ended June 30, 2013 and 2012, respectively (Note 7). As of the date of this report, the Institute is in negotiations for a new lease with Boston University.
- c - The Institute obtains its magazine printing and distribution services and paper from a vendor under a contract which expires January 31, 2015. Total expenses under this agreement for the years ended June 30, 2013 and 2012 totaled \$661,398 and \$660,696, respectively.

Note 10 - Concentration of Credit Risk

The Institute maintains cash and cash equivalents at three financial institutions. The cash and cash equivalent balances up to certain limits are insured by the Federal Deposit Insurance Corporation or Securities Investor Protection Corporation. Balances commonly exceed these limits.

Note 11 - Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.

SUPPLEMENTARY INFORMATION



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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

To the Board of Trustees of
Archaeological Institute of America

We have audited the financial statements of Archaeological Institute of America as of and for the years ended June 30, 2013 and 2012, and our report thereon dated September 24, 2013, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of General Operating Revenue and Expenses for the year ended June 30, 2013 with comparative totals for 2012 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lutz + Carr, LLP

New York, New York
September 24, 2013

ARCHAEOLOGICAL INSTITUTE OF AMERICA

SCHEDULE OF GENERAL OPERATING REVENUE AND EXPENSES

YEAR ENDED JUNE 30, 2013 WITH COMPARATIVE TOTALS FOR 2012

	Program Services			Supporting Services			2013	2012
	Archaeology Magazine	American Journal of Archaeology	Professional and Auxiliary Programs	Total	General and Administrative	Fundraising and Membership Development	Total	Total
Revenues, Gains and Other Support								
Subscriptions and Newsstand Revenue								
Subscriptions, net of cancellations	\$ 3,112,524	\$ 296,696	\$ -	\$3,409,220	\$ -	\$ -	\$ -	\$3,409,220
Newsstand revenue	271,021	-	-	271,021	-	-	-	271,021
	<u>3,383,545</u>	<u>296,696</u>	<u>-</u>	<u>3,680,241</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,680,241</u>
Other Earned Revenue								
Advertising revenue	608,788	7,354	12,810	628,952	33	64	97	629,049
Net investment income	-	-	-	-	2,566	(10)	2,556	2,556
List rental	132,130	-	-	132,130	-	6,228	6,228	138,358
Annual Meeting registration	-	-	156,409	156,409	-	-	-	156,409
Tours	-	-	99,311	99,311	-	-	-	99,311
Other income	38,973	47,858	14,178	101,009	556	38,357	38,913	139,922
	<u>779,891</u>	<u>55,212</u>	<u>282,708</u>	<u>1,117,811</u>	<u>3,155</u>	<u>44,639</u>	<u>47,794</u>	<u>1,165,605</u>
Public Support								
Contributions and grants, including net assets released from restriction	206	16,085	310,868	327,159	-	406,301	406,301	733,460
Gala income	-	-	-	-	-	294,459	294,459	294,459
Less: Direct Gala expense	-	-	-	-	-	(45,000)	(45,000)	(45,000)
Donated services and materials	72,320	47,017	79,389	198,726	56,266	57,808	114,074	312,800
Membership revenue	-	-	-	-	-	297,063	297,063	297,063
	<u>72,526</u>	<u>63,102</u>	<u>390,257</u>	<u>525,885</u>	<u>56,266</u>	<u>1,010,631</u>	<u>1,066,897</u>	<u>1,592,782</u>
Appropriation of investment earnings to operations, including amounts released from restriction	-	87,918	273,995	361,913	362	16,330	16,692	378,605
	<u>-</u>	<u>87,918</u>	<u>273,995</u>	<u>361,913</u>	<u>362</u>	<u>16,330</u>	<u>16,692</u>	<u>378,605</u>
Total Revenues, Gains and Other Support	<u>4,235,962</u>	<u>502,928</u>	<u>946,960</u>	<u>5,685,850</u>	<u>59,783</u>	<u>1,071,600</u>	<u>1,131,383</u>	<u>6,817,233</u>
Expenses								
Salaries and commissions	918,502	191,012	302,551	1,412,065	293,937	355,487	649,424	2,061,489
Payroll taxes and employee benefits	164,272	37,012	75,551	276,835	67,327	71,004	138,331	415,166
Contract labor and consultants	88,226	32,264	22,583	143,073	2,645	12,782	15,427	158,500
Editorial and content	89,308	4,276	1,338	94,922	-	1,573	1,573	96,495
Paper	304,579	17,819	-	322,398	-	-	-	322,398
Printing	216,627	27,545	9,239	253,411	1,745	60,834	62,579	315,990
Distribution and postage	515,198	15,756	80	531,034	13	26,798	26,811	557,845
Direct mail	595,762	-	-	595,762	-	200	200	595,962
Fulfillment	184,643	608	16,987	202,238	-	1,662	1,662	203,900
Renewal and collections	298,161	2,297	-	300,458	-	9,198	9,198	309,656
Honoraria	1,500	5,500	51,708	58,708	-	650	650	59,358
Fellowships, grants and other awards	880	-	320,615	321,495	-	-	-	321,495
Insurance	22,218	4,344	8,122	34,684	10,178	5,341	15,519	50,203
Donated legal and occupancy	72,320	47,017	79,389	198,726	56,266	57,808	114,074	312,800
Professional fees	13,963	-	7,316	21,279	56,878	-	56,878	78,157
Rent expense	98,330	-	-	98,330	-	-	-	98,330
Travel, meals and lodging	39,951	6,406	158,954	205,311	68,150	51,597	119,747	325,058
Gala event expenses	-	-	-	-	-	48,188	48,188	48,188
Annual Meeting receptions	9,437	-	40,484	49,921	6,991	11,590	18,581	68,502
Marketing and research	65,268	190	15,956	81,414	2,592	2,365	4,957	86,371
IT costs	24,888	9,740	17,766	52,394	13,508	13,937	27,445	79,839
Equipment rental	1,830	-	165	1,995	22,547	-	22,547	24,542
Bank charges	5,098	-	-	5,098	21,076	20,190	41,266	46,364
Other expenses	87,400	7,452	72,715	167,567	62,845	102,683	165,528	333,095
Depreciation	5,217	-	-	5,217	4,582	-	4,582	9,799
Total Expenses	<u>3,823,578</u>	<u>409,238</u>	<u>1,201,519</u>	<u>5,434,335</u>	<u>691,280</u>	<u>853,887</u>	<u>1,545,167</u>	<u>6,979,502</u>
Increase (Decrease) in Net Assets from Operating Activities, 2013	<u>\$ 412,384</u>	<u>\$ 93,690</u>	<u>\$ (254,559)</u>	<u>\$ 251,515</u>	<u>\$ (631,497)</u>	<u>\$ 217,713</u>	<u>\$(413,784)</u>	<u>\$(162,269)</u>
Increase (Decrease) in Net Assets from Operating Activities, 2012	<u>\$ 537,692</u>	<u>\$ 141,253</u>	<u>\$ (232,035)</u>	<u>\$ 446,910</u>	<u>\$ (564,536)</u>	<u>\$ 141,418</u>	<u>\$(423,118)</u>	<u>\$ 23,792</u>

See independent auditors' report on supplementary information.