

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2002 AND 2001

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

Years Ended June 30, 2002 and 2001

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BROWN & BROWN

Brown & Brown, LLP | Boston | Portland | Worcester
Certified Public Accountants | Business and Financial Advisors

To The Board of Directors
American Schools of Oriental Research
Boston, Massachusetts

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statements of financial position of American Schools of Oriental Research (ASOR) as of June 30, 2002 and 2001 and the related statements of activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of ASOR's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Schools of Oriental Research at June 30, 2002 and 2001, and the results of its activities and changes in net assets, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Boston, Massachusetts
November 23, 2002

AMERICAN SCHOOLS OF ORIENTAL RESEARCH
Statements of Financial Position
June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 461,781	\$ 484,878
Investments	106,834	140,115
Accounts receivable:		
Contributions, net of discounts and allowance	82,376	336,287
Memberships	21,205	26,435
Book sales	24,217	44,269
Subscriptions	67,132	71,237
Other	12,496	28,296
Publication inventory and capitalized costs	74,170	112,765
Prepaid expenses	11,596	13,596
Deferred sponsored project expenses	-	13,160
	<hr/>	<hr/>
Total current assets	861,807	1,271,038
Office equipment and furniture, net	10,345	12,391
Other assets:		
Notes receivable	555	2,163
Other current assets	-	14,446
Cash equivalents, permanently restricted	399,223	356,656
	<hr/>	<hr/>
	\$ 1,271,930	\$ 1,656,694
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Current liabilities:		
Accrued expenses	\$ 58,783	\$ 124,359
Loan payable to affiliate, current portion	6,650	6,650
Deferred revenue	304,953	347,400
	<hr/>	<hr/>
Total current liabilities	370,386	478,409
Long-term liabilities:		
Loan payable to affiliate, net of current portion	6,650	13,300
Other liabilities	16,506	17,399
	<hr/>	<hr/>
Total liabilities	393,542	509,108
Net assets:		
Unrestricted	(41,670)	10,580
Temporarily restricted	494,037	594,578
Permanently restricted	426,021	542,428
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Total net assets	878,388	1,147,586
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	\$ 1,271,930	\$ 1,656,694
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The accompanying notes are an integral part of these financial statements.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2002

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support				
Contributions	\$ 47,836	\$ 60,250	\$ (32,482)	\$ 75,604
Grants - Foundation and individuals		33,550		33,550
Total support	47,836	93,800	(32,482)	109,154
Revenue and gains				
Publication income	297,548			297,548
Institutional membership	60,150			60,150
Individual membership	103,817			103,817
Annual meeting	30,541	4,000		34,541
In-kind rent contribution	22,500			22,500
Royalty income	8,309			8,309
Investment income	698	12,641	3,342	16,681
Realized loss on sale of investments	(392)	(1,535)	(134)	(2,061)
Unrealized loss on investments	-	(26,043)	(4,549)	(30,592)
Net assets released from restrictions:				
Satisfaction of program restrictions	265,988	(183,404)	(82,584)	-
Total revenue and gains	789,159	(194,341)	(83,925)	510,893
Total support, revenue and gains	836,995	(100,541)	(116,407)	620,047
Expenses				
Total program services	631,919			631,919
Management and general	200,021			200,021
Fund raising	57,305			57,305
Total expenses	889,245	-	-	889,245
Increase (decrease) in net assets	(52,250)	(100,541)	(116,407)	(269,198)
Net assets, June 30, 2001	10,580	594,578	542,428	1,147,586
Net assets, June 30, 2002	\$ (41,670)	\$ 494,037	\$ 426,021	\$ 878,388

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

AMERICAN SCHOOLS OF ORIENTAL RESEARCH
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2001

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support				
Contributions	\$ 198,919	\$ 84,005	\$ 149,278	\$ 432,202
Grants - Foundation and individuals		65,312		65,312
Total support	<u>198,919</u>	<u>149,317</u>	<u>149,278</u>	<u>497,514</u>
Revenue and gains				
Publication income	232,576			232,576
Institutional membership	53,000			53,000
Individual membership	57,376			57,376
Annual meeting	30,583			30,583
In-kind rent contribution	22,500			22,500
Royalty income	3,836			3,836
Investment income	5,098	14,483	11,577	31,158
Realized loss on sale of investments	-	(19,233)	(31,028)	(50,261)
Unrealized loss on investments	-	(60,814)	(17,713)	(78,527)
Net assets released from restrictions:				
Satisfaction of program restrictions	139,501	(139,501)		-
Total revenue and gains	<u>544,470</u>	<u>(205,065)</u>	<u>(37,164)</u>	<u>302,241</u>
Total support, revenue and gains	<u>743,389</u>	<u>(55,748)</u>	<u>112,114</u>	<u>799,755</u>
Expenses				
Total program services	539,949			539,949
Management and general	170,331			170,331
Fund raising	39,809			39,809
Total expenses	<u>750,089</u>	<u>-</u>	<u>-</u>	<u>750,089</u>
Increase (decrease) in net assets, restated	<u>(6,700)</u>	<u>(55,748)</u>	<u>112,114</u>	<u>49,666</u>
Net assets, June 30, 2000	461,705	410,914	182,903	1,055,522
Reclassification of net assets	(386,532)	139,121	247,411	-
Prior period adjustment	(57,893)	100,291	-	42,398
Net assets, June 30, 2000, restated	<u>17,280</u>	<u>650,326</u>	<u>430,314</u>	<u>1,097,920</u>
Net assets, June 30, 2001	<u>\$ 10,580</u>	<u>\$ 594,578</u>	<u>\$ 542,428</u>	<u>\$ 1,147,586</u>

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

AMERICAN SCHOOLS OF ORIENTAL RESEARCH
Statements of Cash Flows
Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (269,198)	\$ 49,666
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Allowance for doubtful accounts	55,000	90,000
Discount on contributions receivable	(19,838)	4,608
Depreciation and amortization	4,346	5,320
Loss on Disposal of equipment	2,066	-
Loss on sale of investments	2,061	50,261
Net unrealized gain on investments	30,592	78,526
(Increase) decrease in assets		
Contributions receivable	218,749	(141,525)
Memberships receivable	5,230	(26,435)
Book sales receivable	20,052	(40,097)
Subscriptions receivable	4,105	(71,237)
Other receivables	15,800	(16,965)
Publication inventory and capitalized costs	38,595	(98,899)
Prepaid expense	2,000	13,615
Deferred sponsored project expenses	13,160	(13,160)
Other current assets	14,446	(5,857)
Cash equivalents, permanently restricted	(42,567)	(356,656)
Increase (decrease) in liabilities		
Accrued expenses	(65,576)	63,648
Deferred revenue	(42,447)	156,102
Other liabilities	(893)	(815)
Net cash used in operating activities	<u>(14,317)</u>	<u>(259,900)</u>
Cash flows from investing activities:		
Purchase of office equipment and furniture	(4,366)	(7,943)
Net purchases and proceeds from investments	628	579,151
Repayments of loans	1,608	1,391
Net cash (used in) provided by investing activities	<u>(2,130)</u>	<u>572,599</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(6,650)	(6,650)
Net cash used in financing activities	<u>(6,650)</u>	<u>(6,650)</u>
Net increase (decrease) in cash and cash equivalents	(23,097)	306,049
Cash and cash equivalents, beginning of year	484,878	78,538
Increase in cash due to prior period adjustment	-	100,291
Cash and cash equivalents, end of year	<u>\$ 461,781</u>	<u>\$ 484,878</u>

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

AMERICAN SCHOOLS OF ORIENTAL RESEARCH
Notes to Financial Statements
Years ended June 30, 2002 and 2001

NOTE 1 – PURPOSE OF ORGANIZATION

American Schools of Oriental Research (ASOR), established in 1900, was incorporated as a not for profit public charity in 1935. ASOR promotes the study, teaching, and dissemination of knowledge of the ancient and modern languages and literature, geography, history, and archaeology of the Near and Middle Eastern countries. ASOR's principal source of revenue is from scholarly journals and books, annual programs, membership dues, grants, and contributions.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America requires ASOR's directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

ASOR has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, issued by the Financial Accounting Standards Board (FASB) for presentation of its financial statements. The statements are prepared using the accrual method of accounting. Net assets and revenues, expenses, gains and losses are classified based on donor-imposed restrictions. The net assets of ASOR and the changes therein are classified and reported as follows:

Unrestricted net assets – net assets either not subject to donor-imposed restrictions or releases from temporarily restricted assets designated for stipulated activities or programs which are expended within the current fiscal year.

Temporarily restricted net assets – net assets subject to explicit or implicit donor-imposed stipulations that may or will be met by the programmatic activities of ASOR and/or the passage of time.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by ASOR. Generally, the donors of these assets will permit ASOR to use all or part of the income earned on related investments for general or specific purposes.

Cash and Cash Equivalents

ASOR considers all highly liquid investments with an initial maturity of 90 days or less to be cash equivalents.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH
Notes to Financial Statements
Years ended June 30, 2002 and 2001

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Publication Inventory and Capitalized Costs

Inventory consists of completed publications which are sold through an independent distributor. Capitalized costs consist of expenses related to the production of publications prior to completion. Inventories are stated at the lower of cost, determined by total production costs capitalized, or at market value.

Investments

ASOR has adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the changes in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Office Equipment and Furniture

Office equipment and furniture are recorded at cost. Additions, renewals and betterments of equipment and furniture, unless of a relatively minor amount, are capitalized. Expenditures for repairs and maintenance are expensed as incurred. It is the policy of ASOR to remove the cost of fixed assets sold or disposed of, together with the related allowance for depreciation, from the appropriate asset and accumulated depreciation accounts and to recognize any gain or loss in net earnings. Depreciation is provided using the straight-line method over the useful lives of the assets, which are seven years for furniture and fixtures and five years for computer equipment.

Revenue Recognition

Revenue is derived mainly from memberships, subscriptions, and publication sales. Revenues from memberships and subscriptions are recognized ratably over the related period (normally one year). Any unearned amount is presented as deferred income in the statements of financial position. Publications sales are recognized at the time of sale.

Contributions

ASOR adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions, including unconditional promises to give, are recorded as made to ASOR. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give, due in the next year, are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free rates applicable to the years in which the promises are to be received.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH
Notes to Financial Statements
Years ended June 30, 2002 and 2001

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes and Tax-Exempt Status

ASOR is a not-for-profit organization, exempt from income tax under Section 501(c) (3) of the U.S. Internal Revenue Code and contributions to it are tax deductible within the limitations prescribed by the Code. ASOR had no unrelated activities and therefore, incurred no unrelated business income for the years ended June 30, 2002 and 2001.

NOTE 3 - INVESTMENTS

Operating fund investments consist primarily of money market funds, the cost of which approximates fair value, and are included in cash and cash equivalents.

Investments, at market value and cost basis, consist of the following at June 30, 2002:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Fair Value	Cost Basis
Publicly traded companies	\$ -	\$ 63,425	\$ -	\$ 63,425	\$ 121,484
Mutual Funds	-	33,551	9,858	43,409	52,993
	<u>\$ -</u>	<u>\$ 96,976</u>	<u>\$ 9,858</u>	<u>\$ 106,834</u>	<u>\$ 174,477</u>

Investments, at market value and cost basis, consist of the following at June 30, 2001:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Fair Value	Cost Basis
Publicly traded companies	\$ -	\$ 88,911	\$ -	\$ 88,911	\$ 109,944
Mutual Funds	7,287	32,291	11,626	51,204	51,728
	<u>\$ 7,287</u>	<u>\$ 121,202</u>	<u>\$ 11,626</u>	<u>\$ 140,115</u>	<u>\$ 161,672</u>

As of June 30, 2002 and 2001, ASOR held \$657,532 and \$644,186, respectively in money market accounts, which are classified as cash and cash equivalents.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH
Notes to Financial Statements
Years ended June 30, 2002 and 2001

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are discounted at rates varying between four to six percent:

	Due in less than one Year	Due in More than one year less than five	Total
Contributions receivable	\$ 82,376	\$ -	\$ 82,376
Discount on contribution	-	-	-
Net present value	<u>\$ 82,376</u>	<u>\$ -</u>	82,376
Allowance			-
			<u>\$ 82,376</u>

During the year ended June 30, 2001, ASOR received two contributions totaling \$145,000 and ASOR's Directors created an allowance for doubtful collection of \$90,000. During the year ended June 30, 2002, ASOR's Directors determined that the remaining \$55,000 was uncollectible.

NOTE 5 - PROPERTY AND EQUIPMENT

Office equipment and furniture is summarized below:

	<u>2002</u>	<u>2001</u>
Furniture and fixtures	\$ 35,498	\$ 35,498
Computer equipment	26,398	31,619
	61,896	67,117
Less: accumulated depreciation	(51,551)	(54,726)
	<u>\$ 10,345</u>	<u>\$ 12,391</u>

Depreciation expense was \$4,346 and \$5,320 for the years ended June 30, 2002 and 2001, respectively.

NOTE 6 - RELATED PARTY NOTE RECEIVABLE

During the year ended June 30, 1999, ASOR loaned \$6,000 to its Director of Publications for personal expenses. The note calls for monthly payments of \$140 (including principal and interest) at a rate of 6%, due September 2002.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH
Notes to Financial Statements
Years ended June 30, 2002 and 2001

NOTE 6 – RELATED PARTY NOTE RECEIVABLE (Continued)

Following are the maturities for the years ending June 30:

2003	\$ 555
	<hr/>
	<u>\$ 555</u>

ASOR loaned \$10,995 to its Executive Director during the year ended June 30, 1997 in order to facilitate his move to Boston. The loan does not require the payment of interest or principal until the Executive Director leaves. During the years ended June 30, 2002 and 2001 \$7,540 and \$1,048, respectively was repaid by the Executive Director by foregoing expense reimbursement and a cash payment. The loan balance as of June 30, 2002 and 2001 was \$0 and \$7,540, respectively.

The financial statements include only the accounts of the American Schools of Oriental Research. These financial statements do not include ASOR's affiliates: the William Foxwell Albright Institute of Archaeological Research (AIAR) in Jerusalem, Israel; the American Center of Oriental Research in Amman, Incorporated (ACOR) in Amman, Jordan; and the Cyprus American Archaeological Research Institute, Inc. (CAARI) in Nicosia, Cyprus.

ASOR shares office space with the aforementioned named affiliates and pays for common expenses, which are later reimbursed by the affiliates.

NOTE 7 - RELATED PARTY LIABILITIES

During 1993, ASOR's Board of Trustees agreed to pay the W.F. Albright Institute of Archaeological Research, the sum of \$66,500, representing a final commitment in establishing the total fiscal independence of the AIAR that has been an ongoing process since its incorporation. The commitment is being paid in ten equal, annual payments of \$6,650 in July of each year. The outstanding balance at June 30, 2002 and 2001 was \$13,300 and \$19,950, respectively.

For the years ended June 30, 2002 and 2001, ASOR paid \$329 and \$3,184, respectively to the spouse of ASOR's president for professional services rendered by her company, New Ideas, Inc. primarily related to the Centennial programs.

NOTE 8 – LEASE COMMITMENTS

On July 1, 1996, ASOR entered into an agreement to lease office space from the Trustees of Boston University. No rent is payable under this lease. ASOR is required to make monthly payments to cover operating costs incurred by the landlord. The lease expires on July 31, 2006.

The value of the leased property has been recorded as an in-kind contribution and an in-kind expense for the years ended June 30, 2002 and 2001 in the amount of \$22,500.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH
Notes to Financial Statements
Years ended June 30, 2002 and 2001

NOTE 8 – LEASE COMMITMENTS (Continued)

In addition, ASOR leased space in Atlanta, Georgia at a monthly occupancy fee of \$840 a month or \$10,080 annually, which expired July 31, 2001. ASOR elected to extend the lease until September 30, 2002 at a monthly occupancy fee of \$865 or \$10,380 annually.

Operating Leases

ASOR is obligated under various leases for office equipment. Annual rental commitments for the five years subsequent to June 30, 2002 for occupancy and equipment are as follows:

2003	\$ 6,807
2004	4,212
2005 and thereafter	1,053
	\$ 12,072

NOTE 9 - COMMITMENTS

Grants, bequests and endowments require the fulfillment of certain conditions as set forth in the instruments of the grant. Failure to fulfill the conditions, or in the case of endowments, failure to continue to fulfill them, could result in the return of the funds to grantors. The Board and management believe the contingency is remote, since by accepting the gifts and their terms, it has accommodated the objectives of ASOR to the provisions of the gift.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2002	2001
Accumulated income on fellowship fund	\$ 190,726	\$ 216,574
Accumulated income on General Endowment	51,758	76,084
Kress awards for foreign travel to annual meeting	(541)	1,433
Sponsored Projects	130,560	144,903
Baghdad Committee Fund	15,873	24,867
Publications and related functions	82,804	75,674
Torch campaign	22,857	55,043
	\$ 494,037	\$ 594,578

AMERICAN SCHOOLS OF ORIENTAL RESEARCH
Notes to Financial Statements
Years ended June 30, 2002 and 2001

NOTE 11 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted for the following purposes:

	<u>2002</u>	<u>2001</u>
Corpus of fellowship fund	\$ 20,000	\$ 20,000
Corpus of specified memorial funds	20,271	16,645
Corpus of General Endowment	37,000	37,000
Corpus of Endowment for Biblical Archaeology field and publication support	105,077	105,818
Torch Endowment Fund	243,673	362,965
	<u>\$ 426,021</u>	<u>\$ 542,428</u>

NOTE 12 - SATISFACTION OF PROGRAM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors. Purpose restrictions accomplished consist of the following:

	<u>2002</u>	<u>2001</u>
Development expense	\$ 1,600	\$ 5,000
Sponsored project expedition expenses	49,954	25,506
Baghdad Committee Fund	21,400	29,400
Dorot Foundation fellowships for annual meeting	9,615	9,795
Torch Campaign	71,537	51,274
Kress awards for foreign travel to annual meeting	3,474	6,602
Endowment for Biblical Archaeological field support	-	5,374
Centennial events and programing	19,052	4,550
Lindstrom	2,500	2,000
Barton	4,272	-
Total temporarily restricted net assets released	<u>\$ 183,404</u>	<u>\$ 139,501</u>

During the year ended June 30, 2002, a donor requested that a prior year donation of \$82,584 be reclassified from permanently restricted net assets to unrestricted net assets so that it could be more effectively used in the ongoing operations of ASOR.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH
Notes to Financial Statements
Years ended June 30, 2002 and 2001

NOTE 13 - RECLASSIFICATION OF NET ASSETS

During the year ended June 30, 2001, it was determined that specific contributions relating to a new fund raising campaign and other restricted contribution income be recorded as unrestricted contribution in the years ended June 30, 2001 should be allocated to temporary and permanently restricted net assets. Accordingly, \$386,532 has been reclassified from unrestricted net assets, which consisted of a \$139,121 increase in temporary net assets and a \$247,411 increase in permanently restricted net assets. There was no effect on current year or prior year's income.

NOTE 14 - PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2001, it was discovered that prior year contribution and related disbursement activity in two ASOR sponsored projects had not been recorded in ASOR's records. Therefore, a prior period adjustment of \$100,291 has been recorded to increase net assets to recognize this previously unrecorded activity. Current year activity is reflected in the statement of activities.

During the year ended June 30, 2002 it was determined that deferred revenue related to unfulfilled subscriptions was understated by \$57,893.

These adjustments are reflected in the statement of changes in net asset for the year ended June 30, 2001. The errors had no effect on net income for the years ended June 30, 2002 and 2001, respectively.