

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

FINANCIAL STATEMENTS FOR THE
YEARS ENDED JUNE 30, 2004 AND 2003
(With Independent Auditor's Report Thereon)



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INDEPENDENT AUDITOR'S REPORT

BOARD OF TRUSTEES
AMERICAN SCHOOLS OF ORIENTAL RESEARCH
Boston, Massachusetts

We have audited the accompanying statements of financial position of American Schools of Oriental Research (ASOR) as of June 30, 2004 and 2003, and the related statements of activities, 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 as of June 30, 2004 and 2003, and the results of its operations, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Parent, McLaughlin & Nangle

Certified Public Accountants, Inc.

September 29, 2004

Parent, McLaughlin & Nangle
Certified Public Accountants, Inc.

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AMERICAN SCHOOLS OF ORIENTAL RESEARCH

STATEMENTS OF FINANCIAL POSITION

<u>ASSETS</u>	June 30	
	2004	2003
Cash and cash equivalents	\$ 242,387	\$ 415,066
Investments	610,948	93,334
Accounts receivable:		
Memberships and subscriptions, less allowance for doubtful accounts of \$31,856 and \$13,490 at June 30, 2004 and 2003, respectively	90,981	78,030
Book sales	32,226	49,702
Contributions receivable, less allowance for doubtful accounts of \$9,000 and \$0 at June 30, 2004 and 2003, respectively	164,710	36,073
Other receivables	5,584	6,800
Inventory and capitalized costs, less allowance for inventory obsolescence of \$13,805 and \$0 at June 30, 2004 and 2003, respectively	83,183	86,125
Prepaid expenses and other assets	8,691	13,581
Furniture, fixtures and equipment, net	19,169	22,309
Long-term-cash equivalents	3,503	420,534
Total Assets	\$ 1,261,382	\$ 1,221,554
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Note payable	\$ -	\$ 6,650
Accrued expenses	68,985	92,349
Deferred revenue	299,971	330,979
Other liabilities	14,467	15,530
Due to affiliates	150,000	-
Total Liabilities	533,423	445,508
NET ASSETS:		
Unrestricted:		
Operations	(125,662)	(127,301)
Board designated	71,725	-
Property and equipment	19,169	22,309
Temporarily Restricted	(34,768)	(104,992)
Temporarily Restricted	337,479	437,285
Permanently Restricted	425,248	443,753
Total Net Assets	727,959	776,046
Total Liabilities and Net Assets	\$ 1,261,382	\$ 1,221,554

See accompanying notes to financial statements.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:				
Contributions	\$ 197,677	\$ 115,869	\$ 1,825	\$ 315,371
Publication income	331,157	-	-	331,157
Institutional memberships	84,435	-	-	84,435
Individual memberships	121,022	-	-	121,022
Annual meeting	55,965	-	-	55,965
In-kind contributions	26,109	-	-	26,109
Royalty income	5,276	-	-	5,276
Investment income	2,103	(6,170)	1,792	(2,275)
Net realized loss on sales of investments	(1,027)	(19,292)	-	(20,319)
Net unrealized gain (loss) on investments	(45)	36,177	(1,619)	34,513
Net assets released from restrictions:				
Purpose restrictions satisfied	<u>130,572</u>	<u>(130,572)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>953,244</u>	<u>(3,988)</u>	<u>1,998</u>	<u>951,254</u>
EXPENSES AND LOSSES:				
Program services	718,282	-	-	718,282
General and administrative	125,874	-	-	125,874
Fundraising and nonprogram	<u>77,978</u>	<u>-</u>	<u>-</u>	<u>77,978</u>
Total Expenses	<u>922,134</u>	<u>-</u>	<u>-</u>	<u>922,134</u>
Provision for doubtful accounts	63,402	-	-	63,402
Provision for obsolete inventory	<u>13,805</u>	<u>-</u>	<u>-</u>	<u>13,805</u>
Total Expenses and Losses	<u>999,341</u>	<u>-</u>	<u>-</u>	<u>999,341</u>
CHANGE IN NET ASSETS	(46,097)	(3,988)	1,998	(48,087)
NET ASSETS - beginning of year	(104,992)	437,285	443,753	776,046
RECLASSIFICATIONS (see Note N)	<u>116,321</u>	<u>(95,818)</u>	<u>(20,503)</u>	<u>-</u>
NET ASSETS - end of year	<u>(\$ 34,768)</u>	<u>\$ 337,479</u>	<u>\$ 425,248</u>	<u>\$ 727,959</u>

See accompanying notes to financial statements.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:				
Contributions	\$ 143,128	\$ 34,708	\$ 18,471	\$ 196,307
Publication income	251,570	-	-	251,570
Institutional memberships	81,300	-	-	81,300
Individual memberships	88,996	-	-	88,996
Annual meeting	47,811	-	-	47,811
In-kind rent contribution	22,500	-	-	22,500
Royalty income	3,798	-	-	3,798
Investment income	969	2,892	4,294	8,155
Net realized loss on sales of investments	-	(1,380)	(4,687)	(6,067)
Net unrealized gain (loss) on investments	-	1,238	(346)	892
Net assets released from restrictions:				
Purpose restrictions satisfied	94,210	(94,210)	-	-
Total Support and Revenue	<u>734,282</u>	<u>(56,752)</u>	<u>17,732</u>	<u>695,262</u>
EXPENSES AND LOSSES:				
Program services	603,622	-	-	603,622
General and administrative	115,531	-	-	115,531
Fundraising and nonprogram	64,961	-	-	64,961
Total Expenses	<u>784,114</u>	<u>-</u>	<u>-</u>	<u>784,114</u>
Provision for doubtful accounts	13,490	-	-	13,490
Total Expenses and Losses	<u>797,604</u>	<u>-</u>	<u>-</u>	<u>797,604</u>
CHANGE IN NET ASSETS	(63,322)	(56,752)	17,732	(102,342)
NET ASSETS - beginning of year	(41,670)	494,037	426,021	878,388
NET ASSETS - end of year	<u>(\$ 104,992)</u>	<u>\$ 437,285</u>	<u>\$ 443,753</u>	<u>\$ 776,046</u>

See accompanying notes to financial statements.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2004	2003
Cash Flows from Operating Activities:		
Change in net assets	(\$ 48,087)	(\$ 102,342)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	9,589	5,532
Provision for doubtful accounts	63,402	13,490
Provision for obsolete inventory	13,805	-
Net loss on sales of investments	20,319	6,067
Net unrealized gain on investments	(34,513)	(892)
Increase in memberships and subscriptions receivable	(67,353)	(3,183)
(Increase) decrease in book sales receivable	17,476	(20,971)
(Increase) decrease in contributions receivable	(137,637)	46,303
Decrease in other receivables	1,216	1,182
Increase in inventory and capitalized costs	(10,863)	(11,955)
(Increase) decrease in prepaid expenses and other assets	4,890	(1,985)
Decrease (increase) in long-term-cash equivalents	417,031	(21,311)
(Decrease) increase in accrued expenses	(23,364)	33,566
(Decrease) increase in deferred revenue	(31,008)	26,026
Decrease in other liabilities	(1,063)	(976)
Increase in due to affiliates	150,000	-
Total adjustments	391,927	70,893
Net cash provided by (used in) operating activities	343,840	(31,449)
Cash Flows from Investing Activities:		
Proceeds from sales of investments	113,930	113,819
Purchases of investments	(617,350)	(105,494)
Purchases of property and equipment	(6,449)	(17,496)
Repayment of loans	-	555
Net cash used in investing activities	(509,869)	(8,616)
Cash Flows from Financing Activities:		
Principal payments on long-term debt	(6,650)	(6,650)
Net cash used in financing activities	(6,650)	(6,650)
Net decrease in cash and cash equivalents	(172,679)	(46,715)
Cash and cash equivalents, beginning of year	415,066	461,781
Cash and cash equivalents, end of year	\$ 242,387	\$ 415,066

See accompanying notes to financial statements.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

A. 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 archeology of the Near and Middle Eastern countries. The principal sources of revenue are from scholarly journals and books, annual programs, membership dues, grants and contributions.

B. Summary of Significant Accounting Policies:

Basis of financial statement presentation:

ASOR prepares its financial statements in accordance with generally accepted accounting principles. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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.

Net assets:

ASOR follows 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. Net assets and revenues, expenses, gains and losses are classified based on donor-imposed restrictions. Accordingly, net assets of ASOR and changes therein are classified and reported as follows:

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

(continued)

B. Summary of Significant Accounting Policies – (continued):

Net assets – (continued):

Unrestricted net assets:

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

Temporarily restricted net assets:

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

Permanently restricted net assets:

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

Cash and cash equivalents:

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

Investments:

ASOR follows Statement of Financial Accounting Standards (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. Realized and 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.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

(continued)

B. Summary of Significant Accounting Policies – (continued):

Accounts receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has made reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts was \$31,856 and \$13,490 as of June 30, 2004 and 2003, respectively.

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 market value.

Furniture, fixtures and equipment:

Furniture, fixtures and equipment are carried at cost or if donated, at fair value at the date of donation, less accumulated depreciation.

Depreciation is calculated on a straight-line method over the estimated useful lives of the respective assets.

Purchases are determined to be capital expenditures based on ASOR's policy of capitalizing assets acquired at a cost (or, if donated, a fair value) exceeding \$500. Those items that are not a capital expenditure are immediately expensed.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

(continued)

B. Summary of Significant Accounting Policies – (continued):

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 revenue in the statements of financial position. Publications sales are recognized at the time of sale.

Contributions:

ASOR follows SFAS No. 116, "Accounting for Contributions Received and Contributions Made". In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. 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. 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 an appropriate discount rate.

Income taxes:

ASOR is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. ASOR had no unrelated business activities and therefore, incurred no unrelated business income taxes for either of the years ended June 30, 2004 or 2003.

Reclassifications:

Certain reclassifications have been made to the 2003 financial statements in order to conform with the presentation used in the 2004 financial statements.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

(continued)

C. Investments:

Investments include money market mutual funds, the cost of which approximates fair value, and are included in cash and cash equivalents.

Other investments, at fair value and cost basis, consist of the following at June 30, 2004:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Fair Value</u>	<u>Cost Basis</u>	<u>Depreciation</u>
Publicly traded companies	\$ 207,026	\$ 221,499	\$ 428,525	\$ 459,395	(\$ 30,870)
Government Bonds	-	140,833	140,833	142,122	(1,289)
Mutual funds	<u>21,940</u>	<u>19,650</u>	<u>41,590</u>	<u>41,669</u>	<u>(79)</u>
	<u>\$ 228,966</u>	<u>\$ 381,982</u>	<u>\$ 610,948</u>	<u>\$ 643,186</u>	<u>(\$ 32,238)</u>

Other investments, at fair value and cost basis, consist of the following at June 30, 2003:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Fair Value</u>	<u>Cost Basis</u>	<u>Depreciation</u>
Publicly traded companies	\$ 58,798	\$ -	\$ 58,798	\$ 118,304	(\$ 59,506)
Mutual funds	<u>34,536</u>	<u>-</u>	<u>34,536</u>	<u>41,781</u>	<u>(7,245)</u>
	<u>\$ 93,334</u>	<u>\$ -</u>	<u>\$ 93,334</u>	<u>\$ 160,085</u>	<u>(\$ 66,751)</u>

As of June 30, 2004 and 2003, ASOR held \$55,359 and \$658,565, respectively in money market mutual funds, which are classified as either short-term or long-term cash and cash equivalents.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

(continued)

D. Furniture, Fixtures and Equipment:

A summary of furniture, fixtures and equipment at June 30, is as follows:

	<u>2004</u>	<u>2003</u>
Furniture and fixtures	\$ 35,498	\$ 35,498
Computer equipment	<u>50,343</u>	<u>43,894</u>
	85,841	79,392
Less accumulated depreciation	(<u>66,672</u>)	(<u>57,083</u>)
	<u>\$ 19,169</u>	<u>\$ 22,309</u>

Depreciation expense amounted \$9,589 and \$5,532 for the years ended June 30, 2004 and 2003, respectively.

E. Due to Affiliates:

During 2004, ASOR was notified of a bequest of \$150,000 to be received. All of this bequest is to be transferred to ASOR's affiliates.

F. Related Party Transactions:

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.

During 1993, the 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 was paid in ten equal, annual payments of \$6,650 in July of each year. The outstanding balance at June 30, 2004 and 2003 was \$0 and \$6,650, respectively.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

(continued)

G. 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 use of the leased property has been recorded as an in-kind contribution and an in-kind expense of \$22,500 for each of the years ended June 30, 2004 and 2003.

ASOR leases space in Atlanta, Georgia at a monthly fee of \$1,001 under a lease expiring on July 31, 2006. ASOR is also obligated under two leases for equipment expiring in 2009. Approximate annual rental commitments for the years subsequent to June 30, 2004 for occupancy and equipment are as follows:

<u>Year ending June 30</u>	
2005	\$ 16,500
2006	16,500
2007	5,500
2008	4,500
2009	4,500

The total rent expense charged to operations was \$32,944 and \$33,357 for the years ended June 30, 2004 and 2003, respectively.

H. Commitments:

Grants, bequests and endowments require the fulfillment of certain conditions set forth in the instruments of the gifts. Failure to fulfill the conditions, or in the case of the endowments, failure to continue to fulfill them, could result in the return of funds to the grantor. 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 gifts.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

(continued)

I. Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes:

	<u>2004</u>	<u>2003</u>
Accumulated income on fellowship fund	\$ 203,693	\$ 187,162
Sponsored projects	100,532	126,796
Specified memorial funds	22,139	-
Development Post	6,030	-
IMIS Software	5,085	-
Torch campaign	-	7,006
Accumulated income on General Endowment	-	32,903
Publications and related functions	-	83,418
	<u>\$ 337,479</u>	<u>\$ 437,285</u>

Reclassifications have been made between net asset categories. See Note N for further explanation.

J. Permanently Restricted Net Assets:

Permanently restricted net assets are restricted for the following purposes:

	<u>2004</u>	<u>2003</u>
Torch Endowment Fund	\$ 263,969	\$ 262,144
Corpus of Endowment for Biblical Archaeology and publication support	104,279	104,106
Corpus of General Endowment	37,000	37,000
Corpus of fellowship fund	20,000	20,000
Corpus of specified memorial funds	-	20,503
	<u>\$ 425,248</u>	<u>\$ 443,753</u>

Reclassifications have been made between net asset categories. See Note N for further explanation.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

(continued)

K. 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 the donors. Program restrictions accomplished during the years ended June 30, 2004 and 2003, consist of the following:

	<u>2004</u>	<u>2003</u>
Sponsored project expedition expenses	\$ 76,476	\$ 31,383
Dorot Foundation fellowships for annual meeting	10,000	9,551
Torch Campaign	125	18,267
Kress awards for foreign travel to annual meeting	5,000	4,459
Feasibility Study	25,000	-
Annual Meeting Reception	5,000	-
Lindstrom	2,500	3,400
Platt	1,556	-
Barton	-	2,716
Investment Return	-	19,434
Font Project	-	5,000
IMIS Software	4,915	-
Total temporarily restricted net assets released	<u>\$ 130,572</u>	<u>\$ 94,210</u>

L. Concentration of Credit Risk:

ASOR maintains money market mutual fund accounts at a brokerage firm and cash balances at several banks throughout the United States. Cash balances are insured by the Federal Deposit Insurance Corporation, up to \$100,000. Money market mutual fund accounts are not insured. As of June 30, 2004, uninsured amounts of cash and cash equivalents aggregated approximately \$137,000.

AMERICAN SCHOOLS OF ORIENTAL RESEARCH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

(continued)

M. Functional Allocation of Expenses:

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

N. Reclassifications of net assets:

Reclassifications have been made between net asset categories based on additional information received during 2004.