SONORAN INSTITUTE

Audited Consolidated Financial Statements

For the years ended June 30, 2022 and 2021

SONORAN INSTITUTE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sonoran Institute

Opinion

We have audited the accompanying consolidated financial statements of Sonoran Institute (a nonprofit organization) which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sonoran Institute as of June 30, 2022 and 2021, 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 audit in accordance with auditing standards generally accepted in the United States of America. 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 Sonoran Institute and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 Sonoran Institute's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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 generally accepted 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 financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements, Continued

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the 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 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 Sonoran Institute'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 financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Sonoran Institute'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.

Ludwig Klewer + Rudner PLLC

November 4, 2022

SONORAN INSTITUTE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

ASSETS

	2022	2021
Current assets:		
Cash and cash equivalents	$ 1,773,457	$ 1,896,893
Accounts receivable	212,774	120,906
Grants and contracts receivable, net	295,518	77,633
Unconditional promises to give, current portion	30,441	30,841
Prepaid expenses	9,467	13,319
Deposits	8,147	8,147
Total current assets	2,329,804	2,147,739
Investments	1,585,492	1,889,003
Unconditional promises to give, non-current portion, net	79,236	66,048
Property and equipment, net	37,886	53,712
Total assets	$ 4,032,418	$ 4,156,502

LIABILITIES AND NET ASSETS

	2022	2021
Current liabilities:		
Accounts payable	$ 48,350	$ 69,083
Accrued expenses	73,173	91,511
Deferred revenue	1,452,813	1,365,827
Conditional grant - Paycheck Protection Program	-	68,244
Total current liabilities	1,574,336	1,594,665
Total liabilities	1,574,336	1,594,665
Net assets:		
Without donor restrictions:		
Expended for property and equipment	37,886	53,712
Available for operations	306,577	117,694
Total net assets without donor restrictions	344,463	171,406
With donor restrictions	2,113,619	2,390,431
Total net assets	2,458,082	2,561,837
Total liabilities and net assets	$ 4,032,418	$ 4,156,502

See independent auditor's report and notes to financial statements.

SONORAN INSTITUTE

CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:			
Contract income	$ 1,210,331	$ -	$ 1,210,331
Contributions	369,425	419,546	788,971
Government grants	472,302	-	472,302
Foundation grants	152,038	87,000	239,038
Grant - Paycheck Protection Program	70,426	-	70,426
Other income	49,458	-	49,458
Investment loss, net	(2,249)	(245,792)	(248,041)
Net assets released from restrictions	537,566	(537,566)	-
Total revenues and support	2,859,297	(276,812)	2,582,485
Expenses:			
Program services:			
Colorado River Delta US	253,290	-	253,290
Colorado River Delta Mexicali	1,129,771	-	1,129,771
Growing Water Smart	433,534	-	433,534
Santa Cruz	229,255	-	229,255
Supporting services:			-
General and adminstrative	390,810	-	390,810
Fundraising	249,580	-	249,580
Total expenses	2,686,240	-	2,686,240
Change in net assets	173,057	(276,812)	(103,755)
Net assets, beginning of year	171,406	2,390,431	2,561,837
Net assets, end of year	$ 344,463	$ 2,113,619	$ 2,458,082

See independent auditor's report and notes to financial statements.

SONORAN INSTITUTE

CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:			
Contract income	$ 1,286,404	$ -	$ 1,286,404
Contributions	291,233	295,254	586,487
Investment income, net	146	394,805	394,951
Government grants	393,569	-	393,569
Grant - Paycheck Protection Program	202,493	-	202,493
Foundation grants	77,575	87,000	164,575
Other income	55,585	-	55,585
Net assets released from restrictions	410,368	(410,368)	-
Total revenues and support	2,717,373	366,691	3,084,064
Expenses:			
Program services:			
Colorado River Delta US	343,058	-	343,058
Colorado River Delta Mexicali	856,388	-	856,388
Growing Water Smart	337,817	-	337,817
Santa Cruz	261,024	-	261,024
Supporting services:			
General and adminstrative	441,981	-	441,981
Fundraising	289,995	-	289,995
Total expenses	2,530,263	-	2,530,263
Change in net assets	187,110	366,691	553,801
Net assets, beginning of year	(15,704)	2,023,740	2,008,036
Net assets, end of year	$ 171,406	$ 2,390,431	$ 2,561,837

See independent auditor's report and notes to financial statements.

SONORAN INSTITUTE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2022

	Program					Supporting Services			
	Colorado River Delta US	Colorado River Delta Mexico	Growing Water Smart	Santa Cruz	Total Programs	General and Administrative	Fundraising	Total Support Services	Total Expenses
Salaries and wages	$ 192,568	$ 425,322	$ 188,602	$ 147,748	$ 954,240	$ 201,823	$ 150,263	$ 352,086	$ 1,306,326
Payroll taxes	14,489	89,627	13,806	10,049	127,971	13,496	11,900	25,396	153,367
Other employee benefits	10,325	25,408	17,168	15,304	68,205	15,720	13,569	29,289	97,494
Pension contributions	3,678	-	3,596	2,694	9,968	3,937	2,905	6,842	16,810
Total employee and related	221,060	540,357	223,172	175,795	1,160,384	234,976	178,637	413,613	1,573,997
Consultants	-	172,296	144,306	24,561	341,163	37,729	31,412	69,141	410,304
Field supplies and materials	10,529	152,203	-	-	162,732	324	669	993	163,725
Outside services	5,541	34,218	2,405	2,102	44,266	16,346	9,472	25,818	70,084
Water acquisition	-	64,155	-	-	64,155	-	-	-	64,155
Accounting and legal	-	21,487	-	4,000	25,487	36,165	-	36,165	61,652
Rent	9,606	23,556	4,459	7,123	44,744	10,653	5,372	16,025	60,769
Depreciation	-	39,005	-	-	39,005	2,789	-	2,789	41,794
Dues and publications	2,181	3,236	2,998	1,256	9,671	14,376	15,881	30,257	39,928
Foreign currency transaction gain	-	32,812	-	-	32,812	-	-	-	32,812
Subcontracts and grants	-	-	30,000	-	30,000	-	-	-	30,000
Meetings	-	1,645	19,911	599	22,155	4,879	2,960	7,839	29,994
Travel	1,265	5,722	4,438	997	12,422	14,427	625	15,052	27,474
Repairs and maintenance	-	16,222	-	-	16,222	239	-	239	16,461
Printing and photocopying	-	385	645	9,782	10,812	572	3,219	3,791	14,603
Telephone	1,082	6,450	1,060	806	9,398	1,130	832	1,962	11,360
Insurance	-	3,341	-	-	3,341	7,849	-	7,849	11,190
Office supplies	1,970	6,843	29	-	8,842	1,284	-	1,284	10,126
Equipment leases	-	1,845	-	-	1,845	2,799	-	2,799	4,644
Miscellaneous	-	60	-	-	60	4,093	-	4,093	4,153
Postage and shipping	56	548	111	2,234	2,949	40	181	221	3,170
Training and seminars	-	1,652	-	-	1,652	140	320	460	2,112
Utilities	-	1,733	-	-	1,733	-	-	-	1,733
Total expenses	$ 253,290	$ 1,129,771	$ 433,534	$ 229,255	$ 2,045,850	$ 390,810	$ 249,580	$ 640,390	$ 2,686,240

See independent auditor's report and notes to financial statements.

SONORAN INSTITUTE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2021

	Program					Supporting Services			
	Colorado River Delta US	Colorado River Delta Mexico	Growing Water Smart	Santa Cruz	Total Programs	General and Administrative	Fundraising	Total Support Services	Total Expenses
Salaries and wages	$ 243,954	$ 377,837	$ 171,499	$ 116,457	$ 909,747	$ 217,505	$ 204,217	$ 421,722	$ 1,331,469
Payroll taxes	19,316	78,962	13,362	9,203	120,843	18,604	16,205	34,809	155,652
Other employee benefits	14,389	23,434	18,921	16,919	73,663	18,492	20,786	39,278	112,941
Pension contributions	5,163	-	3,726	2,598	11,487	3,886	4,621	8,507	19,994
Total employee and related	282,822	480,233	207,508	145,177	1,115,740	258,487	245,829	504,316	1,620,056
Consultants		173,691	102,952	96,018	372,661	45,710	9,032	54,742	427,403
Outside services	16,121	44,302	2,553	3,185	66,161	45,435	9,080	54,515	120,676
Water acquisition	-	84,573	-	-	84,573	-	-	-	84,573
Accounting and legal	-	25,131	907	-	26,038	36,047	715	36,762	62,800
Rent	13,020	21,037	3,789	5,014	42,860	10,986	5,398	16,384	59,244
Field supplies and materials	12,564	41,469	224	690	54,947	82	-	82	55,029
Dues and publications	2,837	4,561	3,123	1,420	11,941	17,907	11,629	29,536	41,477
Depreciation	-	38,572	-	-	38,572	2,789	-	2,789	41,361
Office supplies	9,002	9,288	-	-	18,290	5,013	316	5,329	23,619
Repairs and maintenance	-	14,782	418	-	15,200	545	-	545	15,745
Printing and photocopying	408	497	3,139	5,739	9,783	-	4,411	4,411	14,194
Telephone	2,418	5,797	1,397	1,129	10,741	553	1,818	2,371	13,112
Miscellaneous	-	6,050	-	-	6,050	5,999	-	5,999	12,049
Insurance	-	4,228	-	-	4,228	7,477	-	7,477	11,705
Subcontracts and grants	-	-	10,000	-	10,000	-	-	-	10,000
Travel	106	3,471	375	1,009	4,961	1,589	961	2,550	7,511
Equipment leases	-	1,728	-	-	1,728	3,024	-	3,024	4,752
Training and seminars	3,100	92	155	-	3,347	-	115	115	3,462
Postage and shipping	660	785	6	1,246	2,697	80	353	433	3,130
Meetings	-	324	1,271	397	1,992	258	338	596	2,588
Utilities	-	1,946	-	-	1,946	-	-	-	1,946
Foreign currency transaction gain	-	(106,169)	-	-	(106,169)	-	-	-	(106,169)
Total expenses	$ 343,058	$ 856,388	$ 337,817	$ 261,024	$ 1,798,287	$ 441,981	$ 289,995	$ 731,976	$ 2,530,263

See independent auditor's report and notes to financial statements.

SONORAN INSTITUTE

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ (103,755)	$ 553,801
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	41,794	41,361
Net realized and unrealized loss (gain) on investments	278,239	(387,881)
Change in allowance for net present value, unconditional promises to give	1,213	(2,534)
Changes in operating assets and liabilities:		
Accounts receivable	(91,868)	(76,005)
Grants and contracts receivable	(217,885)	(62,139)
Uncollectible promises to give	(14,001)	28,020
Prepaid expenses	3,852	928
Accounts payable	(20,733)	33,677
Accrued expenses	(18,338)	(25,063)
Deferred revenue	86,986	(293,311)
Conditional grant - Paycheck Protection Program	(68,244)	40,754
Total adjustments	(18,985)	(702,193)
Net cash used in operating activities	(122,740)	(148,392)
Cash flows from investing activities:		
Purchases of investments	(325,315)	(340,225)
Proceeds from sale of investments	350,587	363,463
Purchases of property and equipment	(25,968)	-
Net cash (used in) provided by investing activities	(696)	23,238
Cash flows from financing activities	-	-
Change in cash and cash equivalents	(123,436)	(125,154)
Cash and cash equivalents, beginning of year	1,896,893	2,022,047
Cash and cash equivalents, end of year	$ 1,773,457	$ 1,896,893
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ -	$ -

See independent auditor's report and notes to financial statements.

1. Organization

The Sonoran Institute ("Sonoran"), founded in 1990, is a nonprofit corporation that works with communities to achieve harmony between the built environment and the natural world. Sonoran works at the nexus of commerce, community, and conservation to help people build the communities they want to live in while preserving the values which brought them to the North American West. The lasting benefits of Sonoran's community stewardship work is a West where civil dialogue and collaboration are hallmarks of decision making, where people and wildlife live in harmony, and where clean water, air, and energy are assured. Primary sources of revenue are foundation grants, contracts, governmental funding, and donations.

Sonoran Institute Mexico, Asociacion Civil ("AC"), a controlled entity of Sonoran, acquired on January 1, 2018, is a Mexican nonprofit civil association that works with communities in the natural resources' management and recovery in Mexico, including wildlife and the cultural values of those lands.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Sonoran and AC (collectively, the "Institute"). Except where the context otherwise indicates or requires, all references to the "Institute" in these footnotes means the consolidated entity. All intercompany balances and transactions have been eliminated in consolidation.

Financial Statement Presentation and Contributions

The consolidated financial statements are prepared on the accrual basis of accounting. Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions – net assets available for use in general operations and not subject to donor (or grantor) restrictions.
- Net assets with donor restrictions – net assets subject to donor (or grantor) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from donor restrictions.

Cash and Cash Equivalents

The Institute considers cash and highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents includes short-term certificates of deposit and money market accounts that are stated at market value, which approximates cost. The Institute deposits cash and cash equivalents with high credit quality institutions in the United States and Mexico. The Institute 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.

2. Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents, continued

The Federal Deposit Insurance Corporation (FDIC) insures cash accounts at banks in the United States of America up to $250,000 per institution. At June 30, 2022 and 2021, the Institute had $424,800 and $441,613, respectively, held in a financial institution, in the United States of America, above the FDIC insured limits.

The Institute for the Protection of Bank Savings (IPAB) insures cash accounts at banks in Mexico up to approximately $125,000 per institution. At June 30, 2022 and 2021, the Institute had approximately $555,891 and $713,395, respectively, held in a financial institution, in Mexico, above the IPAB limits.

Grants and Contracts Receivables

The Institute's funding sources are primarily foundations and governmental agencies. Support arising from grants and contributions is recognized when the Institute has earned the revenue. The Institute utilizes the allowance method to account for uncollectible accounts. Grants and contracts receivable is presented net of an allowance for doubtful accounts of $7,623 and $7,730 at June 30, 2022 and 2021, respectively.

Accounts Receivable

Accounts receivable represents the amounts due under contract services performed by the Institute. The Institute utilizes the allowance method to account for uncollectible accounts. Management believes all accounts receivable are collectible at June 30, 2022 and 2021, and therefore no allowance for doubtful accounts has been recorded.

Unconditional Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimate future cash flows. The Institute uses the allowance method to account for uncollectible unconditional promises to give. All unconditional promises to give deemed to be uncollectible are written off. As of June 30, 2022 and 2021, management considered all unconditional promises to give to be collectible; therefore, no allowance for uncollectible promises has been provided.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements of activities.

The Securities Investor Protection Corporation (SIPC) protects investments up to $500,000 per institution. However, SIPC does not protect against losses in market value. At June 30, 2022 and 2021, the Institute had $1,175,668 and $1,389,003, respectively, on deposit in excess of SIPC limitations. It is the opinion of management that the solvency of the referenced brokerage institutions is not of concern at this time.

2. Summary of Significant Accounting Policies, Continued

Property and Equipment

Purchased property and equipment is recorded at cost, and donated property and equipment is recorded at estimated fair market value on the date of the donation. The Institute's policy is to capitalize expenditures for or donations of property and equipment that exceed $5,000 and have a useful life beyond one year. Depreciation is calculated using the straight-line method over the estimated useful life of each asset class ranging from three to seven years.

When items are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the consolidated statement of activities and changes in net assets. Repairs and maintenance for normal upkeep are charged to expense as incurred.

The Institute 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. The Institute had not experienced impairment losses on its long-lived assets through June 30, 2022.

Revenue Recognition

The Institute accounts for its government funded grant and contract revenues as exchange transactions. Revenue under cost-reimbursement grants and contracts are recognized when costs are incurred or agreed-upon work is performed in accordance with the applicable agreements. Foundation grants are accounted for as either exchange transactions or as contributions depending on the nature of the grant. A receivable is recorded to the extent revenue recognized exceeds payment received; conversely, advances in excess of costs incurred or work performed under government funded grants and contracts are deferred and recognized as revenue when the related cost is incurred. Contribution revenue is recorded upon the Institute receiving notification of an unconditional promise to give.

Donated Goods, Facilities and Services

Donated goods and facilities are recognized as contributions at fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Institute reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Institute reclassifies net assets with donor restrictions to net assets without donor restriction at that time.

Donated services are recognized as contributions at fair value when the services are received and (a) create or enhance non-financial assets, or (b) required specialized skills, are provided by individuals possessing those skills, and (c) would typically need to be purchased if not provided by donation. Although the Institute may utilize the service of outside volunteers, the fair value of these services is not recognized in the accompanying consolidated financial statements since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

2. Summary of Significant Accounting Policies, Continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax-Exempt Status

The Institute is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and from Arizona income tax under Arizona Revised Statute Section 43-1201(4). Therefore, no provision has been made for income taxes in the accompanying consolidated financial statements. The Institute is not classified as a private foundation under Section 509(a)(1) of the IRC. The Institute also qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(a).

The Institute's policy is to disclose or recognize income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax positions. As of June 30, 2022, there were no uncertain tax positions that are potentially material. In addition, management is not aware of any matters which would cause the Institute to lose its tax-exempt status.

Endowment Funds

The Institute's endowment corpus is comprised of donor-designated endowment funds. The Institute 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 Institute'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 Institute classifies net assets with donor restriction (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 Institute 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.

Endowment assets include those assets of donor-restricted funds that the Institute must hold in perpetuity or for donor-specified periods. To satisfy its long-term objectives, the Institute 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) while assuming a moderate level of investment risk.

The Institute expects its endowment funds, over time, to provide an average rate of return that exceeds inflation. Actual returns in any given year may vary from that amount. The Institute's spending policy for its endowment assets attempts to provide a predictable stream of funding by appropriating for distribution each 4% of its endowment value; however, as discussed in Note 10, the Institute's appropriation for distribution is currently restricted until matching funds for the original donor gift are raised.

2. Summary of Significant Accounting Policies, Continued

Endowment Funds, continued

The Institute 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. There were no underwater endowment funds during the year. 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 Institute to retain for a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of the nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2022 and 2021.

Functional Expenses

The Institute allocates its expense on a functional basis among its programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural classification. Certain other expenses are allocated among program services and supporting services benefited. These other expenses include rent, information technology, telephone, and internet, and they are allocated based on payroll expenses.

3. Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, are comprised of:

	2022	2021
Cash and cash equivalents	$ 1,773,457	$ 1,896,893
Accounts receivable	212,774	120,906
Grants and contracts receivable	295,518	77,633
Unconditional promises to give, current portion	30,441	30,841
Total financial assets available within one year	2,312,190	2,126,273
Less:		
Amounts unavailable for general expenditure within one year due to:		
Restricted by donor with purpose restrictions	345,916	306,176
Total financial assets available to management for general expenditure within one year	$ 1,966,274	$ 1,820,097

The Institute is substantially supported by current year contributions, foundation grants, government grants and contract income, which are somewhat predictable. As part of the Institute's fiscal management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Deferred revenue in the amount of $1,452,813 and $1,365,827 at June 30, 2022 and 2021, respectively, is included in the cash balances above and is considered available for general expenditure within one year since management includes the contract activities associated with the deferred revenue in its definition of general expenditures.

4. Unconditional Promises to Give

Unconditional promises to give are recorded at their estimated fair value. Amounts due in more than one year are recorded at the present value of the estimated future cash flows discounted at an adjusted risk-free rate applicable to the year in which the promises were received of 3%, for the years ended June 30, 2022 and 2021. Unconditional promises to give consist of the following at June 30,:

	2022	2021
Receivables (less than one year)	$ 30,441	$ 30,841
Receivables (one to five years)	86,900	72,500
	117,341	103,341
Less discount to net present value	(7,664)	(6,452)
Pledges receivable, net	$ 109,677	$ 96,889

5. Investments

Investments, stated at fair value, consist of the following at June 30,:

	2022	2021
US equities	$ 679,137	$ 877,545
Mutual and exchange funds	611,347	735,039
International equities	295,008	276,419
Total investments	$ 1,585,492	$ 1,889,003

Investment (loss) income is comprised of the following for the years ended June 30,:

	2022	2021
Interest and dividends	$ 51,573	$ 25,941
Realized and unrealized (loss) gain, net	(278,239)	387,881
Investment management fees	(21,375)	(18,871)
Investment (loss) income, net	$ (248,041)	$ 394,951

6. Fair Value Measurements

The Financial Accounting Standards Board has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Institute has the ability to access.

6. Fair Value Measurements, Continued

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at June 30, 2022 and 2021.

- *Equities/Mutual and exchange funds:* Valued at the net asset value ("NAV") of shares held by the Institute at year-end.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institute believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Institute defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalization for the instrument. The institute defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

The Institute's financial assets that are measured at fair value on a recurring basis consist of the following at June 30,:

	Investments at Fair Value as of June 30, 2022			
	Level 1	Level 2	Level 3	Total
US equities	$ 679,137	$ -	$ -	$ 679,137
Mutual and exchange funds	611,347	-	-	611,347
International equities	295,008	-	-	295,008
	$ 1,585,492	$ -	$ -	$ 1,585,492

6. Fair Value Measurements, Continued

	Investments at Fair Value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
US equities	$ 877,545	$ -	$ -	$ 877,545
Mutual and exchange funds	735,039	-	-	735,039
International equities	276,419	-	-	276,419
	$ 1,889,003	$ -	$ -	$ 1,889,003

7. Property and Equipment

Property and equipment consists of the following at June 30,:

	2022	2021
Office furniture and equipment	$ 142,803	$ 135,467
Vehicles	139,038	157,657
Software	92,740	92,740
Total property and equipment	374,581	385,864
Less accumulated depreciation	(336,695)	(332,152)
Property and equipment, net	$ 37,886	$ 53,712

8. Paycheck Protection Program Conditional Grant

On April 30, 2020, the Institute received a loan in the amount of $259,501 from the Small Business Administration's Paycheck Protection Program ("Program"). Under the terms of the agreement, there are no payments due and interest does not accrue during the period from the loan date through the date the SBA determines the loan forgiveness amount. The Institute applied for, and received, full forgiveness of the total loan amount, during the year ended June 30, 2021 by providing evidence that the loan proceeds were used to fund eligible costs during the covered period and that additional criteria for forgiveness had been met.

On March 15, 2021, the Institute received a second Program loan in the amount of $243,247. Under the terms of the agreement, there are no payments due and interest accrues at the rate of 1.0% per annum for ten months. The Institute applied for, and received, full forgiveness of the total loan amount, during the year ended June 30, 2022 by providing evidence that the loan proceeds were used to fund eligible costs during the covered period and that additional criteria for forgiveness had been met.

The Institute accounted for the proceeds of both Program loans as a conditional contribution under FASB ASC 958-605 *Not-for-Profit Entities – Revenue Recognition*. Under this guidance, the loan forgiveness is recognized as contribution revenue as the conditions of forgiveness are substantially met. As of June 30, 2020, the Institute had expended 100% of the proceeds for eligible expenses during the period from the date the proceeds were disbursed through June 30, 2020. However, after evaluating additional forgiveness criteria under the Program, including FTE and wage reduction requirements and exceptions, management recognized grant revenue in the amount of $232,011 for the year ended June 30, 2020, and the balance of $27,490 was recognized as grant revenue during the year ended June 30, 2021. As of June 30, 2021, the Institute had expended $175,003 of the proceeds from the second Program loan for eligible expenses. As a result, the Institute recognized grant revenue related to the second Program loan in the amount of $175,003 for the year ended June 30, 2021, and the remaining balance of $68,244, plus forgiven accrued interest of $2,182, was recognized as grant revenue for the year ended June 30, 2022.

9. Net Assets With Donor Restrictions

Net assets with donor restrictions is comprised of the following at June 30,:

	2022	2021
Subject to expenditure for specified purpose:		
Colorado River Delta	$ 231,921	$ 283,431
Santa Cruz	41,392	14,861
Growing Water Smart	50,654	7,884
DEI	21,949	-
Total subject to purpose restrictions	345,916	306,176
Subject to spending policy and appropriation:		
Original donor-restricted endowment gift amounts required to be maintained:		
Donor-restricted endowment fund	1,474,532	1,474,532
Accumulated investment earnings, which, once appropriated, are expendable	293,171	609,723
Net assets with donor restrictions	$ 2,113,619	$ 2,390,431

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2022:

	Contributions/ Income	Releases/ Transfers
Subject to expenditure for specified purpose:		
Colorado River Delta	$ 300,079	$ (351,589)
Santa Cruz	115,197	(88,666)
Growing Water Smart	54,167	(11,397)
Marketing	37,103	(15,154)
Total subject to purpose restrictions	506,546	(466,806)
Subject to spending policy and appropriation:		
Accumulated investment earnings, which, once appropriated, are expendable	(245,792)	(70,760)
Net assets with donor restrictions	$ 260,754	$ (537,566)

9. Net Assets With Donor Restrictions, Continued

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2021:

	Contributions/ Income	Releases
Subject to expenditure for specified purpose:		
Colorado River Delta	$ 326,302	$ (307,891)
Santa Cruz	30,120	(17,618)
Growing Water Smart	18,771	(19,137)
Marketing	-	(3,454)
Total subject to purpose restrictions	375,193	(348,100)
Subject to spending policy and appropriation:		
Original donor-restricted endowment gift amounts required to be maintained:		
Donor-restricted endowment fund	7,061	-
Accumulated investment earnings, which, once appropriated, are expendable	394,805	(62,268)
Net assets with donor restrictions	$ 777,059	$ (410,368)

10. Endowment Funds

The Institute had the following endowment-related activity during the year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2021	$ -	$ 2,084,255	$ 2,084,255
Investment return			
Investment income, net	-	15,727	15,727
Net realized and unrealized loss	-	(261,519)	(261,519)
Total investment return	-	(245,792)	1,838,463
Appropriation of endowment funds for expenditure	-	(70,760)	(70,760)
Balance, June 30, 2022	$ -	$ 1,767,703	$ 1,767,703

10. Endowment Funds, Continued

The Institute had the following endowment-related activity during the year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2020	$ -	$ 1,744,657	$ 1,744,657
Investment return			
Investment income, net	-	7,066	7,066
Net realized and unrealized gain	-	387,739	387,739
Total investment return	-	394,805	2,139,462
Contributions	-	7,061	7,061
Appropriation of endowment funds for expenditure	-	(62,268)	(62,268)
Balance, June 30, 2021	$ -	$ 2,084,255	$ 2,084,255

11. Related Party Transactions

The Institute received $108,482 and $165,452 in contributions from board members and other related parties during 2022 and 2021, respectively. Total future amounts due from related parties totaled $98,341 and $103,341 as of June 30, 2022 and 2021, respectively, which are included in unconditional promises to give in the accompanying consolidated statements of financial position.

12. Operating Leases

The Institute lease office space in Arizona and Mexico. The leases have various terms, monthly payment amounts, and expiration dates. For certain leases, the Institute is responsible for certain occupancy costs including electricity and janitorial services as well as a proportionate share of the property's common costs. The Institute also leases office equipment. The future minimum annual lease payments due under the leases are:

Year ending June 30,:	
2023	$ 50,464
2024	12,666
2025	3,280
Total future minimum lease payments	$ 66,410

Rent expense, including all leases, for the years ended June 30, 2022 and 2021 totaled $65,305 and $63,996, respectively.

13. Retirement Plan

The Institute has a 401(k) Plan ("Plan") for employees in the United States (U.S.). Each U.S. employee who has attained at least 21 years of age and one month of service is eligible to participate in the Plan. U.S. employees are also eligible for safe-harbor matching contributions after 12 months of service, or earlier, at the discretion of the employer. Eligible employees may contribute, through payroll deductions, a portion of their base compensation not to exceed Internal Revenue Code limitations. In addition, a portion of wages earned by Mexico employees and contributions by the Institute are deferred into a retirement account in accordance with Mexico payroll regulations. The total retirement plan expenses, for all employees, for the years ended June 30, 2022 and 2021 was \$16,810 and \$19,994, respectively.

14. Subsequent Events

The Institute was unaware of any subsequent events through November 4, 2022, the date the consolidated financial statements were available to be issued.