SONORAN INSTITUTE

Audited Consolidated Financial Statements

For the years ended June 30, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Basis for Opinion

We conducted our 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 3, 2023

SONORAN INSTITUTE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

## ASSETS

| | 2023 | 2022 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 2,240,251 | $ 1,773,457 |
| Accounts receivable | 43,286 | 212,774 |
| Grants and contracts receivable, net | 166,714 | 295,518 |
| Unconditional promises to give, current portion | 525,441 | 30,441 |
| Prepaid expenses | 7,405 | 9,467 |
| Deposits | 11,781 | 8,147 |
| Total current assets | 2,994,878 | 2,329,804 |
| Investments | 1,674,572 | 1,585,492 |
| Unconditional promises to give, non-current portion, net | 538,281 | 79,236 |
| Operating lease right-of-use assets | 63,358 | - |
| Property and equipment, net | 40,093 | 37,886 |
| Total assets | $ 5,311,182 | $ 4,032,418 |

## LIABILITIES AND NET ASSETS

| | 2023 | 2022 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | $ 39,622 | $ 48,350 |
| Accrued expenses | 116,780 | 73,173 |
| Deferred revenue | 1,299,361 | 1,452,813 |
| Finance lease payable, current portion | 2,865 | - |
| Operating lease liabilities, current portion | 26,273 | - |
| Total current liabilities | 1,484,901 | 1,574,336 |
| Finance lease payable, non-current portion | 1,694 | - |
| Operating lease liabilities, non-current portion | 37,389 | - |
| Total liabilities | 1,523,984 | 1,574,336 |
| Net assets: | | |
| Without donor restrictions: | | |
| Expended for property and equipment | 40,093 | 37,886 |
| Available for operations | 842,404 | 306,577 |
| Total net assets without donor restrictions | 882,497 | 344,463 |
| With donor restrictions | 2,904,701 | 2,113,619 |
| Total net assets | 3,787,198 | 2,458,082 |
| Total liabilities and net assets | $ 5,311,182 | $ 4,032,418 |

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

SONORAN INSTITUTE

CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2023

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenues and support: | | | |
| Contributions | $ 581,570 | $ 1,534,985 | $ 2,116,555 |
| Contract income | 1,250,393 | - | 1,250,393 |
| Government grants | 384,586 | - | 384,586 |
| Investment income, net | 24,755 | 156,127 | 180,882 |
| Foundation grants | 143,581 | - | 143,581 |
| Other income | 36,166 | - | 36,166 |
| Donated supplies and services | 14,170 | - | 14,170 |
| Net assets released from restrictions | 900,030 | (900,030) | - |
| Total revenues and support | 3,335,251 | 791,082 | 4,126,333 |
| Expenses: | | | |
| Program services: | | | |
| Colorado River Delta US | 235,514 | - | 235,514 |
| Colorado River Delta Mexicali | 890,399 | - | 890,399 |
| Growing Water Smart | 584,296 | - | 584,296 |
| Santa Cruz | 323,832 | - | 323,832 |
| One Basin | 67,615 | - | 67,615 |
| Supporting services: | | | |
| General and adminstrative | 401,136 | - | 401,136 |
| Fundraising | 294,425 | - | 294,425 |
| Total expenses | 2,797,217 | - | 2,797,217 |
| Change in net assets | 538,034 | 791,082 | 1,329,116 |
| Net assets, beginning of year | 344,463 | 2,113,619 | 2,458,082 |
| Net assets, end of year | $ 882,497 | $ 2,904,701 | $ 3,787,198 |

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 | 31,313 | - | 31,313 |
| Donated supplies and services | 18,145 | - | 18,145 |
| 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 FUNCTIONAL EXPENSES
For the year ended June 30, 2023

| | Program | | | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Colorado River Delta US | Colorado River Delta Mexico | Growing Water Smart | Santa Cruz | One Basin | Total Programs | General and Administrative | Fundraising | Total Support Services | Total Expenses |
| Salaries and wages | $ 159,844 | $ 416,318 | $ 257,236 | $ 205,680 | $ 43,434 | $ 1,082,512 | $ 214,763 | $ 197,616 | $ 412,379 | $ 1,494,891 |
| Payroll taxes | 11,733 | 86,178 | 20,113 | 14,848 | 3,054 | 135,926 | 15,913 | 14,217 | 30,130 | 166,056 |
| Other employee benefits | 7,953 | 22,497 | 19,224 | 16,344 | 5,800 | 71,818 | 15,112 | 12,204 | 27,316 | 99,134 |
| Pension contributions | 3,044 | - | 4,762 | 3,980 | 857 | 12,643 | 4,112 | 3,096 | 7,208 | 19,851 |
| Total employee and related | 182,574 | 524,993 | 301,335 | 240,852 | 53,145 | 1,302,899 | 249,900 | 227,133 | 477,033 | 1,779,932 |
| Consultants | - | 125,415 | 100,925 | 29,427 | 11,000 | 266,767 | 31,200 | 10,667 | 41,867 | 308,634 |
| Outside services | 1,947 | 104,459 | 4,167 | 2,440 | 1,174 | 114,187 | 23,824 | 9,574 | 33,398 | 147,585 |
| Meetings | 570 | 8,924 | 88,607 | 759 | - | 98,860 | 4,229 | 13,547 | 17,776 | 116,636 |
| Travel | 7,958 | 5,827 | 47,176 | 1,850 | - | 62,811 | 11,431 | 4,848 | 16,279 | 79,090 |
| Field supplies and materials | 31,978 | 44,522 | 601 | - | - | 77,101 | 239 | - | 239 | 77,340 |
| Water acquisition | - | 62,435 | - | - | - | 62,435 | - | - | - | 62,435 |
| Accounting and legal | 605 | 28,648 | - | 4,933 | - | 34,186 | 26,325 | - | 26,325 | 60,511 |
| Rent | 7,172 | 14,652 | 4,001 | 9,263 | 1,953 | 37,041 | 12,850 | 8,967 | 21,817 | 58,858 |
| Dues and publications | 1,287 | 6,944 | 3,138 | 1,689 | - | 13,058 | 17,863 | 9,592 | 27,455 | 40,513 |
| Printing and photocopying | 72 | 9,392 | 1,502 | 19,545 | - | 30,511 | 408 | 6,259 | 6,667 | 37,178 |
| Subcontracts and grants | - | - | 27,056 | 10,000 | - | 37,056 | - | - | - | 37,056 |
| Depreciation | - | 17,566 | - | - | - | 17,566 | 5,028 | - | 5,028 | 22,594 |
| Office supplies | 637 | 7,249 | 4,539 | 304 | - | 12,729 | 2,534 | 2,505 | 5,039 | 17,768 |
| Telephone | 704 | 6,234 | 1,078 | 906 | 193 | 9,115 | 1,450 | 914 | 2,364 | 11,479 |
| Insurance | - | 2,828 | - | - | - | 2,828 | 7,842 | - | 7,842 | 10,670 |
| Equipment leases | - | 7,219 | - | - | - | 7,219 | 2,917 | - | 2,917 | 10,136 |
| Repairs and maintenance | - | 6,270 | - | - | - | 6,270 | - | - | - | 6,270 |
| Miscellaneous | - | 1,505 | - | - | - | 1,505 | 2,909 | - | 2,909 | 4,414 |
| Postage and shipping | 10 | 118 | 171 | 1,864 | - | 2,163 | 119 | 419 | 538 | 2,701 |
| Utilities | - | 1,586 | - | - | - | 1,586 | - | - | - | 1,586 |
| Training and seminars | - | 47 | - | - | 150 | 197 | 68 | - | 68 | 265 |
| Foreign currency transaction gain | - | (96,434) | - | - | - | (96,434) | - | - | - | (96,434) |
| Total expenses | $ 235,514 | $ 890,399 | $ 584,296 | $ 323,832 | $ 67,615 | $ 2,101,656 | $ 401,136 | $ 294,425 | $ 695,561 | $ 2,797,217 |

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 STATEMENTS OF CASH FLOWS
For the years ended June 30, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 1,329,116 | $ (103,755) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 22,594 | 41,794 |
| Net realized and unrealized (gain) loss on investments | (112,346) | 278,239 |
| Change in allowance for net present value, unconditional promises to give | 27,455 | 1,213 |
| Operating leases right-of-use asset interest component | 304 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 169,488 | (91,868) |
| Grants and contracts receivable | 128,804 | (217,885) |
| Unconditional promises to give | (981,500) | (14,001) |
| Prepaid expenses | 2,062 | 3,852 |
| Deposits | (3,634) | - |
| Accounts payable | (8,728) | (20,733) |
| Accrued expenses | 43,607 | (18,338) |
| Deferred revenue | (153,452) | 86,986 |
| Conditional grant - Paycheck Protection Program | - | (68,244) |
| Total adjustments | (865,346) | (18,985) |
| Net cash provided by (used in) operating activities | 463,770 | (122,740) |
| Cash flows from investing activities: | | |
| Purchases of investments | (133,413) | (325,315) |
| Proceeds from sale of investments | 156,679 | 350,587 |
| Purchases of property and equipment | (17,427) | (25,968) |
| Net cash provided by (used in) investing activities | 5,839 | (696) |
| Cash flows from financing activities | | |
| Principal payments on finance lease | (2,815) | - |
| Net cash used in financing activities | (2,815) | - |
| Change in cash and cash equivalents | 466,794 | (123,436) |
| Cash and cash equivalents, beginning of year | 1,773,457 | 1,896,893 |
| Cash and cash equivalents, end of year | $ 2,240,251 | $ 1,773,457 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | $ 101 | $ - |
| Schedule of non-cash investing and financing activities: | | |
| Operating lease right-of-use assets obtained in exchange for lease obligations | $ 69,748 | $ - |
| Office equipment obtained in exchange for finance lease obligation | $ 7,374 | $ - |

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, 2023 and 2022, the Institute had $768,064 and $424,800, 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, 2023 and 2022, the Institute had approximately $747,839 and $555,891, 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 at June 30, 2023 and 2022.

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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, the Institute had $1,264,912 and $1,175,668, 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, 2023.

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 Supplies and Services

Donated materials 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, 2023, 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, 2023 and 2022.

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.

Leases

The Institute adopted FASB ASU 2016-02, *Leases* (Topic 842) effective July 1, 2022 and utilized all of the available practical expedients. The adoption had a material impact on the Institutes's statement of financial position but did not have a material impact on the statement of activities. The most significant impact was the recognition of right-of-use (ROU) assets and lease liabilities for operating leases and a lease liability for a finance leases. Adoption of the standard required the Company to restate amounts as of July 1, 2022, resulting in an increase in operating lease ROU assets and operating lease liabilities of $69,748 and an increase in office equipment and a financing lease liability of $7,374.

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:

| | 2023 | 2022 |
|---|---|---|
| Cash and cash equivalents | $ 2,240,251 | $ 1,773,457 |
| Accounts receivable | 43,286 | 212,774 |
| Grants and contracts receivable | 166,714 | 295,518 |
| Unconditional promises to give, current portion | 525,441 | 30,441 |
| Total financial assets available within one year | 2,975,692 | 2,312,190 |
| Less: | | |
| Amounts unavailable for general expenditure within one year due to: | | |
| Restricted by donor with purpose restrictions | 1,061,897 | 345,916 |
| Total financial assets available to management for general expenditure within one year | $ 1,913,795 | $ 1,966,274 |

3. Liquidity and Availability of Resources, Continued

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 $1,299,361 and $1,452,813 at June 30, 2023 and 2022, 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, 2023 and 2022. Unconditional promises to give consist of the following at June 30,:

| | 2023 | 2022 |
|---|---|---|
| Unconditional promises to give (less than one year) | $ 525,441 | $ 30,441 |
| Unconditional promises to give (one to five years) | 573,400 | 86,900 |
| Total unconditional promises to give | 1,098,841 | 117,341 |
| Less discount to net present value | (35,119) | (7,664) |
| Unconditional promises to give, net | 1,063,722 | 109,677 |
| Less current portion | (525,441) | (30,441) |
| Non-current portion | $ 538,281 | $ 79,236 |

5. Investments

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

| | 2023 | 2022 |
|---|---|---|
| US equities | $ 791,038 | $ 679,137 |
| Mutual and exchange funds | 602,330 | 611,347 |
| International equities | 281,204 | 295,008 |
| Total investments | $ 1,674,572 | $ 1,585,492 |

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

| | 2023 | 2022 |
|---|---|---|
| Interest and dividends | $ 86,392 | $ 51,573 |
| Realized and unrealized gain (loss), net | 112,346 | (278,239) |
| Investment management fees | (17,856) | (21,375) |
| Investment income (loss), net | $ 180,882 | $ (248,041) |

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.

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, 2023 and 2022.

- *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.

6. Fair Value Measurements, Continued

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, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| US equities | $ 791,038 | $ - | $ - | $ 791,038 |
| Mutual and exchange funds | 602,330 | - | - | 602,330 |
| International equities | 281,204 | - | - | 281,204 |
| | $ 1,674,572 | $ - | $ - | $ 1,674,572 |

| | 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 |

7. Property and Equipment

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

| | 2023 | 2022 |
|---|---|---|
| Office furniture and equipment | $ 217,793 | $ 192,991 |
| Vehicles | 88,850 | 88,850 |
| Software | 92,740 | 92,740 |
| Total property and equipment | 399,383 | 374,581 |
| Less accumulated depreciation | (359,290) | (336,695) |
| Property and equipment, net | $ 40,093 | $ 37,886 |

8. Paycheck Protection Program Conditional Grant

On March 15, 2021, the Institute received a received a loan in the amount of $243,247 from the Small Business Administration's Paycheck Protection Program ("Program"). Under the terms of the agreement, there were no payments due and interest accrued 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 the Program loan 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, 2021, the Institute had expended $175,003 of the proceeds from the Program loan for eligible expenses. As a result, the Institute recognized grant revenue 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,:

| | 2023 | 2022 |
|---|---|---|
| Subject to expenditure for specified purpose: | | |
| Colorado River Delta | $ 797,243 | $ 231,921 |
| Santa Cruz | 207,108 | 41,392 |
| Growing Water Smart | 51,497 | 50,654 |
| DEI | 6,049 | 21,949 |
| Total subject to purpose restrictions | 1,061,897 | 345,916 |
| 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 | 368,272 | 293,171 |
| Net assets with donor restrictions | $ 2,904,701 | $ 2,113,619 |

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2023:

| | Contributions/ Income | Releases/ Transfers |
|---|---|---|
| Subject to expenditure for specified purpose: | | |
| Colorado River Delta | $ 1,103,175 | $ (537,853) |
| Santa Cruz | 322,710 | (156,994) |
| Growing Water Smart | 109,100 | (108,257) |
| Marketing | - | (15,900) |
| Total subject to purpose restrictions | 1,534,985 | (819,004) |
| Subject to spending policy and appropriation: | | |
| Accumulated investment earnings, which, once appropriated, are expendable | 156,127 | (81,026) |
| Net assets with donor restrictions | $ 1,691,112 | $ (900,030) |

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, 2022:

| | Contributions/ Income | Releases |
|---|---|---|
| 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) |

10. Endowment Funds

The Institute had the following endowment-related activity during the year ended June 30, 2023:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Balance, June 30, 2022 | $ - | $ 1,767,703 | $ 1,767,703 |
| Investment return | | | |
| Investment income, net | - | 23,848 | 23,848 |
| Net realized and unrealized gain | - | 132,279 | 132,279 |
| Total investment return | - | 156,127 | 1,923,830 |
| Appropriation of endowment funds for expenditure | - | (81,026) | (81,026) |
| Balance, June 30, 2023 | $ - | $ 1,842,804 | $ 1,842,804 |

10. Endowment Funds, Continued

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 gain | - | (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 |

11. Related Party Transactions

The Institute received $112,627 and $108,482 in contributions from board members and other related parties during 2023 and 2022, respectively. Total future amounts due from related parties, included with unconditional promises to give, totaled $83,341 and $98,341 as of June 30, 2023 and 2022, respectively.

12. Donated Supplies and Services

Donated supplies and services consist of the following for the years ended June 30,:

| | 2023 | 2022 |
|---|---|---|
| Consulting services | $ 12,770 | $ 13,000 |
| Other services | 1,200 | 5,145 |
| Meeting space | 200 | - |
| Total donated supplies and services | $ 14,170 | $ 18,145 |

Donated supplies and services in the amount of $12,970 and $10,000 were utilized for program purposes during the years ended June 30, 2023 and 2022, respectively. Donated supplies and services in the amount of $1,200 and $8,145 were utilized for general and administrative purposes during the years ended June 30, 2023 and 2022, respectively.

13. Leases

The Institute has a finance lease for equipment and two non-cancelable operating leases for facilities that expire at various dates ranging between August 2024 and May 2026.

13. Leases, Continued

The following summarizes the line items in the statement of financial position which includes amounts for operating and finance leases at June 30, 2023:

| | | |
|---|---|---|
| Operating Leases: | | |
| Operating lease right-of-use assets | $ | 63,358 |
| Operating lease liabilities, current portion | $ | 26,273 |
| Operating lease liabilities, non-current portion | | 37,389 |
| Total operating lease liabilities | $ | 63,662 |
| Finance Leases: | | |
| Property and equipment | | 7,374 |
| Accumulated depreciation | | (2,950) |
| Property and equipment, net | $ | 4,424 |
| Finance lease liabilities, current portion | $ | 2,865 |
| Finance lease liabilities, non-current portion | | 1,694 |
| Total finance lease liabilities | $ | 4,559 |

The following summarizes the weighted average remaining lease terms and discount rates as of June 30, 2023:

| | Operating Leases | Finance Lease |
|---|---|---|
| Weighted average remaining lease term | 2.62 years | 1.58 years |
| Weighted average discount rates | 2.95% | 1.73% |

The maturities of lease liabilities as of June 30, 2023 are:

| Year ending December 31, | | Operating Leases | | Finance Lease |
|---|---|---|---|---|
| 2024 | $ | 27,716 | $ | 2,917 |
| 2025 | | 20,506 | | 1,701 |
| 2026 | | 17,831 | | - |
| Total lease payments | | 66,053 | | 4,618 |
| Less: interest | | (2,391) | | (59) |
| Present value of lease liabilities | $ | 63,662 | $ | 4,559 |

13. Leases, Continued

The following summarizes the line items in the statement of activities which include the components of lease expense for the year ended June 30, 2023:

| | | |
|---|---|---|
| Operating lease included in rent expense | $ | 9,182 |
| Finance lease costs: | | |
| Amortization of lease assets included in depreciation expense | $ | 2,950 |
| Interest on lease liabilities included in interest expense | | 101 |
| Total finance lease costs | $ | 3,051 |

The following summarizes cash flow information related to leases for the year ended June 30, 2023:

| | | |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | $ | 6,615 |
| Operating cash flows from finance lease | $ | 95 |
| Financing cash flows from finance lease | $ | 2,822 |
| Lease assets obtained in exchange for lease obligations: | | |
| Operating leases | $ | 69,748 |
| Finance leases | $ | 7,374 |

14. 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, 2023 and 2022 was $19,851 and $16,810, respectively.

15. Subsequent Events

The Institute was unaware of any subsequent events through November 3, 2023, the date the consolidated financial statements were available to be issued.