SONORAN INSTITUTE

Audited Consolidated Financial Statements

For the years ended June 30, 2021 and 2020

SONORAN INSTITUTE

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sonoran Institute

Report on the Financial Statements

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, 2021 and 2020, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sonoran Institute as of June 30, 2021 and 2020, 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.

LUDWIG KLEWER + RUDNER, PLLC

November 9, 2021

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SONORAN INSTITUTE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

ASSETS

	2021	2020
Current assets:		
Cash and cash equivalents	$ 1,896,893	$ 2,022,047
Accounts receivable	120,906	44,901
Grants and contracts receivable, net	77,633	15,494
Unconditional promises to give, current portion	30,841	36,341
Prepaid expenses	13,319	14,247
Deposits	8,147	8,147
Total current assets	2,147,739	2,141,177
Investments	1,889,003	1,524,360
Unconditional promises to give, non-current portion, net	66,048	86,034
Property and equipment, net	53,712	95,073
Total assets	$ 4,156,502	$ 3,846,644

LIABILITIES AND NET ASSETS

	2021	2020
Current liabilities:		
Accounts payable	$ 69,083	$ 35,406
Accrued expenses	91,511	116,574
Deferred revenue	1,365,827	1,659,138
Conditional grant - Paycheck Protection Program	68,244	27,490
Total current liabilities	1,594,665	1,838,608
Total liabilities	1,594,665	1,838,608
Net assets:		
Without donor restrictions:		
Expended for property and equipment	53,712	95,073
Available for operations	117,694	(110,777)
Total net assets without donor restrictions	171,406	(15,704)
With donor restrictions	2,390,431	2,023,740
Total net assets	2,561,837	2,008,036
Total liabilities and net assets	$ 4,156,502	$ 3,846,644

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:			
Water ecosystem restoration	343,058	-	343,058
Mexicali	856,388	-	856,388
Resilient communities and watersheds	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 ACTIVITIES
For the year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:			
Contract income	$ 1,499,485	$ -	$ 1,499,485
Government grants	748,305	-	748,305
Contributions	380,115	347,785	727,900
Foundation grants	147,669	86,957	234,626
Grant - Paycheck Protection Program	232,011	-	232,011
Special events	52,950	-	52,950
Other income	22,335	-	22,335
Investment income, net	954	20,671	21,625
in funds held by others	-	16,050	16,050
Change in value of beneficial interest			
Net assets released from restrictions	441,890	(441,890)	-
Total revenues and support	3,525,714	29,573	3,555,287
Expenses:			
Program services:			
Water ecosystem restoration	498,531	-	498,531
Mexicali	1,143,060	-	1,143,060
Resilient communities and watersheds	471,731	-	471,731
Santa Cruz	475,016	-	475,016
Supporting services:			
General and adminstrative	605,632	-	605,632
Fundraising	230,983	-	230,983
Special event direct donor benefits	14,805		14,805
Total expenses	3,439,758	-	3,439,758
Change in net assets	85,956	29,573	115,529
Net assets, beginning of year	(101,660)	1,994,167	1,892,507
Net assets, end of year	$ (15,704)	$ 2,023,740	$ 2,008,036

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 STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2020

	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	$ 264,537	$ 328,103	$ 247,856	$ 212,474	$ 1,052,970	$ 344,274	$ 111,582	$ 455,856	$ 1,508,826
Payroll taxes	19,017	89,421	17,471	14,866	140,775	24,387	7,845	32,232	173,007
Other employee benefits	16,365	21,135	23,640	24,107	85,247	24,486	11,096	35,582	120,829
Pension contributions	8,059	-	8,927	7,628	24,614	10,303	3,824	14,127	38,741
Total employee and related	307,978	438,659	297,894	259,075	1,303,606	403,450	134,347	537,797	1,841,403
Consultants	26,221	174,847	113,017	158,896	472,981	29,695	41,919	71,614	544,595
Outside services	17,857	167,496	10,610	10,725	206,688	27,880	14,081	41,961	248,649
Rent	31,590	19,669	10,340	26,643	88,242	40,926	11,922	52,848	141,090
Field supplies and materials	19,282	73,507	-	1,756	94,545	847	4,111	4,958	99,503
Foreign currency transaction loss	-	73,394	-	-	73,394	-	-	-	73,394
Accounting and legal	4,784	20,969	-	-	25,753	36,565	-	36,565	62,318
Travel	17,208	16,175	9,169	3,652	46,204	8,613	3,654	12,267	58,471
Water acquisition	-	51,583	-	-	51,583	-	-	-	51,583
Dues and publications	4,458	650	3,908	1,393	10,409	25,313	8,172	33,485	43,894
Subcontracts and grants	40,940	-	-	-	40,940	-	20	20	40,960
Repairs and maintenance	5,166	33,788	-	-	38,954	190	-	190	39,144
Meetings	794	8,850	20,521	659	30,824	2,017	2,116	4,133	34,957
Depreciation	-	25,672	-	-	25,672	6,136	-	6,136	31,808
Office supplies	16,229	8,356	758	810	26,153	3,091	1,343	4,434	30,587
Printing and photocopying	2,043	2,516	1,667	7,009	13,235	741	6,971	7,712	20,947
Telephone	2,854	6,574	3,266	2,223	14,917	3,318	928	4,246	19,163
Insurance	215	3,280	231	186	3,912	9,994	191	10,185	14,097
Miscellaneous	-	8,162	-	-	8,162	4,194	36	4,230	12,392
Equipment leases	-	3,815	-	-	3,815	2,973	-	2,973	6,788
Training and seminars	588	926	350	65	1,929	1,790	465	2,255	4,184
Postage and shipping	324	49	-	1,924	2,297	974	707	1,681	3,978
Utilities	-	3,869	-	-	3,869	-	-	-	3,869
Bad debt expense (recovery)	-	254	-	-	254	(3,075)	-	(3,075)	(2,821)
Total expenses	$ 498,531	$ 1,143,060	$ 471,731	$ 475,016	$ 2,588,338	$ 605,632	$ 230,983	$ 836,615	$ 3,424,953

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

SONORAN INSTITUTE

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 553,801	$ 115,529
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	41,361	31,808
Net realized and unrealized gain on beneficial interest in assets held by others	-	(15,711)
Net realized and unrealized gain on investments	(387,881)	(12,044)
Change in allowance for uncollectible government grants and and contracts receivable	-	(3,075)
Change in allowance for net present value, unconditional promises to give	(2,534)	-
Changes in operating assets and liabilities:		
Accounts receivable	(76,005)	46,488
Grants and contracts receivable	(62,139)	105,232
Uncollectible promises to give	28,020	(7,334)
Prepaid expenses	928	(9,375)
Accounts payable	33,677	(74,529)
Accrued expenses	(25,063)	(62,239)
Deferred revenue	(293,311)	778,243
Conditional grant - Paycheck Protection Program	40,754	27,490
Total adjustments	(702,193)	804,954
Net cash (used in) provided by operating activities	(148,392)	920,483
Cash flows from investing activities:		
Net contributions and reinvestments to fund beneficial interest in assets held by others	-	(339)
Distributions from beneficial interest held by others	-	1,552,272
Purchases of investments	(340,225)	(1,830,484)
Proceeds from sale of investments	363,463	318,168
Purchases of property and equipment	-	(75,963)
Net cash provided by (used in) investing activities	23,238	(36,346)
Cash flows from financing activities	-	-
Change in cash and cash equivalents	(125,154)	884,137
Cash and cash equivalents, beginning of year	2,022,047	1,137,910
Cash and cash equivalents, end of year	$ 1,896,893	$ 2,022,047
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ -	$ 152

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, 2021 and 2020, the Institute had $441,613 and $783,011, 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, 2021 and 2020, the Institute had approximately $713,395 and $481,358, 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 $7,730 at June 30, 2021 and 2020.

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, 2021 and 2020, 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, 2021 and 2020, management considered all unconditional promises to give to be collectible; therefore, no allowance for uncollectible promises has been provided.

Beneficial Interest in Assets Held by Others

As of June 30, 2019 and through October 2019, the Institute's investments were held and managed by the Community Foundation for Southern Arizona ("CFSA") as agency designated funds for the Institute's endowment fund. Under the terms of the agency designated funds agreement, the Institute named itself as the beneficiary and all assets held by CFSA will be subject to the articles of incorporation and bylaws of CFSA, including the powers contained therein, as defined by the agreement. The CFSA Board may not use their variance power to remove the endowment restriction imposed on the Institute's agency designated funds.

Distributions from the agency designated funds were made available to the Institute at least annually in accordance with the then-current spending policy of CFSA. In the event that the annual distribution calculated by CFSA was greater than the amount allowed per the Institute's investment spending policy, the remaining amount was reinvested back into the endowment fund. During October 2019, the assets were distributed from CFSA and deposited into an investment account at RBC Wealth Management and managed by the Institute.

2. Summary of Significant Accounting Policies, Continued

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 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, 2021 and 2020, the Institute had $1,389,003 and $1,024,360, 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.

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. Through June 30, 2021, the Institute had not experienced impairment losses on its long-lived assets.

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.

2. Summary of Significant Accounting Policies, Continued

Donated Goods, Facilities and Services, continued

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.

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, 2021, 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.

2. Summary of Significant Accounting Policies, Continued

Endowment Funds, continued

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.

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, 2021 and 2020.

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.

Reclassifications

Certain amounts in the 2020 consolidated financial statements have been reclassified to conform to the 2021 presentation.

3. Change in Accounting Principle

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to organizations on how to account for certain exchange transactions. This change clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among non-for-profit entities.

The change in accounting principle was adopted on a modified prospective basis during the year ended June 30, 2020. As a result, there was no cumulative effect adjustment to opening net assets, with or without donor restrictions, as of July 1, 2019. In addition, there was no impact of adopting this new accounting principle to the financial statements as of and for the year ended June 30, 2020.

4. 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:

	2021	2020
Cash and cash equivalents	$ 1,896,893	$ 2,022,047
Accounts receivable	120,906	44,901
Grants and contracts receivable	77,633	15,494
Unconditional promises to give, current portion	30,841	36,341
Total financial assets available within one year	2,126,273	2,118,783
Less:		
Amounts unavailable for general expenditure within one year due to:		
Restricted by donor with purpose restrictions	306,176	279,083
Subject to appropriation	-	122,355
Amount of unavailable earnings related to the endowment match	-	251,662
Total financial assets available to management for general expenditure within one year	$ 1,820,097	$ 1,465,683

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.

5. 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, 2021 and 2020. Unconditional promises to give consist of the following at June 30,:

	2021	2020
Receivables (less than one year)	$ 30,841	$ 36,341
Receivables (one to five years)	72,500	95,020
	103,341	131,361
Less discount to net present value	(6,452)	(8,986)
Pledges receivable, net	$ 96,889	$ 122,375

6. Investments

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

	2021	2020
US equities	$ 877,545	$ 674,316
Mutual and exchange funds	735,039	615,026
International equities	276,419	235,018
Total investments	$ 1,889,003	$ 1,524,360

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

	2021	2020
Interest and dividends	$ 25,941	$ 20,986
Realized and unrealized gain, net	387,881	12,044
Investment management fees	(18,871)	(11,405)
Investment income, net	$ 394,951	$ 21,625

7. 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.

7. Fair Value Measurements, Continued

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, 2021 and 2020.

- *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, 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

	Investments at Fair Value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
US equities	$ 674,316	$ -	$ -	$ 674,316
Mutual and exchange funds	615,026	-	-	615,026
International equities	235,018	-	-	235,018
	$ 1,524,360	$ -	$ -	$ 1,524,360

8. Property and Equipment

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

	2021	2020
Office furniture and equipment	$ 135,467	$ 202,118
Vehicles	157,657	200,208
Software	92,740	99,907
Total property and equipment	385,864	502,233
Less accumulated depreciation	(332,152)	(407,160)
Property and equipment, net	$ 53,712	$ 95,073

9. 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 may apply for forgiveness of the total loan amount by providing evidence that the loan proceeds were used to fund eligible costs, during either an eight- or twenty-four-week period, and that additional criteria for forgiveness have been met. Any amount not forgiven will be payable, in full and including interest, on March 15, 2026.

The Institute is accounting 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. The balance of $27,490 was recorded as a conditional grant payable as of June 30, 2020 and was recognized as grant revenue during the year ended June 30, 2021 when the entire loan balance was forgiven. As of June 30, 2021, the Institute has expended $175,003 of the proceeds from the second Program loan for eligible expenses during the period from March 15, 2021 through June 30, 2021. As a result, the Institute has recognized grant revenue related to the second Program loan in the amount of $175,003 for the year ended June 30, 2021. The balance of $68,244 is recorded as a conditional grant payable as of June 30, 2021.

10. Net Assets With Donor Restrictions

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

	2021	2020
Subject to expenditure for specified purpose:		
Colorado River Delta UA	$ 261,368	$ 238,658
Santa Cruz	14,861	2,359
Growing Water Smart	7,884	8,250
Colorado River Delta Mexico	22,063	26,362
Marketing	-	3,454
Total subject to purpose restrictions	306,176	279,083
Subject to spending policy and appropriation:		
Original donor-restricted endowment gift amounts required to be maintained:		
Donor-restricted endowment fund	1,474,532	1,467,471
Accumulated investment earnings, which, once appropriated, are expendable	609,723	277,186
Net assets with donor restrictions	$ 2,390,431	$ 2,023,740

10. 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/ Transfers
Subject to expenditure for specified purpose:		
Colorado River Delta US	$ 317,969	$ (295,259)
Santa Cruz	30,120	(17,618)
Growing Water Smart	18,771	(19,137)
Colorado River Delta Mexico	8,333	(12,632)
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)

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2020:

	Contributions/ Income	Releases
Subject to expenditure for specified purpose:		
Colorado River Delta US	$ 271,146	$ (270,883)
Santa Cruz	11,883	(26,925)
Growing Water Smart	6,167	-
Colorado River Mexico	71,134	(77,206)
Marketing	3,454	-
New River	-	(7,358)
Total subject to purpose restrictions	363,784	(382,372)
Subject to spending policy and appropriation:		
Original donor-restricted endowment gift amounts required to be maintained:		
Donor-restricted endowment fund	70,958	-
Accumulated investment earnings, which, once appropriated, are expendable	36,721	(59,518)
Net assets with donor restrictions	$ 471,463	$ (441,890)

11. Endowment Funds

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 appreciation	-	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

The Institute had the following endowment-related activity during the year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2019	$ -	$ 1,696,496	$ 1,696,496
Investment return			
Investment income, net	-	8,966	8,966
Net appreciation	-	27,755	27,755
Total investment return	-	36,721	1,733,217
Contributions	-	70,958	70,958
Appropriation of endowment funds for expenditure	-	(59,518)	(59,518)
Balance, June 30, 2019	$ -	$ 1,744,657	$ 1,744,657

The original contribution to the endowment fund was a single endowment gift of $850,000, received on December 5, 2010, with a donor stipulation that the Institute raise a one-to-one match of $850,000. For the two years following the date of the endowment gift, the Institute may use the investment earnings from the endowment gift for general institutional support. If after the two-year period, the Institute has not raised the required match, then earnings will be held in the endowment and not available for distribution to the Institute; except that the earnings from the percentage of the endowment for which the Institute has raised matching funds is eligible for distribution, while earnings from the balance of the endowment will be held until the Institute raises the additional matching funds. The initial two-year period following the original endowment gift ended on December 5, 2012. As of June 30, 2021, the Institute has raised the entire matching requirement. As of June 30, 2020, the Institute had raised approximately $637,473 toward the matching requirement.

12. Related Party Transactions

The Institute received $165,452 and $183,635 in contributions from board members and other related parties during 2021 and 2020, respectively. Total future amounts due from related parties totaled $103,341 and $128,341 as of June 30, 2021 and 2020, respectively, which are included in unconditional promises to give in the accompanying consolidated statements of financial position.

13. 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,:		
2022	$	59,427
2023		45,089
2024		3,036
2025		1,562
Total future minimum lease payments	$	109,114

Rent expense, including all leases, for the years ended June 30, 2021 and 2021 totaled $63,996 and $147,878, respectively.

14. Retirement Plan

Effective January 1, 2016, the Institute adopted 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, 2021 and 2020 was $19,994 and $38,741, respectively.

15. Subsequent Events

The Institute was unaware of any subsequent events through November 9, 2021, the date the consolidated financial statements were available to be issued.