Keegan, Linscott & Kenon, PC
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Certified Fraud Examiners
Certified Insolvency & Restructuring Advisors
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# THE SONORAN INSTITUTE

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2018)

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Sonoran Institute

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Sonoran Institute (the "Institute") which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, the related consolidated statements of cash flows for the years then ended, and the related consolidated statement of activities and changes in net assets for the year ended June 30, 2019, and the related notes to the consolidated financial statements, collectively, the consolidated financial statements.

### *Management's Responsibility for the Consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 Institute'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 Institute'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.



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### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of June 30, 2019 and 2018, and its cash flows for the years then ended and the change in net assets for the year ended June 30, 2019, in accordance with accounting principles generally accepted in the United States of America.

### Report on Summarized Comparative Information

We have previously audited the Institute's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 23, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
January 24, 2020

# CONSOLIDATED AUDITED FINANCIAL STATEMENTS

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
## AS OF JUNE 30,

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 1,137,910 | $ 996,840 |
| Accounts receivable | 56,536 | 17,476 |
| Government grants and contracts receivable, net | 117,651 | 40,253 |
| Unbilled contracts receivable | 34,853 | 30,504 |
| Pledges receivable, net | 36,961 | 60,053 |
| Prepaid expenses | 4,872 | 12,072 |
| Deposits | 8,147 | 8,147 |
| Total current assets | 1,396,930 | 1,165,345 |
| Beneficial interest in assets held by others | 1,536,222 | 1,540,751 |
| Pledges receivable, net | 78,080 | 84,801 |
| Property and equipment, net | 50,918 | 56,272 |
| Total assets | $ 3,062,150 | $ 2,847,169 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable | $ 109,935 | $ 59,905 |
| Accrued expenses | 178,813 | 145,717 |
| Deferred revenue | 880,895 | 476,020 |
| Current portion of long-term debt | - | 6,449 |
| Total current liabilities | 1,169,643 | 688,091 |
| Total liabilities | 1,169,643 | 688,091 |
| **Net Assets** | | |
| Without donor restrictions | (101,660) | 53,581 |
| With donor restrictions | 1,994,167 | 2,105,497 |
| Total net assets | 1,892,507 | 2,159,078 |
| Total liabilities and net assets | $ 3,062,150 | $ 2,847,169 |

# CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
## FOR THE YEAR ENDED JUNE 30, 2019
## (WITH COMPARATIVE SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

| | Without Donor Restrictions | With Donor Restrictions | Total 2019 | Summarized Total 2018 |
|---|---|---|---|---|
| **Revenues and Other Support** | | | | |
| Contributions | $ 309,988 | $ 315,314 | $ 625,302 | $ 681,333 |
| Foundation grants | 76,950 | 137,062 | 214,012 | 362,916 |
| Government grants | 442,458 | - | 442,458 | 206,595 |
| Contract income | 1,512,741 | - | 1,512,741 | 1,863,040 |
| Investment income (loss), net | - | 26,789 | 26,789 | 83,053 |
| Other income | 3,210 | - | 3,210 | 24,936 |
| Contribution received in acquisition of AC (See Note 15) | - | - | - | 89,295 |
| Net assets released from restrictions | 590,495 | (590,495) | - | - |
| Total revenues and other support | 2,935,842 | (111,330) | 2,824,512 | 3,311,168 |
| **Expenses** | | | | |
| Salaries and wages | 1,601,146 | - | 1,601,146 | 1,614,488 |
| Pension contributions | 41,675 | - | 41,675 | 38,966 |
| Other employee benefits | 113,909 | - | 113,909 | 100,478 |
| Payroll taxes | 145,410 | - | 145,410 | 169,959 |
| Consultants | 356,756 | - | 356,756 | 337,047 |
| Accounting and legal | 58,345 | - | 58,345 | 41,115 |
| Outside services | 162,803 | - | 162,803 | 158,083 |
| Insurance | 13,361 | - | 13,361 | 17,323 |
| Office supplies | 27,873 | - | 27,873 | 44,263 |
| Equipment leases | 7,431 | - | 7,431 | 30,913 |
| Field supplies and materials | 67,595 | - | 67,595 | 116,053 |
| Water acquisition | 1,301 | - | 1,301 | 57,428 |
| Telephone | 23,309 | - | 23,309 | 18,905 |
| Postage and shipping | 3,325 | - | 3,325 | 2,924 |
| Dues and publications | 32,687 | - | 32,687 | 13,073 |
| Printing and photocopying | 20,397 | - | 20,397 | 15,717 |
| Miscellaneous | 12,164 | - | 12,164 | 10,657 |
| Training and seminars | 22,071 | - | 22,071 | 10,174 |
| Travel | 138,236 | - | 138,236 | 145,406 |
| Meetings | 30,969 | - | 30,969 | 57,414 |
| Repairs and maintenance | 16,513 | - | 16,513 | 15,301 |
| Rent | 125,750 | - | 125,750 | 143,883 |
| Utilities | 3,587 | - | 3,587 | 4,178 |
| Subcontracts and grants | 18,315 | - | 18,315 | 116,303 |
| Contributions | 143 | - | 143 | 7,000 |
| Depreciation | 5,354 | - | 5,354 | 7,477 |
| Bad debt | 6,148 | - | 6,148 | - |
| Interest expense | 152 | - | 152 | 532 |
| Foreign currency transaction loss | 34,358 | - | 34,358 | 6,811 |
| Total expenses | 3,091,083 | - | 3,091,083 | 3,301,871 |
| Change in net assets | (155,241) | (111,330) | (266,571) | 9,297 |
| Net assets, beginning of year | 53,581 | 2,105,497 | 2,159,078 | 2,149,781 |
| Net assets, end of year | $ (101,660) | $ 1,994,167 | $ 1,892,507 | $ 2,159,078 |

# CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED JUNE 30,

| | 2019 | 2018 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Change in net assets | $ (266,571) | $ 9,297 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 5,354 | 7,477 |
| Contributions restricted for permanent endowment | (33,483) | (27,000) |
| Net realized and unrealized (gain) loss on beneficial interest in assets held by others | (8,841) | (60,725) |
| Contribution received in acquisition of AC | - | (89,295) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (39,060) | 63,725 |
| Government grants and contracts receivable, net | (77,398) | 15,888 |
| Unbilled contract receivables | (4,349) | 312,319 |
| Pledges receivable, net | 29,813 | 51,161 |
| Prepaid expenses | 7,200 | 1,557 |
| Accounts payable | 50,030 | (44,246) |
| Accrued expenses | 33,096 | 24,073 |
| Deferred revenue | 404,875 | (71,072) |
| Net cash provided by operating activities | 100,666 | 193,159 |
| **Cash Flows from Investing Activities** | | |
| Net contributions and reinvestments to fund beneficial interest in assets held by others | (17,948) | (98,690) |
| Business acquisition, cash acquired | - | 249,581 |
| Distributions from beneficial interest in assets held by others | 31,318 | 24,100 |
| Net cash provided by investing activities | 13,370 | 174,991 |
| **Cash Flows from Financing Activities** | | |
| Principal payments on long-term debt | (6,449) | (7,408) |
| Collection of contributions restricted for investment in endowment | 33,483 | 27,000 |
| Net cash provided by financing activities | 27,034 | 19,592 |
| Net change in cash and cash equivalents | 141,070 | 387,742 |
| Cash and cash equivalents, beginning of year | 996,840 | 609,098 |
| Cash and cash equivalents, end of year | $ 1,137,910 | $ 996,840 |
| **Supplemental Disclosure of Cash Flow Information** | | |
| Cash paid for interest | $ 152 | $ 532 |
| **Supplemental Schedule of Non-Cash Investing Activities** | | |
| Acquisition of AC | | |
| Property and equipment acquired | $ - | $ 39,755 |
| Deferred revenue assumed | - | 200,041 |

# NOTES TO SUPPLEMENTAL SCHEDULES

## 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.

***Basis of Presentation***
The Institute follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("U.S. GAAP") that the Institute follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to U.S. GAAP issued by the FASB are to the FASB Accounting Standards Codification ("ASC").

The Institute's consolidated financial statements have been prepared in accordance with ASC 958, *Not-for-Profit Entities*. Under this authoritative guidance, the Institute is required to provide consolidated financial statements which are prepared to focus on the Institute as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets having similar characteristics have been combined into similar categories as follows:

- **Net Assets Without Donor Restrictions** – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

- **Net Assets With Donor Restrictions** – Net assets whose use by the Institute is subject to donor-imposed stipulations that can be fulfilled by actions of the Institute pursuant to those stipulations or that expire through the passage of time. Net assets with donor restrictions also includes net assets that are subject to donor-imposed stipulations such that assets must be maintained permanently by the Institute. The donors of these assets permit the Institute to use all or part of the investment return of these assets for furthering the Institute's mission through continued operations which may be subject to certain restrictions.

# NOTES TO SUPPLEMENTAL SCHEDULES

**Summary of Significant Accounting Policies (continued)**

***Basis of Presentation (continued)***

Expenses are generally reported as decreases in net assets without donor restrictions. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as increases in net assets with donor restriction. 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 and changes in net assets as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Institute reports the support as increases in net assets without donor restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

***Cash and Cash Equivalents***

For financial statement reporting purposes, the Institute considers all highly liquid instruments purchased with original maturities of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates their fair values. The Institute places its cash and cash equivalents with high credit quality institutions. At times, such deposits may be in excess of the Federal Deposit Insurance Corporation ("FDIC") limit (see Note 14). 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.

***Accounts, Grants, and Contracts Receivable***

The Institute's funding sources are primarily foundations and governmental agencies. The Institute grants credit to these agencies. The carrying amount of accounts, grants, and contracts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific accounts and the aging of receivables. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

As of June 30, 2019 and 2018, management considers all accounts receivable to be collectible, therefore, no allowance for doubtful accounts has been provided. As of June 30, 2019 and 2018, government grants and contracts receivable is presented net of an allowance for doubtful accounts of $10,805 and $12,676, respectively.

***Unbilled Contracts Receivable***

Unbilled contracts receivable represents the contract revenue recognized to date from expenses incurred by the Institute, but not yet invoiced due to contract terms or the timing of the accounting invoicing cycle.

***Pledges Receivable***

The Institute accounts for pledges receivable to be made in future years as unconditional promises to give in the year the promise is made. Pledges to be received after one year are presented at their discounted present value at a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. The fair value amount of pledges receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. All pledges deemed to be uncollectible are written off. As of June 30, 2019 and 2018, management considered all pledges receivable to be collectible; therefore, no allowance for uncollectible promises has been provided.

# NOTES TO SUPPLEMENTAL SCHEDULES

**Summary of Significant Accounting Policies (continued)**

***Beneficial Interest in Assets Held by Others***

In August 2015, the Institute's investments were transferred to the Community Foundation for Southern Arizona ("CFSA") to be managed 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 will be made available to the Institute at least annually in accordance with the current spending policy of CFSA. In the event that the annual distribution calculated by CFSA is greater than the amount allowed per the Institute's investment spending policy, the remaining amount will be reinvested back into the endowment fund. The fair value of beneficial interest in assets held by others totaled $1,536,222 and $1,540,751 as of June 30, 2019 and 2018, respectively.

In accordance with ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*, the Institute measures the fair value of agency designated funds held at CFSA using the fair value of the underlying assets. Subsequent changes in the fair value of the underlying assets are reported as a component of investment income (loss) with donor restrictions, net of fees in the accompanying consolidated statement of activities and changes in net assets until amounts are appropriated for expenditure by the board of directors. CFSA on behalf of the Institute invests in professionally managed portfolios that contain equity and fixed income securities. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the accompanying consolidated financial statements.

The beneficial interest in assets held by others is considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Institute employs a systematic methodology on an annual basis that considers available quantitative and qualitative evidence in evaluating potential impairment. If the cost of the agency designated fund exceeds its fair value, management evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and the intent and ability to hold the underlying investment. The Institute also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis is established.

***Property and Equipment***

Property and equipment are stated at cost if purchased or at fair value at date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method, ranging from three to seven years.

The Institute's policy is to capitalize expenditures for property and equipment and donated property and equipment received that exceed $5,000 and have a useful life greater than one year. 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.

# NOTES TO SUPPLEMENTAL SCHEDULES

**Summary of Significant Accounting Policies (continued)**

***Property and Equipment (continued)***

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, 2019, 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.

Contributions are recorded upon the Institute receiving notification of an unconditional promise to give.

***Donated Goods, Facilities and Services***

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

Donated services are recognized as contributions at fair value when the services are received and (a) create or enhance non-financial assets, or (b) require 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 services 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 U.S. GAAP.

***Income Taxes***

The Institute is exempt from federal and state income taxes under the Federal Internal Revenue Code ("IRC") Section 501(c)(3) and Arizona income tax laws and is classified as other than a private foundation under IRC Section 509(a)(1). The Institute also qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(a).

## NOTES TO SUPPLEMENTAL SCHEDULES

**Summary of Significant Accounting Policies (continued)**

***Income Taxes (continued)***

Management has considered its tax positions in accordance with the accounting standard for uncertainty in income taxes and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Institute’s returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed. Furthermore, in the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities deemed to be unrelated to the Institute's non-taxable status is not expected to have a material effect on the Institute’s financial position or results of operations. Accordingly, no provision is made for uncertain income tax positions in the accompanying consolidated financial statements.

Should the Institute ever be subject to interest and penalties related to unrecognized tax benefits, they would be classified in miscellaneous expenses and accrued expenses in the accompanying consolidated financial statements. During the years ended June 30, 2019 and 2018, the Institute did not recognize any interest and penalties.

***Endowment Funds***

As of June 30, 2019 and 2018, the Institute’s endowment corpus is held and managed by CFSA and is comprised of an agency designated fund. Agency designated funds represent assets transferred by the Institute to CFSA to establish an endowment fund and future cash contributions made to the endowment for the benefit of the Institute (i.e., the Institute has specified themselves as the beneficiary). The Institute also has endowment funds that are held and managed internally and consist of pledges receivable in the accompanying consolidated statements of financial position.

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 is subject to CFSA’s investment policies for endowment assets.

## NOTES TO SUPPLEMENTAL SCHEDULES

**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 attempt to provide a predictable stream of funding by appropriating for distribution each year 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. The Institute did not spend from 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 this nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2019 and 2018.

***Use of Estimates***
The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Prior Year Information***
The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

***Reclassifications***
Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year presentation, with no effect on net assets.

**3. Recent Accounting Pronouncements**

***Adopted as of June 30, 2019***
In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in ASU No. 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: Net Asset Classes; Investment Return; Expenses; Liquidity and Availability of Resources; and Presentation of Operating Cash Flows. ASU No. 2016-14 is effective for not-for-profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15,

# NOTES TO SUPPLEMENTAL SCHEDULES

**Recent Accounting Pronouncements (continued)**

***Adopted as of June 30, 2019 (continued)***
2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. The Organization adopted ASU No. 2016-14 during fiscal year 2019. The adoption of this ASU primarily affected the grouping and presentation of the Institute's net assets as either with or without donor restrictions, disclosure of policies and related activity for the Institute's net assets, disclosure of liquidity and availability of financial assets, and disclosure of an analysis of expenses by function and nature as well as the Organization's related policy in allocating expenses among program and supporting services.

***Not Adopted as of June 30, 2019***
In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance, and creates Topic 606 *Revenue from Contracts with Customers*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the full retrospective or retrospective with cumulative effect transition method. Subsequent amendments have been issued for technical corrections (ASU No. 2016-20); narrow scope improvements and practical expedients (ASU No. 2016-12); identifying performance obligations and licensing arrangements (ASU No. 2016-10); and gross versus net revenue reporting (ASU No. 2016-08). ASU No. 2014-09 (and subsequent amendments) is effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted with certain restrictions. The Institute has not yet selected a transition method and is currently evaluating the effect that the standard will have on the consolidated financial statements and disclosures.

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. The ASU clarifies and improves current guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. ASU No. 2018-08 is effective for annual reporting periods beginning after December 15, 2018, and interim periods with fiscal years beginning after December 15, 2019. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. The Institute is currently evaluating the effect that implementation of the new standard will have on the consolidated financial statements and disclosures.

## NOTES TO SUPPLEMENTAL SCHEDULES

**Recent Accounting Pronouncements (continued)**

***Not Adopted as of June 30, 2019 (continued)***
In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of operations and changes in net assets. In July 2019, the FASB voted to delay the effective date one year for private companies; consequently, the new standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. A modified retrospective transition approach is required (See ASU No. 2018-11 below for optional transition method) for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available.
In July 2018, the FASB has issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. This ASU is intended to reduce costs and ease implementation of the leases standard for financial statement preparers. ASU No. 2018-11 provides a new transition method and a practical expedient for separating components of a contract. The amendments ASU No. 2018-11 provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP in Topic 840, Leases. The amendments in ASU No. 2018-11 also provide lessors with a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component and, instead, to account for those components as a single component if the non-lease components otherwise would be accounted for under the new revenue guidance (Topic 606). The effective date and transition requirements for the amendments in this update related to separating components of a contract are the same as the effective date and transition requirements in ASU No. 2016-02 (i.e., fiscal years beginning after December 15, 2020). All entities, including early adopters, that elect the practical expedient related to separating components of a contract in this ASU must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected. The Institute has not yet selected a transition method and is currently evaluating the effect that the standard will have on the consolidated financial statements and disclosures.

In August 2018, the FASB has issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU applies the provisions of recently released Chapter 8, "Notes to Financial Statements," of the FASB's Conceptual Framework for Financial Reporting, resulting in the removal, modification and addition of certain disclosure requirements. The ASU also clarifies that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The ASU is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Institute is currently evaluating the effect this standard will have on the consolidated financial statements and disclosures.

# NOTES TO SUPPLEMENTAL SCHEDULES

## 4. Liquidity and Availability of resources

The following table shows a determination of the Institute's financial assets that are available to meet cash needs for general expenditures within one year as of June 30:

| | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | $ 1,137,910 | $ 996,840 |
| Accounts receivable | 56,536 | 17,476 |
| Government grants and contracts receivable, net | 117,651 | 40,253 |
| Unbilled contracts receivable | 34,853 | 30,504 |
| Current portion of pledges receivable, net | 36,961 | 60,053 |
| Total financial assets | 1,383,911 | 1,145,126 |
| Less amounts unavailable for general expenditure within one year, due to: | | |
| Restricted by donor with purpose restrictions | 297,671 | 438,320 |
| Subject to appropriation | 160,274 | 126,426 |
| Amount of unavailable earnings related to the endowment match | 246,037 | 239,855 |
| Financial assets available to meet cash needs for general expenditures within one year | $ 679,929 | $ 340,525 |

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. Pledges Receivable

Pledges receivable are recorded at their estimated fair value. Amounts due 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, 2019 and 2018. As of June 30, the amounts of the receivables to be collected as a result of these promises are as follows:

| | 2019 | 2018 |
|---|---|---|
| Receivables (less than one year) | $ 38,100 | $ 60,350 |
| Receivables (one to five years) | 85,100 | 93,950 |
| | 123,200 | 154,300 |
| Less discount to net present value | (8,159) | (9,446) |
| Pledges receivable, net | $ 115,041 | $ 144,854 |

## NOTES TO SUPPLEMENTAL SCHEDULES

### 6. Fair Value Measurements

The Institute utilizes the fair value hierarchy required by ASC 820 which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Institute has the ability to access at the measurement date.

Level 2 Valuations based on quoted prices in markets that are not active or for which significant inputs are observable, directly or indirectly.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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 assets held at the CFSA are categorized as Level 3 due to the lack of a market in which the Institute's units of participation in CFSA's pooled investments could be bought or sold. The Institute measures the fair value of its beneficial interest by taking its proportionate share of the fair value of the underlying assets.

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

| | Level 3 | |
|---|---|---|
| Description | 2019 | 2018 |
| Beneficial interest in assets held by others | $ 1,536,222 | $ 1,540,751 |

The following table presents a reconciliation of the Level 3 beneficial interest in assets held by others measured at fair value for the years ended June 30:

| Description | 2019 | 2018 |
|---|---|---|
| Fair value as of July 1 | $ 1,540,751 | $ 1,405,436 |
| Contributions and reinvestments to fund beneficial interest in assets held by others | 35,674 | 116,398 |
| Investment fees | (17,726) | (17,708) |
| Net realized/unrealized gains (losses) in changes in net assets | 8,841 | 60,725 |
| Distributions | (31,318) | (24,100) |
| Fair value as of June 30 | $ 1,536,222 | $ 1,540,751 |

## NOTES TO SUPPLEMENTAL SCHEDULES

**Fair Value Measurements (continued)**

The following table presents the Institute's financial assets and liabilities that are measured at fair value on a nonrecurring basis as of and for the year ended June 30, 2019:

| Description | 6/30/2019 | Level 1 | Level 2 | Level 3 | Total Revenue For the Year Ended 6/30/2019 |
|---|---|---|---|---|---|
| Initially-recognized Pledges receivable, net | $ 3,500 | $ - | $ - | $ 3,500 | $ 3,500 |
| | $ 3,500 | $ - | $ - | $ 3,500 | $ 3,500 |

The following table presents the Institute's financial assets and liabilities that are measured at fair value on a nonrecurring basis as of and for the year ended June 30, 2018:

| Description | 6/30/2018 | Level 1 | Level 2 | Level 3 | Total Revenue For the Year Ended 6/30/2018 |
|---|---|---|---|---|---|
| Initially-recognized Pledges receivable, net | $ 124,300 | $ - | $ - | $ 124,300 | $ 124,300 |
| | $ 124,300 | $ - | $ - | $ 124,300 | $ 124,300 |

The Institute's long-term pledges receivable are classified within Level 3 of the fair value hierarchy because the inputs are unobservable and are generated by the Institute itself, using the Institute s own data. The fair value of the pledges receivable is measured using the income approach valuation technique. The key inputs for the fair value measurements of the Institute's pledges receivable are the schedule of expected future cash flows for each contribution and the discount rate used to convert the expected future cash flows associated with the contributions to a present value amount per the income approach. The determined discount rate is developed based on the notion of an exit price, the price that would be received to sell the asset in the most advantageous market. Only the current year's additions to pledges receivable are included in the fair value hierarchy nonrecurring basis table because the Institute's pledges receivable involved fair value measurement only upon initial recognition.

## NOTES TO SUPPLEMENTAL SCHEDULES

### Fair Value Measurements (continued)

Reconciliation of initially-recognized pledges receivable, which are included in fair value hierarchy, to total pledges receivable in the consolidated statements of financial position is as follows:

| | 2019 | 2018 |
|---|---|---|
| Initially-recognized pledges receivable | $ 3,500 | $ 124,300 |
| Pledges receivable, recognized in prior years | 119,700 | 30,000 |
| Less discount to net present value | (8,159) | (9,446) |
| Total | $ 115,041 | $ 144,854 |

### 7. Property and Equipment

A summary of the property and equipment and related accumulated depreciation consists of the following as of June 30:

| | 2019 | 2018 |
|---|---|---|
| Office furniture and equipment | $ 145,694 | $ 145,694 |
| Vehicles | 180,669 | 180,669 |
| Software | 99,907 | 99,907 |
| | 426,270 | 426,270 |
| Less accumulated depreciation | (375,352) | (369,998) |
| | $ 50,918 | $ 56,272 |

### 8. Long-Term Debt

Long-term debt as of June 30 is summarized as follows:

| | 2019 | 2018 |
|---|---|---|
| Note payable to bank with monthly payments of $662, including interest at 5.00% per annum, until maturity in April 2019. Collateralized by a vehicle. | $ - | $ 6,449 |
| Less current portion of long-term debt | - | (6,449) |
| Long-term debt | $ - | $ - |

# NOTES TO SUPPLEMENTAL SCHEDULES

## 9. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following purposes as of June 30:

| | 2019 | 2018 |
|---|---|---|
| Subject to expenditure for specified purpose: | | |
| Water Ecosystem Restoration | $ 238,395 | $ 237,567 |
| Santa Cruz | 17,401 | 137,686 |
| Resilient Communities and Watersheds | 2,083 | 655 |
| Mexicali | 32,434 | 34,548 |
| Future years operations | - | 27,864 |
| New River | 7,358 | - |
| | 297,671 | 438,320 |
| Subject to CFSA spending policy and appropriation: | | |
| Original donor-restricted endowment gift amounts required to be maintained: | | |
| Donor-restricted endowment fund | 1,396,513 | 1,362,665 |
| Accumulated investment earnings, which, once appropriated, are expendable | 299,983 | 304,512 |
| Total | $ 1,994,167 | $ 2,105,497 |

## 10. Endowment Funds

Changes in endowment net assets for the year ended June 30, 2019:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets, June 30, 2018 | $ - | $ 1,667,177 | $ 1,667,177 |
| Investment return | | | |
| Investment income, net | - | 17,948 | 17,948 |
| Net appreciation | - | 8,841 | 8,841 |
| Total investment return | - | 26,789 | 26,789 |
| Contributions | - | 33,848 | 33,848 |
| Appropriation of endowment funds for expenditure | | (31,318) | (31,318) |
| Endowment net assets, June 30, 2019 | $ - | $ 1,696,496 | $ 1,696,496 |

## NOTES TO SUPPLEMENTAL SCHEDULES

**Endowment Funds (continued)**

Changes in endowment net assets for the year ended June 30, 2018:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets, June 30, 2017 | $ - | $ 1,581,224 | $ 1,581,224 |
| Investment return | | | |
| Investment income, net | - | 22,328 | 22,328 |
| Net appreciation | - | 60,725 | 60,725 |
| Total investment return | - | 83,053 | 83,053 |
| Contributions | - | 27,000 | 27,000 |
| Appropriation of endowment funds for expenditure | | (24,100) | (24,100) |
| Endowment net assets, June 30, 2018 | $ - | $ 1,667,177 | $ 1,667,177 |

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 the $850,000 within two years following the date of the endowment gift. 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, 2019, the Institute had raised approximately $398,639 (in cash) toward the matching requirement.

**11. Related Party Transactions**

***Contributions and Pledges Receivable***
The Institute received $198,487 and $87,296 in contributions from board members and other related parties during 2019 and 2018, respectively. Total future amounts due from related parties totaled $121,700 and $121,300 as of June 30, 2019 and 2018, respectively, which are included in pledges receivable in the accompanying consolidated statements of financial position.

***Rincon Institute Receivable***
In the prior year, the Institute leased 100% of one employee to perform services for the Rincon Institute on a month to month basis. The services performed by the leased employee are at the sole discretion of the Rincon Institute. The Institute bills the Rincon Institute monthly for the previous month’s services. As of June 30, 2019 and 2018, the amount outstanding and due to the Institute was $0 and $15,951, respectively, which are included in accounts receivable in the accompanying consolidated statements of financial position.

# NOTES TO SUPPLEMENTAL SCHEDULES

## 12. Operating Leases

The Institute leases 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 as follows:

| Fiscal Year Ending | Amount |
|---|---|
| 2020 | $ 128,764 |
| 2021 | 50,496 |
| 2022 | 22,768 |
| 2023 | 5,500 |

Rental expense for the years ended June 30, 2019 and 2018 totaled $133,181 and $174,796, respectively.

## 13. Retirement Plan

Effective January 1, 2016, the Institute adopted a 401(k) Plan for their U.S. employees. Each U.S. employee who has attained at least 21 years of age and 1 month of service is eligible to participate in the 401(k) Plan. U.S. employees are eligible for Safe Harbor matching contributions after 12 months of service, or earlier, at the discretion of the employer. Eligible employees may contribute a maximum amount of $19,000 to the 401(k) Plan in 2019, with a $6,000 catch-up provision for eligible employees age fifty or over in 2019. The Institute matches contributions at a rate of 100% on the first 3% eligible employees contribute, then 50% on the next 2% eligible employees contribute with a maximum 4% match. The Institute match for the years ended June 30, 2019 and 2018 was $41,675 and $38,966, respectively.

## 14. Risks and Uncertainties

***Foundation and Government Grant and Contract Funding***

The Institute receives the majority of its funding through various foundation and government grants and contracts. A majority of grants involve one-time contributions to support program activities for a period of two years or less. A significant reduction in this funding, if this were to occur, would have a material effect on the programs and activities of the Institute.

***Concentration of Credit Risk for Cash Deposits at Banks***

Financial instruments that potentially subject the Institute to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the FDIC up to $250,000. As of June 30, 2019 and 2018, the Institute had approximately $558,000 and $662,000 in excess of FDIC insured limits, respectively.

# NOTES TO SUPPLEMENTAL SCHEDULES

## 15. Acquisition of AC

On January 1, 2018 (acquisition date), Sonoran obtained control of AC through a majority voting interest in the board of AC. In addition, Sonoran has the ability to appoint individuals that together constitute a majority of the votes of the fully constituted AC board. As a result, AC is financially interrelated with Sonoran as defined by U.S. GAAP, and consequently is consolidated in Sonoran's financial statements. The AC operates in Mexico under a similar mission to Sonoran. The acquisition will assist Sonoran in its binational restoration efforts primarily for work to be completed in the Colorado River Delta region of Mexico. The acquisition will be recorded as a business combination under ASC 805, Business Combinations with identifiable assets acquired and liabilities assumed recorded at their estimated fair values on the acquisition date. Under the acquisition method of accounting, Sonoran was treated as the accounting acquirer and AC was treated as the acquired entity for financial reporting purposes.

The following presents a summary of the assets acquired and liabilities assumed based on their respective fair values:

| | | January 1, 2018 |
|---|---|---|
| Current assets | $ | 249,581 |
| Property and equipment | | 39,755 |
| Current liabilities | | (200,041) |
| Total identifiable net assets acquired | | 89,295 |
| Consideration transferred | | - |
| Contribution received in acquisition of AC | $ | 89,295 |

The fair value of the identifiable net assets acquired exceeded the fair value of the purchase price of the business by $89,295. Accordingly, the acquisition has been accounted for as an inherent contribution received and, as a result, Sonoran recognized a contribution of $89,295 associated with the acquisition. The contribution is included in the line item Contribution received in acquisition of AC in the 2018 consolidated statement of activities and changes in net assets. Based on donor restrictions on AC's net assets at the acquisition date, net assets with a fair value of $65,228 were classified as net assets with donor restrictions with the remaining $24,067 classified as net assets without donor restrictions.

# NOTES TO SUPPLEMENTAL SCHEDULES

## 16. Analysis of Expenses by Function and Nature

Expenses consist of the following for the year ended June 30, 2019:

| | PROGRAMS | | | | | SUPPORT SERVICES | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Water Ecosystem Restoration | Mexicali | Resilient Communities and Watersheds | Santa Cruz | Total Programs | Management and General | Fundraising | Total Support Services | Total |
| Salaries and wages | $ 329,757 | $ 345,004 | $ 286,704 | $ 282,100 | $ 1,243,565 | $ 258,612 | $ 98,969 | $ 357,581 | $1,601,146 |
| Pension contributions | 9,378 | - | 10,718 | 10,489 | 30,585 | 7,844 | 3,246 | 11,090 | 41,675 |
| Other employee benefits | 26,873 | - | 28,022 | 29,770 | 84,665 | 20,325 | 8,919 | 29,244 | 113,909 |
| Payroll taxes | 24,509 | 53,373 | 21,184 | 20,292 | 119,358 | 18,458 | 7,594 | 26,052 | 145,410 |
| Consultants | 8,305 | 14,909 | 129,413 | 96,815 | 249,442 | 35,476 | 71,838 | 107,314 | 356,756 |
| Accounting and legal | - | 13,725 | - | - | 13,725 | 44,620 | - | 44,620 | 58,345 |
| Outside services | 17,257 | 43,308 | 15,091 | 14,669 | 90,325 | 51,146 | 21,332 | 72,478 | 162,803 |
| Insurance | 549 | 3,154 | - | - | 3,703 | 9,658 | - | 9,658 | 13,361 |
| Office supplies | 3,708 | 5,798 | 2,564 | 2,473 | 14,543 | 12,480 | 850 | 13,330 | 27,873 |
| Equipment leases | - | 3,966 | - | - | 3,966 | 3,465 | - | 3,465 | 7,431 |
| Field supplies and materials | 12,595 | 49,447 | - | 3,000 | 65,042 | 1,249 | 1,304 | 2,553 | 67,595 |
| Water acquisition | - | 1,301 | - | - | 1,301 | - | - | - | 1,301 |
| Telephone | 3,864 | 4,124 | 4,743 | 3,948 | 16,679 | 5,539 | 1,091 | 6,630 | 23,309 |
| Postage and shipping | 584 | 77 | 211 | 564 | 1,436 | 498 | 1,391 | 1,889 | 3,325 |
| Dues and publications | 3,604 | 7,843 | 2,992 | 2,535 | 16,974 | 11,547 | 4,166 | 15,713 | 32,687 |
| Printing and photocopying | 773 | 3,502 | 2,962 | 3,149 | 10,386 | 652 | 9,359 | 10,011 | 20,397 |
| Miscellaneous | 44 | 4,316 | - | 29 | 4,389 | 7,775 | - | 7,775 | 12,164 |
| Training and seminars | 507 | 11,454 | 4,164 | 869 | 16,994 | 3,983 | 1,094 | 5,077 | 22,071 |
| Travel | 33,803 | 36,315 | 39,246 | 7,623 | 116,987 | 12,485 | 8,764 | 21,249 | 138,236 |
| Meetings | 223 | 7,228 | 9,542 | 1,206 | 18,199 | 11,767 | 1,003 | 12,770 | 30,969 |
| Repairs and maintenance | 2,072 | 12,940 | - | - | 15,012 | 1,501 | - | 1,501 | 16,513 |
| Rent | 28,255 | 16,164 | 14,516 | 31,553 | 90,488 | 25,221 | 10,041 | 35,262 | 125,750 |
| Utilities | - | 3,587 | - | - | 3,587 | - | - | - | 3,587 |
| Subcontracts and grants | 15,151 | - | - | 3,164 | 18,315 | - | - | - | 18,315 |
| Contributions | - | 43 | - | - | 43 | - | 100 | 100 | 143 |
| Depreciation | - | - | - | - | - | 5,354 | - | 5,354 | 5,354 |
| Bad debt | - | (50) | 1,536 | - | 1,486 | 4,662 | - | 4,662 | 6,148 |
| Interest expense | 152 | - | - | - | 152 | - | - | - | 152 |
| Foreign currency transaction loss | - | 34,358 | - | - | 34,358 | - | - | - | 34,358 |
| Total expenses | $ 521,963 | $ 675,886 | $ 573,608 | $ 514,248 | $ 2,285,705 | $ 554,317 | $ 251,061 | $ 805,378 | $3,091,083 |

# NOTES TO SUPPLEMENTAL SCHEDULES

## Analysis of Expenses by Function and Nature (continued)

Expenses consist of the following for the year ended June 30, 2018:

| | PROGRAMS | | | | | SUPPORT SERVICES | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Water Ecosystem Restoration | Mexicali | Resilient Communities and Watersheds | Santa Cruz | Total Programs | Management and General | Fundraising | Total Support Services | Total |
| Salaries and wages | $ 365,040 | $201,988 | $ 276,988 | $400,414 | $1,244,430 | $ 249,181 | $ 120,877 | $ 370,058 | $1,614,488 |
| Pension contributions | 9,757 | - | 8,417 | 11,165 | 29,339 | 6,976 | 2,651 | 9,627 | 38,966 |
| Other employee benefits | 20,818 | - | 20,896 | 34,962 | 76,676 | 13,881 | 9,921 | 23,802 | 100,478 |
| Payroll taxes | 33,150 | 56,345 | 21,170 | 30,552 | 141,217 | 18,954 | 9,788 | 28,742 | 169,959 |
| Consultants | 68,182 | 73,284 | 91,182 | 46,978 | 279,626 | 1,805 | 55,616 | 57,421 | 337,047 |
| Accounting and legal | 450 | 12,522 | - | - | 12,972 | 28,143 | - | 28,143 | 41,115 |
| Outside services | 41,625 | 60,860 | 5,428 | 9,982 | 117,895 | 29,884 | 10,304 | 40,188 | 158,083 |
| Insurance | - | 4,484 | - | - | 4,484 | 12,839 | - | 12,839 | 17,323 |
| Office supplies | 14,044 | 1,687 | 2,630 | 3,258 | 21,619 | 17,438 | 5,206 | 22,644 | 44,263 |
| Equipment leases | 2,377 | 22,949 | 222 | 1,385 | 26,933 | 3,158 | 822 | 3,980 | 30,913 |
| Field supplies and materials | 13,570 | 94,958 | - | 7,332 | 115,860 | - | 193 | 193 | 116,053 |
| Telephone | - | 57,428 | - | - | 57,428 | - | - | - | 57,428 |
| Postage and shipping | 9,396 | 2,691 | 3,177 | 9,722 | 24,986 | (10,159) | 4,078 | (6,081) | 18,905 |
| Dues and publications | 349 | 399 | 9 | 162 | 919 | 1,205 | 800 | 2,005 | 2,924 |
| Printing and photocopying | 1,260 | 537 | 2,745 | 2,211 | 6,753 | 5,505 | 815 | 6,320 | 13,073 |
| Miscellaneous | 93 | 1,344 | 2,603 | 4,616 | 8,656 | 146 | 6,915 | 7,061 | 15,717 |
| Training and seminars | 1,189 | 391 | - | - | 1,580 | 9,102 | (25) | 9,077 | 10,657 |
| Travel | 2,852 | 666 | 3,157 | 3,222 | 9,897 | (1,406) | 1,683 | 277 | 10,174 |
| Meetings | 33,489 | 22,296 | 29,141 | 16,015 | 100,941 | 17,139 | 27,326 | 44,465 | 145,406 |
| Repairs and maintenance | 1,771 | 6,503 | 30,482 | 1,910 | 40,666 | 14,117 | 2,631 | 16,748 | 57,414 |
| Rent | 2,878 | 12,270 | - | - | 15,148 | 153 | - | 153 | 15,301 |
| Utilities | 31,789 | 13,312 | 10,929 | 30,394 | 86,424 | 43,510 | 13,949 | 57,459 | 143,883 |
| Subcontracts and grants | 516 | 3,662 | - | - | 4,178 | - | - | - | 4,178 |
| Contributions | 61,303 | 23,000 | 20,000 | 12,000 | 116,303 | - | - | - | 116,303 |
| Depreciation | - | - | - | - | - | 7,000 | - | 7,000 | 7,000 |
| Bad debt | - | - | - | - | - | 7,477 | - | 7,477 | 7,477 |
| Interest expense | 532 | - | - | - | 532 | - | - | - | 532 |
| Foreign currency transaction loss | 593 | 6,218 | - | - | 6,811 | - | - | - | 6,811 |
| Total expenses | $ 717,023 | $679,794 | $ 529,176 | $626,280 | $2,552,273 | $ 476,048 | $ 273,550 | $ 749,598 | $3,301,871 |

## 17. Methods Used for Allocation of Expenses Among Program and Supporting Services

Expenses that can be identified with a specific program are allocated directly according to their natural classification. Other expenses that are common to several functions are allocated by other reasonable methods, primarily based on direct labor costs, full-time equivalents, or square footage depending on what is considered the most appropriate cost driver.

## 18. Subsequent Events

The Institute evaluated subsequent events through January 24, 2020, which represents the date the consolidated financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements.