Keegan, Linscott & Kenon, PC
Certified Public Accountants
Certified Fraud Examiners
Certified Insolvency & Restructuring Advisors

33 N Stone Avenue • Suite 1100 • Tucson, Arizona 85701
(520) 884-0176 • www.klkcpa.com

THE SONORAN INSTITUTE

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES AS OF AND FOR THE YEAR ENDED JUNE 30, 2013 (WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Sonoran Institute

Report on the Financial Statements

We have audited the accompanying financial statements of the Sonoran Institute (the "Institute) which comprise the statements of financial position as of June 30, 2013 and 2012, the related statements of cash flows for the years then ended, and the related statement of activities and changes in net assets for the year ended June 30, 2013, 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 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of June 30, 2013 and 2012, and cash flows for the years then ended and the results of its operations and changes in net assets for the year ended June 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

33 N. Stone Avenue, Suite 1100 | Tucson, Arizona 85701 | PHN 520.884.0176 | FAX 520.884.8767 | www.klkcpa.com

Report on Summarized Comparative Information

We have previously audited the Institute's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 27, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
September 10, 2013

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	$ 636,116	$ 956,950
Accounts receivable	11,478	33
Foundation grants receivable, net	569,480	921,600
Government grants and contracts receivable, net	252,502	312,881
Prepaid expenses	9,508	40,098
Pledges receivable	74,306	127,000
Deposits	11,404	11,404
Total current assets	1,564,794	2,369,966
Investments	1,071,386	990,406
Foundation grants receivable, net	-	227,700
Pledges receivable, net	111,445	144,384
Advance to Rincon Institute, net	148,092	193,131
Property and equipment, net	94,680	110,519
Total assets	$ 2,990,397	$ 4,036,106
Liabilities		
Current liabilities		
Accounts payable	$ 113,574	$ 119,621
Accrued expenses	192,298	247,139
Deferred revenue	491,783	415,217
Current portion of obligation under letter of agreement	18,283	-
Current portion of long-term debt	3,181	7,166
Current portion of capital lease obligation	9,202	10,196
Total current liabilities	828,321	799,339
Obligation under letter of agreement	81,717	-
Long-term debt	-	3,181
Capital lease obligation	-	9,369
Total liabilities	910,038	811,889
Net Assets		
Unrestricted	(9,782)	301,183
Temporarily restricted	937,304	1,795,264
Permanently restricted	1,152,837	1,127,770
Total net assets	2,080,359	3,224,217
Total liabilities and net assets	$ 2,990,397	$ 4,036,106

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Summarized Total 2012
Revenues and Other Support					
Contributions	$ 534,283	$ 125,797	$ -	$ 660,080	$ 835,819
Foundation grants	411,521	323,930	25,067	760,518	2,909,685
Government grants	391,943	-	-	391,943	756,487
Contract income	1,260,776	-	-	1,260,776	1,278,894
Program service income	13,726	-	-	13,726	6,652
Investment income	7,092	88,191		95,283	6,918
Other income	21,946	-	-	21,946	1,077
Special events	9,809	-	-	9,809	20,354
Net assets released from restrictions	1,395,878	(1,395,878)	-	-	-
Total revenues and other support	4,046,974	(857,960)	25,067	3,214,081	5,815,886
Expenses					
Salaries and wages	2,204,917	-	-	2,204,917	2,513,539
Pension contributions	21,628	-	-	21,628	13,739
Other employee benefits	202,049	-	-	202,049	215,597
Payroll taxes	195,685	-	-	195,685	213,388
Consultants	545,071	-	-	545,071	593,778
Accounting and legal	58,877	-	-	58,877	25,160
Outside services	134,607	-	-	134,607	162,815
Insurance	13,643	-	-	13,643	14,177
Office and photo supplies	52,511	-	-	52,511	59,699
Field supplies and materials	16,675	-	-	16,675	37,569
Telephone	45,121	-	-	45,121	51,229
Postage and shipping	7,315	-	-	7,315	7,821
Dues and publications	18,686	-	-	18,686	12,097
Printing and photocopying	31,545	-	-	31,545	31,334
Miscellaneous	18,064	-	-	18,064	32,641
Training and seminars	16,526	-	-	16,526	42,062
Travel	144,728	-	-	144,728	205,480
Meetings	72,782	-	-	72,782	71,413
Repairs and maintenance	19,234	-	-	19,234	24,568
Rent	164,390	-	-	164,390	195,213
Utilities	19,919	-	-	19,919	11,557
Subcontracts and grants	49,644	-	-	49,644	27,500
Contributions	209,678	-	-	209,678	58,063
Depreciation	45,136	-	-	45,136	41,587
Bad debt	46,580	-	-	46,580	9,882
Interest expense	2,928	-	-	2,928	4,754
Total expenses	4,357,939	-	-	4,357,939	4,676,662
Change in net assets	(310,965)	(857,960)	25,067	(1,143,858)	1,139,224
Net assets, beginning of year	301,183	1,795,264	1,127,770	3,224,217	2,084,993
Net assets, end of year	$ (9,782)	$ 937,304	$ 1,152,837	$ 2,080,359	$ 3,224,217

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	$ (1,143,858)	$ 1,139,224
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	45,136	41,587
Loss on sale of property and equipment	431	533
Loss on write-down of notes receivable	46,586	-
Collections of contributions restricted for long-term investment	(25,067)	(150,150)
Net realized and unrealized (gain) / loss on investments	(53,979)	26,473
Assumption of obligation under letter of agreement	100,000	-
Changes in operating assets and liabilities:		
Accounts receivable	(11,445)	15,289
Foundation grants receivable	579,820	(980,300)
Government grants and contracts receivable	60,379	307,712
Prepaid expenses	30,590	(29,163)
Pledges receivable	85,633	(32,479)
Deposits	-	10,775
Accounts payable	(6,047)	(48,000)
Accrued expenses	(54,841)	26,612
Deferred revenue	76,566	(158,349)
Net cash (used in) provided by operating activities	(270,096)	169,764
Cash Flows from Investing Activities		
Proceeds on sale of property and equipment	500	-
Purchase of property and equipment	(30,228)	(67,385)
(Advances to) / proceeds from Rincon Institute	(1,547)	13,919
Proceeds on sale of investments	557,729	-
Purchases of investments	(584,730)	(1,016,879)
Net cash used in investing activities	(58,276)	(1,070,345)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(7,166)	(7,667)
Collections of contributions restricted for investment in endowment	25,067	150,150
Principal payments on capital lease obligation	(10,363)	(8,338)
Net cash provided by financing activities	7,538	134,145
Net change in cash and cash equivalents	(320,834)	(766,436)
Cash and cash equivalents, beginning of year	956,950	1,723,386
Cash and cash equivalents, end of year	$ 636,116	$ 956,950
Supplemental Disclosures of Cash Flow Infromation		
Cash paid for interest	$ 3,295	$ 5,937

NOTES TO FINANCIAL STATEMENTS

1. Organization

The Sonoran Institute (the "Institute"), founded in 1990, is a nonprofit corporation that works with communities to conserve and restore important natural landscapes in western North America, including the wildlife and cultural values of these lands. The lasting benefits of the Institute's community stewardship work are healthy landscapes and vibrant, livable communities that embrace conservation as an integral element of its quality of life and economic vitality. Primary sources of revenue are foundation grants, governmental funding, and donations.

2. Summary of Significant Accounting Policies

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 ("GAAP") that the Institute follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to GAAP issued by the FASB are to the FASB Accounting Standards Codification ("ASC").

The Institute's financial statements have been prepared in accordance with standards of accounting and financial reporting under ASC 958, *Not-for-Profit Entities*. Under this authoritative guidance, the Institute is required to provide 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 financial statements, net assets having similar characteristics have been combined into similar categories as follows:

- **Unrestricted** – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

- **Temporarily Restricted** – 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.

- **Permanently Restricted** – Net assets that are subject to donor-imposed stipulations that assets 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.

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 temporarily restricted support. However, if a restriction is fulfilled in the same reporting period in which the contribution is received, the Institute reports the support as unrestricted. Contributions of long-lived assets not having donor-imposed purpose or time restrictions are reported as unrestricted contributions in amounts equal to the fair value of the contributed assets.

Contributions restricted by the donor for particular operating purposes or for a particular operating period are reported as revenues in the temporarily restricted net asset group. Once the Institute has complied with all of the specific restrictions, the contribution is reclassified to the unrestricted net asset group as a net asset released from restrictions. This reclassification increases unrestricted net assets and decreases temporarily restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition
The Institute accounts for its government funded grants 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 contributions. Contributions are recorded upon the Institute receiving notification of an unconditional promise to give. 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.

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 approximates their fair values and are classified as Level 1 inputs in the fair value hierarchy. The Institute places its cash and cash equivalents with high credit quality institutions. At times, such deposits may be in excess of the FDIC insurance limit; however, management does not believe it is exposed to any significant credit risk on cash and cash equivalents. All such accounts are monitored by management to mitigate risk.

Accounts, Grants, and Contracts Receivable
The Institute's funding sources are primarily foundation 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 accounts receivable. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

As of June 30, 2013 and 2012, management considers all accounts receivable to be collectible, therefore, no allowance for doubtful accounts has been provided. Foundation grants receivable is presented net of an allowance for doubtful accounts of $300 and $0 as of June 30, 2013 and 2012, respectively. Government grants and contracts receivable is presented net of an allowance for doubtful accounts of $6,074 and $10,500 as of June 30, 2013 and 2012, respectively.

Pledges Receivable
The Institute accounts for pledges receivable to be made in future years as unconditional promises to contribute 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. At June 30, 2013 and 2012, management considered all pledges receivable to be collectible, therefore, no allowance for uncollectible amounts has been provided.

Investments
Investments are accounted for in accordance with ASC 958-320, *Investments - Debt and Equity Securities*. Investments in debt and equity securities are valued at their fair values in the accompanying statements of financial position. Investment income, gains and losses are reported in the statement of activities and changes in net assets as increases or decreases in net assets. Gains and investment income limited to specific uses by donor-imposed restrictions are reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the gains and income are recognized. Donated investments are recorded at fair value at the date of donation.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Investments (continued)
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 financial statements.

The Institute follows the provisions of Accounting Standards Update ("ASU") No. 2011-04, *Fair Value Measurements* ("ASU 2011-04"), to value certain investments. These investments consist of a common trust fund. ASU 2011-04 allows for the estimation of the fair value of the common trust fund which does not have a readily determined fair value, using net asset value per share or its equivalent, as provided by the investment managers. The cost of investments sold is determined using the specific identification method.

Investments are 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 of investments. If the cost of an investment 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 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-then-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

Property and Equipment
Property and equipment are stated at cost if purchased or at fair value at date of acquisition if donated. 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 $2,000 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 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, 2013, the Institute had not experienced impairment losses on its long-lived assets.

Income Taxes
The Institute is exempt from federal income tax under Section 501(c)(3), as confirmed by a determination letter issued by the Internal Revenue Service 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 FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Income Taxes (continued)
Management evaluated the Institute's tax positions in accordance with the accounting standard on accounting for uncertainty in income taxes and concluded that the Institute had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the accounting standard. With few exceptions, the Institute is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2008.

The Institute recognizes interest and penalties related to unrecognized tax benefits in miscellaneous expenses and accrued expenses in the accompanying financial statements. During the year ended June 30, 2013 and 2012, the Institute did not recognize any interest and penalties.

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 as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent 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 that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by the law.

The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment funds. Endowment assets include those assets of donor-restricted funds that the Institute must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board of Directors, the endowment assets are to be invested in a balanced portfolio comprised of equity and yield securities. 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 targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. 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 has adopted a spending policy of appropriating for distribution each year 4% of its endowment value; however, as discussed at Note 12, the Institute's appropriation for distribution is currently restricted until matching funds for the original gift is raised.

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 GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2013 and 2012.

Use of Estimates
The preparation of financial statements in conformity with 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Prior Year Information
The 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 GAAP. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

Reclassifications
Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net assets.

Functional Allocation of Expenses
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.

3. Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between U.S. GAAP and International Financial Reporting Standards. This guidance includes amendments that clarify the application of existing fair value measurement requirements, in addition to other amendments that change principles or requirements for measuring fair value and for disclosing information about fair value measurements. This guidance is effective for annual periods beginning after December 15, 2011. The adoption of this guidance did not have a material impact on the Institute's financial position or results of operations.

In October 2012, the FASB issued ASU No. 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. The amendments in this ASU require a not-for-profit entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit -imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the not-for-profit entity.

The amendments in the ASU are effective prospectively for fiscal years, and interim fiscal periods within those years, beginning after June 15, 2013. Retrospective application to all periods presented upon the date of adoption is permitted. Early adoption from the beginning of the fiscal year of adoption is permitted. The guidance will primarily impact the Institute's disclosures, but otherwise is not expected to have a material impact on the Institute's financial position or results of operations.

NOTES TO FINANCIAL STATEMENTS

4. Pledges Receivable

Pledges receivable are recorded at their estimated fair value. Amounts due more than one year were 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 2% for the years ended June, 30 2013 and 2012. At June 30, the amounts of the receivables to be collected as a result of these promises are as follows:

	2013	2012
Receivables (less than one year)	$ 74,306	$ 127,000
Receivables (one to five years)	120,000	154,000
	194,306	281,000
Less discount to net present value	(8,555)	(9,616)
Pledges receivable, net	$ 185,751	$ 271,384

5. Investments

Investments consist of the following as of June 30:

	2013	2012
Common stocks	$ -	$ 171,620
Common trust fund	1,071,386	502,117
Mutual funds	-	303,526
Other equities	-	13,143
	$ 1,071,386	$ 990,406

	2013	2012
Interest and dividends	$ 41,304	$ 33,391
Realized gain (loss), net	(7,338)	(32,094)
Unrealized gain (loss), net	61,317	5,621
	$ 95,283	$ 6,918

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.

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

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 are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using readily determinable fair values or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on readily determinable fair values in active markets include common stocks and mutual funds. Such instruments are generally classified within Level 1 of the fair value hierarchy.

In accordance with ASC 820-10-35-59, the Institute uses net asset value per share ("NAV") as a practical expedient to estimate the fair value of the common trust fund investment. Classification within the fair value hierarchy depends on whether the Institute has the ability to redeem its investments at NAV and if so, when that redemption can take place. If the Institute has no ability to redeem, then the NAV is considered a Level 3 fair value measurement. If the Institute has the ability to redeem on the measurement date, then the NAV is considered a Level 2 fair value measurement. If the Institute has the ability to redeem on a future date, then the length of time until the investment becomes redeemable will determine whether the investment is classified as a Level 2 or a Level 3 fair value measurement. A redemption period of 90 days or less from the measurement period is generally considered near term and would result in the investment being classified as a Level 2 fair value measurement. The common trust fund has a redemption period of 30 days or less and is classified as a Level 2 fair value measurement.

The following table represents the Institute's financial assets that are measured at fair value on a recurring basis as of June 30, 2013:

		Fair Value Measurements as of June 30, 2013 Using:		
Description	6/30/2013	Level 1	Level 2	Level 3
Common stocks	$ -	$ -	$ -	$ -
Common trust fund	1,071,386	-	1,071,386	-
Mutual funds	-	-	-	-
Other equities	-	-	-	-
Total	$ 1,071,386	$ -	$ 1,071,386	$ -

The following table represents the Institute's financial assets that are measured at fair value on a recurring basis as of June 30, 2012:

		Fair Value Measurements as of June 30, 2012 Using:		
Description	6/30/2012	Level 1	Level 2	Level 3
Common stocks	$ 171,620	$ 171,620	$ -	$ -
Common trust fund	502,117	-	502,117	-
Mutual funds	303,526	303,526	-	-
Other equities	13,143	13,143	-	-
Total	$ 990,406	$ 488,289	$ 502,117	$ -

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

There were no major categories of assets and liabilities measured at fair value on a nonrecurring basis during the fiscal years ended June 30, 2013 and 2012.

7. Property and Equipment

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

	2013	2012
Office furniture and equipment	$ 201,855	$ 173,032
Vehicle	56,662	61,452
Leasehold improvements	3,125	3,125
Software	96,305	96,305
	357,947	333,914
Less accumulated depreciation	(263,267)	(223,395)
	$ 94,680	$ 110,519

8. Revolving Line of Credit

The Institute entered into a revolving line of credit agreement (the "Agreement") with a financial institution in the amount of $150,000. Interest is computed with at an interest rate of prime, 3.25% at June 30, 2013, plus 2.5%. The line of credit is collateralized by asset accounts specified in the Agreement and will expire on January 31, 2014. At June 30, 2013 and 2012 the Institute had not drawn on the line of credit.

The revolving line of credit agreement contains various restrictive covenants. The most restrictive of which requires the Institute to maintain a debt to tangible effective net worth, as defined in the revolving line of credit agreement, of not more than 1.0 and net income of $1 be maintained as measured on a quarterly basis. At June 30, 2013, the Institute did not meet the net income covenant. The Institute plans to obtain a debt covenant waiver related to this covenant from the financial institution.

9. Long-Term Debt

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

	2013	2012
Note payable to bank, due in monthly installments of $597, plus interest of 4.98% per annum through January 2014. Collateralized by a vehicle.	$ 3,181	$ 10,347
Less current portion of long-term debt	(3,181)	(7,166)
Long-term debt	$ -	$ 3,181

NOTES TO FINANCIAL STATEMENTS

10. Capital Lease Obligation

The Institute has certain software under a lease agreement that is classified as a capital lease. The cost of the software under capital lease is included in property and equipment on the statements of financial position totaling $28,101. Accumulated amortization of the leased software totaled $12,645 and $7,025 at June 30, 2013 and 2012, respectively. Amortization of the software under capital lease is included in depreciation expense. The following is a schedule by year of the future minimum lease payments under the capital lease together with the present value of the minimum lease payments as of June 30, 2013:

Year Ending	Amount
2014	$ 9,968
Total minimum lease payments	9,968
Less amount representing interest	(766)
Present value of minimum lease payments	9,202
Less current portion	(9,202)
Long-term capital lease obligation	$ -

11. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30:

	2013	2012
Colorado River Delta	$ 70,194	$ 207,009
Sun Corridor	15,199	43,505
Northern Rockies	227,015	632,912
West-Wide Research	36,769	122,547
Training and Community Leadership	-	55,925
Western Colorado	441,127	605,106
Public Policy	-	9,011
Future years operations	69,800	116,200
Unappropriated earnings from permanently restricted net assets	77,200	3,049
	$ 937,304	$ 1,795,264

12. Permanently Restricted Net Assets

Permanently restricted net assets consist of the Institute's donor-restricted endowment funds totaling $1,152,837 and $1,127,770 at June 30, 2013 and 2012, respectively. Permanently restricted net assets are included in investments, pledges receivable and cash and cash equivalents in the accompanying statements of financial position.

Endowment net asset composition by type of fund as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 77,200	$ 1,152,837	$ 1,230,037
Total funds	$ -	$ 77,200	$ 1,152,837	$ 1,230,037

NOTES TO FINANCIAL STATEMENTS

Permanently Restricted Net Assets (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2012	$ -	$ 3,049	$ 1,127,770	$ 1,130,819
Investment return:				
Investment income	-	34,212	-	34,213
Net appreciation	-	53,979	-	53,978
Total investment return	-	88,191	-	88,191
Contributions	-	-	25,067	25,067
Appropriation of endowment funds for expenditure	(14,040)	-	-	(14,040)
Transfers between funds	14,040	(14,040)	-	-
Endowment net assets, June 30, 2013	$ -	$ 77,200	$ 1,152,837	$ 1,230,037

Endowment net asset composition by type of fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 3,049	$ 1,127,770	$ 1,130,819
Total funds	$ -	$ 3,049	$ 1,127,770	$ 1,130,819

Changes in endowment net assets for the fiscal year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2011	$ -	$ -	$ 977,620	$ 977,620
Investment return:				
Investment income	-	29,522	-	29,522
Net depreciation	-	(26,473)	-	(26,473)
Total investment return	-	3,049	-	3,049
Contributions	-	-	150,150	150,150
Appropriation of endowment funds for expenditure	-	-	-	-
Transfers between funds	-	-	-	-
Endowment net assets, June 30, 2012	$ -	$ 3,049	$ 1,127,770	$ 1,130,819

NOTES TO FINANCIAL STATEMENTS

Permanently Restricted Net Assets (continued)

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 investment earnings will be held in the endowment and not available for distribution to the Institute; except that the investment 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, 2013, the Institute had raised approximately $206,000 (in cash) toward the matching requirement.

13. Related Party Transactions

Advance to Rincon Institute

The Institute has advanced funds to assist a related non-profit entity, Rincon Institute. The advance is non-interest bearing. During fiscal year 2013, the carrying amount of the advance was reduced by a $46,586 valuation allowance that reflects management's best estimate of the amount that will not be collected. This resulted in a $46,586 loss on write-down which is included in the accompanying statement of activities and changes in net assets. At June 30, 2013 and 2012, the carrying amount of the advance was $148,092 and $193,131, respectively.

Consultant Expenses

The Institute paid a consultant who is the son of an employee for communication and consulting services. The total fees paid for the years ended June 30, 2013 and 2012 were $20,990 and $24,428, respectively.

14. Operating Leases

The Institute leases office space in Arizona, Colorado, Montana and Wyoming. 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:

Year Ending	Amount
2014	$ 147,580
2015	145,516
2016	123,529
2017	30,649
2018	23,128

Rental expense for the years ended June 30, 2013 and 2012 was $181,438 and $195,213, respectively.

NOTES TO FINANCIAL STATEMENTS

15. Functional Expenses

	2013	2012
Program services	$ 2,982,347	$ 3,220,905
General and administrative	1,126,032	1,176,269
Fundraising	249,560	279,488
	$ 4,357,939	$ 4,676,662

16. Retirement Plan

Effective October 1, 1997, the Institute adopted a Savings Incentive Match Plan (the “Plan”). The Plan covers all employees earning at least $5,000 in a calendar year. Eligible employees may contribute a maximum amount of $12,000 to the Plan in any one year, with a $5,500 catch-up provision for eligible employees age fifty or over. The Institute contributes a discretionary match of up to 3% of the employee’s compensation for the calendar year. From January 1, 2011 through December 31, 2012 the discretionary match was 1%. Effective January 1, 2013 the discretionary match was changed to 3%. The Institute match for the year ended June 30, 2013 and 2012 was $21,628 and $13,739, respectively.

17. Commitments and Contingencies

Funding for Foundation and Government Grants
The Institute receives the majority of its funding through various foundation and government grants. 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.

Obligation under Letter of Agreement
In November 2012, the Commissioners of the U.S. and Mexican sections of the International Boundary and Water Commission executed Minute No. 319 (“Minute 319”). The Institute was a key advocate for Minute 319, which amended the treaty between the U.S. and Mexico governing the Colorado River to provide significant resources that will advance the Institute’s efforts to restore the Colorado River Delta. As part of Minute 319, the Institute and other non-governmental groups (collectively the “NGOs”) in the U.S. and Mexico estimate that it will cost about $4.5 million to acquire the additional water rights needed to permanently support habitat restoration and meet the NGO’s water delivery obligations in connection with the Minute. Using these funds, the NGOs also agreed to meet specific restoration goals over the next five years. The Nature Conservancy was able to secure a program-related Investment (“PRI”) from the David and Lucile Packard Foundation (“Packard Foundation”) that allows the NGOs to move quickly to acquire water so that the restoration goals can be met. The PRI is a low interest loan that must be repaid in full in five years. The NGOs, including the Sonoran Institute, agreed to assist The Nature Conservancy in raising funds to repay the PRI.

In February 2013, the Institute and the NGOs executed a “Letter of Agreement” (“the Agreement”) to commit to a joint fundraising effort related to the protection and restoration of the Colorado River Delta ecosystem. The joint fundraising effort is intended to develop funds to (1) support the acquisition of water rights by the Colorado River Delta Water Trust (“Delta Water Trust”) and (2) repay the PRI.

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies (continued)

The NGOs will join together to seek to raise no less than $1.328 million (plus interest owed to the Packard Foundation under the terms of the PRI), as necessary to ensure timely repayment of the PRI. Each NGO will be responsible for seeking to raise 25% of the total fundraising goal. In the event that the NGOs are unable to raise funds sufficient to repay the entire amount of the PRI by March 31, 2016, the Institute will be responsible to provide The Nature Conservancy the lesser of the remaining amount of the Institute's individual obligation, or $100,000.

At June 30, 2013, the Institute has accrued a liability of $100,000 for the full amount of the potential payment that the Institute would be required to make under the agreement. As of June 30, 2013, the Institute has raised $18,283 under the agreement and in August 2013 transferred the funds to The Nature Conservancy. The repayment of the liability cannot reasonably be determined in advance other than for the unremitted funds raised. The $18,283 raised as of June 30, 2013 is reported as the current portion of the obligation under letter of agreement in the accompanying statement of financial position. The aggregate balance of the obligation under letter of agreement was $100,000 at June 30, 2013.

18. Subsequent Events

The Institute evaluated subsequent events through September 10, 2013, which represents the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

SUPPLEMENTAL SCHEDULES

SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	PROGRAMS							
	Colorado River Delta	Northern Rockies	West-Wide Research	Sun Corridor	Communications	Training & Community Leadership	Western Colorado	Total Programs
Salaries and wages	$ 236,302	$ 269,428	$ 600,438	$ 193,773	$ 61,309	$ 65,008	$ 232,104	$ 1,658,362
Pension contributions	1,271	1,799	7,358	3,135	1,247	1,110	1,185	17,105
Other employee benefits	13,240	28,552	55,127	17,262	7,543	5,758	23,071	150,553
Payroll taxes	33,758	23,120	48,335	15,640	3,941	5,358	19,917	150,069
Consultants	32,329	135,536	100,809	19,812	58,650	8,337	70,622	426,095
Accounting and legal	5,532	-	327	-	-	7,500	-	13,359
Outside services	62,239	6,448	2,225	49	-	-	5,991	76,952
Insurance	3,591	-	-	-	-	-	-	3,591
Office and photo supplies	4,342	4,829	11,029	1,086	2,878	663	1,713	26,540
Field supplies and materials	15,580	-	290	704	101	-	-	16,675
Telephone	4,454	4,959	10,358	3,559	215	551	4,632	28,728
Postage and shipping	484	861	524	75	600	499	397	3,440
Dues and publications	-	695	4,791	397	6,241	32	828	12,984
Printing and photocopying	5,378	1,770	1,393	1,093	3,988	3,455	3,262	20,339
Miscellaneous	4,921	434	100	-	200	108	254	6,017
Training and seminars	5,252	1,130	3,971	1,605	-	103	-	12,061
Travel	38,126	14,116	39,975	7,561	2,437	1,136	9,865	113,216
Meetings	4,409	9,021	33,376	4,034	-	116	4,059	55,015
Repairs and maintenance	8,024	-	-	-	-	-	-	8,024
Rent	18,096	14,274	26,225	19,897	-	-	13,875	92,367
Utilities	5,787	719	2,643	29	-	-	479	9,657
Subcontracts and grants	-	29,000	-	644	-	-	-	29,644
Contributions	20,740	4,990	7,376	2,850	-	790	11,123	47,869
Depreciation	-	-	-	-	-	-	-	-
Bad debt	-	60	3,625	-	-	-	-	3,685
Interest expense	-	-	-	-	-	-	-	-
Total expenses	$ 523,855	$ 551,741	$ 960,295	$ 293,205	$ 149,350	$ 100,524	$ 403,377	$ 2,982,347

SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013 (CONTINUED)

	SUPPORT SERVICES				
	Administration	Public Policy	Fundraising	Total Support Services	Total
Salaries and wages	$ 417,722	$ 9,526	$ 119,307	$ 546,555	$ 2,204,917
Pension contributions	3,556	87	880	4,523	21,628
Other employee benefits	41,786	545	9,165	51,496	202,049
Payroll taxes	35,002	707	9,907	45,616	195,685
Consultants	46,335	-	72,641	118,976	545,071
Accounting and legal	45,518	-	-	45,518	58,877
Outside services	57,531	124	-	57,655	134,607
Insurance	10,052	-	-	10,052	13,643
Office and photo supplies	24,013	103	1,855	25,971	52,511
Field supplies and materials	-	-	-	-	16,675
Telephone	16,093	41	259	16,393	45,121
Postage and shipping	2,544	21	1,310	3,875	7,315
Dues and publications	4,339	728	635	5,702	18,686
Printing and photocopying	3,554	212	7,440	11,206	31,545
Miscellaneous	11,927	25	95	12,047	18,064
Training and seminars	4,420	-	45	4,465	16,526
Travel	26,145	410	4,957	31,512	144,728
Meetings	16,074	242	1,451	17,767	72,782
Repairs and maintenance	8,565	-	2,645	11,210	19,234
Rent	72,023	-	-	72,023	164,390
Utilities	10,262	-	-	10,262	19,919
Subcontracts and grants	20,000	-	-	20,000	49,644
Contributions	118,841	26,000	16,968	161,809	209,678
Depreciation	45,136	-	-	45,136	45,136
Bad debt	42,895	-	-	42,895	46,580
Interest expense	2,928	-	-	2,928	2,928
Total expenses	$ 1,087,261	$ 38,771	$ 249,560	$ 1,375,592	$ 4,357,939

SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	PROGRAMS							
	Colorado River Delta	Northern Rockies	West-Wide Research	Sun Corridor	Communications	Training & Community Leadership	Western Colorado	Total Programs
Salaries and wages	$ 258,340	$ 238,048	$ 676,964	$ 198,697	$ 58,188	$ 98,175	$ 187,900	$ 1,716,312
Pension contributions	957	1,628	4,313	1,451	553	882	717	10,501
Other employee benefits	14,124	17,144	59,874	17,115	5,968	10,074	21,318	145,617
Payroll taxes	31,895	20,757	54,713	15,830	3,849	7,879	17,503	152,426
Consultants	34,374	108,370	226,912	9,500	56,903	23,038	41,945	501,042
Accounting and legal	6,082	-	-	-	-	-	-	6,082
Outside services	85,683	7,775	15,844	939	169	60	-	110,470
Insurance	3,906	-	500	-	-	-	-	4,406
Office and photo supplies	3,594	8,119	10,064	1,834	2,582	691	1,785	28,669
Field supplies and materials	24,632	3,169	2,155	-	-	50	250	30,256
Telephone	9,140	7,147	8,447	4,029	193	981	5,143	35,080
Postage and shipping	635	780	778	146	138	51	220	2,748
Dues and publications	118	647	1,895	560	3,616	100	357	7,293
Printing and photocopying	4,915	965	5,752	259	5,009	6,546	1,761	25,207
Miscellaneous	20,105	1,605	637	-	99	-	-	22,446
Training and seminars	675	3,463	8,937	154	199	30	200	13,658
Travel	49,063	29,974	39,806	8,168	3,091	2,122	6,714	138,938
Meetings	5,195	4,075	19,610	1,738	105	633	7,855	39,211
Repairs and maintenance	11,408	666	150	200	-	-	-	12,424
Rent	18,547	14,325	24,147	24,624	-	73	14,658	96,374
Utilities	4,614	1,063	1,743	-	-	5	446	7,871
Subcontracts and grants	-	21,000	6,500	-	-	-	-	27,500
Contributions	18,945	788	19,118	538	-	-	5,000	44,389
Depreciation	33,243	-	-	-	-	-	-	33,243
Bad debt	-	-	692	-	-	7,125	925	8,742
Interest expense	-	-	-	-	-	-	-	-
Total expenses	$ 640,190	$ 491,508	$ 1,189,551	$ 285,782	$ 140,662	$ 158,515	$ 314,697	$ 3,220,905

SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012 (CONTINUED)

	SUPPORT SERVICES				
	Administration	Public Policy	Fundraising	Total Support Services	Total
Salaries and wages	$ 610,562	$ 281	$ 186,384	$ 797,227	$ 2,513,539
Pension contributions	2,642	3	593	3,238	13,739
Other employee benefits	51,074	4	18,902	69,980	215,597
Payroll taxes	47,257	22	13,683	60,962	213,388
Consultants	86,995	-	5,741	92,736	593,778
Accounting and legal	19,078	-	-	19,078	25,160
Outside services	52,225	-	120	52,345	162,815
Insurance	9,771	-	-	9,771	14,177
Office and photo supplies	28,060	-	2,970	31,030	59,699
Field supplies and materials	6,961	-	352	7,313	37,569
Telephone	15,263	-	886	16,149	51,229
Postage and shipping	3,913	-	1,160	5,073	7,821
Dues and publications	2,881	-	1,923	4,804	12,097
Printing and photocopying	1,834	-	4,293	6,127	31,334
Miscellaneous	10,184	-	11	10,195	32,641
Training and seminars	24,158	-	4,246	28,404	42,062
Travel	48,684	2,012	15,846	66,542	205,480
Meetings	24,885	-	7,317	32,202	71,413
Repairs and maintenance	9,510	-	2,634	12,144	24,568
Rent	98,839	-	-	98,839	195,213
Utilities	3,686	-	-	3,686	11,557
Subcontracts and grants	-	-	-	-	27,500
Contributions	1,847	-	11,827	13,674	58,063
Depreciation	8,344	-	-	8,344	41,587
Bad debt	540	-	600	1,140	9,882
Interest expense	4,754	-	-	4,754	4,754
Total expenses	$ 1,173,947	$ 2,322	$ 279,488	$ 1,455,757	$ 4,676,662

NOTES TO SUPPLEMENTAL SCHEDULES

1. Basis of Presentation

The accompanying schedules of functional expenses are presented on the accrual basis of accounting.

2. Allocation of Expenses

Expenses are charged directly to program or support services categories based on specific identification. Indirect expenses are allocated based primarily on direct labor costs.