Keegan, Linscott & Kenon, PC
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THE SONORAN INSTITUTE

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES AS OF AND FOR THE YEAR ENDED JUNE 30, 2014 (WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

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INDEPENDENT AUDITOR'S 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, 2014 and 2013, 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, 2014, 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 Institute'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 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 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, 2014 and 2013, and its cash flows for the years then ended and the change in net assets for the year ended June 30, 2014, in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited the Institute's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 10, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, 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
October 29, 2014

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 2,968,488	$ 636,116
Accounts receivable	4,600	11,478
Foundation grants receivable, net	988,590	569,480
Government grants and contracts receivable, net	354,499	252,502
Prepaid expenses	26,866	9,508
Pledges receivable	38,000	74,306
Advance to Rincon Institute, net	66,927	-
Deposits	11,404	11,404
Total current assets	4,459,374	1,564,794
Investments	1,146,582	1,071,386
Pledges receivable, net	91,445	111,445
Advance to Rincon Institute, net	-	148,092
Property and equipment, net	137,030	94,680
Total assets	$ 5,834,431	$ 2,990,397
Liabilities		
Current liabilities		
Accounts payable	$ 102,095	$ 113,574
Accrued expenses	177,575	192,298
Deferred revenue	2,779,617	491,783
Current portion of obligation under letter of agreement	23,461	18,283
Current portion of long-term debt	6,364	3,181
Current portion of capital lease obligation	-	9,202
Total current liabilities	3,089,112	828,321
Obligation under letter of agreement	51,856	81,717
Long-term debt	27,592	-
Total liabilities	3,168,560	910,038
Net Assets		
Unrestricted (deficit)	(167,009)	(9,782)
Temporarily restricted	1,649,943	937,304
Permanently restricted	1,182,937	1,152,837
Total net assets	2,665,871	2,080,359
Total liabilities and net assets	$ 5,834,431	$ 2,990,397

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Summarized Total 2013
Revenues and Other Support					
Contributions	$ 295,981	$ 297,799	$ 5,100	$ 598,880	$ 660,080
Foundation grants	277,097	1,515,044	25,000	1,817,141	760,518
Government grants	337,252	-	-	337,252	391,943
Contract income	3,559,885	-	-	3,559,885	1,260,776
Program service income	9,226	2,325	-	11,551	13,726
Investment income	23,867	116,553		140,420	95,283
Other income (expense)	(9,449)	-	-	(9,449)	21,946
Special events	8,027	-	-	8,027	9,809
Release from obligation under letter of agreement	6,400	-	-	6,400	-
Net assets released from restrictions	1,219,082	(1,219,082)	-	-	-
Total revenues and other support	5,727,368	712,639	30,100	6,470,107	3,214,081
Expenses					
Salaries and wages	2,045,058	-	-	2,045,058	2,204,917
Pension contributions	32,588	-	-	32,588	21,628
Other employee benefits	170,737	-	-	170,737	202,049
Payroll taxes	179,369	-	-	179,369	195,685
Consultants	1,235,332	-	-	1,235,332	545,071
Accounting and legal	60,531	-	-	60,531	58,877
Outside services	221,410	-	-	221,410	134,607
Insurance	19,817	-	-	19,817	13,643
Office supplies	33,415	-	-	33,415	35,462
Equipment leases	94,515	-	-	94,515	17,049
Field supplies and materials	88,693	-	-	88,693	16,675
Water acquisition	683,000	-	-	683,000	-
Telephone	39,508	-	-	39,508	45,121
Postage and shipping	7,795	-	-	7,795	7,315
Dues and publications	17,118	-	-	17,118	18,686
Printing and photocopying	22,489	-	-	22,489	31,545
Miscellaneous	53,448	-	-	53,448	18,064
Training and seminars	26,961	-	-	26,961	16,526
Travel	152,156	-	-	152,156	144,728
Meetings	67,507	-	-	67,507	72,782
Repairs and maintenance	41,501	-	-	41,501	19,234
Rent	140,853	-	-	140,853	164,390
Utilities	13,858	-	-	13,858	19,919
Subcontracts and grants	175,509	-	-	175,509	49,644
Contributions	77,650	-	-	77,650	209,678
Depreciation	50,437	-	-	50,437	45,136
Bad debt	132,574	-	-	132,574	46,580
Interest expense	766	-	-	766	2,928
Total expenses	5,884,595	-	-	5,884,595	4,357,939
Change in net assets	(157,227)	712,639	30,100	585,512	(1,143,858)
Net assets, beginning of year	(9,782)	937,304	1,152,837	2,080,359	3,224,217
Net assets, end of year	$ (167,009)	$ 1,649,943	$ 1,182,937	$ 2,665,871	$ 2,080,359

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	$ 585,512	$ (1,143,858)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	50,437	45,136
Loss on sale of property and equipment	-	431
Loss on write-down of note receivable	85,000	46,586
Collections of contributions restricted for permanent investment	(30,100)	(25,067)
Net realized and unrealized gain on investments	(75,198)	(53,979)
Assumption of obligation under letter of agreement	-	100,000
Release from obligation under letter of agreement	(6,400)	-
Changes in operating assets and liabilities:		
Accounts receivable	6,878	(11,445)
Foundation grants receivable, net	(419,110)	579,820
Government grants and contracts receivable, net	(101,997)	60,379
Prepaid expenses	(17,358)	30,590
Pledges receivable	56,306	85,633
Accounts payable	(11,479)	(6,047)
Accrued expenses	(14,723)	(54,841)
Deferred revenue	2,287,834	76,566
Obligation under letter of agreement	(18,283)	-
Net cash provided by (used in) operating activities	2,377,319	(270,096)
Cash Flows from Investing Activities		
Proceeds on sale of property and equipment	-	500
Purchase of property and equipment	(92,787)	(30,228)
Advances to Rincon Institute	(3,835)	(1,547)
Proceeds on sale of investments	73,706	557,729
Purchases of investments	(73,704)	(584,730)
Net cash used in investing activities	(96,620)	(58,276)
Cash Flows from Financing Activities		
Proceeds from long-term debt	35,000	-
Principal payments on long-term debt	(4,225)	(7,166)
Collections of contributions restricted for investment in endowment	30,100	25,067
Principal payments on capital lease obligation	(9,202)	(10,363)
Net cash provided by financing activities	51,673	7,538
Net change in cash and cash equivalents	2,332,372	(320,834)
Cash and cash equivalents, beginning of year	636,116	956,950
Cash and cash equivalents, end of year	$ 2,968,488	$ 636,116
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 323	$ 3,295

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 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. 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. 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. 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 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 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 of cash equivalents 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 (see note 16). 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 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, 2014 and 2013, 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 $0 and $300 as of June 30, 2014 and 2013, respectively. Government grants and contracts receivable is presented net of an allowance for doubtful accounts of $91 and $6,074 as of June 30, 2014 and 2013, respectively.

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, 2014 and 2013, management considered all pledges receivable to be collectible; therefore, no allowance for uncollectible promises has been provided.

Investments
Investments are carried at fair value. All of the Institute's investments are held in a professionally managed common trust fund. The common trust fund is valued at amounts reported by the investment manager, which are based on the quoted price of the underlying securities held by such funds. Investment income, gains and losses are reported in the statement of activities and changes in net assets as increases or decreases in net assets. The cost of investments sold is determined using the specific identification method. 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)
Since there is no readily determinable market for the Institute's common trust fund, the Institute follows the provisions of Accounting Standards Update ("ASU") No. 2011-04, *Fair Value Measurements* ("ASU 2011-04"). 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.

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 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 $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, 2014, the Institute had not experienced impairment losses on its long-lived assets.

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).

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 financial statements.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Income Taxes (continued)
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 financial statements. During the years ended June 30, 2014 and 2013, 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 in Note 12, the Institute's appropriation for distribution is currently restricted until matching funds for the original donor 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, 2014 and 2013.

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. Significant estimates include the allowance for doubtful accounts.

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, 2013, from which the summarized information was derived.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

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.

3. Recent Accounting Pronouncements

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 adoption of this guidance impacted the Institute's financial statement disclosures only.

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%. As of June 30, the amounts of the receivables to be collected as a result of these promises are as follows:

	2014	2013
Receivables (less than one year)	$ 38,000	$ 74,306
Receivables (one to five years)	100,000	120,000
	138,000	194,306
Less discount to net present value	(8,555)	(8,555)
Pledges receivable, net	$ 129,445	$ 185,751

NOTES TO FINANCIAL STATEMENTS

5. Investments

Investments consist of the following as of June 30:

	2014	2013
Common trust fund	$ 1,146,582	$ 1,071,386

	2014	2013
Interest and dividends	$ 65,222	$ 41,304
Realized loss	(28,347)	(7,338)
Unrealized gain	103,545	61,317
	$ 140,420	$ 95,283

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.

In accordance with ASC 820-10-35-59, the Institute uses net asset value per share (or its equivalent) as a practical expedient to estimate the fair value of the common trust fund. Classification within the fair value hierarchy depends on whether the Institute has the ability to redeem its investments at net asset value (or its equivalent) and if so, when that redemption can take place. If the Institute has the ability to redeem the investment at the net asset value per share (or its equivalent) at the measurement date or in the near term, then the fair value of the investment is generally considered as Level 2. If the Institute has no ability to redeem the investment at the net asset value per share (or its equivalent) at the measurement date or in the near term, then the fair value of the investment is considered as Level 3.

The following table represents the Institute's financial assets that are measured at fair value on a recurring basis as of June 30, 2014:

Description	6/30/2014	Level 1	Level 2	Level 3
Common trust fund	$ 1,146,582	$ -	$ 1,146,582	$ -
Total	$ 1,146,582	$ -	$ 1,146,582	$ -

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

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

Description	6/30/2013	Level 1	Level 2	Level 3
Common trust fund	$ 1,071,386	$ -	$ 1,071,386	$ -
Total	$ 1,071,386	$ -	$ 1,071,386	$ -

There were no major categories of assets and liabilities measured at fair value on a nonrecurring basis during the years ended June 30, 2014 and 2013.

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:

	2014	2013
Office furniture and equipment	$ 204,508	$ 201,855
Vehicles	140,913	56,662
Leasehold improvements	3,125	3,125
Software	102,188	96,305
	450,734	357,947
Less accumulated depreciation	(313,704)	(263,267)
	$ 137,030	$ 94,680

8. Revolving Line of Credit

The Institute has 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, 2014, plus 3.0%. The line of credit is collateralized by asset accounts specified in the Agreement and will expire on December 1, 2014. As of June 30, 2014 and 2013 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 tangible effective net worth and unencumbered liquid assets, as defined in the Agreement, of not less than $1,500,000 and $225,000, respectively, as measured on a quarterly basis. The Institute was in compliance with these restrictive covenants as of June 30, 2014.

9. Long-Term Debt

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

	2014	2013
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.	$ 33,956	$ -
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
Less current portion of long-term debt	(6,364)	(3,181)
Long-term debt	$ 27,592	$ -

NOTES TO FINANCIAL STATEMENTS

Long-Term Debt (continued)

The following is a summary of future principal maturities of long-term debt as of June 30, 2014:

Fiscal Year Ending		Amount
2015	$	6,364
2016		6,691
2017		7,042
2018		7,407
2019		6,452
Total	$	33,956

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 $18,266 and $12,645 as of June 30, 2014 and 2013, respectively. Amortization of the software under capital lease is included in depreciation expense. During 2014, total minimum lease payments of $9,968 were made, including interest of $766, which had a present value of $9,202. The outstanding capital lease obligation was $0 and $9,202 as of June 30, 2014 and 2013, respectively.

11. Temporarily Restricted Net Assets

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

	2014	2013
Colorado River Delta	$ 117,944	$ 70,194
Sun Corridor	147,748	15,199
Northern Rockies	35,594	227,015
West-Wide Research	33,634	36,769
Western Colorado	1,103,270	441,127
Future years operations	35,000	69,800
Unappropriated earnings from permanently restricted net assets	176,753	77,200
	$ 1,649,943	$ 937,304

12. Permanently Restricted Net Assets

Permanently restricted net assets consist of the Institute's donor-restricted endowment funds totaling $1,182,937 and $1,152,837 as of June 30, 2014 and 2013, 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, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 176,753	$ 1,182,937	$ 1,359,690
Total funds	$ -	$ 176,753	$ 1,182,937	$ 1,359,690

NOTES TO FINANCIAL STATEMENTS

Permanently Restricted Net Assets (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2013	$ -	$ 77,200	$ 1,152,837	$ 1,230,037
Investment return:				
Investment income	-	41,355	-	41,355
Net appreciation	-	75,198	-	75,198
Total investment return	-	116,553	-	116,553
Contributions	-	-	30,100	30,100
Appropriation of endowment funds for expenditure	(17,000)	-	-	(17,000)
Transfers between funds	17,000	(17,000)	-	-
Endowment net assets, June 30, 2014	$ -	$ 176,753	$ 1,182,937	$ 1,359,690

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

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	-	34,212
Net appreciation	-	53,979	-	53,979
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

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, 2014, the Institute had raised approximately $238,000 (in cash) toward the matching requirement.

13. Related Party Transactions

Contributions and Pledges Receivable
The Institute received $321,713 and $527,590 in contributions and pledges from board members and other related parties during 2014 and 2013, respectively. Total future amounts due from related parties totaled $105,000 and $116,000 as of June 30, 2014 and 2013, respectively, which are included in pledges receivable in the accompanying statements of financial position.

Advance to Rincon Institute
The Institute has advanced funds to assist a related non-profit entity, Rincon Institute. The advance is non-interest bearing. As of June 30, 2014 and 2013, the carrying amount of the advance was reduced by a valuation allowance of $131,586 and $46,586, respectively, which resulted in a loss on write-down of $85,000 and $46,586, respectively. The valuation allowance reflects management's best estimate of amounts that will not be collected. The losses on write-down are included in bad debt expense in the accompanying statement of activities and changes in net assets. As of June 30, 2014 and 2013, the net carrying amount of the advance totaled $66,927 and $148,092, 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, 2014 and 2013 were $26,501 and $20,990, respectively.

14. Operating Leases

The Institute leases office space in Arizona, Colorado, and Montana. 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
2015	$ 151,397
2016	129,879
2017	35,532
2018	28,011
2019	4,884

Rental expense for the years ended June 30, 2014 and 2013 totaled $235,368 and $181,439, respectively.

NOTES TO FINANCIAL STATEMENTS

15. 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 years ended June 30, 2014 and 2013 was $32,588 and $21,628, respectively.

16. Risks and Uncertainties

Foundation and Government Grant Funding
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.

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, 2014, and June 30, 2013, the Institute had approximately $2,422,000 and $336,000 in excess of FDIC insured limits, respectively.

17. Commitments and Contingencies

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 organizations (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 319. 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" 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 raise 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 raising 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. As such, as of June 30, 2013, the Institute accrued a liability of $100,000 for the full amount of the potential payment that the Institute would be required to make under the Letter of Agreement.

As of June 30, 2014 and 2013, the Institute raised $23,461 and $18,283, respectively, under the Letter of Agreement. The amounts raised were transferred to The Nature Conservancy in 2015 and 2014, respectively. As the repayment of the liability cannot reasonably be determined in advance other than for any unremitted funds raised by fiscal year-end, the unremitted funds raised of $23,461 and $18,283 as of June 30, 2014 and 2013, respectively, are reported as the current portion of the obligation under letter of agreement in the accompanying statements of financial position.

During 2014, based on the combined funds raised by the NGO's, the Institute's remaining obligation to The Nature Conservancy was reduced to $75,317, which resulted in a $6,400 release from obligation under letter of agreement. The release from obligation under letter of agreement is reported as a gain in the accompanying statement of activities and changes in net assets. As of June 30, 2014 and 2013, the aggregate remaining balance of the obligation under letter of agreement was $75,317 and $100,000, respectively.

18. Subsequent Events

The Institute evaluated subsequent events through October 29, 2014, 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, 2014

	PROGRAMS							
	Colorado River Delta	Northern Rockies	West-Wide Research	Sun Corridor	Communications	Training & Community Leadership	Western Colorado	Total Programs
Salaries and wages	$ 338,690	$ 212,111	$ 389,098	$ 154,182	$ 63,690	$ 1,610	$ 272,321	$ 1,431,702
Pension contributions	2,575	2,340	8,249	2,675	1,911	17	3,006	20,773
Other employee benefits	17,262	18,285	32,458	15,368	7,747	19	25,724	116,863
Payroll taxes	43,796	18,157	30,622	12,661	4,208	125	22,522	132,091
Consultants	738,100	72,155	126,063	67,635	53,370	-	155,400	1,212,723
Accounting and legal	13,730	-	28,183	-	-	-	-	41,913
Outside services	171,684	12,543	1,062	1,130	-	-	-	186,419
Insurance	8,379	-	-	-	-	-	115	8,494
Office supplies	12,103	6,642	578	3,840	1,425	56	1,121	25,765
Equipment leases	80,736	1,656	749	665	-	-	-	83,806
Field supplies and materials	87,186	70	386	120	-	-	550	88,312
Water acquisition	683,000	-	-	-	-	-	-	683,000
Telephone	5,840	5,226	5,076	3,743	212	28	4,756	24,881
Postage and shipping	3,673	508	126	181	115	-	254	4,857
Dues and publications	338	610	4,835	30	3,224	-	2,534	11,571
Printing and photocopying	2,071	3,316	138	2,610	6,730	-	421	15,286
Miscellaneous	25,976	-	594	2,300	-	-	216	29,086
Training and seminars	20,587	255	2,296	729	-	-	2,255	26,122
Travel	69,312	12,125	24,549	9,857	1,422	115	8,858	126,238
Meetings	7,207	6,169	10,874	7,380	266	-	27,626	59,522
Repairs and maintenance	33,555	-	-	-	-	-	71	33,626
Rent	19,910	16,736	16,248	11,024	-	-	16,500	80,418
Utilities	3,488	636	1,256	949	-	-	664	6,993
Subcontracts and grants	175,109	400	-	-	-	-	-	175,509
Contributions	20,482	40,669	9,420	1,321	-	-	1,000	72,892
Depreciation	-	-	-	-	-	-	-	-
Bad debt	37,716	-	-	-	-	-	-	37,716
Interest expense	-	-	-	-	-	-	-	-
Total expenses	$ 2,622,505	$ 430,609	$ 692,860	$ 298,400	$ 144,320	$ 1,970	$ 545,914	$ 4,736,578

SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014 (CONTINUED)

	SUPPORT SERVICES				
	Administration	Public Policy	Fundraising	Total Support	Total
Salaries and wages	$ 377,748	$ -	$ 235,608	$ 613,356	$ 2,045,058
Pension contributions	6,778	-	5,037	11,815	32,588
Other employee benefits	34,965	-	18,909	53,874	170,737
Payroll taxes	28,560	-	18,718	47,278	179,369
Consultants	12,281	-	10,328	22,609	1,235,332
Accounting and legal	18,618	-	-	18,618	60,531
Outside services	34,991	-	-	34,991	221,410
Insurance	11,323	-	-	11,323	19,817
Office supplies	6,576	-	1,074	7,650	33,415
Equipment leases	10,709	-	-	10,709	94,515
Field supplies and materials	360	-	21	381	88,693
Water acquisition	-	-	-	-	683,000
Telephone	13,459	-	1,168	14,627	39,508
Postage and shipping	2,200	-	738	2,938	7,795
Dues and publications	4,582	-	965	5,547	17,118
Printing and photocopying	2,493	-	4,710	7,203	22,489
Miscellaneous	24,062	-	300	24,362	53,448
Training and seminars	131	-	708	839	26,961
Travel	11,653	-	14,265	25,918	152,156
Meetings	5,924	-	2,061	7,985	67,507
Repairs and maintenance	5,671	-	2,204	7,875	41,501
Rent	58,605	-	1,830	60,435	140,853
Utilities	6,792	-	73	6,865	13,858
Subcontracts and grants	-	-	-	-	175,509
Contributions	2,860	-	1,898	4,758	77,650
Depreciation	50,437	-	-	50,437	50,437
Bad debt	94,817	-	41	94,858	132,574
Interest expense	766	-	-	766	766
Total expenses	$ 827,361	$ -	$ 320,656	$ 1,148,017	$ 5,884,595

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 supplies	3,177	3,035	9,593	1,067	2,878	663	1,713	22,126
Equipment leases	1,165	1,794	1,436	19	-	-	-	4,414
Field supplies and materials	15,580	-	290	704	101	-	-	16,675
Water acquisition	-	-	-	-	-	-	-	-
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 supplies	11,378	103	1,855	13,336	35,462
Equipment leases	12,635	-	-	12,635	17,049
Field supplies and materials	-	-	-	-	16,675
Water acquisition	-	-	-	-	-
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

NOTES TO SUPPLEMENTAL SCHEDULES

1. Basis of Presentation

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

2. 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, primarily based on direct labor costs.

3. Public Policy Support Services

Public policy support services include educational activities designed to inform voters on proposed state ballot initiatives. During 2013, the Institute participated in such activities related to Proposition 119 on the November 2012 ballot in Arizona. These activities were completed in 2013 and therefore, no expenses were incurred related to public policy support services during 2014.