

SONORAN INSTITUTE

Audited Consolidated Financial Statements

For the years ended June 30, 2025 and 2024

SONORAN INSTITUTE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sonoran Institute

Opinion

We have audited the accompanying consolidated financial statements of Sonoran Institute (a nonprofit organization) which comprise the consolidated statements of financial position as of June 30, 2025 and 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sonoran Institute as of June 30, 2025 and 2024, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Sonoran Institute and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sonoran Institute's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



INDEPENDENT AUDITOR'S REPORT, CONTINUED

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements, Continued

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sonoran Institute's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Sonoran Institute's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

LUOMIG KUENIGER + RUDOLPH PLLC

November 7, 2025

SONORAN INSTITUTE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2025 and 2024

ASSETS

	2025	2024
Current assets:		
Cash and cash equivalents	\$ 1,043,431	\$ 1,555,405
Accounts receivable	-	10,888
Grants and contracts receivable, net	1,232,915	1,247,783
Unconditional promises to give, current portion	57,635	27,541
Prepaid expenses	17,682	6,726
Deposits	4,049	4,049
Total current assets	2,355,712	2,852,392
Investments	1,861,548	1,771,666
Unconditional promises to give, non-current portion, net	62,930	57,222
Operating lease right-of-use assets	17,108	36,781
Property and equipment, net	133,683	131,670
Total assets	\$ 4,430,981	\$ 4,849,731

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 99,683	\$ 78,850
Accrued expenses	154,090	127,650
Deferred revenue	803,154	1,013,995
Finance lease payable, current portion	-	1,694
Operating lease liabilities, current portion	17,622	19,766
Total current liabilities	1,074,549	1,241,955
Operating lease liabilities, non-current portion	-	17,622
Total liabilities	1,074,549	1,259,577
Net assets:		
Without donor restrictions:		
Expended for property and equipment	133,683	131,670
Available for operations	744,699	937,144
Total net assets without donor restrictions	878,382	1,068,814
With donor restrictions	2,478,050	2,521,340
Total net assets	3,356,432	3,590,154
Total liabilities and net assets	\$ 4,430,981	\$ 4,849,731

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

SONORAN INSTITUTE
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:			
Government grants	\$ 2,212,930	\$ -	\$ 2,212,930
Foundation grants	1,082,554	-	1,082,554
Contributions	469,693	316,366	786,059
Contract income	433,249	-	433,249
Investment income, net	33,026	162,650	195,676
Other income	33,114	-	33,114
Special event	32,365	-	32,365
Donated supplies and services	4,735	-	4,735
Net assets released from restrictions	522,306	(522,306)	-
Total revenues and support	4,823,972	(43,290)	4,780,682
Expenses:			
Program services:			
Colorado River Delta US	244,799	-	244,799
Colorado River Delta Mexicali	2,589,826	-	2,589,826
Growing Water Smart	743,428	-	743,428
Santa Cruz	590,733	-	590,733
One Basin	62,831	-	62,831
Supporting services:			
General and administrative	430,199	-	430,199
Fundraising	309,039	-	309,039
Special event direct donor benefits	43,549	-	43,549
Total expenses	5,014,404	-	5,014,404
Change in net assets	(190,432)	(43,290)	(233,722)
Net assets, beginning of year	1,068,814	2,521,340	3,590,154
Net assets, end of year	\$ 878,382	\$ 2,478,050	\$ 3,356,432

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

SONORAN INSTITUTE

CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:			
Government grants	\$ 1,672,094	\$ -	\$ 1,672,094
Foundation grants	1,242,975	-	1,242,975
Contributions	500,219	312,214	812,433
Investment income, net	40,299	180,758	221,057
Contract income	133,505	-	133,505
Other income	37,220	-	37,220
Donated supplies and services	8,186	-	8,186
Net assets released from restrictions	876,333	(876,333)	-
Total revenues and support	4,510,831	(383,361)	4,127,470
Expenses:			
Program services:			
Colorado River Delta US	285,491	-	285,491
Colorado River Delta Mexicali	2,197,904	-	2,197,904
Growing Water Smart	774,438	-	774,438
Santa Cruz	304,994	-	304,994
One Basin	58,456	-	58,456
Supporting services:			
General and administrative	397,015	-	397,015
Fundraising	306,216	-	306,216
Total expenses	4,324,514	-	4,324,514
Change in net assets	186,317	(383,361)	(197,044)
Net assets, beginning of year	882,497	2,904,701	3,787,198
Net assets, end of year	\$ 1,068,814	\$ 2,521,340	\$ 3,590,154

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

SONORAN INSTITUTE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2025

	Program						Supporting Services			Total Expenses
	Colorado River Delta US	Colorado River Delta Mexicali	Growing Water Smart	Santa Cruz	One Basin	Total Programs	General and Administrative	Fundraising	Total Support Services	
Salaries and wages	\$ 189,622	\$ 562,590	\$ 312,058	\$ 325,973	\$ 51,387	\$ 1,441,630	\$ 245,566	\$ 176,773	\$ 422,339	\$ 1,863,969
Payroll taxes	14,318	136,684	25,444	20,992	3,931	201,369	18,577	13,533	32,110	233,479
Other employee benefits	12,722	27,057	21,696	30,306	3,370	95,151	9,599	11,779	21,378	116,529
Pension contributions	5,373	-	9,170	9,222	1,312	25,077	7,002	4,190	11,192	36,269
Total employee and related outside services	222,035	726,331	368,368	386,493	60,000	1,763,227	280,744	206,275	487,019	2,250,246
Consultants	3,630	1,332,091	7,608	8,824	1,317	1,353,470	15,717	13,601	29,318	1,382,788
Subcontracts and grants	2,680	230,237	193,127	58,492	-	484,536	25,727	47,547	73,274	557,810
Meetings	-	-	54,116	69,775	500	124,391	-	-	-	124,391
Field supplies and materials	24	19,676	82,282	8,728	-	110,710	7,345	6,317	13,662	124,372
Travel	-	80,825	-	3,252	-	84,077	655	643	1,298	85,375
Accounting and legal	11,851	9,155	28,021	8,046	-	57,073	20,785	5,858	26,643	83,716
Depreciation	-	23,496	870	6,123	-	30,489	29,930	-	29,930	60,419
Dues and publications	806	56,055	3,717	744	-	56,799	19,027	10,299	29,326	56,799
Rent	3,183	6,072	2,892	4,618	861	15,213	4,069	2,972	7,041	44,539
Office supplies	-	19,142	793	5,450	-	31,528	4,922	269	5,191	38,569
Printing and photocopying	-	17,381	751	7,269	-	25,443	4,922	269	5,191	30,634
Water acquisition	-	4,037	-	15,706	-	20,494	41	7,611	7,652	28,146
Insurance	-	16,614	-	-	-	16,614	-	-	-	16,614
Repairs and maintenance	-	6,198	-	-	-	6,198	8,472	-	8,472	14,670
Bad debt	-	14,596	-	-	-	14,596	-	-	-	14,596
Postage and shipping	-	-	400	4,654	-	5,444	4,536	4,713	9,249	9,249
Telephone	373	5,574	281	573	100	6,901	803	1,738	2,541	7,985
Foreign currency transaction loss	-	7,508	-	-	-	7,508	476	347	823	7,724
Training and seminars	-	6,665	-	-	-	6,665	-	-	-	7,508
Bank fees and interest	-	1,030	-	-	-	1,030	5,036	321	5,357	6,665
Miscellaneous	4	3,352	-	1,454	-	4,810	750	332	1,082	5,892
Utilities	213	2,501	202	332	53	3,301	272	196	468	3,769
Equipment leases	-	900	-	200	-	1,100	892	-	892	1,992
Total expenses	\$ 244,799	\$ 2,589,826	\$ 743,428	\$ 590,733	\$ 62,831	\$ 4,231,617	\$ 430,199	\$ 309,039	\$ 739,238	\$ 4,970,855

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

SONORAN INSTITUTE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2024

	Program						Supporting Services			Total Expenses
	Colorado River Delta US	Colorado River Delta Mexicali	Growing Water Smart	Santa Cruz	One Basin	Total Programs	General and Administrative	Fundraising	Support Services	
Salaries and wages	\$ 218,738	\$ 569,983	\$ 306,646	\$ 201,975	\$ 45,711	\$ 1,343,053	\$ 226,888	\$ 179,531	\$ 406,419	\$ 1,749,472
Payroll taxes	16,569	115,822	24,435	14,750	3,342	174,918	16,934	13,535	30,469	205,387
Other employee benefits	12,589	23,651	21,792	17,440	6,084	81,556	18,136	10,574	28,710	110,266
Pension contributions	4,146	-	5,678	3,955	910	14,689	4,254	2,757	7,011	21,700
Total employee and related	252,042	709,456	358,551	238,120	56,047	1,614,216	266,212	206,397	472,609	2,086,825
Consultants	1,620	448,307	189,614	30,191	-	669,732	15,500	37,113	52,613	722,345
Outside services	3,760	587,684	4,987	4,725	963	602,119	13,670	14,983	28,653	630,772
Foreign currency transaction loss	-	119,754	-	-	-	119,754	-	-	-	119,754
Meetings	1,284	6,507	88,645	718	-	97,154	7,168	9,580	16,748	113,902
Field supplies and materials	3,750	85,300	3,622	-	-	92,672	152	6,899	7,051	99,723
Travel	14,882	15,866	43,122	2,622	-	76,492	19,700	3,374	23,074	99,566
Subcontracts and grants	-	-	72,500	-	-	72,500	-	-	-	72,500
Accounting and legal	1,045	34,949	548	7,671	-	44,213	24,305	-	24,305	68,518
Water acquisition	-	60,164	-	-	-	60,164	-	-	-	60,164
Dues and publications	1,010	9,664	4,058	1,281	-	16,013	19,012	8,781	27,793	43,806
Rent	3,738	21,364	4,099	3,430	776	33,407	4,186	3,013	7,199	40,606
Printing and photocopying	46	4,516	2,850	14,387	46	21,845	194	12,148	12,342	34,187
Depreciation	-	28,064	-	-	-	28,064	3,577	-	3,577	31,641
Office supplies	1,682	21,596	716	140	-	24,134	4,574	1,088	5,662	29,796
Repairs and maintenance	-	18,486	-	-	-	18,486	-	-	-	18,486
Insurance	-	6,693	-	-	-	6,693	8,012	-	8,012	14,705
Training and seminars	-	7,610	-	-	-	7,610	245	1,420	1,665	9,275
Telephone	344	7,150	669	130	63	8,356	490	254	744	9,100
Miscellaneous	-	1,297	-	-	500	1,797	6,437	-	6,437	8,234
Equipment leases	-	1,449	-	-	-	1,449	3,143	-	3,143	4,592
Utilities	288	1,868	428	189	61	2,834	389	223	612	3,446
Postage and shipping	-	160	29	1,390	-	1,579	49	943	992	2,571
Total expenses	\$ 285,491	\$ 2,197,904	\$ 774,438	\$ 304,994	\$ 58,456	\$ 3,621,283	\$ 397,015	\$ 306,216	\$ 703,231	\$ 4,324,514

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

SONORAN INSTITUTE

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Change in net assets	\$ (233,722)	\$ (197,044)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	56,799	31,641
Net realized and unrealized gain on investments	(139,023)	(146,934)
Change in allowance for net present value, unconditional promises to give	9,878	(29,624)
Change in allowance for uncollectible grants and contracts receivable	4,831	-
Operating leases right-of-use asset interest component	(93)	303
Changes in operating assets and liabilities:		
Accounts receivable	10,888	32,398
Grants and contracts receivable	10,037	(1,081,069)
Unconditional promises to give	(45,680)	1,008,583
Prepaid expenses	(10,956)	679
Deposits	-	7,732
Accounts payable	20,833	39,228
Accrued expenses	26,440	10,870
Deferred revenue	(210,841)	(285,366)
Total adjustments	(266,887)	(411,559)
Net cash used in operating activities	(500,609)	(608,603)
Cash flows from investing activities:		
Purchases of investments	(325,677)	(451,954)
Proceeds from sale of investments	374,818	501,794
Purchases of property and equipment	(58,812)	(123,218)
Net cash used in investing activities	(9,671)	(73,378)
Cash flows from financing activities		
Principal payments on finance lease	(1,694)	(2,865)
Net cash used in financing activities	(1,694)	(2,865)
Change in cash and cash equivalents	(511,974)	(684,846)
Cash and cash equivalents, beginning of year	1,555,405	2,240,251
Cash and cash equivalents, end of year	\$ 1,043,431	\$ 1,555,405
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 7	\$ 52

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

SONORAN INSTITUTE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2025 and 2024

1. Organization

The Sonoran Institute ("Sonoran"), founded in 1990, is a nonprofit corporation that works with communities to achieve harmony between the built environment and the natural world. Sonoran works at the nexus of commerce, community, and conservation to help people build the communities they want to live in while preserving the values which brought them to the North American West. The lasting benefits of Sonoran's community stewardship work is a West where civil dialogue and collaboration are hallmarks of decision making, where people and wildlife live in harmony, and where clean water, air, and energy are assured. Primary sources of revenue are foundation grants, contracts, governmental funding, and donations.

Sonoran Institute Mexico, Asociacion Civil ("AC"), a controlled entity of Sonoran, acquired on January 1, 2018, is a Mexican nonprofit civil association that works with communities in the natural resources' management and recovery in Mexico, including wildlife and the cultural values of those lands.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Sonoran and AC (collectively, the "Institute"). Except where the context otherwise indicates or requires, all references to the "Institute" in these footnotes means the consolidated entity. All intercompany balances and transactions have been eliminated in consolidation.

Financial Statement Presentation and Contributions

The consolidated financial statements are prepared on the accrual basis of accounting. Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions – net assets available for use in general operations and not subject to donor (or grantor) restrictions.
- Net assets with donor restrictions – net assets subject to donor (or grantor) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from donor restrictions.

Cash and Cash Equivalents

The Institute considers cash and highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents includes short-term certificates of deposit and money market accounts that are stated at market value, which approximates cost. The Institute deposits cash and cash equivalents with high credit quality institutions in the United States and Mexico. The Institute has not experienced any losses and does not believe it is exposed to any significant credit risk on cash balances. All such accounts are monitored by management to mitigate risk.

See independent auditor's report.

SONORAN INSTITUTE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2025 and 2024

2. Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents, continued

The Federal Deposit Insurance Corporation (FDIC) insures cash accounts at banks in the United States of America up to \$250,000 per institution. At June 30, 2025 and 2024, the Institute had \$-0- and \$329,610, respectively, held in a financial institution, in the United States of America, above the FDIC insured limits.

The Institute for the Protection of Bank Savings (IPAB) insures cash accounts at banks in Mexico up to approximately \$125,000 per institution. At June 30, 2025 and 2024, the Institute had approximately \$249,487 and \$593,214, respectively, held in a financial institution, in Mexico, above the IPAB limits.

Grants and Contracts Receivables

The Institute's funding sources are primarily foundations and governmental agencies. Support arising from grants and contributions is recognized when the Institute has earned the revenue. The Institute utilizes the allowance method to account for uncollectible accounts. Grants and contracts receivable is presented net of an allowance for doubtful accounts of \$12,454 and \$7,623 at June 30, 2025 and 2024, respectively.

Accounts Receivable

Accounts receivable represents the amounts due under contract services performed by the Institute. The Institute utilizes the allowance method to account for uncollectible accounts. Management believes all accounts receivable are collectible at June 30, 2025 and 2024, and therefore no allowance for doubtful accounts has been recorded.

Unconditional Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimate future cash flows. The Institute uses the allowance method to account for uncollectible unconditional promises to give. All unconditional promises to give deemed to be uncollectible are written off. As of June 30, 2025 and 2024, management considered all unconditional promises to give to be collectible; therefore, no allowance for uncollectible promises has been provided.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements of activities.

The Securities Investor Protection Corporation (SIPC) protects investments up to \$500,000 per institution. However, SIPC does not protect against losses in market value. At June 30, 2025 and 2024, the Institute had \$1,463,417 and \$1,372,865, respectively, on deposit in excess of SIPC limitations. It is the opinion of management that the solvency of the referenced brokerage institutions is not of concern at this time.

See independent auditor's report.

SONORAN INSTITUTE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2025 and 2024

2. Summary of Significant Accounting Policies, Continued

Property and Equipment

Purchased property and equipment is recorded at cost, and donated property and equipment is recorded at estimated fair market value on the date of the donation. The Institute's policy is to capitalize expenditures for or donations of property and equipment that exceed \$5,000 and have a useful life beyond one year. Depreciation is calculated using the straight-line method over the estimated useful life of each asset class ranging from three to seven years.

When items are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the consolidated statement of activities and changes in net assets. Repairs and maintenance for normal upkeep are charged to expense as incurred.

The Institute periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. The Institute had not experienced impairment losses on its long-lived assets through June 30, 2025.

Revenue Recognition

The Institute accounts for its government funded grant and contract revenues as exchange transactions. Revenue under cost-reimbursement grants and contracts are recognized when costs are incurred or agreed-upon work is performed in accordance with the applicable agreements. Foundation grants are accounted for as either exchange transactions or as contributions depending on the nature of the grant. A receivable is recorded to the extent revenue recognized exceeds payment received; conversely, advances in excess of costs incurred or work performed under government funded grants and contracts are deferred and recognized as revenue when the related cost is incurred. Contribution revenue is recorded upon the Institute receiving notification of an unconditional promise to give.

Donated Supplies and Services

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

Donated services are recognized as contributions at fair value when the services are received and (a) create or enhance non-financial assets, or (b) required specialized skills, are provided by individuals possessing those skills, and (c) would typically need to be purchased if not provided by donation. Although the Institute may utilize the service of outside volunteers, the fair value of these services is not recognized in the accompanying consolidated financial statements since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

See independent auditor's report.

SONORAN INSTITUTE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the years ended June 30, 2025 and 2024

2. Summary of Significant Accounting Policies, Continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax-Exempt Status

The Institute is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and from Arizona income tax under Arizona Revised Statute Section 43-1201(4). Therefore, no provision has been made for income taxes in the accompanying consolidated financial statements. The Institute is not classified as a private foundation under Section 509(a)(1) of the IRC. The Institute also qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(a).

The Institute's policy is to disclose or recognize income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax positions. As of June 30, 2025, there were no uncertain tax positions that are potentially material. In addition, management is not aware of any matters which would cause the Institute to lose its tax-exempt status.

Endowment Funds

The Institute's endowment corpus is comprised of donor-designated endowment funds. The Institute has interpreted the "Management of Charitable Funds Act" (Arizona's version of the Uniform Prudent Management of Institutional Funds Act or "UPMIFA"), which underlies the Institute's net asset classification of donor-restricted endowment funds, as requiring the preservation of the fair value of the original gift. As a result of this interpretation, the Institute classifies net assets with donor restriction (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts to the endowment, and (3) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by the law, at which time those amounts will be reported as net assets without donor restrictions.

Endowment assets include those assets of donor-restricted funds that the Institute must hold in perpetuity or for donor-specified periods. To satisfy its long-term objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) while assuming a moderate level of investment risk.

The Institute expects its endowment funds, over time, to provide an average rate of return that exceeds inflation. Actual returns in any given year may vary from that amount. The Institute's spending policy for its endowment assets attempts to provide a predictable stream of funding by appropriating for distribution each 4% of its endowment value. The Institute has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless precluded by donor intent or relevant laws and regulations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2025 and 2024

2. Summary of Significant Accounting Policies, Continued

Endowment Funds, continued

There were no underwater endowment funds during the year. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires the Institute to retain for a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of that nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2025 and 2024.

Functional Expenses

The Institute allocates its expense on a functional basis among its programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural classification. Certain other expenses are allocated among program services and supporting services benefited. These other expenses include rent, information technology, telephone, and internet, and they are allocated based on payroll expenses.

Leases

The Institute accounts for long-term leases under FASB ASU 2016-02, *Leases* (Topic 842). As a result, the Institute has recognized right-of-use (ROU) assets as of June 30, 2025 and 2024 of \$17,108 and \$36,781, respectively, and operating lease liabilities of \$17,622 and \$37,388, respectively. In addition, the Institute has recognized finance lease liabilities of \$-0- and \$1,694 as of June 30, 2025 and 2024, respectively, related to equipment financed and reported as a part of property and equipment.

Reclassification

Certain financial statement amounts from the June 30, 2024 financial statements have been reclassified to conform to the presentation on the June 30, 2025 financial statements. These reclassifications had no impact on the change in net assets for the year ended June 30, 2024 as previously reported.

3. Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, are comprised of:

	2025	2024
Cash and cash equivalents	\$ 1,043,431	\$ 1,555,405
Accounts receivable	-	10,888
Grants and contracts receivable	1,232,915	1,247,783
Unconditional promises to give, current portion	57,635	27,541
Total financial assets available within one year	2,333,981	2,841,617
Less:		
Amounts unavailable for general expenditure within one year due to:		
Restricted by donor with purpose restrictions	433,024	567,867
Total financial assets available to management for general expenditure within one year	\$ 1,900,957	\$ 2,273,750

See independent auditor's report.

SONORAN INSTITUTE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2025 and 2024

3. Liquidity and Availability of Resources, Continued

The Institute is substantially supported by current year contributions, foundation grants, government grants and contract income, which are somewhat predictable. As part of the Institute's fiscal management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Deferred revenue in the amount of \$803,151 and \$1,013,995 at June 30, 2025 and 2024, respectively, is included in the cash balances above and is considered available for general expenditure within one year since management includes the contract activities associated with the deferred revenue in its definition of general expenditures.

4. Unconditional Promises to Give

Unconditional promises to give are recorded at their estimated fair value. Amounts due in more than one year are recorded at the present value of the estimated future cash flows discounted at an adjusted risk-free rate applicable to the year in which the promises were received of 3%, for the years ended June 30, 2025 and 2024. Unconditional promises to give consist of the following at June 30,:

	2025	2024
Unconditional promises to give (less than one year)	\$ 57,635	\$ 27,541
Unconditional promises to give (one to five years)	-	62,717
Unconditional promises to give (six to ten years)	77,500	-
Total unconditional promises to give	135,135	90,258
Less discount to net present value	(14,570)	(5,495)
Unconditional promises to give, net	120,565	84,763
Less current portion	(57,635)	(27,541)
Non-current portion	\$ 62,930	\$ 57,222

5. Investments

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

	2025	2024
US equities	\$ 975,412	\$ 915,299
Mutual and exchange funds	614,116	593,552
International equities	272,020	262,815
Total investments	\$ 1,861,548	\$ 1,771,666

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

	2025	2024
Interest and dividends	\$ 77,265	\$ 93,641
Realized and unrealized gain, net	139,023	146,934
Investment management fees	(20,612)	(19,518)
Investment income, net	\$ 195,676	\$ 221,057

See independent auditor's report.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2025 and 2024

6. Fair Value Measurements

The Financial Accounting Standards Board has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Institute has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at June 30, 2025 and 2024.

- *Equities/Mutual and exchange funds*: Valued at the net asset value ("NAV") of shares held by the Institute at year-end.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institute believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Institute defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalization for the instrument. The institute defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2025 and 2024

6. Fair Value Measurements, Continued

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

Investments at Fair Value as of June 30, 2025				
	Level 1	Level 2	Level 3	Total
US equities	\$ 975,412	\$ -	\$ -	\$ 975,412
Mutual and exchange funds	614,116	-	-	614,116
International equities	272,020	-	-	272,020
	\$ 1,861,548	\$ -	\$ -	\$ 1,861,548

Investments at Fair Value as of June 30, 2024				
	Level 1	Level 2	Level 3	Total
US equities	\$ 915,299	\$ -	\$ -	\$ 915,299
Mutual and exchange funds	593,552	-	-	593,552
International equities	262,815	-	-	262,815
	\$ 1,771,666	\$ -	\$ -	\$ 1,771,666

7. Property and Equipment

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

	2025	2024
Office furniture and equipment	\$ 319,716	\$ 273,979
Vehicles	168,958	155,882
Software	92,740	92,740
Total property and equipment	581,414	522,601
Less accumulated depreciation	(447,731)	(390,931)
Property and equipment, net	\$ 133,683	\$ 131,670

8. Net Assets With Donor Restrictions

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

	2025	2024
Subject to expenditure for specified purpose:		
Colorado River Delta	\$ 60,855	\$ 260,432
Santa Cruz	315,799	278,454
Growing Water Smart	50,321	22,932
DEI	6,049	6,049
Total subject to purpose restrictions	433,024	567,867

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended June 30, 2025 and 2024

8. Net Assets With Donor Restrictions, Continued

	2025	2024
Subject to spending policy and appropriation:		
Original donor-restricted endowment gift amounts required to be maintained:		
Donor-restricted endowment fund	1,479,872	1,478,532
Accumulated investment earnings, which, once appropriated, are expendable	565,154	474,941
Net assets with donor restrictions	\$ 2,478,050	\$ 2,521,340

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2025:

	Contributions/ Income	Releases/ Transfers
Subject to expenditure for specified purpose:		
Colorado River Delta	\$ 95,101	\$ (294,678)
Santa Cruz	90,725	(53,380)
Growing Water Smart	129,200	(101,811)
Total subject to purpose restrictions	315,026	(449,869)
Subject to spending policy and appropriation:		
Donor-restricted endowment fund	1,340	-
Accumulated investment earnings, which, once appropriated, are expendable	162,650	(72,437)
Net assets with donor restrictions	\$ 479,016	\$ (522,306)

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2024:

	Contributions/ Income	Releases/ Transfers
Subject to expenditure for specified purpose:		
Colorado River Delta	\$ 115,106	\$ (651,917)
Santa Cruz	99,845	(28,499)
Growing Water Smart	93,263	(121,828)
Total subject to purpose restrictions	308,214	(802,244)
Subject to spending policy and appropriation:		
Donor-restricted endowment fund	4,000	-
Accumulated investment earnings, which, once appropriated, are expendable	180,758	(74,089)
Net assets with donor restrictions	\$ 492,972	\$ (876,333)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2025 and 2024

9. Endowment Funds

The Institute had the following endowment-related activity during the year ended June 30, 2025:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2024	\$ -	\$ 1,953,473	\$ 1,953,473
Contributions	-	1,340	1,340
Investment return			
Investment income, net	-	23,627	23,627
Net realized and unrealized gain	-	139,023	139,023
Total investment return	-	162,650	2,117,463
Appropriation of endowment funds for expenditure	-	(72,437)	(72,437)
Balance, June 30, 2025	\$ -	\$ 2,045,026	\$ 2,045,026

The Institute had the following endowment-related activity during the year ended June 30, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2023	\$ -	\$ 1,842,804	\$ 1,842,804
Board-designated endowment funds	-	4,000	4,000
Investment return			
Investment income, net	-	33,824	33,824
Net realized and unrealized gain	-	146,934	146,934
Total investment return	-	180,758	2,027,562
Appropriation of endowment funds for expenditure	-	(74,089)	(74,089)
Balance, June 30, 2024	\$ -	\$ 1,953,473	\$ 1,953,473

10. Related Party Transactions

The Institute received \$95,098 and \$142,593 in contributions from board members and other related parties during 2025 and 2024, respectively. Total future amounts due from related parties, included with unconditional promises to give, totaled \$77,500 and \$79,841 as of June 30, 2025 and 2024, respectively.

11. Donated Supplies and Services

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

	2025	2024
Consulting and other professional services	\$ 3,222	\$ 8,186
Printing and other fees	1,513	-
Total donated supplies and services	\$ 4,735	\$ 8,186

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2025 and 2024

11. Donated Supplies and Services, Continued

Donated supplies and services in the amount of \$2,337 and \$7,166 were utilized for program purposes during the years ended June 30, 2025 and 2024, respectively. Donated supplies and services in the amount of \$898 and \$1,020 were utilized for general and administrative purposes during the years ended June 30, 2025 and 2024, respectively. Donated supplies and services in the amount of \$1,500 and \$-0- were utilized for fund-raising purposes during the years ended June 30, 2025 and 2024, respectively.

12. Leases

The Institute has a finance lease for equipment and two non-cancelable operating leases for facilities. The finance lease and one of the operating leases expired during the year ended June 30, 2025. The other operating lease expires during the year ended June 30, 2026.

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

	2025	2024
Operating Leases:		
Operating lease right-of-use assets	\$ 17,108	\$ 36,781
Operating lease liabilities, current portion	\$ 17,622	\$ 19,766
Operating lease liabilities, non-current portion	-	17,622
Total operating lease liabilities	\$ 17,622	\$ 37,388
Finance Leases:		
Property and equipment	\$ -	\$ 7,374
Accumulated depreciation	-	(5,899)
Property and equipment, net	\$ -	\$ 1,475
Finance lease liabilities, current portion	\$ -	\$ 1,694
Finance lease liabilities, non-current portion	-	-
Total finance lease liabilities	\$ -	\$ 1,694

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

	2025	2024
Weighted average remaining lease term, operating leases	.92 years	1.62 years
Weighted average discount rate, operating leases	2.84%	2.95%
Weighted average remaining lease term, finance leases	-	.58 years
Weighted average discount rates, finance leases	-	1.73%

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For the years ended June 30, 2025 and 2024

12. Leases, Continued

The maturities of lease liability as of June 30, 2025 are:

<u>Year ending June 30,</u>	<u>Operating Lease</u>
2026	17,831
Less: interest	<u>(209)</u>
Present value of lease liabilities	<u><u>\$ 17,622</u></u>

The following summarizes the line items in the consolidated statements of activities which include the components of lease expense for the years ended June 30,:

	<u>2025</u>	<u>2024</u>
Operating lease included in rent expense	<u>\$ 20,413</u>	<u>\$ 28,020</u>
Finance lease costs:		
Amortization of lease assets included in depreciation expense	\$ 1,475	\$ 3,950
Interest on lease liabilities included in interest expense	<u>7</u>	<u>52</u>
Total finance lease costs	<u><u>\$ 1,482</u></u>	<u><u>\$ 4,002</u></u>

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

	<u>2025</u>	<u>2024</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	<u>\$ 20,506</u>	<u>\$ 27,716</u>
Operating cash flows from finance lease	<u>\$ 10</u>	<u>\$ 56</u>
Financing cash flows from finance lease	<u><u>\$ 1,692</u></u>	<u><u>\$ 2,860</u></u>

13. Retirement Plan

The Institute has a 401(k) Plan ("Plan") for employees in the United States (U.S.). Each U.S. employee who has attained at least 21 years of age and one month of service is eligible to participate in the Plan. U.S. employees are also eligible for safe-harbor matching contributions after 12 months of service, or earlier, at the discretion of the employer. Eligible employees may contribute, through payroll deductions, a portion of their base compensation not to exceed Internal Revenue Code limitations. In addition, a portion of wages earned by Mexico employees and contributions by the Institute are deferred into a retirement account in accordance with Mexico payroll regulations. The total retirement plan expenses, for all employees, for the years ended June 30, 2025 and 2024 was \$36,269 and \$21,700, respectively.

14. Subsequent Events

The Institute was unaware of any subsequent events through November 7, 2025, the date the consolidated financial statements were available to be issued.

See independent auditor's report.