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

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THE SONORAN INSTITUTE

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2014)

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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, 2015 and 2014, 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, 2015, 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.

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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, 2015 and 2014, and its cash flows for the years then ended and the change in net assets for the year ended June 30, 2015, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules are presented for purposes of additional analysis and are 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.

Report on Summarized Comparative Information

We have previously audited the Institute's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 29, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
October 20, 2015

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	$ 1,580,734	$ 2,849,651
Accounts receivable	10,425	4,600
Foundation grants receivable	591,456	988,590
Government grants and contracts receivable, net	254,778	354,499
Unbilled contract receivables	329,206	-
Pledges receivable	76,000	38,000
Advance to Rincon Institute, net	3,481	66,927
Prepaid expenses	30,289	26,866
Deposits	11,404	11,404
Total current assets	2,887,773	4,340,537
Investments	1,287,449	1,265,419
Pledges receivable, net	142,808	91,445
Property and equipment, net	84,853	137,030
Total assets	$ 4,402,883	$ 5,834,431
Liabilities		
Current liabilities		
Accounts payable	$ 128,860	$ 102,095
Accrued expenses	159,520	177,575
Deferred revenue	1,556,100	2,779,617
Current portion of obligation under letter of agreement	75,317	23,461
Current portion of long-term debt	6,691	6,364
Total current liabilities	1,926,488	3,089,112
Obligation under letter of agreement	-	51,856
Long-term debt	20,901	27,592
Total liabilities	1,947,389	3,168,560
Net Assets		
Unrestricted (deficit)	(251,822)	(167,009)
Temporarily restricted	1,468,879	1,649,943
Permanently restricted	1,238,437	1,182,937
Total net assets	2,455,494	2,665,871
Total liabilities and net assets	$ 4,402,883	$ 5,834,431

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Summarized Total 2014
Revenues and Other Support					
Contributions	$ 479,897	$ 670,465	$ 30,500	$ 1,180,862	$ 598,880
Foundation grants	165,769	436,403	25,000	627,172	1,817,141
Government grants	235,235	-	-	235,235	337,252
Contract income	2,345,531	-	-	2,345,531	3,559,885
Program service income	4,734	-	-	4,734	11,551
Investment (loss) income, net	(18,861)	8,319		(10,542)	140,420
Other income (expense)	21,774	-	-	21,774	(9,449)
Special events	1,705	-	-	1,705	8,027
Release from obligation under letter of agreement	-	-	-	-	6,400
Net assets released from restrictions	1,296,251	(1,296,251)	-	-	-
Total revenues and other support	4,532,035	(181,064)	55,500	4,406,471	6,470,107
Expenses					
Salaries and wages	1,790,254	-	-	1,790,254	2,045,058
Pension contributions	34,134	-	-	34,134	32,588
Other employee benefits	133,579	-	-	133,579	170,737
Payroll taxes	165,424	-	-	165,424	179,369
Consultants	670,789	-	-	670,789	1,235,332
Accounting and legal	37,528	-	-	37,528	60,531
Outside services	160,236	-	-	160,236	221,410
Insurance	15,638	-	-	15,638	19,817
Office supplies	26,708	-	-	26,708	33,415
Equipment leases	40,510	-	-	40,510	94,515
Field supplies and materials	57,357	-	-	57,357	88,693
Water acquisition	736,001	-	-	736,001	683,000
Telephone	37,522	-	-	37,522	39,508
Postage and shipping	4,621	-	-	4,621	7,795
Dues and publications	17,853	-	-	17,853	17,118
Printing and photocopying	34,740	-	-	34,740	22,489
Miscellaneous	41,100	-	-	41,100	53,448
Training and seminars	22,759	-	-	22,759	26,961
Travel	143,582	-	-	143,582	152,156
Meetings	62,473	-	-	62,473	67,507
Repairs and maintenance	17,408	-	-	17,408	41,501
Rent	137,307	-	-	137,307	140,853
Utilities	15,895	-	-	15,895	13,858
Subcontracts and grants	133,874	-	-	133,874	175,509
Contributions	8,050	-	-	8,050	77,650
Depreciation	53,222	-	-	53,222	50,437
Bad debt	16,708	-	-	16,708	132,574
Interest expense	1,576	-	-	1,576	766
Total expenses	4,616,848	-	-	4,616,848	5,884,595
Change in net assets	(84,813)	(181,064)	55,500	(210,377)	585,512
Net assets, beginning of year	(167,009)	1,649,943	1,182,937	2,665,871	2,080,359
Net assets, end of year	$ (251,822)	$ 1,468,879	$ 1,238,437	$ 2,455,494	$ 2,665,871

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	$ (210,377)	$ 585,512
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	53,222	50,437
Loss on write-down of note receivable	-	85,000
Collections of contributions restricted for permanent investment	(55,500)	(30,100)
Net realized and unrealized loss (gain) on investments	48,413	(75,198)
Release from obligation under letter of agreement	-	(6,400)
Changes in operating assets and liabilities		
Accounts receivable	(5,825)	6,878
Foundation grants receivable	397,134	(419,110)
Government grants and contracts receivable, net	99,721	(101,997)
Unbilled contract receivables	(329,206)	-
Pledges receivable, net	(89,363)	56,306
Prepaid expenses	(3,423)	(17,358)
Accounts payable	26,765	(11,479)
Accrued expenses	(18,055)	(14,723)
Deferred revenue	(1,223,517)	2,287,834
Obligation under letter of agreement	-	(18,283)
Net cash (used in) provided by operating activities	(1,310,011)	2,377,319
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,045)	(92,787)
Net proceeds from (advances to) Rincon Institute	63,446	(3,835)
Proceeds on sale of investments	45,443	73,706
Purchases of investments	(115,886)	(192,541)
Net cash used in investing activities	(8,042)	(215,457)
Cash Flows from Financing Activities		
Proceeds from long-term debt	-	35,000
Principal payments on long-term debt	(6,364)	(4,225)
Collections of contributions restricted for investment in endowment	55,500	30,100
Principal payments on capital lease obligation	-	(9,202)
Net cash provided by financing activities	49,136	51,673
Net change in cash and cash equivalents	(1,268,917)	2,213,535
Cash and cash equivalents, beginning of year	2,849,651	636,116
Cash and cash equivalents, end of year	$ 1,580,734	$ 2,849,651
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,576	$ 323

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 either exchange transactions or as contributions depending on the nature of the grant. 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 Federal Deposit Insurance Corporation ("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 foundations and governmental agencies. The Institute grants credit to these agencies. The carrying amount of accounts, grants, and contracts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific accounts and the aging of receivables. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

As of June 30, 2015 and 2014, management considers all accounts receivable and foundation grants receivable to be collectible, therefore, no allowance for doubtful accounts has been provided. Government grants and contracts receivable is presented net of an allowance for doubtful accounts of $15,500 and $91 as of June 30, 2015 and 2014, respectively.

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

Pledges Receivable
The Institute accounts for pledges receivable to be made in future years as unconditional promises to give in the year the promise is made. Pledges to be received after one year are presented at their discounted present value at a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. The fair value amount of pledges receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. All pledges deemed to be uncollectible are written off. As of June 30, 2015 and 2014, management considered all pledges receivable to be collectible; therefore, no allowance for uncollectible promises has been provided.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Investments

Investments are carried at fair value. During fiscal year 2015, all of the Institute's investments were 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.

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.

In August 2015, the Institute's investments were transferred to the Community Foundation of Southern Arizona to be managed in a fund called the Sonoran Institute Endowment Fund.

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, 2015, the Institute had not experienced impairment losses on its long-lived assets.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

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.

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, 2015 and 2014, 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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Endowment Funds (continued)
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, 2015 and 2014.

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, 2014, from which the summarized information was derived.

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

3. Recent Accounting Pronouncements

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist which raise substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and annual and interim periods thereafter, with early adoption permitted. The adoption of ASU 2014-15 is not expected to have a material effect on the Institute’s financial statements or disclosures

In May 2015, the FASB has issued Accounting Standards Update (ASU) No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The amendments apply to reporting entities that elect to measure the fair value of an investment using the net asset value per share (or its equivalent) practical expedient.

Topic 820, Fair Value Measurement, permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. For investments that are redeemable with the investee at a future date, a reporting entity must consider the length of time until those investments become redeemable to determine the classification within the fair value hierarchy.

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient.

The amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted. The Institute is currently evaluating the impact of this election on the financial statements.

4. Pledges Receivable

Pledges receivable are recorded at their estimated fair value. Amounts due more than one year are recorded at the present value of the estimated future cash flows discounted at an adjusted risk-free rate, applicable to the year in which the promises were received of 2%. As of June 30, the amounts of the receivables to be collected as a result of these promises are as follows:

	2015	2014
Receivables (less than one year)	$ 76,000	$ 38,000
Receivables (one to five years)	150,000	100,000
	226,000	138,000
Less discount to net present value	(7,192)	(8,555)
Pledges receivable, net	$ 218,808	$ 129,445

5. Investments

Investments consist of the following as of June 30:

	2015	2014
Money market mutual fund	$ 164,280	$ 118,837
Common trust fund	1,123,169	1,146,582
	$ 1,287,449	$ 1,265,419

Included in investment (loss) income, net

	2015	2014
Interest and dividends, net	$ 55,572	$ 79,511
Realized loss	(27,196)	(28,347)
Unrealized (loss) gain	(21,217)	103,545
Fees	(17,701)	(14,289)
	$ (10,542)	$ 140,420

NOTES TO FINANCIAL STATEMENTS

6. Fair Value Measurements

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

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

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

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

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

The carrying amount of the money market mutual fund approximates their fair value and are classified as Level 1 inputs in the fair value hierarchy.

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, 2015:

Description	6/30/2015	Level 1	Level 2	Level 3
Money market mutual fund	$ 164,280	$ 164,280	$ -	$ -
Common trust fund	1,123,169	-	1,123,169	-
Total	$ 1,287,449	$ 164,280	$ 1,123,169	$ -

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
Money market mutual fund	$ 118,837	$ 118,837	$ -	$ -
Common trust fund	1,146,582	-	1,146,582	-
Total	$ 1,265,419	$ 118,837	$ 1,146,582	$ -

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

The Institute's long-term pledges receivable are classified within Level 3 of the fair value hierarchy because the inputs are unobservable and are generated by the Institute itself, using the Institute's own data. Only the current year's additions to pledges receivable are included in the fair value hierarchy non-recurring basis table because the Institute's pledges receivable involved fair value measurement only upon initial recognition.

The following table represents the Institute's financial assets that are measured at fair value on a non-recurring basis as of June 30, 2015:

Description	6/30/2015	Level 1	Level 2	Level 3
Initially-recognized pledges receivable	$ -	$ -	$ -	$ 50,000
Total	$ -	$ -	$ -	$ 50,000

There were no financial assets measured at a fair value on a non-recurring basis as of June 30, 2014.

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

	2015	2014
Initially recognized pledges receivable, net	$ 50,000	$ -
Pledges receivable, net recognized in prior years	176,000	138,000
Total	$ 226,000	$ 138,000

7. Property and Equipment

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

	2015	2014
Office furniture and equipment	$ 141,851	$ 204,508
Vehicles	140,913	140,913
Leasehold improvements	3,125	3,125
Software	99,907	102,188
	385,796	450,734
Less accumulated depreciation	(300,943)	(313,704)
	$ 84,853	$ 137,030

NOTES TO FINANCIAL STATEMENTS

8. Revolving Line of Credit

The Institute had a revolving line of credit agreement (the "Agreement") with a financial institution in the amount of $150,000. Interest was computed at an interest rate of prime, 3.25% at June 30, 2015, plus 3.0%. The line of credit was collateralized by asset accounts specified in the Agreement. As of June 30, 2015 and 2014 the Institute had not drawn on the line of credit. This line of credit was closed by the Institute in September of 2015.

The revolving line of credit agreement contained various restrictive covenants. The most restrictive of which required the Institute to maintain tangible effective net worth and unencumbered liquid assets, as defined in the Agreement, of not less than $1,500,000 as measured on a quarterly basis. The Institute was in compliance with these restrictive covenants as of June 30, 2015.

9. Long-Term Debt

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

	2015	2014
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.	$ 27,592	$ 33,956
Less current portion of long-term debt	(6,691)	(6,364)
Long-term debt	$ 20,901	$ 27,592

The following is a summary of future principal maturities of long-term debt as of June 30, 2015:

Fiscal Year Ending	Amount
2016	$ 6,691
2017	7,042
2018	7,407
2019	6,452
2020	-
Total	$ 27,592

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 $23,886 and $18,266 as of June 30, 2015 and 2014, respectively. Amortization of the software under capital lease is included in depreciation expense. This obligation was paid off during 2014 and as a result, there is no outstanding capital lease obligation as of June 30, 2015 and 2014.

NOTES TO FINANCIAL STATEMENTS

11. Temporarily Restricted Net Assets

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

	2015	2014
Colorado River Delta	$ 490,253	$ 117,944
Sun Corridor	112,501	147,748
Rockies	633,816	1,138,864
Western Lands & Communities	20,587	33,634
Administration	15,439	-
Future years operations	48,000	35,000
Unappropriated earnings from permanently restricted net assets	148,283	176,753
	$ 1,468,879	$ 1,649,943

12. Endowment Funds

Permanently restricted net assets consist of the Institute's donor-restricted endowment funds totaling $1,238,437 and $1,182,937 as of June 30, 2015 and 2014, respectively. Endowment funds are included in investments and pledges receivable in the accompanying statements of financial position.

Endowment net asset composition by type of fund as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 148,283	$ 1,238,437	$ 1,386,720
Total funds	$ -	$ 148,283	$ 1,238,437	$ 1,386,720

Changes in endowment net assets for the year ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2014	$ -	$ 176,753	$ 1,182,937	$ 1,359,690
Investment return:				
Investment income	-	56,732	-	56,732
Net depreciation	-	(48,413)	-	(48,413)
Total investment return	-	8,319	-	8,319
Contributions	-	-	55,500	55,500
Appropriation of endowment funds for expenditure	(36,789)	-	-	(36,789)
Transfers between funds	36,789	(36,789)	-	-
Endowment net assets, June 30, 2015	$ -	$ 148,283	$ 1,238,437	$ 1,386,720

NOTES TO FINANCIAL STATEMENTS

Endowment Funds (continued)

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

Changes in endowment net assets for the 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	-	55,644	-	55,644
Net appreciation	-	75,198	-	75,198
Total investment return	-	130,842	-	130,842
Contributions	-	-	30,100	30,100
Appropriation of endowment funds for expenditure	(31,289)	-	-	(31,289)
Transfers between funds	31,289	(31,289)	-	-
Endowment net assets, June 30, 2014	$ -	$ 176,753	$ 1,182,937	$ 1,359,690

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, 2015, the Institute had raised approximately $294,100 (in cash) toward the matching requirement.

13. Related Party Transactions

Contributions and Pledges Receivable

The Institute received $298,330 and $321,713 in contributions and pledges from board members and other related parties during 2015 and 2014, respectively. Total future amounts due from related parties totaled $150,000 and $105,000 as of June 30, 2015 and 2014, respectively, which are included in pledges receivable in the accompanying statements of financial position.

NOTES TO FINANCIAL STATEMENTS

Related Party Transactions (continued)

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, 2015 and 2014, the carrying amount of the advance was reduced by a valuation allowance of $0 and $131,586, respectively, which resulted in a loss on write-down of $0 and $85,000, 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, 2015 and 2014, the net carrying amount of the advance totaled $3,481 and $66,927, respectively.

Consultant & Related Party 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, 2015 and 2014 were $7,650 and $26,501, respectively.

The Institute is partnered with Sonoran Institute Mexico, A. C., a related party and a similar organization for the purpose of collaboration on work to be completed in the Colorado River Delta region of Mexico. The total contributions made for the years ended June 30, 2015 and 2014 were $5,000 and $0, respectively.

14. Operating Leases

The Institute leases office space in Arizona, Colorado, Montana and Mexico. The leases have various terms, monthly payment amounts, and expiration dates. For certain leases, the Institute is responsible for certain occupancy costs including electricity and janitorial services as well as a proportionate share of the property's common costs. The Institute also leases office equipment. The future minimum annual lease payments due under the leases are as follows:

Fiscal Year Ending	Amount
2016	$ 123,056
2017	23,084
2018	20,353
2019	5,048
2020	4,884

Rental expense for the years ended June 30, 2015 and 2014 totaled $177,817 and $235,368, respectively.

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, 2015 and 2014 was $34,134 and $32,588, respectively.

NOTES TO FINANCIAL STATEMENTS

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, 2015 and 2014, the Institute had approximately $1,181,000 and $2,422,000 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.

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.

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies (continued)

Obligation under Letter of Agreement (continued)
For the years ended June 30, 2015 and 2014, the Institute raised $31,307 and $23,461, respectively, totaling $54,768 to repay the PRI. As the repayment of the liability could not reasonably be determined in advance other than for any unremitted funds raised by fiscal year-end, the unremitted funds raised of $23,461 as of June 30, 2014 were reported as the current portion of the obligation under letter of agreement in the accompanying statements of financial position as of June 30, 2014.

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 for the year ended June 30, 2014. As of June 30, 2015 and 2014, the aggregate remaining balance of the obligation under letter of agreement was $75,317.

18. Subsequent Events

The Institute evaluated subsequent events through October 20, 2015, 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, 2015

	PROGRAMS						
	Colorado River Delta	**Rockies**	**Western Lands & Communities**	**Sun Corridor**	**Communications**	**Training & Community Leadership**	**Total Programs**
Salaries and wages	$ 356,193	$ 414,002	$ 326,282	$ 250,243	$ 41,804	$ -	$ 1,388,524
Pension contributions	2,832	6,339	6,929	6,031	1,287	-	23,418
Other employee benefits	13,751	39,423	26,872	20,747	5,065	-	105,858
Payroll taxes	51,023	33,103	26,502	19,713	3,309	-	133,650
Consultants	220,995	286,638	71,963	53,319	25,804	-	658,719
Accounting and legal	6,918	-	-	-	-	-	6,918
Outside services	80,549	28,709	3,214	2,106	1,800	-	116,378
Insurance	4,535	-	-	-	-	-	4,535
Office supplies	10,680	1,594	5,265	1,837	112	-	19,488
Equipment leases	27,147	1,577	495	947	146	-	30,312
Field supplies and materials	52,264	2,254	1,239	-	-	-	55,757
Water acquisition	736,001	-	-	-	-	-	736,001
Telephone	5,978	12,026	3,263	4,433	145	-	25,845
Postage and shipping	1,259	188	76	118	-	-	1,641
Dues and publications	3,012	1,873	5,638	567	4,257	-	15,347
Printing and photocopying	1,497	6,828	1,146	8,582	6,886	-	24,939
Miscellaneous	31,789	845	1,903	-	-	-	34,537
Training and seminars	16,097	420	5,750	305	-	-	22,572
Travel	54,968	24,976	30,758	13,783	-	-	124,485
Meetings	3,707	32,021	16,183	3,647	199	-	55,757
Repairs and maintenance	10,957	393	-	-	-	-	11,350
Rent	27,845	35,826	8,198	15,636	-	-	87,505
Utilities	4,785	1,872	868	1,418	-	-	8,943
Subcontracts and grants	105,874	-	20,000	8,000	-	-	133,874
Contributions	4,530	-	805	250	-	-	5,585
Bad debt	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-
Total expenses	$ 1,835,186	$ 930,907	$ 563,349	$ 411,682	$ 90,814	$ -	$ 3,831,938

SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015 (CONTINUED)

	SUPPORT SERVICES			
	Administration	**Fundraising**	**Total Support**	**Total**
Salaries and wages	$ 218,085	$ 183,645	$ 401,730	$ 1,790,254
Pension contributions	6,141	4,575	10,716	34,134
Other employee benefits	12,615	15,106	27,721	133,579
Payroll taxes	17,149	14,625	31,774	165,424
Consultants	10,538	1,532	12,070	670,789
Accounting and legal	30,610	-	30,610	37,528
Outside services	43,548	310	43,858	160,236
Insurance	11,103	-	11,103	15,638
Office supplies	6,042	1,178	7,220	26,708
Equipment leases	10,198	-	10,198	40,510
Field supplies and materials	1,600	-	1,600	57,357
Water acquisition	-	-	-	736,001
Telephone	11,212	465	11,677	37,522
Postage and shipping	2,100	880	2,980	4,621
Dues and publications	1,333	1,173	2,506	17,853
Printing and photocopying	777	9,024	9,801	34,740
Miscellaneous	6,263	300	6,563	41,100
Training and seminars	187	-	187	22,759
Travel	5,514	13,583	19,097	143,582
Meetings	5,064	1,652	6,716	62,473
Repairs and maintenance	6,035	23	6,058	17,408
Rent	49,802	-	49,802	137,307
Utilities	6,952	-	6,952	15,895
Subcontracts and grants	-	-	-	133,874
Contributions	1,934	531	2,465	8,050
Depreciation	53,222	-	53,222	53,222
Bad debt	15,409	1,299	16,708	16,708
Interest expense	1,576	-	1,576	1,576
Total expenses	$ 535,009	$ 249,901	$ 784,910	$ 4,616,848

SEE ACCOMPANYING NOTES TO SUPPLEMENTAL SCHEDULE

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

	PROGRAMS						
	Colorado River Delta	**Rockies**	**Western Lands & Communities**	**Sun Corridor**	**Communications**	**Training & Community Leadership**	**Total Programs**
Salaries and wages	$ 338,690	$ 484,432	$ 389,098	$ 154,182	$ 63,690	$ 1,610	$ 1,431,702
Pension contributions	2,575	5,346	8,249	2,675	1,911	17	20,773
Other employee benefits	17,262	44,009	32,458	15,368	7,747	19	116,863
Payroll taxes	43,796	40,679	30,622	12,661	4,208	125	132,091
Consultants	738,100	227,555	126,063	67,635	53,370	-	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	7,763	578	3,840	1,425	56	25,765
Equipment leases	80,736	1,656	749	665	-	-	83,806
Field supplies and materials	87,186	620	386	120	-	-	88,312
Water acquisition	683,000	-	-	-	-	-	683,000
Telephone	5,840	9,982	5,076	3,743	212	28	24,881
Postage and shipping	3,673	762	126	181	115	-	4,857
Dues and publications	338	3,144	4,835	30	3,224	-	11,571
Printing and photocopying	2,071	3,737	138	2,610	6,730	-	15,286
Miscellaneous	25,976	216	594	2,300	-	-	29,086
Training and seminars	20,587	2,510	2,296	729	-	-	26,122
Travel	69,312	20,983	24,549	9,857	1,422	115	126,238
Meetings	7,207	33,795	10,874	7,380	266	-	59,522
Repairs and maintenance	33,555	71	-	-	-	-	33,626
Rent	19,910	33,236	16,248	11,024	-	-	80,418
Utilities	3,488	1,300	1,256	949	-	-	6,993
Subcontracts and grants	175,109	400	-	-	-	-	175,509
Contributions	20,482	41,669	9,420	1,321	-	-	72,892
Bad debt	37,716	-	-	-	-	-	37,716
Total expenses	$ 2,622,505	$ 976,523	$ 692,860	$ 298,400	$ 144,320	$ 1,970	$ 4,736,578

SEE ACCOMPANYING NOTES TO SUPPLEMENTAL SCHEDULE

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

	SUPPORT SERVICES			
	Administration	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

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 or 2015.