



MCDOWELL
SONORAN
CONSERVANCY

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FINANCIAL STATEMENTS

Year Ended June 30, 2019

McDOWELL SONORAN CONSERVANCY

FINANCIAL STATEMENTS

Year Ended June 30, 2019

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**Audit, Tax, Management Advisory,
Forensic and Internal Control Consulting**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the *McDowell Sonoran Conservancy*;

Report on the Financial Statements

I have audited the accompanying financial statements of McDowell Sonoran Conservancy (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the statement of financial position of the McDowell Sonoran Conservancy as of June 30, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, McDowell Sonoran Conservancy adopted the new nonprofit reporting standards as required by FASB Accounting Standard Update No. 2016-14. My opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

I have previously audited the McDowell Sonoran Conservancy's 2018 financial statements and in my report dated March 21, 2019, I expressed an unmodified opinion on those audited financial statements. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gregory Michael Coy, CPA, PLLC

Phoenix, Arizona
March 20, 2020

McDOWELL SONORAN CONSERVANCY

STATEMENT OF FINANCIAL POSITION

June 30, 2019
(with comparative totals for June 30, 2018)

	<u>ASSETS</u>	
	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash	\$ 220,889	\$ 708,017
Contributions receivable	69,539	116,428
Inventory	14,374	8,325
Prepaid expenses	<u>19,978</u>	<u>10,578</u>
TOTAL CURRENT ASSETS	324,780	843,348
CONTRIBUTIONS RECEIVABLE	185,339	22,986
PROPERTY AND EQUIPMENT, net	25,634	45,696
INVESTMENTS	532,240	148,343
INTANGIBLE ASSETS, net	21,781	-
OTHER ASSETS	4,327	6,867
LAND HELD FOR CONSERVATION	<u>383,500</u>	<u>383,500</u>
TOTAL ASSETS	<u>\$ 1,477,601</u>	<u>\$ 1,450,740</u>
	<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES		
Accounts payable	\$ 9,304	\$ 32,766
Accrued expenses	<u>42,363</u>	<u>33,779</u>
TOTAL CURRENT LIABILITIES	51,667	66,545
DEFERRED RENT	<u>12,886</u>	<u>15,132</u>
TOTAL LIABILITIES	<u>64,553</u>	<u>81,677</u>
NET ASSETS		
Net assets without donor restrictions		
Undesignated	<u>100,745</u>	<u>90,708</u>
Total net assets without donor restrictions	100,745	90,708
Net assets with donor restrictions		
Time and purpose restrictions	720,144	686,196
Perpetual restrictions	<u>592,159</u>	<u>592,159</u>
Total net assets with donor restrictions	<u>1,312,303</u>	<u>1,278,355</u>
TOTAL NET ASSETS	<u>1,413,048</u>	<u>1,369,063</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,477,601</u>	<u>\$ 1,450,740</u>

McDOWELL SONORAN CONSERVANCY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

	Net assets without donor restrictions	Net assets with donor restrictions	Totals	
			2019	2018
SUPPORT AND REVENUE				
Contributed volunteer services	\$ 1,405,971	\$ -	\$ 1,405,971	\$ 1,414,456
Contributed rent	-	-	-	-
Other contributed materials and services	64,910	-	64,910	24,838
Contributions	448,081	429,778	877,859	1,112,414
Program service revenue	128,911	-	128,911	57,106
Net realized and unrealized gains (losses)	-	2,690	2,690	5,351
Interest income	3,677	1,751	5,428	3,298
Merchandise sales, net of cost of sales	<u>(13,743)</u>	<u>-</u>	<u>(13,743)</u>	<u>(7,787)</u>
Total support and revenue before special events and net assets released from restrictions	2,037,807	434,219	2,472,026	2,609,676
Special events				
Revenue from special events	44,753	-	44,753	16,470
Less costs of direct donor benefits	<u>(39,147)</u>	<u>-</u>	<u>(39,147)</u>	<u>(14,629)</u>
Gross profit (loss) on special events	5,606	-	5,606	1,841
Net assets released from restrictions	<u>400,271</u>	<u>(400,271)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>2,443,684</u>	<u>33,948</u>	<u>2,477,632</u>	<u>2,611,517</u>
EXPENSES				
Program services:				
Stewardship	1,826,083	-	1,826,083	1,710,524
Advocacy	<u>51,750</u>	<u>-</u>	<u>51,750</u>	<u>34,971</u>
Total program services	<u>1,877,833</u>	<u>-</u>	<u>1,877,833</u>	<u>1,745,495</u>
Supporting services:				
Management and general	195,178	-	195,178	127,345
Fundraising	<u>360,636</u>	<u>-</u>	<u>360,636</u>	<u>254,137</u>
Total supporting services	<u>555,814</u>	<u>-</u>	<u>555,814</u>	<u>381,482</u>
TOTAL EXPENSES	<u>2,433,647</u>	<u>-</u>	<u>2,433,647</u>	<u>2,126,977</u>
CHANGE IN NET ASSETS	10,037	33,948	43,985	484,540
NET ASSETS, BEGINNING OF YEAR	<u>90,708</u>	<u>1,278,355</u>	<u>1,369,063</u>	<u>884,523</u>
NET ASSETS, END OF YEAR	<u>\$ 100,745</u>	<u>\$ 1,312,303</u>	<u>\$ 1,413,048</u>	<u>\$ 1,369,063</u>

McDOWELL SONORAN CONSERVANCY

STATEMENT OF FUNCTIONAL EXPENSE

For the year ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

				Supporting Services			Total Expenses	
	Stewardship, Science and Education	Advocacy	Total Program Services	Management and General	Fundraising	Total Supporting Services	2019	2018
Salaries, payroll taxes and benefits	\$ 269,399	\$ -	269,399	\$ 84,002	\$ 199,759	\$ 283,761	\$ 553,160	\$ 395,801
Employee search costs	-	-	-	-	-	-	-	\$ -
Copier lease	3,204	-	3,204	981	2,354	3,335	6,539	8,116
Telephone and internet	18,849	-	18,849	5,770	13,848	19,618	38,467	18,100
Depreciation and amortization	11,016	-	11,016	3,372	8,094	11,466	22,482	16,699
Occupancy	28,586	-	28,586	8,751	21,002	29,753	58,339	57,303
Supplies and materials	14,159	-	14,159	13,200	1,814	15,014	29,173	7,818
Fundraising	-	-	-	-	8,750	8,750	8,750	31,331
Program Services	1,405,971	51,750	1,457,721	-	-	-	1,457,721	1,482,499
Professional fees	40,447	-	40,447	23,870	80,083	103,953	144,400	41,595
Dues, subs and meetings	2,018	-	2,018	4,492	1,482	5,974	7,992	5,347
Insurance	3,923	-	3,923	1,201	2,883	4,084	8,007	8,384
Travel	8,183	-	8,183	2,505	6,012	8,517	16,700	10,299
Bank, CC and payroll fees	-	-	-	11,527	-	11,527	11,527	11,005
Postage and printing	15,754	-	15,754	9,419	4,755	14,174	29,928	2,627
Bad debt	-	-	-	22,285	-	22,285	22,285	8,200
Other expense	4,574	-	4,574	3,803	9,800	13,603	18,177	21,853
	<u>\$ 1,826,083</u>	<u>\$ 51,750</u>	<u>\$ 1,877,833</u>	<u>\$ 195,178</u>	<u>\$ 360,636</u>	<u>\$ 555,814</u>	<u>\$ 2,433,647</u>	<u>\$ 2,126,977</u>

McDOWELL SONORAN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 43,985	\$ 484,540
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Contribution of intangible asset	(24,201)	-
Depreciation and amortization	22,482	16,699
Net realized and unrealized (gain)/loss on investments	(2,690)	(5,351)
Loss on disposal of property and equipment	-	365
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	-	-
Contributions receivable	(115,464)	(95,550)
Inventory	(6,049)	3,950
Prepaid expenses	(9,400)	1,745
Other assets	2,540	-
Increase (decrease) in:		
Accounts payable	(23,462)	25,640
Accrued expenses	8,584	12,171
Deferred rent	(2,246)	(534)
Net cash provided by (used in) operating activities	(105,921)	443,675
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(389,307)	(3,306)
Proceeds from investments	8,100	99,999
Purchases of property and equipment	-	(11,005)
Net cash provided by (used in) investing activities	(381,207)	85,688
NET CHANGE IN CASH	(487,128)	529,363
CASH, BEGINNING OF YEAR	708,017	178,654
CASH, END OF YEAR	\$ 220,889	\$ 708,017
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Non-cash financing activities:		
Contribution of intangible asset	\$ 24,201	\$ -

McDOWELL SONORAN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

(1) Organization purpose and summary of significant accounting policies

Organization purpose – McDowell Sonoran Conservancy (the "Conservancy") is an Arizona nonprofit corporation incorporated in January 1991 and is located in Scottsdale, Arizona. The Conservancy was previously known as the McDowell Sonoran Land Conservancy. The Conservancy changed its name to McDowell Sonoran Conservancy in May 2019. The Conservancy's mission is to preserve and advance natural open space through science, education and stewardship. As Stewards, the Conservancy connects the community to the Preserve through education, research, advocacy, partnerships and safe, respectful access.

Program services include:

Stewardship - The Conservancy equips a collective of volunteers with tools and structures to discover, learn, and ultimately teach. More than 650 volunteers provide their time and talent across a wide range of programs, donating more than 60,000 hours yearly valued at more than \$1.4 Million.

Science - The McDowell Sonoran Conservancy partners with scientists and actively involves volunteers in research as citizen scientists. The Conservancy uses research results to build best practices for long-term resource management and detect changes in plant and animal communities, provide educational opportunities for every age and contribute to the broader scientific knowledge of natural areas.

Education - The Conservancy focuses on providing information about the Sonoran Desert and the environment to recreationists, families, students, environmental enthusiasts and community leaders. Learning about the natural desert, its residents and its history enhance the enjoyment of visiting the desert and reveals the significance of this living treasure.

Advocacy – to take a written or spoken stance on matters that affect the acquisition and completion of the McDowell Sonoran Preserve, the Preserve's ecological integrity and appropriate public access and use.

The significant accounting policies followed by the Conservancy are as follows:

Basis of presentation - The financial statement presentation reports information regarding the Conservancy's financial position and activities according to two classes of net assets:

Net assets without donor restrictions

Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

Net assets with donor restrictions

Assets subject to usage limitations based on donor imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the Conservancy. Certain restrictions may need to be maintained in perpetuity. At both June 30, 2019 and 2018, the Conservancy had a total of \$592,159 that is required to be maintained in perpetuity.

Use of estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 reported amounts of revenues and expenses during the reporting period. Due to their prospective nature, actual results could differ from those estimates.

McDOWELL SONORAN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

(1) Organization purpose and summary of significant accounting policies - continued

Prior period summarized 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 U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Cash - Cash includes cash and, at times, cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Deposits at financial institutions are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). The Organization maintains cash balances at financial institutions which may, at times, exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC), and therefore, the Organization is at risk of loss of these funds should the financial institution become insolvent.

Accounts receivable – Accounts receivable consist of program service fees and exchange transaction revenue due within one year. The Conservancy, at times, grants credit without collateral to its funders. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Although the Conservancy does not require collateral on its accounts receivable, credit risk with respect to accounts receivable is limited due to the fact that accounts receivable are not significant in amount at June 30, 2019 and 2018.

Contributions receivable - Unconditional promises to give (contributions receivable) are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met. Unconditional promises to give that are to be collected within one year are recorded 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 estimated future cash flows. The discounts on those amounts are computed using rates applicable to the years in which the promises are received. At June 30, 2019, the discount rate on long term contributions receivable was approximately 2% for contributions receivable in future years. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on their assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. At June 30, 2019 and June 30, 2018 management has provided for an allowance for doubtful accounts of \$30,485 and \$8,200, respectively.

Inventory – Inventories consists of items held for sale (primarily books, clothing, posters and other small items) and are recorded at cost on a first-in first-out basis.

Property and equipment and related depreciation - Purchased property and equipment is valued at cost and donated property and equipment is recorded at fair value at the date of the gift to the Conservancy. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$3,000 are capitalized. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations. Depreciation of property and equipment is computed on a straight-line basis over the following estimated useful lives:

Furniture, fixtures and equipment	3 to 7 years
Leasehold improvements	10 years
Website	3 years

McDOWELL SONORAN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

(1) Organization purpose and summary of significant accounting policies - continued

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of the donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset for 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 contributions absent donor stipulations regarding how long those donated assets must be maintained. The Conservancy reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Conservancy reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Land held for conservation – Land held for conservation consists of certain undeveloped desert land located in the City of Scottsdale, AZ and held for the purpose of conservation. The land was donated to the Conservancy and is recorded at the fair value of the land at the date of gift. The land is donor restricted to be maintained in perpetuity and is included in the Conservancy's endowment at June 30, 2019 and 2018.

Intangible assets – Intangible assets are valued at cost or, if donated, at fair value at the date of the gift to the Conservancy. Intangible assets consist of a logo that was designed for the Conservancy during 2019 and is recorded at the estimated fair value of \$24,201 for the design and other services donated to the Conservancy. The logo is amortized on a straight-line basis over its estimated useful life of 10 years. Accumulated amortization is \$2,420 for the year ended June 30, 2019. Amortization expense for the year ended June 30, 2019, is \$2,420 and is included in depreciation and amortization expense on the accompanying statement of functional expenses. Estimated annual amortization expense for the years ended June 30, 2020 to 2029 is \$2,420.

Impairment of long-lived assets – The Conservancy accounts for long-lived assets in accordance with the provisions of *Accounting for the Impairment of Long-Lived Assets*. This accounting standard requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows to be expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management believes that no long-lived assets have any impairment of value.

Revenue recognition - The Conservancy recognizes program services revenue as services are rendered. Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Conservancy with terms of the grant or contract. Merchandise sales are recognized as earned when goods are sold. Merchandise sales of \$12,384 and \$11,841 are presented net of cost of sales of \$26,127 and \$19,628, for the years ended June 30, 2019 and June 30, 2018, respectively.

Contributions – Contributions received are recorded as support with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions or without donor restrictions depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

McDOWELL SONORAN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

(1) Organization purpose and summary of significant accounting policies - continued

Donated materials and services - Donated materials and professional services are recorded at their estimated values if they enhance the Conservancy's nonfinancial assets or require specialized skills that the Conservancy would normally purchase, if not provided by donation. The Conservancy recognized approximately \$1,405,971 and \$1,414,456 (54% and 74% of total revenue) of time that was contributed during the years ended June 30, 2019 and 2018, respectively, by the Conservancy's Stewards and others whose services met the recognition criteria. Other volunteers donate a significant amount of time to the Conservancy's program services. No amounts have been reflected in the financial statements for these other volunteer services, since they did not meet the recognition requirements under generally accepted accounting standards.

Special events revenue - The Conservancy conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Conservancy. The direct costs of the special events, which ultimately benefit the donor rather than the Conservancy, are recorded as costs of direct donor benefits in the accompanying statement of activities.

Functional allocation of expenses - The costs of providing programs and other activities have been presented on a functional basis in the statements of activities and functional expenses. Directly identifiable expenses are charged to programs and supporting services. Certain costs have been allocated among the program and supporting services benefited based on management's estimate of time and/or resources devoted to each activity.

Income tax status - The Conservancy is organized as an Arizona non-profit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and has been determined not to be a private foundation under Sections 509(a)(1) and 170(b)(1)(A)(vi). Accordingly, contributions to the Conservancy qualify for the charitable contribution deduction under Section 170. The Conservancy is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Conservancy is generally subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined the Conservancy has no taxable unrelated business income related to the Conservancy's activities and it has not filed the Exempt Organization Business Income Tax Return (IRS Form 990-T), or its Arizona equivalent, Form 99-T. The tax years ended June 30, 2016, 2017, and 2018 are still open to audit for both federal and state purposes. Management believes that it has appropriate support for any income tax positions taken, and, as such, does not have any uncertain tax positions that are material to the financial statements. The Conservancy would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Subsequent events - The Conservancy evaluated subsequent events after the statement of financial position date of June 30, 2019 through March 20, 2020 which was the date the Conservancy's financial statements were available to be issued. Other than those described below, no conditions were noted that did not exist as of June 30, 2019, but arose subsequent to that date.

- Due to a decline in market value of securities, related to the COVID-19 pandemic, the fair value of investments as of March 20, 2020, decreased approximately 4% from the fair value at June 30, 2019.

McDOWELL SONORAN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

(2) Adoption of accounting pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two – net assets with donor restrictions and net assets without donor restrictions. Unrestricted net assets, as reported in prior financial statements, are reported as net assets without donor restrictions. Temporarily restricted net assets and permanently restricted net assets, as reported in prior financial statements, are reported as net assets with donor restrictions. The ASU also requires changes in the way certain information is aggregated and reported by the Conservancy, including required disclosures about liquidity and availability of resources and increased disclosures on functional expenses and endowments. The new standard is effective for the Conservancy's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Conservancy adopted the ASU effective July 1, 2018 and applied the provisions of the standard retroactively at and for the year ended June 30, 2018. Adoption of the ASU did not result in any reclassifications or restatements to total net assets or changes in net assets.

(3) Liquidity and availability of financial assets

The Conservancy regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Conservancy has various sources of liquidity at its disposal, including cash, investments and contributions receivable, and structures its financial assets to be available to meet general expenditures, liabilities and other obligations as they come due. The Conservancy manages its liquid resources by investing excess cash in marketable securities and interest bearing bank accounts. In addition to financial assets available to meet general expenditures over the next 12 months, the Conservancy prepares and strives to operate within an annual budget.

Financial assets available to meet general expenditures within one year:

	2019	2018
Cash & equivalents	\$ 220,889	\$ 708,017
Contributions receivable due in the next 12 months	69,539	116,428
Marketable securities	<u>532,240</u>	<u>148,343</u>
	822,668	972,788
Marketable securities restricted to endowment	(233,381)	(247,222)
Donor imposed purpose restrictions	(440,544)	(508,219)
Donor imposed time restrictions in next 12 months	<u>(69,539)</u>	<u>(116,428)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 79,204</u>	<u>\$ 100,919</u>

(4) Contributions receivable

Contributions receivable consist of:

	2019	2018
Contributions due in less than 1 year	\$ 100,024	\$ 124,628
Contributions due in 1 to 5 years	<u>204,827</u>	<u>25,001</u>
Gross contributions receivable	304,851	149,629
Allowance	(30,485)	(8,200)
Discount	<u>(19,488)</u>	<u>(2,015)</u>
Total contributions receivable, net	<u>\$ 254,878</u>	<u>\$ 139,414</u>

McDOWELL SONORAN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

(5) Investments and fair value measurements

The Conservancy reports its investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices. Investments are exposed to various risks, such as interest rate, market, and credit risks. At June 30, 2019 and 2018, endowment investments are held in a pooled endowment fund at a local community foundation. Investments consist of donations, restricted in perpetuity, made to the fund and the related unexpended net investment income (loss). Also see Note 9 "Endowment". At June 30, 2019 and 2018, the strategic reserve fund investments are held in a pooled investment fund at a local community foundation.

During August 2017, the Board approved a short-term borrowing in the amount of \$100,000 from the endowment investments to fund operations. The amount was repaid and reinvested in the endowment investment fund in August 2018.

Investments consist of:	2019	2018
Perpetual restricted endowment	\$ 208,659	\$ 108,659
Purpose restricted endowment	24,722	38,563
Strategic reserve fund	298,859	1,121
	<u>\$ 532,240</u>	<u>\$ 148,343</u>

The Conservancy has adopted authoritative guidance related to *accounting for fair values of investments*. This standard defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an "exit price") on the measurement date in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants (with no compulsion to buy or sell). Based on the standard *accounting for fair values of investments*, the Conservancy has set up a valuation framework that 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 as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities.

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 (i.e., interest rates, yield curves, etc.);
- 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.

McDOWELL SONORAN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

(5) Investments and fair value measurements (continued)

Fair values of assets at June 30, 2019, are measured as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Marketable domestic fixed income mutual funds	\$ 61,208	\$ -	\$ 61,208
Marketable domestic equity mutual funds	133,060	-	133,060
Marketable international equity mutual funds	105,384	-	105,384
Marketable diversified strategies mutual funds	113,367	-	113,367
Closely held fixed income securities	-	71,852	71,852
Closely held equity securities	-	42,579	42,579
Other	4,790	-	4,790
Total	\$ 417,809	\$ 114,431	\$ 532,240

Fair values of assets at June 30, 2018, are measured as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Marketable domestic fixed income mutual funds	\$ 26,702	\$ -	\$ 26,702
Marketable domestic equity mutual funds	38,866	-	38,866
Marketable international equity mutual funds	30,262	-	30,262
Marketable diversified strategies mutual funds	29,372	-	29,372
Closely held fixed income securities	-	10,829	10,829
Closely held equity securities	-	11,422	11,422
Other	890	-	890
Total	\$ 126,092	\$ 22,251	\$ 148,343

For assets and liabilities measured at fair value on a recurring basis, the fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based upon the lowest level input that is significant to the fair value measurement in its entirety.

Due to a decline in market value of securities, related to the COVID-19 pandemic, the fair value of investments as of March 20, 2020, decreased approximately 4% from the fair value at June 30, 2019.

(6) Property and equipment

Property and equipment consist of:

	<u>2019</u>	<u>2018</u>
Cost or donated value:		
Furniture, fixtures and equipment	\$ 110,422	\$ 110,422
Website	59,392	59,392
Total cost or donated value	169,814	169,814
Accumulated depreciation	(144,180)	(124,118)
Net property and equipment	\$ 25,634	\$ 45,696

Depreciation expense charged to operations is \$20,062 and \$16,699 for the years ended June 30, 2019 and 2018, respectively. Amortization expense of \$2,420 related to intangible assets for the year ended June 30, 2019, is included in depreciation and amortization expense

McDOWELL SONORAN CONSERVANCY

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For the year ended June 30, 2019
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(7) Lease commitments

The Conservancy also leases office space and office equipment under non-cancelable operating leases expiring in years through 2022. The rental expense related to these leases is recorded on a straight-line basis over the lease term. Total rental expense was \$49,586 and \$47,910 for the years ended June 30, 2019 and 2018, respectively. The operating leases have no provisions for renewal options, however, in the normal course of business, operating leases are generally renewed or replaced by other leases.

Minimum future lease payments under non-cancellable operating leases having remaining terms in excess of one year at June 30, 2019, are as follows:

<u>Years Ending June 30,</u>		
2020	\$	49,721
2021		51,087
2022		25,962
2023		-
2024		-
Thereafter		-
Total minimum future lease payments	<u>\$</u>	<u>126,770</u>

(8) Net assets with donor restrictions

Net assets with donor restrictions consist of the following:

	2019	2018
Purpose restrictions:		
Field Institute (Parsons)	\$ 294,500	\$ 459,500
Research	19,644	36,296
Marketing (Parsons)	52,966	-
Stewardship	26,621	10,221
Saguaro STEAM	25,000	-
Endowment earnings	24,722	38,563
STEM	21,000	-
PACE fund disabled & children education	813	2,202
Time restrictions:		
Contributions receivable	254,878	139,414
Perpetual restrictions:		
Land held for conservation	\$ 383,500	\$ 383,500
Short term loan receivable from operations	-	100,000
Permanently restricted investments	208,659	108,659
Total net assets with donor restrictions	<u>\$ 1,312,303</u>	<u>\$ 1,278,355</u>

Land held for conservation is approximately 26% of total assets at both June 30, 2019 and 2018.

McDOWELL SONORAN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

(9) Endowment

The Board of Directors of the Conservancy has adopted the Arizona Management of Charitable Funds Act of 2008 (AMCFA) (the Arizona version of the Uniform Prudent Management of Institutional Funds Act of 2006). The Board has interpreted as requiring the preservation of the fair value of the original donation as of the donation date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conservancy classifies as net assets with perpetual restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 net assets with perpetual restrictions is classified as net assets donor purpose restrictions until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by AMCFA.

In accordance with AMCFA, the Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Conservancy and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Conservancy
- (7) The investment policies of the Conservancy

The Conservancy's endowments consist of land held for conservation, donations restricted in perpetuity and purpose restricted investment earnings. As required by generally accepted accounting principles, net assets associated with the endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Changes in Endowment net assets for the year ended June 30, 2019 are as follows:

	<u>Without donor</u> <u>restrictions</u>	<u>Purpose</u> <u>restricted</u>	<u>Restricted in</u> <u>perpetuity</u>	<u>Total</u>
Land held for conservation, beginning of year	\$ -	\$ -	\$ 383,500	\$ 383,500
Endowment investments, beginning of year	-	38,563	208,659	247,222
Net realized & unrealized gains (losses)	-	2,690	-	2,690
Interest income	-	1,751	-	1,751
Contributions	-	-	-	-
Amounts appropriated for expenditure	-	(18,282)	-	(18,282)
Total, end of year	<u>\$ -</u>	<u>\$ 24,722</u>	<u>\$ 592,159</u>	<u>\$ 616,881</u>

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NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

(9) Endowment (continued)

Changes in Endowment net assets for the year ended June 30, 2018 are as follows:

	<u>Without donor restrictions</u>	<u>Purpose restricted</u>	<u>Restricted in perpetuity</u>	<u>Total</u>
Land held for conservation, beginning of year	\$ -	\$ -	\$ 383,500	\$ 383,500
Endowment investments, beginning of year	-	29,957	208,659	238,616
Net realized & unrealized gains (losses)	-	5,351	-	5,351
Interest income	-	3,255	-	3,255
Contributions	-	-	-	-
Amounts appropriated for expenditure	-	-	-	-
Total, end of year	<u>\$ -</u>	<u>\$ 38,563</u>	<u>\$ 592,159</u>	<u>\$ 630,722</u>

The Conservancy has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk. The Conservancy's spending and investment policies work together to achieve this objective.

The Conservancy's annual appropriations are at the discretion of the Board unless specific instructions were provided by the endowment donors. The current spending policy is 5% to 7% of the annual market value of the endowment, as determined annually by the Board. In the event the current market value of the endowment is less than the historical gift value, spending will continue at 5% to 7% of the market value, unless donor agreements do not permit spending in this circumstance or as otherwise determined by the Board. For the years ended June 30, 2019 and 2018, investment earnings of \$18,282 and \$0 respectively, were appropriated for expenditure by the Board.

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 AMCFA requires the Conservancy to retain as a fund of perpetual duration. As of June 30, 2019 and 2018, the Conservancy had sufficient funds allocated to the endowment.

(10) Related party transactions

From time to time, and as part of their board service, members of the Board of Directors provide cash and in-kind contributions to the Conservancy. A Board member provided certain pro-bono legal services to the Conservancy during 2019 and 2018. The Board member provided these as part of the member's board service commitment and the amount of these services is not considered to be significant to the Conservancy. Accordingly, no amounts have been recorded in the accompanying financial statements for these donated legal services.

During 2017, the Conservancy and Arizona State University (ASU) entered into a Biodiversity Fellows Internship Memorandum of Understanding (MOU) to jointly fund biodiversity fellowships for selected ASU graduate students to work on Conservancy research projects. The Dean of the School of Life Sciences at ASU is also a former board member of the Conservancy and was significantly involved in the creation and drafting of the MOU. According to the MOU, the Conservancy is required to fund \$6,300 per student for each fellowship awarded. No fellowships were awarded during 2019 or 2018.