



Sky Island Alliance
Financial Statements
For the Year Ended December 31, 2016

**SKY ISLAND ALLIANCE
DECEMBER 31, 2016**

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Sky Island Alliance

Report on Financial Statements

We have audited the accompanying financial statements of Sky Island Alliance which comprise the statement of financial position as of December 31, 2016, and the related statements of activities 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sky Island Alliance as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Sky Island Alliance's 2015 financial statements, and our report dated May 18, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit 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.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
June 9, 2017

SKY ISLAND ALLIANCE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 652,216	\$ 593,471
Vendor contracts receivable	94,110	91,372
Contributions and foundation grants receivable	332,231	88,445
Prepaid expenses	1,388	3,985
Other assets	<u>5,910</u>	<u>5,610</u>
Total current assets	1,085,855	782,883
Noncurrent assets:		
Property and equipment, net	23,370	5,759
Long-term foundation grants receivable	<u>155,932</u>	<u> </u>
Total noncurrent assets	179,302	5,759
Total assets	<u>\$ 1,265,157</u>	<u>\$ 788,642</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 10,127	\$ 72,784
Accrued payroll and related	14,924	14,008
Custodial liability	<u> </u>	<u>7,424</u>
Total current liabilities	25,051	94,216
Net assets:		
Unrestricted		
Undesignated	648,227	465,072
Undesignated - property and equipment	<u>23,370</u>	<u>5,759</u>
Total unrestricted	671,597	470,831
Temporarily restricted	<u>568,509</u>	<u>223,595</u>
Total net assets	<u>1,240,106</u>	<u>694,426</u>
Total liabilities and net assets	<u>\$ 1,265,157</u>	<u>\$ 788,642</u>

The accompanying notes are an integral part of this financial statement.

SKY ISLAND ALLIANCE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Totals	
			2016	2015
Revenue and other support:				
Vendor contracts	\$ 471,003	\$	\$ 471,003	\$ 452,327
Contributions	236,965	37,605	274,570	331,187
Foundation grants	221,737	605,102	826,839	323,028
In-kind contributions	12,776		12,776	11,727
Project income	2,785		2,785	1,755
Special event income, net	5,107		5,107	4,849
Miscellaneous income	1,846		1,846	203
Merchandise sales, net	539		539	412
Total revenue and support	952,758	642,707	1,595,465	1,125,488
 Net assets released from restrictions	 297,793	 (297,793)	 	
Total revenue and other support	1,250,551	344,914	1,595,465	1,125,488
 Expenses:				
Program services	909,452		909,452	907,894
General and administrative	98,276		98,276	87,331
Fundraising	42,057		42,057	74,619
Total expenses	1,049,785		1,049,785	1,069,844
 Change in net assets	 200,766	 344,914	 545,680	 55,644
 Net assets, beginning of year	 470,831	 223,595	 694,426	 638,782
 Net assets, end of year	 \$ 671,597	 \$ 568,509	 \$ 1,240,106	 \$ 694,426

The accompanying notes are an integral part of this financial statement.

SKY ISLAND ALLIANCE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 545,680	\$ 55,644
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	4,889	3,335
Changes in assets and liabilities:		
Vendor contracts receivable	(2,738)	(12,142)
Contributions and foundation grants receivable	(399,718)	181,066
Prepaid expenses	2,597	1,804
Other Assets	(300)	(5,610)
Accounts payable	(62,657)	70,319
Accrued payroll and related	916	(1,974)
Custodial liabilities	(7,424)	325
	<u>81,245</u>	<u>292,767</u>
Net cash provided by (used for) operating activities	81,245	292,767
Cash flows from investing activities:		
Proceeds from sale of securities		14,310
Purchases of property and equipment	(22,500)	(5,310)
	<u>(22,500)</u>	<u>(5,310)</u>
Net cash provided by (used for) investing activities	(22,500)	9,000
Net increase (decrease) in cash and cash equivalents	58,745	301,767
Cash and cash equivalents, beginning of year	<u>593,471</u>	<u>291,704</u>
Cash and cash equivalents, end of year	<u>\$ 652,216</u>	<u>\$ 593,471</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 484</u>	<u>\$ 110</u>

The accompanying notes are an integral part of this financial statement.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
WITH COMPARATIVE INFORMATION FOR 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sky Island Alliance (Alliance) was incorporated in Arizona in September 1995 for environmental conservation purposes. The Alliance's programs protect and restore the rich natural heritage of native species and habitats in the Sky Island region of the southwestern United States and northwestern Mexico by reducing habitat fragmentation, restoring riparian areas, advocating for public policy to preserve native species and habitats, and conducting general ecological conservation and education. Cooperative efforts between the Alliance's staff, trained volunteers, property owners, scientists, and government agencies are a hallmark of the Alliance's activities. The Alliance's major programs include conservation policy and public lands planning, wilderness and special designations, landscape and watershed restoration, wildlife linkages, and conservation in northern Mexico. The majority of the Alliance's revenues are from vendor contracts, contributions, and foundation grants.

The more significant accounting policies are described below.

A. Basis of Accounting

The financial statements of the Alliance have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

B. Basis of Presentation

The Alliance is required to report information regarding its financial position and activities according to three classes based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Alliance and changes therein are classified as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Alliance and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Alliance. Generally, the donors of these assets permit the Alliance to use all or part of the income earned on related investments for general purposes. The Alliance has no permanently restricted net assets.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
WITH COMPARATIVE INFORMATION FOR 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Restricted and Unrestricted Revenue

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

D. Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the supplemental Schedules of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

E. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

F. Comparative Financial 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Alliance's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

G. Advertising

The Alliance uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the current fiscal year, advertising costs totaled \$120.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
WITH COMPARATIVE INFORMATION FOR 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

H. Donated Goods and Services

Donated goods are recorded as contributions at their fair values at the date of donation. The Alliance recorded \$12,776 during the year ended December 31, 2016 and no donated goods for the year ended December 31, 2015. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

The Alliance recorded no value of donated professional services during the year ended December 31, 2016, and \$11,727 for the year ended December 31, 2015. Although the Alliance also utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

I. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Alliance considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Alliance maintains its cash in bank deposit accounts which, for short periods of time, may exceed federally insured limits. There was uninsured cash of \$61,492 at December 31, 2016, and no uninsured cash at December 31, 2015.

J. Investments

The Alliance may carry investments at year end in marketable equity securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Investments normally consist of stock donations that are liquidated upon receipt. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

K. Vendor Contracts and Contributions and Foundation Grants Receivable

Vendor contracts receivable and contributions and foundation grants receivable consist primarily of amounts owed to the Alliance for services provided under contracts and for contributions and grants, including multi-year grants considered to be unconditional promises to give. All long-term receivables will be received in less than two years. Management believes that all such receivables are collectible and accordingly has recorded no valuation allowance. Receivables are written off when management determines the receivable to be uncollectible. Such write offs are reported as bad debt expense in the supplemental Schedules of Functional Expenses and included in total expenses in the Statements of Activities.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
WITH COMPARATIVE INFORMATION FOR 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

L. Contributions and Foundation Grants

Contributions, including unconditional promises to give and unconditional grants, are recognized as revenues when received. Promises to give and unconditional grants that are collectible over future periods are discounted to their net present value using a rate of interest equal to government securities issued near the date of the promise and having a maturity date equal to the life of the promises. Conditional promises, such as matching grants, are not recognized until all conditions on which they depend are substantially met.

M. Vendor Contracts

Vendor contracts for services provided to governmental and non-profit entities are billed on a reimbursement basis and recognized as the services are performed.

N. Property and Equipment

Expenditures in excess of \$5,000 for major improvements or items that benefit future periods are capitalized at cost if purchased or at fair market value at the date of gift if donated. Expenditures for maintenance and repairs are expensed as incurred. Depreciation is computed using a straight-line method over the estimated useful lives of the assets, which range from three to five years.

O. Custodial Liabilities

There was no custodial liability at December 31, 2016, as the custodial relationship ended with the Tucson Mountains Association. The custodial liability of \$7,424 at December 31, 2015 consisted of funds held for the Tucson Mountains Association, for which the Alliance acted as an agent.

P. Income Tax Status

The Alliance is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar State of Arizona tax provisions. However, income from certain activities not directly related to the Alliance's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Alliance qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1). The Alliance's Form 990, *Return of Organization Exempt from Income Taxes* is generally subject to examination by the Internal Revenue Service for three years after the date filed.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
WITH COMPARATIVE INFORMATION FOR 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Alliance has not identified any uncertain tax positions that require reporting under generally accepted accounting principles in the United States of America. The Alliance would recognize costs related to any such uncertainties as interest expense and penalties in operating expenses. During the years ended December 31, 2016 and 2015, the Alliance recognized no such interest or penalties.

The Alliance files information returns in the U.S. federal jurisdiction. The State of Arizona accepts a copy of the federal information return. No examinations by any such taxing jurisdictions are pending or anticipated. In general, the Alliance is subject to examination of its U.S. federal information returns for three years after the date the returns were filed.

Q. Subsequent Events

Subsequent events have been evaluated through June 9, 2017, which is the date the financial statements were available to be issued.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Computer and office equipment	\$ 14,292	\$ 14,292
Vehicles	28,955	16,955
Total property and equipment	43,247	31,247
Less accumulated depreciation and amortization	<u>(19,877)</u>	<u>(25,488)</u>
Net property and equipment	<u>\$ 23,370</u>	<u>\$ 5,759</u>

NOTE 3 – RETIREMENT PLAN

Sky Island Alliance has a 403(b) retirement plan to provide retirement benefits for all eligible employees. Contributions to the plan by the Alliance can be made at the discretion of the Board of Directors. For both 2016 and 2015, the Alliance did not make any contributions to the plan.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
WITH COMPARATIVE INFORMATION FOR 2015

NOTE 4 – FISCAL SPONSORSHIPS

Sky Island Alliance is the fiscal sponsor of the Coalition for Sonoran Desert Protection, an unincorporated association that does not have its own legal exempt status. As such, the financial activities of this organization are included as a program of the Alliance’s in its financial statements.

NOTE 5 – OPERATING LEASE COMMITMENTS

The Alliance leases their office space under the provisions of a long-term lease classified as an operating lease for accounting purposes. The operating lease has a remaining noncancelable lease term of 3.66 years and provides renewal options. Rental expense was \$49,528 for the fiscal year. The future minimum rental payments required under the operating lease at year end were as follows:

Year End:					
	2017	\$	50,435		
	2018		51,444		
	2019		52,472		
	2020		39,942		
Total		\$	194,293		

NOTE 6– RESTRICTIONS ON NET ASSETS

Temporarily restricted net asset activity consisted of the following for the year ended December 31, 2016:

	Beginning Balance	Additions	Releases	Ending Balance
Coalition for Sonoran Desert Protection	\$ 22,980	\$ 30,110	\$ 23,090	\$ 30,000
Sky Island Alliance	200,615	612,597	274,703	538,509
Total	\$ 223,595	\$ 642,707	\$ 297,793	\$ 568,509

**SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
WITH COMPARATIVE INFORMATION FOR 2015**

NOTE 7 – RELATED PARTY TRANSACTIONS

The Alliance procures facilitation and planning services for meetings and workshops through Southwest Decision Resources. Southwest Decision Resources employs a Board member for the Alliance and the Board member's spouse. During 2016, expenses totaling \$47,814 were made with Southwest Decision Resources.

SUPPLEMENTARY INFORMATION

SKY ISLAND ALLIANCE
SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 504,859	\$ 58,175	\$ 17,116	\$ 580,150	\$ 443,187	\$ 48,413	\$ 44,785	\$ 536,385
Fees and permits	10,284	4,716	5,194	20,194	24,545	5,067	10,248	39,860
Professional fees	1,100	12,463		13,563	4,709	12,550		17,259
Contract services	144,434	7,746	3,594	155,774	197,396	1,631	95	199,122
Supplies	74,028	3,070	1,275	78,373	59,405	3,801	4,076	67,282
Postage and printing	15,023	290	10,355	25,668	20,091	543	8,296	28,930
Occupancy	63,411	6,525	2,755	72,691	55,775	7,056	5,106	67,937
Depreciation	4,191	474	224	4,889	2,733	291	310	3,334
Travel	58,063	810	316	59,189	70,590	22	126	70,738
Meetings	5,300	544		5,844	15,372	1,241		16,613
Interest expense	445	39		484	11	97	1	109
Insurance	28,264	3,424	1,158	32,846	13,880	6,619	1,576	22,075
Advertising	50		70	120	200			200
Total expenses	\$ 909,452	\$ 98,276	\$ 42,057	\$ 1,049,785	\$ 907,894	\$ 87,331	\$ 74,619	\$ 1,069,844