

**SKY ISLAND ALLIANCE
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013**

**SKY ISLAND ALLIANCE
DECEMBER 31, 2014 and 2013**

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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, 2014, 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, 2014, 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.

Prior Year Information

The prior year information has been obtained from Sky Island Alliance's December 31, 2013, financial statements which were audited by other auditors whose report dated July 17, 2014, expressed an unmodified opinion on those financial statements.

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.
CPAs and Business Consultants

July 2, 2015

SKY ISLAND ALLIANCE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

<u>ASSETS</u>	2014	2013
Current assets:		
Cash and cash equivalents	\$ 291,704	\$ 354,109
Investments	14,310	2,217
Vendor contracts receivable	79,230	70,850
Contributions and foundation grants receivable	269,511	158,435
Prepaid expenses	5,789	8,230
Inventory, net of allowance of \$5,250 and \$5,513	5,250	5,250
Total current assets	660,544	599,091
Noncurrent assets:		
Property and equipment, net	3,784	13,526
Total noncurrent assets	3,784	13,526
 Total assets	\$ 664,328	\$ 612,617
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 2,465	\$ 7,926
Accrued payroll and related	15,982	12,982
Custodial liability	7,099	6,333
Total current liabilities	25,546	27,241
Net assets:		
Unrestricted		
Undesignated	267,849	12,399
Undesignated - property and equipment	3,784	13,526
Total unrestricted	271,633	25,925
Temporarily restricted	367,149	559,451
Total net assets	638,782	585,376
 Total liabilities and net assets	\$ 664,328	\$ 612,617

SKY ISLAND ALLIANCE
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

			Totals	
	Unrestricted	Temporarily Restricted	2014	2013
Revenue and other support:				
Vendor contracts	\$ 155,793	\$	\$ 155,793	\$ 240,759
Contributions	272,641	57,889	330,530	292,794
Foundation grants	103,500	407,433	510,933	563,275
In-kind contributions	4,955		4,955	4,307
Project income	13,884		13,884	6,844
Special event income, net	5,337		5,337	5,697
Investment income	47		47	272
Merchandise sales, net	1,017		1,017	313
Total revenue and support	557,174	465,322	1,022,496	1,114,261
Net assets released from restrictions	657,624	(657,624)		
Total revenue and other support	1,214,798	(192,302)	1,022,496	1,114,261
Expenses:				
Program services	833,883		833,883	832,633
General and administrative	32,362		32,362	66,411
Fundraising	97,595		97,595	95,581
Total expenses	963,840		963,840	994,625
Provision for change in allowance for obsolescence	5,250		5,250	5,513
Change in net assets	245,708	(192,302)	53,406	114,123
Net assets, beginning of year	25,925	559,451	585,376	471,253
Net assets, end of year	\$ 271,633	\$ 367,149	\$ 638,782	\$ 585,376

SKY ISLAND ALLIANCE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 53,406	\$ 114,123
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	8,664	11,354
Donated marketable securities	(14,176)	(14,114)
Realized gain on investments		(255)
Unrealized (gain) loss on investments	4	(5)
Provision for change in allowance for obsolescence	5,250	5,513
Changes in assets and liabilities:		
Vendor contracts receivable	(8,380)	33,887
Contributions and foundation grants receivable	(111,076)	17,959
Prepaid expenses	2,441	8,827
Inventory		287
Accounts payable	(5,461)	(2,487)
Accrued payroll and related	3,000	(11,513)
Custodial liabilities	766	1,546
	<u> </u>	<u> </u>
Net cash provided by (used for) operating activities	(65,562)	165,122
Cash flows from investing activities:		
Proceeds from sale of securities	2,079	12,295
Proceeds from sale of capital assets	1,078	
Purchases of property and equipment		(2,496)
	<u> </u>	<u> </u>
Net cash provided by investing activities	3,157	9,799
Net increase (decrease) in cash and cash equivalents	(62,405)	174,921
Cash and cash equivalents, beginning of year	<u>354,109</u>	<u>179,188</u>
Cash and cash equivalents, end of year	<u>\$ 291,704</u>	<u>\$ 354,109</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 409</u>	<u>\$</u>

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

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, 2014 and 2013**

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. 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, 2013, from which the summarized information was derived.

G. Inventories

Inventories are stated at the lower of cost of market determined by the first-in, first-out method.

H. 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 \$50.

**SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Donated Goods and Services

Donated goods are recorded as contributions at their fair values at the date of donation. The Alliance has recorded the value of donated goods totaling \$1,225 and \$0 for the years ended December 31, 2014 and 2013, respectively. 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 has recorded the value of donated professional services totaling \$3,730 and \$4,307 for the years ended December 31, 2014 and 2013, respectively. 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.

J. 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 no uninsured cash at December 31, 2014.

K. Investments

The Alliance carries investments 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. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

L. 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. Management believes that all such receivables are collectible and accordingly has recorded no valuation allowance. Receivables are written off and 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, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. 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.

N. 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.

O. 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 3 to 5 years.

P. Custodial Liabilities

Custodial liabilities of \$7,099 and \$6,333 at December 31, 2014 and 2013, respectively, consisted of funds held for the Tucson Mountains Association, for which the Alliance acts as an agent.

Q. 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, 2014 and 2013

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, 2014 and 2013, 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.

R. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

S. Subsequent Events

Subsequent events have been evaluated through July 2, 2015, which is the date the financial statements were available to be issued.

NOTE 2 –FAIR VALUE MEASUREMENTS

The Alliance uses a three-tier hierarchy established by the FASB ASC to prioritize the assumptions, referred to as inputs, used in valuation techniques to measure fair value. The fair value hierarchy distinguishes between market participant assumptions and the Alliance's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources, while unobservable inputs are the Alliance's own assumptions about what market participants would assume based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1: Quoted prices in active markets for identical investments.
- Level 2: 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.
- Level 3: Unobservable inputs for the asset or liability.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

NOTE 2 – FAIR VALUE MEASUREMENTS

Fair Values Measured on Recurring Basis

Fair values of assets measured using Level 1 inputs on a recurring basis at year end are as follows:

	<u>2014</u>	<u>2013</u>
Marketable securities:		
International equity securities	\$ 134	\$ 143
Domestic equity securities	14,176	2,074
Total assets	<u>\$ 14,310</u>	<u>\$ 2,217</u>

Investment income consisted of the following at year end:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 51	\$ 238
Unrealized gain (loss)	(4)	5
Realized gains		255
Total investment income	<u>\$ 47</u>	<u>\$ 498</u>

Investment fees for the year ended December 31, 2014 were \$67.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2014</u>	<u>2013</u>
Computer and office equipment	\$ 32,977	\$ 65,106
Vehicles	16,955	16,955
Total property and equipment	49,932	82,061
Less accumulated depreciation and amortization	(46,148)	(68,535)
Net property and equipment	<u>\$ 3,784</u>	<u>\$ 13,526</u>

The Alliance increased its capitalization threshold from \$500 to \$5,000 effective July 2014.

NOTE 4 – 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 2014 and 2013, the Alliance did not make any contributions to the plan.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

NOTE 5 – 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 6 – OPERATING LEASE COMMITMENTS

The Alliance leases office space under operating leases that expired as of February 2015. After expiration of the existing leases, the Alliance entered into month-to-month lease agreements. At December 31, 2014, the leases had a future minimum rental payment due of \$6,800.

NOTE 7– RESTRICTIONS ON NET ASSETS

Temporarily restricted net asset activity consisted of the following for the year ended December 31, 2014:

	Beginning Balance	Additions	Releases	Ending Balance
Coalition for Sonoran Desert Protection	\$ 139,263	\$ 89,299	\$ 160,315	\$ 68,247
EXPLORE and discover new species	19,278	27,410	46,688	
RESTORE watersheds and biodiversity	63,004	240,865	63,004	240,865
ADAPT to climate change	246,315	17,000	216,644	46,671
CONNECT wildlife	51,185	70,000	118,593	2,592
PROTECT ecosystems	26,227	9,000	27,749	7,478
Other	14,179	11,748	24,631	1,296
Total	<u>\$ 559,451</u>	<u>\$ 465,322</u>	<u>\$ 657,624</u>	<u>\$ 367,149</u>

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

NOTE 8 – RELATED PARTY TRANSACTIONS

Sky Island Alliance is wrapping up work on land, a small portion of which includes property owned by a relative of one Board member. The riparian restoration project began in 2008, the majority of the work having been completed in 2013, on the largest and most biologically important cienega in New Mexico. The total amount expended in years 2008-2013 was \$381,000, resulting in extensive restoration of key riparian habitat for the federally endangered Chiricahua leopard frog. The site was selected due to the opportunity to further Sky Island Alliance's mission to repair critical habitat from a century of damage; this site has been known since the 1900's as the most productive and perennial spring in the Bootheel of New Mexico. The remaining work in 2014 totaled \$5,371, focusing on the monitoring of the past restoration work and creating recommendations for future monitoring and management

The Alliance also began an ongoing project during the year ended December 31, 2013, on land that is co-owned by two of its Board members. The Alliance receives a grant for bullfrog eradication on privately held land that is used to fund the project on this land. Total amount spent to date is approximately \$18,193.

SUPPLEMENTARY INFORMATION

SKY ISLAND ALLIANCE
SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014				2013			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 509,295	\$ 15,265	\$ 74,035	\$ 598,595	\$ 573,027	\$ 48,734	\$ 74,481	\$ 696,242
Fees and permits	7,815	1,930	4,989	14,734				
Professional fees	5,351	10,216		15,567	3,078	7,982	44	11,104
Contract services	87,425	144	254	87,823	72,298		691	72,989
Supplies	63,227	542	2,088	65,857	48,296	739	2,232	51,267
Postage and printing	19,100	358	9,171	28,629	10,807	63	4,679	15,549
Occupancy	52,412	1,155	4,540	58,107	50,905	3,840	6,844	61,589
Depreciation	7,647	206	811	8,664	9,262	881	1,211	11,354
Travel	33,719	297		34,016	30,992	260	282	31,534
Meetings	28,461	254		28,715	18,616	243	3,146	22,005
Interest expense	409			409				
Insurance	18,862	1,995	1,707	22,564	8,995	2,056	1,155	12,206
Advertising	50			50				
Bad debt	110			110	35			35
Miscellaneous					6,322	1,613	816	8,751
Total expenses	\$ 833,883	\$ 32,362	\$ 97,595	\$ 963,840	\$ 832,633	\$ 66,411	\$ 95,581	\$ 994,625