



**Sky Island Alliance
Financial Statements
For the Year Ended December 31, 2018**

Sky Island Alliance

Financial Statements
Year Ended December 31, 2018

**SKY ISLAND ALLIANCE
DECEMBER 31, 2018**

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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 (Alliance) which comprise the statement of financial position as of December 31, 2018, 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

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 the Sky Island Alliance as of December 31, 2018, 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.

Change in Accounting Principle

As described in Note 1, the Alliance implemented the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), for the year ended December 31, 2018, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Heinfeld Meech & Co. P.C.

Heinfeld, Meech & Co., P.C.

Tucson, Arizona

August 27, 2019

SKY ISLAND ALLIANCE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

<u>Assets</u>	<u>2018</u>
Current assets:	
Cash and cash equivalents	\$ 503,896
Investments	2,983
Vendor contracts receivable	78,459
Contributions and foundation grants receivable	66,891
Prepaid expenses	14,686
Other assets	4,000
Total current assets	<u>670,915</u>
Noncurrent assets:	
Property and equipment, net	<u>9,000</u>
Total noncurrent assets	<u>9,000</u>
Total assets	<u>\$ 679,915</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	\$ 9,917
Accrued payroll and related	14,000
Total current liabilities	<u>23,917</u>
<u>Net assets</u>	
Without donor restrictions:	
Undesignated	584,274
Net Investment in property and equipment	<u>9,000</u>
Total net assets without donor restrictions	<u>593,274</u>
With donor restrictions	<u>62,724</u>
Total net assets	<u>655,998</u>
Total liabilities and net assets	<u>\$ 679,915</u>

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

SKY ISLAND ALLIANCE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	2018
Revenue, support, and gains:			
Vendor contracts	\$ 356,355	\$	\$ 356,355
Contributions	140,818	6,500	147,318
Foundation grants	217,250	32,224	249,474
In-kind contributions	1,428		1,428
Project income	3,240		3,240
Special event income, net	87,489		87,489
Net investment income	127		127
Merchandise sales, net	1,112		1,112
Net assets released from restrictions	262,515	(262,515)	
Total revenue, support, and gains	1,070,334	(223,791)	846,543
Expenses and losses:			
Program services	1,130,758		1,130,758
General and administrative	109,506		109,506
Fundraising	83,359		83,359
Total expenses and losses	1,323,623		1,323,623
Change in net assets	(253,289)	(223,791)	(477,080)
Net assets, beginning of year	846,563	286,515	1,133,078
Net assets, end of year	\$ 593,274	\$ 62,724	\$ 655,998

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

SKY ISLAND ALLIANCE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018			
	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 443,940	\$ 68,487	\$ 52,514	\$ 564,941
Fees and permits	351,528	3,410	9,492	364,430
Professional fees	964	15,817		16,781
Contract services	82,524	3,744	2,306	88,574
Supplies	33,488	2,252	812	36,552
Postage and printing	6,712	3,239	8,100	18,051
Occupancy	61,441	6,344	3,702	71,487
Depreciation	3,852	410	239	4,501
Travel	50,804	2,580	137	53,521
Meetings	78,492	802	3,020	82,314
Interest expense		3		3
Insurance	17,013	2,418	554	19,985
Advertising	<hr/>	<hr/>	2,483	<hr/>
Total expenses	\$ 1,130,758	\$ 109,506	\$ 83,359	\$ 1,323,623

SKY ISLAND ALLIANCE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018
Cash flows from operating activities:	
Change in net assets	\$ (477,080)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Depreciation	4,501
Changes in assets and liabilities:	
Vendor contracts receivable	43,490
Contributions and foundation grants receivable	111,961
Prepaid expenses	736
Accounts payable	(8,336)
Accrued payroll and related	<u>(1,561)</u>
Net cash provided by (used for) operating activities	(326,289)
Cash flows from investing activities:	
Purchases of securities	<u>(2,984)</u>
Net cash provided by (used for) investing activities	(2,984)
Net increase (decrease) in cash and cash equivalents	(329,273)
Cash and cash equivalents, beginning of year	<u>833,169</u>
Cash and cash equivalents, end of year	<u>\$ 503,896</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	\$ <u>3</u>

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

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Sky Island Alliance (Alliance) works to ensure the Sky Island region is a place where nature thrives, where open space and clean water are available to all, and where people are connected to the region and its innate ability to enrich our lives. The Alliance's programs protect and restore the diversity of life and lands in the region. Major programs include protecting water, conserving wildlife, fostering collaborative stewardship of the land, and connecting people to the region. The Alliance works across borders using science, community engagement, on-the-ground conservation work, and advocacy to connect lands, people, and wildlife. Cooperative efforts between the Alliance staff, volunteers, property owners, scientists, and government agencies are a hallmark of the organization's approach. The majority of the Alliance's revenues are from individual contributions, and government and foundation grants. The organization was incorporated in Arizona in September 1995.

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.

Basis of Presentation

The financial statements of the Alliance have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to not-for-profit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing not-for-profit accounting and financial reporting principles. The Alliance is required to report information regarding its financial position and activities according to two classes based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Alliance and changes therein are classified as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of the Alliance and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds must be maintained in perpetuity.

Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of 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.

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.

Investments

The Alliance reports investments at fair value. Net investment income return is reported in the Statement of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment expense.

Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Alliance to concentrations of credit and market risk consist primarily of cash equivalents and investments. The Alliance maintains its cash and cash equivalents in bank deposit accounts, which, for short periods of time, may exceed federally insured limits. At year end, the carrying amount of the Alliance's deposits was \$503,896 and the bank balance was \$511,159. At year end, \$28,857 of the Alliance's deposits were uninsured and uncollateralized. To minimize risk, cash accounts are maintained at high-quality financial institutions and credit exposure is limited to any one institution. The Alliance's investments do not represent significant concentrations of market risk inasmuch as the Alliance's investment portfolio is liquidated relatively expeditiously.

Contributions and Foundation Grants Receivable

Unconditional promises to give are recognized as revenues when the promise is received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Unconditional promises to give that are expected to be collected in less than one year and are reported at the net realizable value. Unconditional promises to give that are expected to be collected in periods greater than one year are recorded at net present value of expected cash flows. Management does not believe an allowance for uncollectible amounts is necessary based on historical experience with donors, and accordingly has made no allowance for doubtful accounts.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Vendor Contracts Receivable

Vendor contracts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its 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 accounts receivable. Vendor contracts receivable are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

Property and Equipment

All acquisitions of property and equipment with a cost in excess of \$5,000 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from three to five years. Depreciation expense for the current fiscal year was \$4,500.

The Alliance reviews long-lived assets 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 net cash flows 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 amount 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 does not believe impairment indicators are present.

Compensated Absences

Employees are entitled to personal time off (PTO), depending on job classification, length of service, and other factors. It is the Alliance's policy to recognize the cost of compensated absence when leave is earned by employees.

Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Donated Services and In-Kind Contributions

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Alliance reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Alliance reclassifies net assets with donor restrictions to net assets without restrictions at that time.

Volunteers contribute significant amounts of time to the Alliance's program services, administration, and fundraising activities; however the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed in generally accepted accounting principles.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and benefits	Time and effort
Occupancy	Time and effort
Travel	Time and effort
Depreciation	Time and effort

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 \$2,483.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 year ended December 31, 2018, the Alliance recognized no such interest or penalties.

New Accounting Pronouncement

During the fiscal year, the Alliance adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Alliance has adjusted the presentation of these statements accordingly.

Date of Management's Review

In preparing these financial statements, the Alliance has evaluated events and transactions for potential recognition or disclosure through August 27, 2019, which is the date the financial statements were available to be issued.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 – LIQUIDITY AND AVAILABILITY

The following represents the Alliance's financial assets at fiscal year end:

Financial assets at year end:	
Cash and cash equivalents	\$ 503,896
Vendor contracts receivable	78,459
Contributions and foundation grants receivable	66,891
Investments	2,983
Total financial assets	<u>652,229</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>(62,724)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 589,505</u>

The Alliance regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Alliance has a \$15,000 credit line available to meet cash flow needs. The interest rate is 12.5 percent as of December 31, 2018, with interest due monthly and principal due upon maturity. No funds were borrowed under this agreement during the fiscal year.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is defined as the price that the Alliance would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

Accounting standards establish a three-tier fair value hierarchy that prioritizes the inputs to valuation techniques. Inputs refer broadly to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Observable inputs are those that reflect the assumptions that market participants would use in pricing the asset and are based on market data obtained from independent sources. Unobservable inputs reflect the Alliance's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

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.

The level of fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair Values Measured on Recurring Basis

Fair values of assets for domestic equity securities investments measured \$2,983 on a recurring basis at year end. The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value.

Investments – Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

The Alliance recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels during the current fiscal year.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following.

Computer and office equipment	\$ 11,117
Vehicles	<u>28,955</u>
Total property and equipment	40,072
Less: Accumulated depreciation and amortization	(31,072)
Net property and equipment	<u><u>\$ 9,000</u></u>

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5 – NET ASSETS

Net assets with donor restrictions were as follows:

Specific Purpose	
Connect People to the Region	\$ 10,000
Conserve Wildlife	1,593
Foster Collaborative Stewardship	5,724
Protect Water	45,407
Total	<u>\$ 62,724</u>

Net assets released from donor restrictions are as follows:

Satisfaction of purpose restrictions	
Connect People to the Region	\$ 12,000
Conserve Wildlife	166,481
Foster Collaborative Stewardship	6,000
Protect Water	78,034
Total	<u>\$ 262,515</u>

NOTE 6 – 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 1.66 years. Total rent expense incurred under operating leases totaled \$51,831 during the fiscal year.

The following is a schedule by years of future minimum rentals under the leases at year end:

Year End:	
	2019
	2020
Total	<u>\$ 92,414</u>

NOTE 7 – EMPLOYEE BENEFIT PLANS

Tax-deferred Annuity Plan

The Alliance has a tax-deferred annuity plan that qualifies under Section 403(b) of the Internal Revenue Code. The plan covers eligible employees of the Alliance. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish. Contributions to the plan by the Alliance can be made at the discretion of the Board of Directors. The Alliance did not make any contributions during the fiscal year.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 8 – 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 2018, expenses totaling \$9,832 were made with Southwest Decision Resources.

NOTE 9 – FISCAL SPONSORSHIP

In February of 2018, Sky Island Alliance completed a separation agreement with the Coalition for Sonoran Desert Protection (CSDP), a newly formed non-profit, tax-exempt 501(c)(3) corporation, which ended the fiscal sponsorship. As part of the agreement with CSDP, the Alliance granted funds to CSDP that were specifically earmarked for CSDP in the amount of \$320,945 in conformance with 501(c)(3) guidelines. These funds are shown in the Fees and Permits expense line item of the Statement of Functional Expenses.