

**SKY ISLAND ALLIANCE**

**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
Years ended December 31, 2013 and 2012**

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Sky Island Alliance  
Tucson, Arizona

### Report on the financial statements

We have audited the accompanying financial statements of Sky Island Alliance (an Arizona nonprofit corporation), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years 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.

### Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Supplementary information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of functional expenses on pages 13 and 14 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

HBL CPAs, P.C.

**HBL CPAs, P.C.**

July 17, 2014

**SKY ISLAND ALLIANCE**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 354,109	\$ 179,188
Investments	2,217	138
Vendor contracts receivable	70,850	104,737
Contributions and foundation grants receivable	158,435	176,394
Prepaid expenses	8,230	17,057
Inventory, net of allowance for obsolescence of \$5,513 and \$0	5,250	11,050
Property and equipment	<u>13,526</u>	<u>22,384</u>
	<u>\$ 612,617</u>	<u>\$ 510,948</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 7,926	\$ 10,413
Accrued payroll and related	12,982	24,495
Custodial liability	<u>6,333</u>	<u>4,787</u>
	27,241	39,695
Net assets:		
Unrestricted:		
Available for operations	12,399	74,959
Expended or donated for property and equipment	<u>13,526</u>	<u>22,384</u>
	25,925	97,343
Temporarily restricted	<u>559,451</u>	<u>373,910</u>
	<u>585,376</u>	<u>471,253</u>
	<u>\$ 612,617</u>	<u>\$ 510,948</u>

The accompanying notes are an integral part of these financial statements.

**SKY ISLAND ALLIANCE**  
**STATEMENT OF ACTIVITIES**  
Year ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenues and support:			
Vendor contracts	\$ 240,759		\$ 240,759
Contributions	198,379	\$ 94,415	292,794
Foundation grants	100,000	463,275	563,275
In-kind contributions	4,307		4,307
Project income	6,844		6,844
Special event income, net of \$4,358 direct donor benefit costs	5,697		5,697
Investment income	272		272
Merchandise sales, net of \$287 cost of goods sold	313		313
	<u>556,571</u>	<u>557,690</u>	<u>1,114,261</u>
Releases from restrictions	372,149	(372,149)	0
Total revenues and support	<u>928,720</u>	<u>185,541</u>	<u>1,114,261</u>
Expenses and losses:			
Expenses:			
Program services	832,633		832,633
General and administrative	66,411		66,411
Fundraising	95,581		95,581
	<u>994,625</u>		<u>994,625</u>
Provision for change in allowance for obsolescence	5,513		5,513
	<u>1,000,138</u>	<u>0</u>	<u>1,000,138</u>
Change in net assets	(71,418)	185,541	114,123
Net assets, beginning of year, as restated	<u>97,343</u>	<u>373,910</u>	<u>471,253</u>
Net assets, end of year	<u>\$ 25,925</u>	<u>\$ 559,451</u>	<u>\$ 585,376</u>

The accompanying notes are an integral part of these financial statements.

**SKY ISLAND ALLIANCE**  
**STATEMENT OF ACTIVITIES**  
Year ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenues and support:			
Vendor contracts	\$ 350,457		\$ 350,457
Contributions	187,884	\$ 64,000	251,884
Foundation grants	90,000	285,538	375,538
In-kind contributions	2,687		2,687
Project income	78,077		78,077
Special event income, net of \$10,229 direct donor benefit costs	14,323		14,323
Investment income	35		35
Merchandise sales, net of \$62 cost of goods sold	1,870		1,870
	<u>725,333</u>	<u>349,538</u>	<u>1,074,871</u>
Releases from restrictions	402,694	(402,694)	0
Total revenues and support	<u>1,128,027</u>	<u>(53,156)</u>	<u>1,074,871</u>
Expenses:			
Program services	921,544		921,544
General and administrative	114,769		114,769
Fundraising	80,534		80,534
Total expenses	<u>1,116,847</u>	<u>0</u>	<u>1,116,847</u>
Change in net assets	11,180	(53,156)	(41,976)
Net assets, beginning of year, as restated	<u>86,163</u>	<u>427,066</u>	<u>513,229</u>
Net assets, end of year, as restated	<u>\$ 97,343</u>	<u>\$ 373,910</u>	<u>\$ 471,253</u>

The accompanying notes are an integral part of these financial statements.

**SKY ISLAND ALLIANCE**  
**STATEMENTS OF CASH FLOWS**  
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 114,123	\$ (41,976)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	11,354	12,123
Donated marketable securities	(14,114)	0
Realized (gain) loss on sale of securities	(255)	0
Unrealized (gain) loss on investments	(5)	8
Provision for change in allowance for obsolescence	5,513	0
(Increase) decrease in operating assets:		
Vendor contracts receivable	33,887	(44,321)
Contributions and foundation grants receivable	17,959	(16,639)
Prepaid expenses	8,827	927
Inventory	287	61
Increase (decrease) in operating liabilities:		
Accounts payable	(2,487)	(7,551)
Accrued payroll and related	(11,513)	(6,799)
Change in custodial liabilities	1,546	1,062
Net cash provided by (used in) operating activities	<u>165,122</u>	<u>(103,105)</u>
 Cash flows from investing activities:		
Proceeds from sale of securities	12,295	0
Purchases of property and equipment	(2,496)	(5,807)
Net cash provided by (used in) investing activities	<u>9,799</u>	<u>(5,807)</u>
 Net cash (used in) financing activities -		
Principal payments on lease obligation	<u>0</u>	<u>(120)</u>
 Net change in cash and cash equivalents	174,921	(109,032)
 Cash and cash equivalents, beginning of year	<u>179,188</u>	<u>288,220</u>
 Cash and cash equivalents, end of year	<u>\$ 354,109</u>	<u>\$ 179,188</u>
 Supplemental cash flow information:		
No cash paid for income taxes in 2013 or 2012.		
Cash paid for interest	<u>\$ 0</u>	<u>\$ 2</u>

The accompanying notes are an integral part of these financial statements.

**SKY ISLAND ALLIANCE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

**NOTE 1– Organization**

Sky Island Alliance (“Sky Island” or “the Organization”) was incorporated in Arizona in September 1995 for environmental conservation purposes. Sky Island’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 Organization’s staff, trained volunteers, property owners, scientists, and government agencies are a hallmark of Sky Island’s activities. The Organization’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 Sky Island’s revenues are from vendor contracts, contributions and foundation grants.

**NOTE 2 – Summary of significant accounting policies**

*Financial statement presentation*

The financial statements have been prepared on the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. At December 31, 2013 and 2012, Sky Island had no permanently restricted net assets.

*Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

*Cash and cash equivalents*

Sky Island considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Sky Island 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, 2013.

*Investments*

Investments consist of stocks, with readily determined fair values, that are donated to the Organization and recorded at fair value, with gains and losses included in the statements of activities. The Organization’s policy is to liquidate all gifts of investments as soon as possible after receipt. Investments are reported at fair value based on quoted market prices for identical securities in active markets.

*Vendor contracts receivable and contributions and foundation grants receivable*

Vendor contracts receivable and contributions and foundation grants receivable consist primarily of amounts owed to the Organization 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 schedule of functional expenses and included in total expenses in the statements of activities.

*Inventory*

Inventory consists of books for resale and is valued at the lower of cost or market on a first in, first out basis.

**SKY ISLAND ALLIANCE**  
**NOTES TO THE FINANCIAL STATEMENTS - continued**  
December 31, 2013 and 2012

**NOTE 2 – Summary of significant accounting policies - continued**

*Property and equipment*

Expenditures in excess of \$600 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.

*Custodial liabilities*

Custodial liabilities of \$6,333 and \$4,787 at December 31, 2013 and 2012, respectively, consisted of funds held for the Tucson Mountains Association, for which Sky Island acts as an agent.

*Vendor contracts, contributions and foundation grants*

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

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.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

*Donated goods, facilities and services*

Donated goods are valued at their fair market value. 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.

Sky Island has recorded the value of donated professional services totaling \$4,307 and \$2,687 for the years ended December 31, 2013 and 2012, respectively. Although the Organization 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.

*Advertising*

The Organization follows a policy of charging the cost of advertising to expense as incurred. Total advertising expense was \$- and \$377 for the years ended December 31, 2013 and 2012, respectively.

*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.

**SKY ISLAND ALLIANCE**  
**NOTES TO THE FINANCIAL STATEMENTS - continued**  
December 31, 2013 and 2012

**NOTE 2 – Summary of significant accounting policies - continued**

*Functional expense allocation*

The costs of providing Sky Island’s 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 benefitted.

*Income taxes*

Sky Island is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and the Arizona Revised Statutes. However, income from certain activities not directly related to Sky Island’s tax-exempt purpose may be subject to taxation as unrelated business income. In addition, the Organization 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).

Sky Island has not identified any uncertain tax positions that require reporting under U.S. generally accepted accounting principles. Sky Island would recognize costs related to any such uncertainties as interest expense and penalties in operating expenses. During the years ended December 31, 2013 and 2012, Sky Island recognized no such interest or penalties.

Sky Island 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, Sky Island is subject to examination of its U.S. federal information returns for three years after the date the returns were filed.

**NOTE 3 – Contributions and foundation grants receivable**

Contributions and unconditional foundation grants receivable at December 31, 2013 and 2012 consist of the following:

	2013	2012
Due in less than one year	\$ 158,435	\$ 117,987
Due in one to five years	0	58,407
	\$ 158,435	\$ 176,394

**NOTE 4 – Fair value measurements and investment income**

Fair value measurements are determined based on the assumptions—referred to as inputs—that market participants would use in pricing the asset. The fair value hierarchy distinguishes between market participant assumptions and Sky Island’s own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources, while unobservable inputs are Sky Island’s own assumptions about what market participants would assume based on the best information available in the circumstances.

*Level 1 inputs.* A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value. The fair value of Sky Island’s marketable equity securities are determined by reference to quoted prices in active markets for identical assets and other relevant information generated by market transactions.

**SKY ISLAND ALLIANCE**  
**NOTES TO THE FINANCIAL STATEMENTS - continued**  
December 31, 2013 and 2012

**NOTE 4 – Fair value measurements and investment income – continued**

*Level 2 inputs.* These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. Sky Island does not utilize Level 2 inputs.

*Level 3 inputs.* These inputs are unobservable and are used to measure fair value only when observable inputs are not available. Sky Island does not utilize Level 3 inputs.

Assets measured on a recurring basis consisted of the following at December 31, 2013 and 2012:

	Level 1 2013	Level 1 2012
Marketable securities:		
International equity securities	\$ 143	\$ 138
Domestic equity securities	2,074	0
	\$ 2,217	\$ 138

Investment income consisted of the following at December 31, 2013 and 2012:

	2013	2012
Interest	\$ 238	\$ 43
Unrealized gain (loss)	5	(8)
Realized gain	255	0
Investment fees	(226)	0
	\$ 272	\$ 35

**NOTE 5 – Property and equipment**

Property and equipment consists of the following at December 31, 2013 and 2012:

	2013	2012
Computer and office equipment	\$ 65,106	\$ 62,611
Vehicles	16,955	16,955
	82,061	79,566
Less accumulated depreciation	(68,535)	(57,182)
	\$ 13,526	\$ 22,384

**NOTE 6 – Retirement plan**

Sky Island has a 403(b) retirement plan to provide retirement benefits for all eligible employees. Contributions to the plan by the Organization can be made at the discretion of the Board of Directors. For both 2013 and 2012, Sky Island did not make any contributions to the plan.

**NOTE 7 – Fiscal sponsorships**

Sky Island 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 Sky Island's in its financial statements.

**SKY ISLAND ALLIANCE**  
**NOTES TO THE FINANCIAL STATEMENTS - continued**  
December 31, 2013 and 2012

**NOTE 8 – Commitments**

*Operating leases*

Sky Island leases office space under operating leases that expire at various times through February 2015. These leases require monthly payments totaling \$400 and \$3,400, respectively, plus applicable taxes. Total expense under these leases was \$50,943 and \$49,559 for the years ended December 31, 2013 and 2012, respectively. Future minimum payments under these leases are as follows:

Year ending December 31, 2014	\$	40,800
2015		<u>6,800</u>
	\$	<u><u>47,600</u></u>

Sky Island leased a telephone system under a direct-financing lease, which expired in 2012. The asset, included in property and equipment on the statements of financial position, was amortized over its estimated useful life of five years and was fully amortized as of December 31, 2012. Amortization expense of \$0 and \$244 is included in depreciation expense for the years ended December 31, 2013 and 2012, respectively. Accumulated amortization of the asset was \$7,330 and \$7,086 at December 31, 2013 and 2012, respectively.

**NOTE 9 – Temporarily restricted net assets**

Temporarily restricted net asset activity consisted of the following for the year ended December 31, 2013:

	Beginning balance	Additions	Releases	Ending balance
Coalition for Sonoran Desert Protection	\$ 85,796	\$ 117,274	\$ (63,807)	\$ 139,263
Madrean Archipelago Biodiversity Assessment	0	24,075	(24,075)	0
Northern Mexico Conservation Program	10,888	50,000	(41,610)	19,278
Policy and defense	180,771	305,200	(176,652)	309,319
Special areas	0	30,000	(3,773)	26,227
Wildlife linkages	84,955	20,000	(53,770)	51,185
Other	11,500	11,141	(8,462)	14,179
	<u>\$ 373,910</u>	<u>\$ 557,690</u>	<u>\$ (372,149)</u>	<u>\$ 559,451</u>

**NOTE 10 – Related party transactions**

Sky Island has an ongoing project on land, a small portion of which includes property owned by a relative of two board members. This riparian restoration project began in 2008 on the largest and most biologically important ciénega in New Mexico. The total amount expended on the restoration project to date is approximately \$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 1800's as the most productive and perennial spring in the bootheel of New Mexico.

Sky Island also began an ongoing project in during the year ended December 31, 2013 on land that is co-owned by two of its board members. Sky Island 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 \$11,000.

**SKY ISLAND ALLIANCE**  
**NOTES TO THE FINANCIAL STATEMENTS - continued**  
December 31, 2013 and 2012

**NOTE 11 – Prior period adjustment**

The following errors were corrected during the year ended December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Net assets at December 31, 2011, as originally stated	\$ 86,163	\$ 430,791	\$ 516,954
Understatement of custodial liabilities		<u>(3,725)</u>	<u>(3,725)</u>
Net assets at December 31, 2011, as restated	86,163	427,066	513,229
Change in net assets for the year ended December 31, 2012, as originally stated	11,180	(52,094)	0
(Overstatement) of revenues and support, including releases from restriction	(388)	(1,062)	(1,450)
Overstatement of expenses	388		388
Net assets at December 31, 2012, as restated	<u>\$ 97,343</u>	<u>\$ 373,910</u>	<u>\$ 471,253</u>

**NOTE 12 – Subsequent events**

Subsequent events have been evaluated through July 17, 2014, which is the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

**SKY ISLAND ALLIANCE**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
Year ended December 31, 2013

	Program services	General and administrative	Fundraising	Total
Salaries and wages	\$ 573,027	\$ 48,734	\$ 74,481	\$ 696,242
Contract services	72,298		691	72,989
Professional fees	3,078	7,982	44	11,104
Supplies	48,296	739	2,232	51,267
Printing and copies	10,807	63	4,679	15,549
Occupancy	50,905	3,840	6,844	61,589
Travel	30,992	260	282	31,534
Meetings	18,616	243	3,146	22,005
Insurance	8,995	2,056	1,155	12,206
Miscellaneous	6,322	1,613	816	8,751
Bad debt	35			35
Depreciation	9,262	881	1,211	11,354
	<u>\$ 832,633</u>	<u>\$ 66,411</u>	<u>\$ 95,581</u>	<u>\$ 994,625</u>

**SKY ISLAND ALLIANCE**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
Year ended December 31, 2012

	Program services	General and administrative	Fundraising	Total
Salaries and wages	\$ 586,086	\$ 92,789	\$ 59,958	\$ 738,833
Contract services	63,718	210		63,928
Professional fees	4,950	5,680	3,260	13,890
Supplies	49,242	1,619	796	51,657
Printing and copies	19,616	414	8,036	28,066
Occupancy	47,699	7,830	4,130	59,659
Travel	41,121	22	58	41,201
Meetings	81,123	545	2,372	84,040
Insurance	7,428	2,490	442	10,360
Miscellaneous	11,065	1,344	681	13,090
Depreciation	9,496	1,826	801	12,123
	<u>\$ 921,544</u>	<u>\$ 114,769</u>	<u>\$ 80,534</u>	<u>\$ 1,116,847</u>