SKY ISLAND ALLIANCE
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014

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DECEMBER 31, 2015 and 2014

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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, 2015 and 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.

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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, 2015 and 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.

Report on Summarized Comparative Information
We have previously audited Sky Island Alliance's 2014 financial statements, and our report dated July 2, 2015, 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, 2014, 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.
CPAs and Business Consultants

May 18, 2016

SKY ISLAND ALLIANCE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

ASSETS	2015	2014
Current assets:		
Cash and cash equivalents	$ 593,471	$ 291,704
Investments		14,310
Vendor contracts receivable	91,372	79,230
Contributions and foundation grants receivable	88,445	269,511
Prepaid expenses	3,985	5,789
Other assets	5,610	
Total current assets	782,883	660,544
Noncurrent assets:		
Property and equipment, net	5,759	3,784
Total noncurrent assets	5,759	3,784
Total assets	$ 788,642	$ 664,328
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 72,784	$ 2,465
Accrued payroll and related	14,008	15,982
Custodial liability	7,424	7,099
Total current liabilities	94,216	25,546
Net assets:		
Unrestricted		
Undesignated	465,072	267,849
Undesignated - property and equipment	5,759	3,784
Total unrestricted	470,831	271,633
Temporarily restricted	223,595	367,149
Total net assets	694,426	638,782
Total liabilities and net assets	$ 788,642	$ 664,328

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

SKY ISLAND ALLIANCE
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

			Totals	
	Unrestricted	Temporarily Restricted	2015	2014
Revenue and other support:				
Vendor contracts	$ 452,327	$	$ 452,327	$ 155,793
Contributions	328,243	2,944	331,187	330,530
Foundation grants	100,000	223,028	323,028	510,933
In-kind contributions	11,727		11,727	4,955
Project income	1,755		1,755	13,884
Special event income, net	4,849		4,849	5,337
Investment income	203		203	47
Merchandise sales, net	412		412	1,017
Total revenue and support	899,516	225,972	1,125,488	1,022,496
Net assets released from restrictions	369,526	(369,526)		
Total revenue and other support	1,269,042	(143,554)	1,125,488	1,022,496
Expenses:				
Program services	907,894		907,894	833,883
General and administrative	87,331		87,331	32,362
Fundraising	74,619		74,619	97,595
Total expenses	1,069,844		1,069,844	963,840
Provision for change in allowance for obsolescence				5,250
Change in net assets	199,198	(143,554)	55,644	53,406
Net assets, beginning of year	271,633	367,149	638,782	585,376
Net assets, end of year	$ 470,831	$ 223,595	$ 694,426	$ 638,782

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

SKY ISLAND ALLIANCE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ 55,644	$ 53,406
Adjustments to reconcile change in net assets		
to net cash provided by (used for) operating activities:		
Depreciation	3,335	8,664
Donated marketable securities		(14,176)
Unrealized (gain) loss on investments		4
Provision for change in allowance for obsolescence		5,250
Changes in assets and liabilities:		
Vendor contracts receivable	(12,142)	(8,380)
Contributions and foundation grants receivable	181,066	(111,076)
Prepaid expenses	1,804	2,441
Other Assets	(5,610)	
Accounts payable	70,319	(5,461)
Accrued payroll and related	(1,974)	3,000
Custodial liabilities	325	766
Net cash provided by (used for) operating activities	292,767	(65,562)
Cash flows from investing activities:		
Proceeds from sale of securities	14,310	2,079
Proceeds from sale of capital assets		1,078
Purchases of property and equipment	(5,310)	
Net cash provided by investing activities	9,000	3,157
Net increase (decrease) in cash and cash equivalents	301,767	(62,405)
Cash and cash equivalents, beginning of year	291,704	354,109
Cash and cash equivalents, end of year	$ 593,471	$ 291,704
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 110	$ 409

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

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.

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, 2014, 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 $200.

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 no donated goods during 2015 and $1,225 for the year ended December 31, 2014. 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 $11,727 and $3,730 for the years ended December 31, 2015 and 2014, 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.

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 no uninsured cash at December 31, 2015 and 2014.

J. 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.

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. 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.

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

Custodial liabilities of $7,424 and $7,099 at December 31, 2015 and 2014, respectively, consisted of funds held for the Tucson Mountains Association, for which the Alliance acts 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.

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, 2015 and 2014, 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.

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.

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:

	2015	2014
Marketable securities:		
International equity securities	$	$ 134
Domestic equity securities		14,176
Total assets	$	$ 14,310

NOTE 2 –FAIR VALUE MEASUREMENTS

Investment income consisted of the following at year end:

	2015	2014
Interest and dividends	$ 58	$ 118
Realized gains	151	
Unrealized (loss)		(4)
Investment fees	(6)	(67)
Total investment income	$ 203	$ 47

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2015	2014
Computer and office equipment	$ 14,292	$ 32,977
Vehicles	16,955	16,955
Total property and equipment	31,247	49,932
Less accumulated depreciation and amortization	(25,488)	(46,148)
Net property and equipment	$ 5,759	$ 3,784

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 2015 and 2014, the Alliance did not make any contributions to the plan.

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 their office space under the provisions of a long-term lease classified as an operating lease for accounting purposes. The Alliance's contract for leased office space expired in February 2015 and began a month-to-month contract until they moved into their new office in October 2015. Rental expense under the terms of the previous and current operating leases totaled $37,149 and $12,300, respectively, for the year ended December 31, 2015. The operating lease has a remaining noncancelable lease term of 4.66 years and provides renewal options. The future minimum rental payments required under the operating lease at year end were as follows:

Year End:		
	2016	$ 49,446
	2017	50,435
	2018	51,444
	2019	52,472
	2020	39,942
Total		$ 243,739

NOTE 7– RESTRICTIONS ON NET ASSETS

Temporarily restricted net asset activity consisted of the following for the year ended December 31, 2015:

	Beginning Balance	Additions	Releases	Ending Balance
Coalition for Sonoran Desert Protection	$ 68,247	$ 91,800	$ 137,067	$ 22,980
Sky Island Alliance	298,902	134,172	224,964	208,110
Total	$ 367,149	$ 225,972	$ 362,031	$ 231,090

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 2015, expenses totaling $31,657 were made with Southwest Decision Resources.

NOTE 9 – SUBSEQUENT EVENT

Subsequent events have been evaluated through May 18, 2016, which is the date the financial statements were available to be issued.

The Alliance acquired a vehicle in February 2016 to be used in operations. The total cost of the new asset was $22,500 and the Alliance did not issue any debt to fund the purchase.

SUPPLEMENTARY INFORMATION

SKY ISLAND ALLIANCE
SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	Program Services	**General and Administrative**	**Fundraising**	**Total**	**Program Services**	**General and Administrative**	**Fundraising**	**Total**
Salaries and wages	$ 443,187	$ 48,413	$ 44,785	$ 536,385	$ 509,295	$ 15,265	$ 74,035	$ 598,595
Fees and permits	24,545	5,067	10,248	39,860	7,815	1,930	4,989	14,734
Professional fees	4,709	12,550		17,259	5,351	10,216		15,567
Contract services	197,396	1,631	95	199,122	87,425	144	254	87,823
Supplies	59,405	3,801	4,076	67,282	63,227	542	2,088	65,857
Postage and printing	20,091	543	8,296	28,930	19,100	358	9,171	28,629
Occupancy	55,775	7,056	5,106	67,937	52,412	1,155	4,540	58,107
Depreciation	2,733	291	310	3,334	7,647	206	811	8,664
Travel	70,590	22	126	70,738	33,719	297		34,016
Meetings	15,372	1,241		16,613	28,461	254		28,715
Interest expense	11	97	1	109	409			409
Insurance	13,880	6,619	1,576	22,075	18,862	1,995	1,707	22,564
Advertising	200			200	50			50
Bad debt					110			110
Total expenses	$ 907,894	$ 87,331	$ 74,619	$ 1,069,844	$ 833,883	$ 32,362	$ 97,595	$ 963,840