



Sky Island Alliance
Financial Statements
For the Year Ended December 31, 2017

Sky Island Alliance

Financial Statements
Year Ended December 31, 2017

**SKY ISLAND ALLIANCE
DECEMBER 31, 2017**

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT.....	1
FINANCIAL STATEMENTS	
Statement of Financial Position.....	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6
SUPPLEMENTARY INFORMATION	
Schedules of Functional Expenses	14

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, 2017, 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, 2017, 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 2016 financial statements, and our report dated June 9, 2017, 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

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

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.

Tucson, Arizona

May 25, 2018

SKY ISLAND ALLIANCE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2016

<u>ASSETS</u>	2017	2016
Current assets:		
Cash and cash equivalents	\$ 833,169	\$ 652,216
Vendor contracts receivable	121,949	94,110
Contributions and foundation grants receivable	178,852	332,231
Prepaid expenses	15,422	1,388
Other assets	4,000	5,910
Total current assets	1,153,392	1,085,855
Noncurrent assets:		
Property and equipment, net	13,500	23,370
Long-term foundation grants receivable		155,932
Total noncurrent assets	13,500	179,302
Total assets	\$ 1,166,892	\$ 1,265,157
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 18,253	\$ 10,127
Accrued payroll and related	15,561	14,924
Total current liabilities	33,814	25,051
Net assets:		
Unrestricted		
Undesignated	833,063	648,227
Undesignated - property and equipment	13,500	23,370
Total unrestricted	846,563	671,597
Temporarily restricted	286,515	568,509
Total net assets	\$ 1,133,078	\$ 1,240,106
Total liabilities and net assets	\$ 1,166,892	\$ 1,265,157

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

SKY ISLAND ALLIANCE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2017</u>	<u>2016</u>
Revenue and other support:				
Vendor contracts	\$ 386,283	\$ 3,500	\$ 386,283	\$ 471,003
Contributions	356,670	55,127	360,170	274,570
Foundation grants	257,058		312,185	826,839
In-kind contributions				12,776
Project income	3,589		3,589	2,785
Special event income, net	672		672	5,107
Miscellaneous income	499		499	1,846
Merchandise sales, net	685		685	539
Total revenue and support	1,005,456	58,627	1,064,083	1,595,465
Net assets released from restrictions	340,621	(340,621)		
Total revenue and other support	1,346,077	(281,994)	1,064,083	1,595,465
Expenses:				
Program services	1,015,295		1,015,295	909,452
General and administrative	112,082		112,082	98,276
Fundraising	43,734		43,734	42,057
Total expenses	1,171,111		1,171,111	1,049,785
Change in net assets	174,966	(281,994)	(107,028)	545,680
Net assets, beginning of year	671,597	568,509	1,240,106	694,426
Net assets, end of year	\$ 846,563	\$ 286,515	\$ 1,133,078	\$ 1,240,106

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

SKY ISLAND ALLIANCE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (107,028)	\$ 545,680
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	9,870	4,889
Changes in assets and liabilities:		
Vendor contracts receivable	(27,839)	(2,738)
Contributions and foundation grants receivable	309,311	(399,718)
Prepaid expenses	(14,034)	2,597
Other Assets	1,910	(300)
Accounts payable	8,126	(62,657)
Accrued payroll and related	637	916
Custodial liabilities	<u> </u>	<u>(7,424)</u>
Net cash provided by (used for) operating activities	180,953	81,245
Cash flows from investing activities:		
Purchases of property and equipment	<u> </u>	<u>(22,500)</u>
Net cash provided by (used for) investing activities	(22,500)	
Net increase (decrease) in cash and cash equivalents	180,953	58,745
Cash and cash equivalents, beginning of year	652,216	593,471
Cash and cash equivalents, end of year	\$ 833,169	\$ 652,216
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 177</u>	<u>\$ 484</u>

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

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
WITH COMPARATIVE INFORMATION FOR 2016

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 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 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, 2017
WITH COMPARATIVE INFORMATION FOR 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Restricted and Unrestricted Revenue

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

D. Functional Expense Allocation

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

E. Estimates

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

F. Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Alliance's financial statements for the year ended December 31, 2016, 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 \$171.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
WITH COMPARATIVE INFORMATION FOR 2016

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 the year ended December 31, 2017 and \$12,776 for the year ended December 31, 2016. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

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

The Alliance recorded no value of donated professional services during the years ended December 31, 2017 and 2016. 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 at times, may exceed federally insured limits. There was uninsured cash of \$153,212 at December 31, 2017, and uninsured cash of \$61,492 at December 31, 2016.

J. Vendor Contracts and Contributions and Foundation Grants Receivable

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

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
WITH COMPARATIVE INFORMATION FOR 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

K. 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.

L. 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.

M. 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.

N. 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 years ended December 31, 2017 and 2016, the Alliance recognized no such interest or penalties.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
WITH COMPARATIVE INFORMATION FOR 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Computer and office equipment	\$ 11,117	\$ 14,292
Vehicles	<u>28,955</u>	<u>28,955</u>
Total property and equipment	40,072	43,247
Less accumulated depreciation and amortization	(26,572)	(19,877)
Net property and equipment	<u>\$ 13,500</u>	<u>\$ 23,370</u>

NOTE 3 – RETIREMENT PLAN

Sky Island Alliance has a 403(b) retirement plan to provide retirement benefits for all eligible employees. Contributions to the plan by the Alliance can be made at the discretion of the Board of Directors. For both 2017 and 2016, the Alliance did not make any contributions to the plan.

NOTE 4 – FISCAL SPONSORSHIPS

Sky Island Alliance is the fiscal sponsor of the Coalition for Sonoran Desert Protection (CSDP), a newly incorporated non-profit corporation that received its tax-exempt status from the Internal Revenue Service subsequent to the financial statement date. As such, the financial activities of this organization are included as a program of the Alliance's in its financial statements.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
WITH COMPARATIVE INFORMATION FOR 2016

NOTE 5 – OPERATING LEASE COMMITMENTS

The Alliance leases their office space under the provisions of a long-term lease classified as an operating lease for accounting purposes. The operating lease has a remaining noncancelable lease term of 2.66 years and provides renewal options. Rental expense was \$50,663 for the fiscal year. The future minimum rental payments required under the operating lease at year end were as follows:

Year End:	
2018	\$ 51,444
2019	52,472
2020	39,942
Total	<u><u>\$ 143,858</u></u>

NOTE 6 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net asset activity consisted of the following for the year ended December 31, 2017:

	Beginning Balance	Additions	Releases	Ending Balance
Coalition for Sonoran Desert Protection	\$ 30,000	\$	\$ 30,000	\$
Sky Island Alliance	538,509	58,627	310,621	286,515
Total	\$ 568,509	\$ 58,627	\$ 340,621	\$ 286,515

NOTE 7 – RELATED PARTY TRANSACTIONS

The Alliance procures facilitation and planning services for meetings and workshops through Southwest Decision Resources. Southwest Decision Resources employs a Board member for the Alliance and the Board member's spouse. During 2017, expenses totaling \$36,753 were made with Southwest Decision Resources.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
WITH COMPARATIVE INFORMATION FOR 2016

NOTE 8 – SUBSEQUENT EVENT

Subsequent events have been evaluated through May 25, 2018, which is the date the financial statements were available to be issued.

The Alliance completed a separation agreement with CSDP, a newly formed non-profit, tax-exempt corporation, in February 2018, which ended the fiscal sponsorship. As part of the agreement and in keeping with the tax-exempt guidelines under the Internal Revenue Code, the Alliance agreed to grant the funds held for CSDP. The amount paid out in February and March 2018 totaled \$318,432.

SUPPLEMENTARY INFORMATION

SKY ISLAND ALLIANCE
SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 592,663	\$ 74,632	\$ 18,326	\$ 685,621	\$ 504,859	\$ 58,175	\$ 17,116	\$ 580,150
Fees and permits	91,435	3,638	10,891	105,964	10,284	4,716	5,194	20,194
Professional fees	321	16,357		16,678	1,100	12,463		13,563
Contract services	128,643	312	146	129,101	144,434	7,746	3,594	155,774
Supplies	45,410	3,870	1,896	51,176	74,028	3,070	1,275	78,373
Postage and printing	20,499	225	8,670	29,394	15,023	290	10,355	25,668
Occupancy	62,926	6,244	1,943	71,113	63,411	6,525	2,755	72,691
Depreciation	8,541	1,013	316	9,870	4,191	474	224	4,889
Travel	40,725	3,430	633	44,788	58,063	810	316	59,189
Meetings	9,316	589	243	10,148	5,300	544		5,844
Interest expense	10	167		177	445	39		484
Insurance	14,806	1,605	499	16,910	28,264	3,424	1,158	32,846
Advertising			171	171	50		70	120
Total expenses	\$ 1,015,295	\$ 112,082	\$ 43,734	\$ 1,171,111	\$ 909,452	\$ 98,276	\$ 42,057	\$ 1,049,785