



Sky Island Alliance
Financial Statements
For the Year Ended December 31, 2019

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Financial Statements
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**SKY ISLAND ALLIANCE
DECEMBER 31, 2019**

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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, 2019, 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, 2019, 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.

**SKY ISLAND ALLIANCE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019**

Assets

Cash and cash equivalents	\$ 581,187
Vendor contracts receivable	64,507
Contributions and foundation grants receivable	22,256
Prepaid expenses	12,987
Other current assets	4,000
Property and equipment, net	4,500
Total assets	<u>\$ 689,437</u>

Liabilities

Accounts payable	\$ 8,776
Accrued payroll	7,393
Total liabilities	<u>16,169</u>

Net assets

Without donor restrictions:	
Undesignated	600,707
Net investment in property and equipment	4,500
With donor restrictions:	
Purpose restricted	<u>68,061</u>
Total net assets	<u>673,268</u>
Total liabilities and net assets	<u>\$ 689,437</u>

See accompanying notes to financial statements.

**SKY ISLAND ALLIANCE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Without Donor Restrictions	With Donor Restrictions	Totals
Revenue, support, and gains:			
Vendor contracts	\$ 222,718	\$	\$ 222,718
Contributions	199,062	2,000	201,062
Foundation grants	227,000	94,500	321,500
Project income	5,060		5,060
Interest and dividends	356		356
Other income	20		20
Net assets released from restrictions	91,163	(91,163)	
Total revenue, support, and gains	745,379	5,337	750,716
 Expenses and losses:			
Program services	536,473		536,473
Supporting services:			
Management and general	90,590		90,590
Fundraising	106,383		106,383
Total supporting services	196,973		196,973
Total expenses and losses	733,446		733,446
Change in net assets	11,933	5,337	17,270
Net assets, beginning of year	593,274	62,724	655,998
Net assets, end of year	\$ 605,207	\$ 68,061	\$ 673,268

See accompanying notes to financial statements.

**SKY ISLAND ALLIANCE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Supporting Services			Totals
	Program Services	Management and General	Fundraising	
Salaries and wages	\$ 364,224	\$ 56,779	\$ 72,874	\$ 493,877
Fees and permits	10,462	2,343	9,806	22,611
Professional fees	1,182	13,645	30	14,857
Contract services	33,980	4,436	3,099	41,515
Supplies	11,833	833	900	13,566
Postage and printing	2,532	2,844	8,239	13,615
Occupancy	51,707	6,222	9,427	67,356
Depreciation	3,450	418	633	4,501
Travel	40,710	715	94	41,519
Meetings	6,767	55	22	6,844
Insurance	9,616	2,300	1,259	13,175
Advertising	10			10
Total expenses	<u>\$ 536,473</u>	<u>\$ 90,590</u>	<u>\$ 106,383</u>	<u>\$ 733,446</u>

See accompanying notes to financial statements.

**SKY ISLAND ALLIANCE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Cash flows from operating activities:	
Change in net assets	\$ 17,270
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	13,952
Contributions and foundation grants receivable	44,635
Prepaid expenses	1,699
Accounts payable	(1,141)
Accrued payroll	<u>(6,607)</u>
Net cash provided by/(used for) operating activities	<u>74,309</u>
Cash flows from investing activities:	
Proceeds from sale of investments	<u>2,982</u>
Net cash provided by/(used for) investing activities	<u>2,982</u>
Net increase/(decrease) in cash and cash equivalents	77,291
Cash and cash equivalents, beginning of year	<u>503,896</u>
Cash and cash equivalents, end of year	<u>\$ 581,187</u>

See accompanying notes to financial statements.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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, where by 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, 2019

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. The Alliance had no investments at year-end.

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 \$571,515 and the bank balance was \$595,802. At year end, \$82,001 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. Additionally, the Alliance had cash on hand of \$9,672.

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, 2019**

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

The Alliance recognizes contributions and foundation grants when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. The Alliance did not have any conditional promises to give at December 31, 2019.

**SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Vendor contracts revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Alliance has incurred expenses in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenses are reported as refundable advances in the statement of financial position. The Alliance received cost-reimbursable grants of \$185,308 that have not been recognized at December 31, 2019 because qualifying expenses have not yet been incurred. The Alliance did not have an advance payment at year-end.

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:

<u>Expense</u>	<u>Method of Allocation</u>
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 \$10.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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, 2019, the Alliance recognized no such interest or penalties.

New Accounting Pronouncement

During the fiscal year, the Alliance adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). The update clarifies the principles for recognizing contract revenue and enhances disclosures sufficient to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

During the fiscal year, the Alliance adopted Accounting Standards Update (ASU) 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). The update clarifies and improves the scope and accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

**SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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	\$ 581,187
Vendor contracts receivable	64,507
Contributions and foundation grants receivable	<u>22,256</u>
Total financial assets	<u>667,950</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	68,061
Less: net assets with purpose restrictions to be met in less than a year	<u>(68,061)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 667,950</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 percent as of December 31, 2019, with interest due monthly and principal due upon maturity. No funds were borrowed under this agreement during the fiscal year.

NOTE 3 – 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	<u>(35,572)</u>
Net property and equipment	<u>\$ 4,500</u>

NOTE 4 – NET ASSETS

Net assets with donor restrictions were as follows:

Specific Purpose	
Conserve Wildlife	\$ 62,553
Protect Water	<u>5,508</u>
Total	<u>\$ 68,061</u>

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 4 – NET ASSETS

Net assets released from donor restrictions are as follows:

Satisfaction of purpose restrictions	
Connect People to the Region	\$ 10,000
Conserve Wildlife	25,640
Foster Collaborative Stewardship	8,724
Protect Water	<u>46,799</u>
Total	<u>\$ 91,163</u>

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 less than one year. Total rent expense incurred under operating leases totaled \$52,780 during the fiscal year.

At December 31, 2019, the future minimum rental under the lease, due in fiscal year 2020, was \$39,942.

NOTE 6 – 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.

NOTE 7 – CONCENTRATIONS

The Alliance received approximately 33 percent of its revenue from the Wilburforce Foundation.

SKY ISLAND ALLIANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 2019, expenses totaling \$3,947 were made with Southwest Decision Resources.

NOTE 9 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 21, 2020, which is the date the financial statements were available to be issued.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, as of March 31, 2020, Governor Doug Ducey ordered the closure of the physical location of every "non-life sustaining" ("non-essential") business for what may be an extended period of time. There has been minimal immediate impact to the Alliance's operations as all employees must work remotely as they can and there is minimal interaction with volunteers. Future potential impacts may include continued disruptions or restrictions on our employees' ability to work and impairment of our ability to obtain contributions and volunteers. The future effects of these issues are unknown.

Subsequent to year end, the Alliance applied for and was approved for a \$102,932 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 0.98 percent, but payments are not required to begin for six months after the funding of the loan. The Alliance is eligible for loan forgiveness of up to 100 percent of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government.