



**McDOWELL SONORAN LAND CONSERVANCY**

FINANCIAL STATEMENTS

Year Ended June 30, 2017

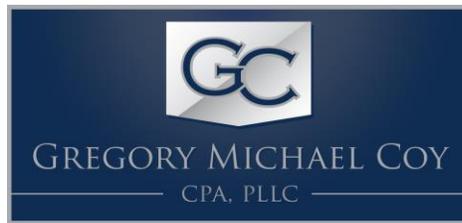
# McDOWELL SONORAN LAND CONSERVANCY

## FINANCIAL STATEMENTS

Year Ended June 30, 2017

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**Audit, Tax, Management Advisory,  
Forensic and Internal Control Consulting**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of the *McDowell Sonoran Land Conservancy*;

**Report on the Financial Statements**

I have audited the accompanying financial statements of McDowell Sonoran Land Conservancy (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017, 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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the statement of financial position of the McDowell Sonoran Land Conservancy as of June 30, 2017, and the results of its operations 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**

I have previously audited the McDowell Sonoran Land Conservancy's 2015 financial statements and in my report dated September 22, 2016, I expressed an unmodified opinion on those audited financial statements. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Gregory Michael Coy, CPA, PLLC*

Phoenix, Arizona  
August 31, 2017

# McDOWELL SONORAN LAND CONSERVANCY

## STATEMENT OF FINANCIAL POSITION

June 30, 2017  
(with comparative totals for June 30, 2016)

|                             | <u>A S S E T S</u>   |                     |
|-----------------------------|--|---------------------|
|                             | <u>2017</u>  | <u>2016</u>         |
| CURRENT ASSETS              |  |                     |
| Cash                        | 178,654  | \$ 146,575          |
| Accounts receivable         | -  | 315                 |
| Contributions receivable    | 25,365   | 180,955             |
| Inventory                   | 12,275   | 12,406              |
| Prepaid expenses            | <u>12,323</u>  | <u>10,835</u>       |
| TOTAL CURRENT ASSETS        | 228,617  | 351,086             |
| <br>                        |  |                     |
| CONTRIBUTIONS RECEIVABLE    | 18,499   | 19,286              |
| PROPERTY AND EQUIPMENT, net | 51,755   | 42,637              |
| INVESTMENTS                 | 239,685  | 400,270             |
| INTANGIBLE ASSETS, net      | -  | 1,053               |
| OTHER ASSETS                | 6,867  | -                   |
| LAND HELD FOR CONSERVATION  | <u>383,500</u>   | <u>383,500</u>      |
| <br>                        |  |                     |
| TOTAL ASSETS                | <u>\$ 928,923</u>  | <u>\$ 1,197,832</u> |
| <br>                        |  |                     |
|                             | <u>L I A B I L I T I E S   A N D   N E T   A S S E T S</u> |                     |
| CURRENT LIABILITIES         |  |                     |
| Accounts payable            | \$ 7,126   | \$ 6,667            |
| Accrued expenses            | <u>21,608</u>  | <u>26,723</u>       |
| TOTAL CURRENT LIABILITIES   | 28,734   | 33,390              |
| DEFERRED RENT               | <u>15,666</u>  | <u>-</u>            |
| <br>                        |  |                     |
| TOTAL LIABILITIES           | <u>44,400</u>  | <u>33,390</u>       |
| <br>                        |  |                     |
| NET ASSETS                  |  |                     |
| Unrestricted, undesignated  | 98,008   | 45,357              |
| Unrestricted, designated    | <u>-</u>   | <u>214,193</u>      |
| Unrestricted                | 98,008   | 259,550             |
| Temporarily restricted      | 194,356  | 312,733             |
| Permanently restricted      | <u>592,159</u>   | <u>592,159</u>      |
| TOTAL NET ASSETS            | <u>884,523</u>   | <u>1,164,442</u>    |

# McDOWELL SONORAN LAND CONSERVANCY

## STATEMENT OF ACTIVITIES

June 30, 2017  
(with comparative totals for the year ended June 30, 2016)

|   | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | Totals       |              |
|---|--------------|---------------------------|---------------------------|--------------|--------------|
|   |              |                           |                           | 2017         | 2016         |
| <b>SUPPORT AND REVENUE</b>  |              |                           |                           |              |              |
| Contributed volunteer services  | \$ 1,381,911 | \$ -                      | \$ -                      | \$ 1,381,911 | \$ 1,329,001 |
| Contributed rent  | -            | 11,601                    | -                         | 11,601       | 44,112       |
| Other contributed materials and services  | 2,990        | 17,288                    | -                         | 20,278       | 20,370       |
| Contributions   | 384,289      | 20,500                    | -                         | 404,789      | 428,895      |
| Program service revenue   | 10,386       | -                         | -                         | 10,386       | 17,357       |
| Net realized and unrealized gains (losses)  | 11,507       | 24,843                    | -                         | 36,350       | (15,258)     |
| Interest income   | 969          | 2,675                     | -                         | 3,644        | 3,100        |
| Merchandise sales, net of cost of sales   | 3,638        | -                         | -                         | 3,638        | 5,039        |
|   | 1,795,690    | 76,907                    | -                         | 1,872,597    | 1,832,616    |
| Total support and revenue before special events and net assets released from restrictions |              |                           |                           |              |              |
| Special events  |              |                           |                           |              |              |
| Revenue from special events   | 64,080       | -                         | -                         | 64,080       | -            |
| Less costs of direct donor benefits   | (65,986)     | -                         | -                         | (65,986)     | -            |
|   | (1,906)      | -                         | -                         | (1,906)      | -            |
| Gross profit (loss) on special events   |              |                           |                           |              |              |
| Net assets released from restrictions   | 195,284      | (195,284)                 | -                         | -            | -            |
|   | 1,989,068    | (118,377)                 | -                         | 1,870,691    | 1,832,616    |
| <b>TOTAL SUPPORT AND REVENUE</b>  |              |                           |                           |              |              |
| <b>EXPENSES</b>   |              |                           |                           |              |              |
| Program services:   |              |                           |                           |              |              |
| Stewardship   | 1,727,198    | -                         | -                         | 1,727,198    | 1,757,077    |
| Advocacy  | 36,550       | -                         | -                         | 36,550       | 40,606       |
|   | 1,763,748    | -                         | -                         | 1,763,748    | 1,797,683    |
| Total program services  |              |                           |                           |              |              |
| Supporting services:  |              |                           |                           |              |              |
| Management and general  | 145,027      | -                         | -                         | 145,027      | 116,320      |
| Fundraising   | 241,835      | -                         | -                         | 241,835      | 181,695      |
|   | 386,862      | -                         | -                         | 386,862      | 298,015      |
| Total supporting services   |              |                           |                           |              |              |
|   | 2,150,610    | -                         | -                         | 2,150,610    | 2,095,698    |
| <b>TOTAL EXPENSES</b>   |              |                           |                           |              |              |
| CHANGE IN NET ASSETS  | (161,542)    | (118,377)                 | -                         | (279,919)    | (263,082)    |
| NET ASSETS, BEGINNING OF YEAR   | 259,550      | 312,733                   | 592,159                   | 1,164,442    | 1,427,524    |
|   | \$ 98,008    | \$ 194,356                | \$ 592,159                | \$ 884,523   | \$ 1,164,442 |
| <b>NET ASSETS, END OF YEAR</b>  |              |                           |                           |              |              |

# McDOWELL SONORAN LAND CONSERVANCY

## STATEMENT OF FUNCTIONAL EXPENSE

June 30, 2017

(with comparative totals for the year ended June 30, 2016)

|                                      | Stewardship         | Advocacy         | Total<br>Program<br>Services | Supporting Services       |                   |                                 | Total Expenses      |                     |
|--------------------------------------|---------------------|------------------|------------------------------|---------------------------|-------------------|---------------------------------|---------------------|---------------------|
|                                      |                     |                  |                              | Management<br>and General | Fundraising       | Total<br>Supporting<br>Services | 2017                | 2016                |
| Salaries, payroll taxes and benefits | \$ 251,311          | \$ -             | 251,311                      | \$ 58,758                 | \$ 180,468        | \$ 239,226                      | \$ 490,537          | \$ 482,723          |
| Employee search costs                | -                   | -                | -                            | 18,254                    | -                 | 18,254                          | 18,254              | \$ -                |
| Copier lease                         | 4,158               | -                | 4,158                        | 693                       | 2,079             | 2,772                           | 6,930               | 2,385               |
| Telephone and internet               | 2,318               | -                | 2,318                        | 538                       | 1,747             | 2,285                           | 4,603               | 4,690               |
| Depreciation and amortization        | -                   | -                | -                            | 16,468                    | -                 | 16,468                          | 16,468              | 16,932              |
| Occupancy                            | 42,404              | -                | 42,404                       | 7,003                     | 20,744            | 27,747                          | 70,151              | 56,627              |
| Supplies and materials               | 10,026              | -                | 10,026                       | 1,193                     | 3,160             | 4,353                           | 14,379              | 9,999               |
| Fundraising                          | -                   | -                | -                            | -                         | 29,793            | 29,793                          | 29,793              | 31,718              |
| Program Services                     | 1,412,931           | 36,550           | 1,449,481                    | -                         | -                 | -                               | 1,449,481           | 1,445,728           |
| Professional fees                    | -                   | -                | -                            | 21,201                    | -                 | 21,201                          | 21,201              | 17,845              |
| Dues, subs and meetings              | 1,317               | -                | 1,317                        | 651                       | 1,786             | 2,437                           | 3,754               | 2,431               |
| Insurance                            | 2,733               | -                | 2,733                        | 3,328                     | 2,058             | 5,386                           | 8,119               | 8,018               |
| Bank, CC and payroll fees            | -                   | -                | -                            | 9,437                     | -                 | 9,437                           | 9,437               | 8,092               |
| Postage and printing                 | -                   | -                | -                            | 946                       | -                 | 946                             | 946                 | 1,713               |
| Other expense                        | -                   | -                | -                            | 6,557                     | -                 | 6,557                           | 6,557               | 6,797               |
|                                      | <u>\$ 1,727,198</u> | <u>\$ 36,550</u> | <u>\$ 1,763,748</u>          | <u>\$ 145,027</u>         | <u>\$ 241,835</u> | <u>\$ 386,862</u>               | <u>\$ 2,150,610</u> | <u>\$ 2,095,698</u> |

# McDOWELL SONORAN LAND CONSERVANCY

## STATEMENT OF CASH FLOWS

June 30, 2017  
(with comparative totals for the year ended June 30, 2016)

|  | 2017         | 2016         |
|--|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |              |              |
| Change in net assets   | \$ (279,919) | \$ (263,082) |
| Adjustment to reconcile change in net assets to net cash provided by operating activities: |              |              |
| Depreciation and amortization  | 16,468       | 16,932       |
| Net realized and unrealized (gain)/loss on investments                                     | (36,350)     | 15,258       |
| Changes in operating assets and liabilities:   |              |              |
| Decrease (increase) in:  |              |              |
| Accounts receivable  | 315          | 378          |
| Contributions receivable   | 156,377      | 161,384      |
| Inventory  | 131          | (2,441)      |
| Prepaid expenses   | (1,488)      | (1,679)      |
| Other assets   | (6,867)      | -            |
| Increase (decrease) in:  |              |              |
| Accounts payable   | 459          | 2,507        |
| Accrued expenses   | (5,115)      | 5,774        |
| Deferred rent  | 15,666       | -            |
| Net cash provided by (used in) operating activities  | (140,323)    | (64,969)     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |              |              |
| Purchases of investments   | (3,644)      | -            |
| Proceeds from investments  | 200,579      | 106,613      |
| Purchases of property and equipment  | (24,533)     | -            |
| Net cash used in investing activities  | 172,402      | 106,613      |
| <b>NET CHANGE IN CASH</b>  | 32,079       | 41,644       |
| <b>CASH, BEGINNING OF YEAR</b>   | 146,575      | 104,931      |
| <b>CASH, END OF YEAR</b>   | \$ 178,654   | \$ 146,575   |
| <b>SUPPLEMENTAL DISCLOSURES:</b>   |              |              |
| Cash paid for interest   | \$ -         | \$ -         |
| Cash paid for income taxes   | \$ -         | \$ -         |

# McDOWELL SONORAN LAND CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(with comparative totals for the year ended June 30, 2016)

### (1) Organization purpose and summary of significant accounting policies

*Organization purpose* – **McDowell Sonoran Land Conservancy** (the "Conservancy") is an Arizona non-profit corporation incorporated in January 1991 and is located in Scottsdale, Arizona. The Conservancy's mission is to champion the sustainability of the McDowell Sonoran Preserve (the "Preserve") for the benefit of this and future generations. As Stewards, the Conservancy connects the community to the Preserve through education, research, advocacy, partnerships and safe, respectful access. The Conservancy operates under the trade name of the McDowell Sonoran Conservancy. Program services include:

*Stewardship* – to create, maintain and enhance operational structures and policies to provide a solid base for achieving the Conservancy's goals of desert preservation and stewardship. The Conservancy accomplishes its Stewardship mission and delivers program services through nine volunteer Steward programs. Its research mission is to conduct ecological and historical research and monitoring through its McDowell Sonoran Conservancy Field Institute that informs the ongoing management of the Preserve and its education efforts. Research is administered through the Citizen Science program, in conjunction with the Conservancy's Field Institute. The Conservancy's Education mission is to offer and promote community educational programs on the necessity for and the methods to achieve an appreciation, preservation, and stewardship of our natural environment. Education programming is delivered by the Tour program, Nature Guides program, Pathfinders program, and Steward Education program. Preserve stewardship is undertaken by the Patrol program and the Construction and Maintenance program.

*Advocacy* – to take a written or spoken stance on matters that affect the acquisition and completion of the Preserve, the Preserve's ecological integrity and appropriate public access and use.

*Other services* – to work in cooperation with the City of Scottsdale and its Preserve division, helping to educate the public, coordinate volunteers, advocate land preservation, and acquire land for preservation purposes. The Conservancy also works with other organizations to promote the Conservancy's vision, including Arizona State University, Scottsdale Community College, Arizona Game and Fish Department, and Arizona Geological Survey.

The significant accounting policies followed by the Conservancy are as follows:

*Basis of presentation* - The Conservancy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Use of estimates* - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Due to their prospective nature, actual results could differ from those estimates.

*Prior period summarized 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 U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2016, from which the summarized information was derived.

# McDOWELL SONORAN LAND CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(with comparative totals for the year ended June 30, 2016)

(1) **Organization purpose and summary of significant accounting policies - continued**

*Cash* - Cash includes cash and, at times, cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Deposits at financial institutions are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). The Organization maintains cash balances at financial institutions which may, at times, exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC), and therefore, the Organization is at risk of loss of these funds should the financial institution become insolvent.

*Accounts receivable* – Accounts receivable consist of program service fees and exchange transaction revenue due within one year. The Conservancy, at times, grants credit without collateral to its funders. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. 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. Although the Conservancy does not require collateral on its accounts receivable, credit risk with respect to accounts receivable is limited due to the fact that accounts receivable are not significant in amount at June 30, 2017 and 2016. At June 30, 2017 and 2016, management considers the accounts receivable to be fully collectible and, therefore, no allowance for doubtful accounts has been provided.

*Contributions receivable* - Unconditional promises to give (contributions receivable) are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met. Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates applicable to the years in which the promises are received. At June 30, 2017, the discount rate on long term contributions receivable was approximately 2% for contributions receivable in future years. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on their 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 receivables.

*Inventory* – Inventories consists of items held for sale (primarily books, clothing, posters and other small items) and are recorded at cost on a first-in first-out basis.

*Property and equipment and related depreciation* - Purchased property and equipment is valued at cost and donated property and equipment is recorded at fair value at the date of the gift to the Conservancy. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$3,000 are capitalized. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations. Depreciation of property and equipment is computed on a straight-line basis over the following estimated useful lives:

|                                   |              |
|-----------------------------------|--------------|
| Furniture, fixtures and equipment | 3 to 7 years |
| Leasehold improvements            | 10 years     |
| Website                           | 3 years      |

# McDOWELL SONORAN LAND CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(with comparative totals for the year ended June 30, 2016)

### (1) **Organization purpose and summary of significant accounting policies - continued**

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of the donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset for 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 restricted contributions absent donor stipulations regarding how long those donated assets must be maintained. The Conservancy reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Conservancy reclassifies temporarily restricted net assets to unrestricted net assets at that time.

*Land held for conservation* – Land held for conservation consists of certain undeveloped desert land located in the City of Scottsdale, AZ and held for the purpose of conservation. The land was donated to the Conservancy and is recorded at the fair value of the land at the date of gift. The land is donor restricted to be maintained in perpetuity and is included in the Conservancy's permanently restricted net assets at June 30, 2017 and 2016.

*Intangible assets* – Intangible assets are valued at cost or, if donated, at fair value at the date of the gift to the Conservancy. Intangible assets consist of a logo that was designed for the Conservancy during 2011 and is recorded at the estimated fair value of \$15,800 for the design and other services donated to organization. The logo is amortized on a straight-line basis over its estimated useful life of 5 years. Accumulated amortization is \$15,800 and \$14,747 for the years ended June 30, 2017 and 2016, respectively. Amortization expense is \$1,053 and \$3,160 for the years ended June 30, 2017 and 2016, respectively, and is included in depreciation and amortization expense on the accompanying statement of functional expenses. Intangible assets became fully amortized during 2017.

*Impairment of long-lived assets* – The Conservancy accounts for long-lived assets in accordance with the provisions of *Accounting for the Impairment of Long-Lived Assets*. This accounting standard requires that long-lived assets be reviewed 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 cash flows to be 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 value 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 believes that no long-lived assets have any impairment of value.

*Revenue recognition* - The Conservancy recognizes program services revenue as services are rendered. Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Conservancy with terms of the grant or contract. Merchandise sales are recognized as earned when goods are sold. Merchandise sales of \$3,638 and \$5,039 are presented net of cost of sales of \$11,865 and \$13,068, for the years ended June 30, 2017 and June 30, 2016, respectively.

*Contributions* - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. 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 are released from restrictions.

# McDOWELL SONORAN LAND CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(with comparative totals for the year ended June 30, 2016)

### (1) **Organization purpose and summary of significant accounting policies - continued**

*Donated materials and services* - Donated materials and professional services are recorded at their estimated values if they enhance the Conservancy's nonfinancial assets or require specialized skills that the Conservancy would normally purchase, if not provided by donation. The Conservancy recognized approximately \$1,381,911 (74% of total revenue) and \$1,329,001 (73% of total revenue) of time that was contributed during the years ended June 30, 2017 and 2016, respectively, by the Conservancy's Stewards and others whose services met the recognition criteria. Other volunteers donate a significant amount of time to the Conservancy's program services. No amounts have been reflected in the financial statements for these other volunteer services, since they did not meet the recognition requirements under generally accepted accounting standards.

*Special events revenue* - The Conservancy conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Conservancy. The direct costs of the special events, which ultimately benefit the donor rather than the Conservancy, are recorded as costs of direct donor benefits in the accompanying statement of activities.

*Functional allocation of expenses* - The costs of providing programs and other activities have been presented on a functional basis in the statements of activities and functional expenses. Directly identifiable expenses are charged to programs and supporting services. Certain costs have been allocated among the program and supporting services benefited based on management's estimate of time and/or resources devoted to each activity.

*Income tax status* - The Conservancy qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, there is no provision for income taxes. In addition, the Conservancy qualifies for the charitable contribution deduction under Section 170 of the code and has been classified as an entity that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

The Conservancy has adopted *Accounting for Uncertainty in Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. The tax years ended 2014, 2015, and 2016 are still open to audit for both federal and state purposes. The Conservancy has processes presently in place to ensure the maintenance of its tax-exempt status; its exemption; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Conservancy has determined there is no impact on the accompanying financial statements related to the adoption of this standard.

*Subsequent events* - The Conservancy evaluated subsequent events after the statement of financial position date of June 30, 2017 through August 31, 2017 which was the date the Conservancy's financial statements were available to be issued. No conditions were noted that did not exist as of June 30, 2017, but arose subsequent to that date.

# McDOWELL SONORAN LAND CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(with comparative totals for the year ended June 30, 2016)

### (2) Contributions receivable

| Contributions receivable consist of:  | 2017      | 2016       |
|---------------------------------------|-----------|------------|
| Contributions due in less than 1 year | \$ 25,365 | \$ 180,955 |
| Contributions due in 1 to 5 years     | 25,001    | 24,602     |
| Gross contributions receivable        | 50,366    | 205,557    |
| Allowance                             | -         | -          |
| Discount                              | (6,502)   | (5,316)    |
| Total contributions receivable, net   | \$ 43,864 | \$ 200,241 |

### (3) Investments and fair value measurements

The Conservancy reports its investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices. Investments are exposed to various risks, such as interest rate, market, and credit risks. At June 30, 2017 and 2016, permanently restricted endowment investments are held in a pooled endowment fund at a local community foundation. Investments consist of permanently restricted donations made to the fund and the related unexpended net investment income (loss). Also see Note 7 "Permanently restricted net assets and endowment". At June 30, 2017 and 2016, the strategic reserve fund investments are held in various mutual funds at financial institutions. During the year, the board approved withdrawals from the strategic reserve fund totaling \$182,403 to fund operations. The strategic reserve fund investments are approximately 0% and 14% of total assets at June 30, 2017 and 2016, respectively.

| Investments consist of:                           | 2017       | 2016       |
|---|------------|------------|
| Permanently restricted endowment                  | \$ 208,659 | \$ 208,659 |
| Temporarily restricted endowment                  | 29,957     | 11,339     |
| Unrestricted endowment                            | -          | 9,200      |
| Strategic reserve fund investments (unrestricted) | 1,069      | 171,072    |
|   | \$ 239,685 | \$ 400,270 |

The Conservancy has adopted authoritative guidance related to *accounting for fair values of investments*. This standard defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an "exit price") on the measurement date in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants (with no compulsion to buy or sell). Based on the standard *accounting for fair values of investments*, the Conservancy has set up a valuation framework that provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Level 1* Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities.

# McDOWELL SONORAN LAND CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(with comparative totals for the year ended June 30, 2016)

### (3) Investments and fair value measurements (continued)

*Level 2* Inputs to the valuation methodology include:

- 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 (i.e., interest rates, yield curves, etc.);
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Fair values of assets are measured as follows:

|  | <u>Level 1</u> | <u>Level 2</u> | <u>Total</u> |
|--|----------------|----------------|--------------|
| Marketable domestic fixed income mutual funds      | \$ 59,682      | \$ -           | \$ 59,682    |
| Marketable international fixed income mutual funds | 29,242         | -              | 29,242       |
| Marketable domestic equity mutual funds            | 65,673         | -              | 65,673       |
| Marketable international equity mutual funds       | 61,599         | -              | 61,599       |
| Closely held equity securities                     | -              | 23,489         | 23,489       |
| Other  | -              | -              | -            |
| Total  | \$ 216,196     | \$ 23,489      | \$ 239,685   |

For assets and liabilities measured at fair value on a recurring basis, the fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based upon the lowest level input that is significant to the fair value measurement in its entirety.

### (4) Property and equipment

Property and equipment consist of:

|                                   | <u>2017</u> | <u>2016</u> |
|-----------------------------------|-------------|-------------|
| Cost or donated value:            |             |             |
| Furniture, fixtures and equipment | \$ 106,080  | \$ 95,629   |
| Website                           | 59,392      | 54,391      |
| Leasehold improvements            | -           | 24,314      |
| Total cost or donated value       | 165,472     | 174,334     |
| Accumulated depreciation          | (113,717)   | (131,697)   |
| Net property and equipment        | \$ 51,755   | \$ 42,637   |

During 2017, the Conservancy moved into a new office facility and abandoned certain leasehold improvements associated with the previous facility with a cost value of and accumulated depreciation of \$24,314.

# McDOWELL SONORAN LAND CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(with comparative totals for the year ended June 30, 2016)

**(4) Property and equipment (continued)**

Depreciation expense charged to operations is \$15,415 and \$13,772 for the years ended June 30, 2017 and 2016, respectively. Amortization expense of \$1,053 and \$3,160 related to intangible assets for the years ended June 30, 2017 and 2016, respectively, is included in depreciation and amortization expense.

**(5) Lease commitments**

In October 2006, the Conservancy committed to a 10 year office lease. The property owner of the leased office agreed to donate the monthly rental and utility payments to the Conservancy at an estimated fair value of \$11,601 and \$44,112 per year for the years ended June 30, 2017 and 2016, respectively. In accordance with the terms of the lease, the Conservancy is required to pay certain annual common area maintenance and operating costs to the landlord. Common area maintenance and operating costs are \$1,633 and \$4,223, for the years ended June 30, 2017 and 2016, respectively. The lease ended in fiscal year 2017, was not renewed and the Conservancy entered into a lease agreement for new facility with a term of 64 months beginning on September 1, 2016.

Minimum future lease payments (excluding the donated office space) under non-cancellable operating leases having remaining terms in excess of one year at June 30, 2017, are as follows:

| <u>Years Ending June 30,</u>        |    |         |  |
|-------------------------------------|----|---------|--|
| 2018                                | \$ | 47,910  |  |
| 2019                                |    | 49,586  |  |
| 2020                                |    | 49,721  |  |
| 2021                                |    | 51,087  |  |
| 2022                                |    | 25,962  |  |
| Thereafter                          |    | -       |  |
| Total minimum future lease payments | \$ | 224,266 |  |

Total rental expense (including donated office space) was \$57,296 and \$46,497 for the year 2017 and 2016, respectively. In the normal course of business, operating leases are generally renewed or replaced by other leases.

**(6) Temporarily restricted net assets**

Temporarily restricted net assets consist of the following:

|   | 2017       | 2016       |
|---|------------|------------|
| Purpose restrictions:                   |            |            |
| Stewardship                             | \$ 14,896  | \$ 14,896  |
| Endowment earnings                      | 29,957     | 11,339     |
| Research                                | 30,103     | 10,260     |
| PACE fund disabled & children education | 2,202      | 2,202      |
| Field Institute Director position       | 73,334     | 73,795     |
| Time restrictions:                      |            |            |
| Contributions receivable                | 43,864     | 200,241    |
| Total temporarily restricted net assets | \$ 194,356 | \$ 312,733 |

# McDOWELL SONORAN LAND CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(with comparative totals for the year ended June 30, 2016)

### (7) Board designated net assets

Board designated net assets consist of the following:

|                                   | <u>2017</u> | <u>2016</u>       |
|-----------------------------------|-------------|-------------------|
| Strategic reserve fund            | \$ -        | \$ 194,193        |
| New office                        | -           | 20,000            |
| Total board restricted net assets | <u>\$ -</u> | <u>\$ 214,193</u> |

### (8) Permanently restricted net assets and endowment

Permanently restricted net assets consist of the following:

|   | <u>2017</u>       | <u>2016</u>       |
|---|-------------------|-------------------|
| Land held for conservation              | \$ 383,500        | \$ 383,500        |
| Permanently restricted donations        | <u>208,659</u>    | <u>208,659</u>    |
| Total permanently restricted net assets | <u>\$ 592,159</u> | <u>\$ 592,159</u> |

Permanently restricted land held for conservation is approximately 41% and 32% of total assets at June 30, 2017 and 2016, respectively.

The endowment donations have been permanently restricted by various donors. The earnings on these funds are temporarily restricted until expended by the board. The Conservancy's endowments consist of land held for conservation, permanently restricted donations and temporarily restricted investment earnings. As required by generally accepted accounting principles, net assets associated with the endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of directors of the Conservancy has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original donation as of the donation date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Conservancy and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Conservancy
- (7) The investment policies of the Conservancy

# McDOWELL SONORAN LAND CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(with comparative totals for the year ended June 30, 2016)

**(8) Permanently restricted net assets and endowment (continued)**

Changes in Endowment net assets for the year ended June 30, 2017 are as follows:

|   | <u>Unrestricted</u> | <u>Temporarily<br/>restricted</u> | <u>Permanently<br/>restricted</u> | <u>Total</u>      |
|---|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Land held for conservation, beginning of year | \$ -                | \$ -                              | \$ 383,500                        | \$ 383,500        |
| Endowment investments, beginning of year      | -                   | 11,339                            | 208,659                           | 219,998           |
| Net realized & unrealized gains (losses)      | -                   | 24,843                            | -                                 | 24,843            |
| Interest income                               | -                   | 2,675                             | -                                 | 2,675             |
| Contributions                                 | -                   | -                                 | -                                 | -                 |
| Amounts appropriated for expenditure          | 8,900               | (8,900)                           | -                                 | -                 |
| Total, end of year                            | <u>\$ 8,900</u>     | <u>\$ 29,957</u>                  | <u>\$ 592,159</u>                 | <u>\$ 631,016</u> |

Changes in Endowment net assets for the year ended June 30, 2016 are as follows:

|   | <u>Unrestricted</u> | <u>Temporarily<br/>restricted</u> | <u>Permanently<br/>restricted</u> | <u>Total</u>      |
|---|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Land held for conservation, beginning of year | \$ -                | \$ -                              | \$ 383,500                        | \$ 383,500        |
| Endowment investments, beginning of year      | -                   | 27,322                            | 184,859                           | 212,181           |
| Net realized & unrealized gains (losses)      | -                   | (8,675)                           | -                                 | (8,675)           |
| Interest income                               | -                   | 1,892                             | -                                 | 1,892             |
| Contributions                                 | -                   | -                                 | 23,800                            | 23,800            |
| Amounts appropriated for expenditure          | 9,200               | (9,200)                           | -                                 | -                 |
| Total, end of year                            | <u>\$ 9,200</u>     | <u>\$ 11,339</u>                  | <u>\$ 592,159</u>                 | <u>\$ 612,698</u> |

The Conservancy has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk. The Conservancy's spending and investment policies work together to achieve this objective.

The Conservancy's annual appropriations are at the discretion of the Board unless specific instructions were provided by the endowment donors. The current spending policy is 5% to 7% of the annual market value of the endowment, as determined annually by the Board. In the event the current market value of the endowment is less than the historical gift value, spending will continue at 5% to 7% of the market value, unless donor agreements do not permit spending in this circumstance or as otherwise determined by the Board. For the years ended June 30, 2017 and 2016, investment earnings of \$8,900 and \$9,200 respectively, were appropriated for expenditure by the Board.

# McDOWELL SONORAN LAND CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(with comparative totals for the year ended June 30, 2016)

**(8) Permanently restricted net assets and endowment (continued)**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Conservancy to retain as a fund of perpetual duration. As of June 30, 2017 and 2016, the Conservancy had sufficient funds allocated to the endowment.

**(9) Related party transactions**

From time to time, and as part of their board service, members of the board of directors provide cash and in-kind contributions to the Conservancy. During the year ended June 30, 2012, a former board member made a restricted pledge of \$150,000, of which \$16,400 is included in contributions receivable at year-end. At June 30, 2017 and 2016, respectively, contributions receivable of \$16,400 were due from related party current and former board members and employees.

A board member provided certain pro-bono legal services during 2017 for the Conservancy. The board member provided these as part of the member's board service commitment and the amount of these services is not considered to be significant to the Conservancy. Accordingly, no amounts have been recorded in the accompanying financial statements for these donated legal services.

During 2017, the Conservancy and Arizona State University (ASU) entered into a Biodiversity Fellows Internship Memorandum of Understanding (MOU) to jointly fund biodiversity fellowships for selected ASU graduate students to work on Conservancy research projects. The Dean of the School of Life Sciences at ASU is also a board member of the Conservancy and was significantly involved in the creation and drafting of the MOU. According to the MOU, the Conservancy is required to fund \$6,300 per student for each fellowship awarded. No fellowships were awarded during 2017.