



McDOWELL SONORAN LAND CONSERVANCY

FINANCIAL STATEMENTS

Year Ended June 30, 2016

McDOWELL SONORAN LAND CONSERVANCY

FINANCIAL STATEMENTS

Year Ended June 30, 2016

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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, 2016, 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, 2016, 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 2014 financial statements and in my report dated August 19, 2015, 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, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gregory Michael Coy, CPA, PLLC

Phoenix, Arizona
September 22, 2016

McDOWELL SONORAN LAND CONSERVANCY

STATEMENT OF FINANCIAL POSITION

June 30, 2016
(with comparative totals for June 30, 2015)

	<u>ASSETS</u>	
	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash	146,575	\$ 104,931
Accounts receivable	315	693
Contributions receivable	180,955	238,042
Inventory	12,406	9,965
Prepaid expenses	10,835	9,156
TOTAL CURRENT ASSETS	<u>351,086</u>	<u>362,787</u>
CONTRIBUTIONS RECEIVABLE	19,286	123,583
PROPERTY AND EQUIPMENT, net	42,637	56,409
INVESTMENTS	400,270	522,141
INTANGIBLE ASSETS, net	1,053	4,213
LAND HELD FOR CONSERVATION	<u>383,500</u>	<u>383,500</u>
TOTAL ASSETS	<u>\$ 1,197,832</u>	<u>\$ 1,452,633</u>
	<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES		
Accounts payable	\$ 6,667	\$ 4,160
Accrued expenses	<u>26,723</u>	<u>20,949</u>
TOTAL CURRENT LIABILITIES	<u>33,390</u>	<u>25,109</u>
NET ASSETS		
Unrestricted, undesignated	45,357	61,686
Unrestricted, designated	<u>214,193</u>	<u>339,193</u>
Unrestricted	259,550	400,879
Temporarily restricted	312,733	458,286
Permanently restricted	<u>592,159</u>	<u>568,359</u>
TOTAL NET ASSETS	<u>1,164,442</u>	<u>1,427,524</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,197,832</u>	<u>\$ 1,452,633</u>

McDOWELL SONORAN LAND CONSERVANCY

STATEMENT OF ACTIVITIES

Year ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

				Totals	
	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
SUPPORT AND REVENUE					
Contributed volunteer services	\$ 1,329,001	\$ -	\$ -	\$ 1,329,001	\$ 1,107,791
Contributed rent	-	44,112	-	44,112	42,648
Other contributed materials and services	-	20,370	-	20,370	16,832
Contributions	345,597	59,498	23,800	428,895	748,457
Program service revenue	17,357	-	-	17,357	14,379
Net realized and unrealized gains (losses)	(6,583)	(8,675)	-	(15,258)	2,311
Interest income	1,208	1,892	-	3,100	4,901
Merchandise sales, net of cost of sales	5,039	-	-	5,039	2,983
	1,691,619	117,197	23,800	1,832,616	1,940,302
Total support and revenue before special events and net assets released from restrictions					
Special events					
Revenue from special events	-	-	-	-	2,010
Less costs of direct donor benefits	-	-	-	-	-
	-	-	-	-	2,010
Gross profit (loss) on special events	-	-	-	-	2,010
Net assets released from restrictions	262,750	(262,750)	-	-	-
	1,954,369	(145,553)	23,800	1,832,616	1,942,312
TOTAL SUPPORT AND REVENUE					
EXPENSES					
Program services:					
Stewardship	1,757,077	-	-	1,757,077	1,420,940
Contribution of property	-	-	-	-	93,378
Advocacy	40,606	-	-	40,606	38,786
	1,797,683	-	-	1,797,683	1,553,104
Total program services					
Supporting services:					
Management and general	116,320	-	-	116,320	145,253
Fundraising	181,695	-	-	181,695	148,654
	298,015	-	-	298,015	293,907
Total supporting services					
	2,095,698	-	-	2,095,698	1,847,011
TOTAL EXPENSES					
CHANGE IN NET ASSETS	(141,329)	(145,553)	23,800	(263,082)	95,301
NET ASSETS, BEGINNING OF YEAR	400,879	458,286	568,359	1,427,524	1,332,223
	\$ 259,550	\$ 312,733	\$ 592,159	\$ 1,164,442	\$ 1,427,524
NET ASSETS, END OF YEAR					

McDOWELL SONORAN LAND CONSERVANCY

STATEMENT OF FUNCTIONAL EXPENSE

Year ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

	Stewardship	Contribution of Property	Advocacy	Total Program Services	Supporting Services			Total Expenses	
					Management and General	Fundraising	Total Supporting Services	2016	2015
Salaries, payroll taxes and benefits	\$ 297,513	\$ -	\$ 6,933	\$ 304,446	\$ 51,065	\$ 127,212	\$ 178,277	\$ 482,723	\$ 403,147
Copier lease	1,426	-	-	1,426	253	706	959	2,385	9,616
Telephone and internet	2,911	-	-	2,911	620	1,159	1,779	4,690	4,394
Depreciation and amortization	-	-	-	-	16,932	-	16,932	16,932	15,252
Occupancy	34,390	-	-	34,390	5,803	16,434	22,237	56,627	47,201
Supplies and materials	6,617	-	-	6,617	1,175	2,207	3,382	9,999	18,360
Fundraising	-	-	-	-	-	31,718	31,718	31,718	31,758
Program Services	1,412,055	-	33,673	1,445,728	-	-	-	1,445,728	1,267,130
Professional fees	-	-	-	-	17,845	-	17,845	17,845	20,915
Dues, subs and meetings	-	-	-	-	1,375	1,056	2,431	2,431	3,664
Insurance	2,165	-	-	2,165	4,650	1,203	5,853	8,018	6,288
Bank, CC and payroll fees	-	-	-	-	8,092	-	8,092	8,092	9,890
Postage and printing	-	-	-	-	1,713	-	1,713	1,713	1,529
Other expense	-	-	-	-	6,797	-	6,797	6,797	7,867
	<u>\$ 1,757,077</u>	<u>\$ -</u>	<u>\$ 40,606</u>	<u>\$ 1,797,683</u>	<u>\$ 116,320</u>	<u>\$ 181,695</u>	<u>\$ 298,015</u>	<u>\$ 2,095,698</u>	<u>\$ 1,847,011</u>

McDOWELL SONORAN LAND CONSERVANCY

STATEMENT OF CASH FLOWS

Year ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (263,082)	\$ 95,301
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	16,932	15,252
Net realized and unrealized (gain)/loss on investments	15,258	(2,311)
Contribution of property to City of Scottsdale	-	93,378
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	378	2,091
Contributions receivable	161,384	(214,291)
Inventory	(2,441)	(4,610)
Prepaid expenses	(1,679)	237
Increase (decrease) in:		
Accounts payable	2,507	1,058
Accrued expenses	5,774	1,332
Net cash provided by (used in) operating activities	(64,969)	(12,563)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	-	(24,807)
Proceeds from investments	106,613	-
Purchases of property and equipment	-	(38,678)
Net cash used in investing activities	106,613	(63,485)
NET CHANGE IN CASH	41,644	(76,048)
CASH, BEGINNING OF YEAR	104,931	180,979
CASH, END OF YEAR	\$ 146,575	\$ 104,931
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Non-cash financing activities:		
Contribution of property	\$ -	\$ 93,378

McDOWELL SONORAN LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(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 for the benefit of this and future generations. As Stewards, we connect 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 ten volunteer Steward programs. Its research mission is to conduct ecological and historical research and monitoring through our McDowell Sonoran Field Institute that informs the ongoing management of the Preserve and our education efforts. Research is administered through the Citizen Scientist 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 develop systems and procedures that influence public officials, community opinion, and the private sector to establish a regional open space system for the preservation of the flora, fauna, and the archaeological and historical resources, with appropriate public access.

Other services – the Conservancy works in cooperation with the City of Scottsdale and its Preservation 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, 2015, from which the summarized information was derived.

McDOWELL SONORAN LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(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, 2016 and 2015. At June 30, 2016 and 2015, 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, 2016, 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

Year Ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(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, 2016 and 2015.

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 \$14,747 and \$11,587 for the years ended June 30, 2016 and 2015, respectively. Amortization expense is \$3,160 for the years ended June 30, 2016 and 2015, and is included in depreciation and amortization expense on the accompanying statement of functional expenses. Estimated annual amortization expense is \$1,053 and \$0 for the years ended June 30, 2016 and 2017, respectively.

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 \$5,039 and \$2,983 are presented net of cost of sales of \$13,068 and \$13,924, for the years ended June 30, 2016 and June 30, 2015, 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

Year Ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(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 \$1,329,001 (73% of total revenue) and \$1,107,791 (57% of total revenue) of time that was contributed during the years ended June 30, 2016 and 2015, 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 2013, 2014, and 2015 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, 2016 through September 22, 2016 which was the date the Conservancy's financial statements were available to be issued. Other than those described below, no conditions were noted that did not exist as of June 30, 2016, but arose subsequent to that date.

- On July 13, 2016, the Conservancy entered into a lease agreement for a new facility that commences on September 1, 2016. The Conservancy received donated rent during 2016 at its current facility. (See Note 5).

McDOWELL SONORAN LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(2) Contributions receivables

Contributions receivable consist of:	2016	2015
Contributions due in less than 1 year	\$ 180,955	\$ 240,542
Contributions due in 1 to 5 years	24,602	129,674
Gross contributions receivable	205,557	370,216
Allowance	-	(2,500)
Discount	(5,316)	(6,091)
Total contributions receivable, net	\$ 200,241	\$ 361,625

(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, 2016 and 2015, 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, 2016 and 2015, the strategic reserve fund investments are unrestricted, board designated funds and are held in various mutual funds at financial institutions. During the year, the board approved a withdrawal from the strategic reserve fund of \$125,000 to fund operations. The strategic reserve fund investments are approximately 14% and 21% of total assets at June 30, 2016 and 2015, respectively.

Investments consist of:	2016	2015
Permanently restricted endowment	\$ 208,659	\$ 184,859
Temporarily restricted endowment	11,339	27,322
Unrestricted endowment	9,200	8,312
Strategic reserve fund investments (unrestricted)	171,072	301,648
Total investments	\$ 400,270	\$ 522,141

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

Year Ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(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>Level 3</u>	<u>Total</u>
Marketable fixed income mutual funds	\$ -	\$ -	\$ -	\$ -
Marketable domestic equities	61,241	-	-	61,241
Marketable domestic mutual funds	152,903	-	-	152,903
Marketable international mutual funds	70,848	-	-	70,848
Closely held equity securities	-	37,225	-	37,225
Hedge funds	-	68,046	-	68,046
Other	-	10,007	-	10,007
Total	<u>\$ 284,992</u>	<u>\$ 115,278</u>	<u>\$ -</u>	<u>\$ 400,270</u>

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>2016</u>	<u>2015</u>
Cost or donated value:		
Furniture, fixtures and equipment	\$ 95,629	\$ 95,629
Website	54,391	54,391
Leasehold improvements	<u>24,314</u>	<u>24,314</u>
Total cost or donated value	174,334	174,334
Accumulated depreciation	<u>(131,697)</u>	<u>(117,925)</u>
Net property and equipment	<u>\$ 42,637</u>	<u>\$ 56,409</u>

In June 2015, self-constructed interpretive trail and related signs and benches in the amount of \$93,378 were donated to the City of Scottsdale.

McDOWELL SONORAN LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(4) Property and equipment (continued)

Depreciation expense charged to operations is \$13,772 and \$12,092 for the years ended June 30, 2016 and 2015, respectively. Amortization expense of \$3,160 related to intangible assets for the years ended June 30, 2016 and 2015, 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 \$44,112 and \$42,648 per year for the years ended June 30, 2016 and 2015, 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 \$4,223 and \$4,553, for the years ended June 30, 2016 and 2015, respectively. The lease ended in fiscal year 2017, was not renewed and the Conservancy entered into a lease agreement for a new facility in July 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, 2016, are as follows:

<u>Years Ending June 30,</u>	
2017	\$ 1,848
2018	1,848
2019	1,848
2020	308
2021	-
Thereafter	-
Total minimum future lease payments	<u>\$ 5,852</u>

Total rental expense (including donated office space) was \$46,497 and \$52,264 for the year 2016 and 2015, respectively. In the normal course of business, operating leases are generally renewed or replaced by other leases.

On July 13, 2016, the Conservancy entered into a lease agreement for a new facility that commences on September 1, 2016. Minimum future lease payments under non-cancellable operating leases, including this new facility lease, having remaining terms in excess of one year at June 30, 2016, are as follows:

<u>Years Ending June 30,</u>	
2017	\$ 24,461
2018	47,910
2019	49,586
2020	49,721
2021	51,087
Thereafter	25,962
Total minimum future lease payments	<u>\$ 248,727</u>

McDOWELL SONORAN LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(6) Temporarily restricted net assets

Temporarily restricted net assets consist of the following:	2016	2015
Purpose restrictions:		
Stewardship	\$ 14,896	\$ 14,896
Endowment earnings	11,339	27,322
Research	10,259	50,941
PACE fund disabled & children education	2,203	3,502
Field Institute Director position	73,795	
Time restrictions:		
Contributions receivable	200,241	361,625
Total temporarily restricted net assets	\$ 312,733	\$ 458,286

(7) Board designated net assets

Board designated net assets consist of the following:	2016	2015
Strategic reserve fund	\$ 194,193	\$ 319,193
New office	20,000	20,000
Total board restricted net assets	\$ 214,193	\$ 339,193

(8) Permanently restricted net assets and endowment

Permanently restricted net assets consist of the following:	2016	2015
Land held for conservation	\$ 383,500	\$ 383,500
Permanently restricted donations	208,659	184,859
Total permanently restricted net assets	\$ 592,159	\$ 568,359

Permanently restricted land held for conservation is approximately 32% and 26% of total assets at June 30, 2016 and 2015, 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.

McDOWELL SONORAN LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

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

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

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently 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	<u>9,200</u>	<u>(9,200)</u>	<u>-</u>	<u>-</u>
Total, end of year	<u>\$ 9,200</u>	<u>\$ 11,339</u>	<u>\$ 592,159</u>	<u>\$ 612,698</u>

Changes in Endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Land held for conservation, beginning of year	\$ -	\$ -	\$ 383,500	\$ 383,500
Endowment investments, beginning of year	-	28,171	161,859	190,030
Net realized & unrealized gains (losses)	-	4,691	-	4,691
Interest income	-	2,772	-	2,772
Contributions	-	-	23,000	23,000
Amounts appropriated for expenditure	<u>8,312</u>	<u>(8,312)</u>	<u>-</u>	<u>-</u>
Total, end of year	<u>\$ 8,312</u>	<u>\$ 27,322</u>	<u>\$ 568,359</u>	<u>\$ 603,993</u>

McDOWELL SONORAN LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

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

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, 2016 and 2015, investment earnings of \$9,200 and \$8,312, respectively, were appropriated for expenditure by the Board.

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, 2016 and 2015, 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, 2016 and 2015, respectively, contributions receivable of \$16,400 and \$52,400 were due from related party current and former board members and employees.

The Conservancy participates in an event with a local community where a member of the Board of Directors also serves on the community council for the local community. The Conservancy has provided volunteers for the event and also receives contributions from the local community.

A board member provided certain pro-bono legal services during 2016 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.