April 3, 2015

**INDEPENDENT AUDITORS' REPORT**

Board of Directors
Pacific Crest Trail Association
Sacramento, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of Pacific Crest Trail Association (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2014, and the related Statements of Activities and Cash Flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also

3416 American River Dr.
Suite A
Sacramento, CA 95864
916/488/2460
Fax/488/2466

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Crest Trail Association as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

We have previously audited Pacific Crest Trail Association's 2013 financial statements, and our report dated April 30, 2013 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2015 on our consideration of Pacific Crest Trail Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pacific Crest Trail Association's internal control over financial reporting and compliance.

John Waddell & Co., CPAs

## PACIFIC CREST TRAIL ASSOCIATION

### Statement of Financial Position
### December 31, 2014
### (with comparative totals for 2013)

#### ASSETS

| | 2014 | 2013 |
|---|---|---|
| Cash | **$ 218,582** | $ 132,106 |
| Accounts receivable | **34,638** | 101,926 |
| Pledges receivable | **70,609** | 11,028 |
| Inventory | **3,471** | 6,405 |
| Prepaid expenses | **23,131** | 28,133 |
| Furniture and equipment, net | **31,364** | 28,995 |
| Investments | **1,911,933** | 1,419,988 |
| | **$ 2,293,728** | $ 1,728,581 |

#### LIABILITIES AND NET ASSETS

| | 2014 | 2013 |
|---|---|---|
| Liabilities | | |
| Accounts payable | **$ 64,761** | $ 65,516 |
| Accrued expenses | **77,586** | 95,814 |
| Deferred revenue | **11,579** | 1,485 |
| Total Liabilities | **153,926** | 162,815 |
| Net Assets | | |
| Unrestricted | **398,173** | 434,713 |
| Temporarily restricted | **700,416** | 192,976 |
| Permanently restricted | **1,041,213** | 938,077 |
| Total Net Assets | **2,139,802** | 1,565,766 |
| | **$ 2,293,728** | $ 1,728,581 |

See accompanying notes to financial statements.

# PACIFIC CREST TRAIL ASSOCIATION

## Statement of Activities
## For the Year Ended December 31, 2014
## (with comparative totals for 2013)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2014 Total | 2013 Total |
|---|---|---|---|---|---|
| Revenue and Support | | | | | |
| Contributions and memberships | $ 1,104,802 | $ 556,425 | $ 103,136 | **$ 1,764,363** | $ 1,118,328 |
| Government grants | 902,447 | - | - | **902,447** | 974,598 |
| Store sales | 12,196 | - | - | **12,196** | 13,941 |
| Investment income | 968 | 65,735 | - | **66,703** | 130,594 |
| Other income | 8,617 | - | - | **8,617** | 2,853 |
| In-kind contributions | 283,642 | - | - | **283,642** | 261,921 |
| Net assets released from restrictions | 114,720 | (114,720) | - | **-** | - |
| Total Revenue and Support | 2,427,392 | 507,440 | 103,136 | **3,037,968** | 2,502,235 |
| Expenses | | | | | |
| Trail program | 1,116,258 | - | - | **1,116,258** | 1,151,294 |
| Public information and education | 631,025 | - | - | **631,025** | 431,535 |
| Fundraising and membership development | 445,454 | - | - | **445,454** | 429,040 |
| Management and general | 271,195 | - | - | **271,195** | 232,125 |
| Total Expenses | 2,463,932 | - | - | **2,463,932** | 2,243,994 |
| Change in Net Assets | (36,540) | 507,440 | 103,136 | **574,036** | 258,241 |
| Net Assets, Beginning of Year | 434,713 | 192,976 | 938,077 | **1,565,766** | 1,307,525 |
| Net Assets, End of Year | $ 398,173 | $ 700,416 | $ 1,041,213 | **$ 2,139,802** | $ 1,565,766 |

See accompanying notes to financial statements.

## PACIFIC CREST TRAIL ASSOCIATION

### Statement of Cash Flows
### For the Year Ended December 31, 2014
### (with comparative totals for 2013)

| | 2014 | 2013 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Change in net assets | $ **574,036** | $ 258,241 |
| Adjustments to reconcile change in net assets to cash provided (used) by operating activities: | | |
| Depreciation | **18,340** | 14,609 |
| Dividends reinvested | **(27,672)** | (22,898) |
| Realized and unrealized investment gains | **(39,031)** | (107,696) |
| Contributed investments | **(271,755)** | (35,026) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | **67,288** | (22,748) |
| Pledges receivable | **(59,581)** | (3,787) |
| Inventory | **2,934** | 1,401 |
| Prepaid expenses | **5,002** | 2,687 |
| Accounts payable | **(755)** | 24,694 |
| Accrued expenses | **(18,228)** | 13,558 |
| Deferred revenue | **10,094** | (195) |
| Contributions restricted for long-term purposes | **(103,136)** | (20,047) |
| Cash Provided by Operating Activities | **157,536** | 102,793 |
| Cash Flows from Investing Activities: | | |
| Purchases of equipment | **(20,709)** | (14,675) |
| Purchases of securities | **(670,242)** | (588,668) |
| Sales of securities | **516,755** | 238,526 |
| Cash Used by Investing Activities | **(174,196)** | (364,817) |
| Cash Flows from Financing Activities | | |
| Collection of support for endowment | **103,136** | 160,047 |
| Cash Provided by Financing Activities | **103,136** | 160,047 |
| Net Increase (Decrease) in Cash | **86,476** | (101,977) |
| Cash, Beginning of Year | **132,106** | 234,083 |
| Cash, End of Year | $ **218,582** | $ 132,106 |

See accompanying notes to financial statements.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

Pacific Crest Trail Association (PCTA) is a nonprofit, voluntary, membership organization incorporated in the State of California on January 25, 1977.

The mission of the Pacific Crest Trail Association is to protect, preserve and promote the Pacific Crest National Scenic Trail as a world-class experience for hikers and equestrians, and for all the values provided by wild and scenic lands. PCTA and the Forest Service work as partners to manage, maintain, and protect the trail. They defend the trail from improper use, abuse, and commercial or private encroachment. They provide information to help people enjoy the trail and encourage good trail ethics, safe travel practices and appreciative awareness of the trail as a valued national heritage.

### Basis of Presentation

PCTA follows Financial Accounting Board Standards (FASB) for presentation of its financial statements which requires that net assets and support, revenue, gains, expenses and losses be classified as unrestricted, temporarily restricted, and permanently restricted based upon the following criteria:

- Unrestricted net assets represent funds available for operations that are not otherwise limited by donor restrictions.

- Temporarily restricted net assets consist of contributed funds, subject to specific donor-imposed restrictions, or a specific passage of time before the Organization may spend the funds.

- Permanently restricted net assets are subject to irrevocable donor restrictions, requiring that the assets be maintained in perpetuity, usually for the purpose of generating investment income to fund current operations.

### Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

### Cash

For purpose of the Statement of Cash Flows, cash consists of cash not designated or restricted for investment or other long term purposes.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Accounts Receivable

Approximately 70% of accounts receivable are due from the U.S. Forest Service. Management believes all of the receivables are collectible; accordingly, no allowance for doubtful accounts has been established. Receivables are determined to be past due based on contractual terms. Receivables are charged off when management has exhausted all collection efforts.

### Pledges Receivable

Substantially all pledges receivable are due within one year. Management believes all pledges receivables are collectible; accordingly, no allowance for uncollectible pledges has been established.

### Inventory

Inventory is stated at the lower of cost or market using the first-in, first-out method. Cost of sales of $8,319 is included in public information and education expenses.

### Furniture and Equipment

PCTA capitalizes property and equipment in excess of $1,000 at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, which range from 3 to 5 years.

### Investments

Investments are reported at fair value. Unrealized gains and losses are included in the change in net assets.

### Contributions and Memberships

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

Contributions of services are recognized if the services received create nonfinancial assets or require specialized skills.

Marketable securities and other noncash contributions are recorded at their estimated fair values at the date of donation.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Advertising**

Advertising costs are expensed as incurred and are generally donated. In-kind advertising expense amounted to $48,396 for the year ended December 31, 2014.

**Functional Allocation of Expenses**

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

**Income Tax Status**

PCTA is a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. PCTA believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements. PCTA's federal and state exempt organization tax returns are subject to examination by the IRS and California Franchise Tax Board for three and four years, respectively, after they were filed.

**Comparative Financial Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with PCTA's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

**Subsequent Events**

Management has evaluated subsequent events through the date the financial statements were available to be issued, which was April 3, 2015.

## NOTE 2 FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at December 31, 2014:

| | |
|---|---|
| Equipment | $ 105,689 |
| Website and software | 65,798 |
| Less accumulated depreciation | (140,123) |
| | $ 31,364 |

Depreciation expense amounted to $18,340.

## NOTE 3 INVESTMENTS

Investments consist of the following at December 31, 2014:

| | |
|---|---|
| Money market funds | $ 661,209 |
| Government bond funds | 245,526 |
| Bond index funds | 250,110 |
| Stock index funds | 527,927 |
| International stock index funds | 227,161 |
| | $ 1,911,933 |

Investment income consisted of interest and dividend income of $27,672 and unrealized gains on investments of $39,031 for the year ended December 31, 2014.

## NOTE 4 FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis as of December 31, 2014 are as follows:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Quoted Prices for similar assets in Inactive Markets (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Investments at fair value: | | | | |
| Money market funds | $ 661,209 | $ - | $ - | $ 661,209 |
| Mutual funds | 1,250,724 | - | - | 1,250,724 |
| | $ 1,911,933 | $ - | $ - | $ 1,911,933 |

The following table reconciles the beginning and ending balances of fair value measurements using significant unobservable inputs (Level 3) for the year ended December 31, 2014:

| | |
|---|---|
| Beginning balance | $ 13,500 |
| Gain | 1,500 |
| Sale | (15,000) |
| | $ - |

## NOTE 4 FAIR VALUE MEASUREMENTS – CONTINUED

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies since the previous year.

Level 1 Fair Value Measurements

The fair values of money market funds and mutual funds are based on the daily closing price as reported by the funds. Mutual funds held by PCTA are open-end mutual funds. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by PCTA are actively traded.

Level 3 Fair Value Measurements

The overriding royalty interest, which was sold during the year, was not actively traded and significant other observable inputs were not available. The fair value was estimated using a market approach.

## NOTE 5 LEASES

PCTA leases headquarter office space in Sacramento, CA with a lease term expiring September 30, 2016. In addition, PCTA has four regional offices located along the trail. One lease has been prepaid through 2017, two are leased on a month-to-month basis, and the other lease term expires in 2016. Rent expense amounted to $81,681 for the year ended December 31, 2014.

Future minimum lease payments under these agreements are as follows:

| | | |
|---|---|---|
| 2015 | $ | 69,822 |
| 2016 | | 53,658 |
| | $ | 123,480 |

## NOTE 6 EMPLOYEE BENEFIT PLAN

PCTA sponsors a 401(k) plan covering substantially all employees. For 2013, PCTA did not contribute a match but made a 3% safe harbor contribution. During 2014, PCTA made a 3% match and a 3% safe harbor contribution. Contributions to the plan for the year ended December 31, 2014 amounted to $51,254.

## NOTE 7 RESTRICTIONS AND DESIGNATIONS ON NET ASSETS

Unrestricted net assets are designated for the following purposes:

| | | |
|---|---|---|
| Board designated for reserves | $ | 205,000 |
| Board designated endowment | | 15,563 |
| | $ | 220,563 |

Temporarily restricted net assets are restricted for the following purposes:

| | | |
|---|---|---|
| Land protection | $ | 265,288 |
| Land protection director | | 200,000 |
| Trail maintenance | | 12,703 |
| Bridge of the Gods | | 12,915 |
| Donor restricted endowment earnings | | 209,510 |
| | $ | 700,416 |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Permanently restricted net assets consist of donor restricted endowments and are restricted to investment in perpetuity.

## NOTE 8 LINE OF CREDIT

PCTA has a line of credit of $100,000 with a bank expiring June 1, 2015. Borrowings under the line bear interest at the greater of prime plus 1.1%, or 5%. As of December 31, 2014, there were no borrowings against the line of credit.

## NOTE 9 DONATED SERVICES

In 2014, volunteers donated a total of 81,703 volunteer hours to PCTA. Under generally accepted accounting principles (GAAP), PCTA records the value of donated services in the financial statements at fair market value as both a donation and a program expense. Not all hours are recorded in the financial statements because they do not meet the criteria for recognition under GAAP. However, PCTA recognizes these hours as a valuable contribution, as the work could not be accomplished without the volunteers. The total value of donated services for the year ended December 31, 2014 is as follows:

| | | |
|---|---|---|
| Donated Services Recorded in the Financial Statements valued at Fair Value: | | |
| Graphic design (public information and education) | $ | 54,600 |
| Chain-saw operation and skilled construction (trail program) | | 156,851 |
| | $ | 211,451 |
| Donated Services Not Recorded in the Financial Statements: | | |
| 75,262 Volunteer Hours valued at standard federal rate | $ | 1,697,158 |

## NOTE 10 ENDOWMENT FUND

As required by generally accepted accounting principles, net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

PCTA has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, PCTA 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 investment income of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

PCTA has adopted an investment policy that specifies the primary objectives are to provide a predictable stream of funding for endowment purposes while maintaining the purchasing power of the endowment assets over time. Endowment assets are invested in a well-diversified asset mix including both equity and debt securities. The intended result is to achieve a real (after inflation and expenses) total rate of return of 4%. Therefore, PCTA expects its endowment assets, over time, to produce an average rate of return of approximately 7% – 8% annually and inflation to average 3 – 4% annually.

## NOTE 10 ENDOWMENT FUND – CONTINUED

Four percent (4%) of the endowment fund is appropriated for distribution each year, calculated based on the average fair market value of the prior 12 quarters. The 4% allowable annual distribution from the fund does not carry forward to subsequent years if not taken in the current year.

Changes in the endowment fund for the year ended December 31, 2014 were as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Donor Restricted Endowment** | | | | |
| Endowment net assets, beginning of year | $ - | $ 175,779 | $ 938,077 | $ 1,113,856 |
| Contributions | - | - | 103,136 | 103,136 |
| Investment income | - | 27,650 | - | 27,650 |
| Net appreciation | - | 38,085 | - | 38,085 |
| Amounts appropriated for Board Designated endowment | - | (32,004) | - | (32,004) |
| Endowment funds, end of year | $ - | $ 209,510 | $ 1,041,213 | $ 1,250,723 |

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Board Designated Endowment** | | | | |
| Endowment net assets, beginning of year | $ 106,602 | $ - | $ - | $ 106,602 |
| Amounts designated by the Board | 35,740 | - | - | 35,740 |
| Investment Income | 7 | - | - | 7 |
| Net appreciation | 714 | - | - | 714 |
| Amounts appropriated for expenditure | (127,500) | - | - | (127,500) |
| Endowment funds, end of year | $ 15,563 | $ - | $ - | $ 15,563 |

## NOTE 11 CONDITIONAL PROMISE TO GIVE

PCTA has a challenge grant for $250,000. The exact requirements of the challenge, which will involve obtaining donations from other sources, will be determined by the donor during 2015. Seventy five percent of amounts received from the challenge grant will be restricted for land acquisition, and the remainder will be restricted for a future capital campaign.

April 3, 2015

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of
Pacific Crest Trail Association

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pacific Crest Trail Association (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2014, and the related Statements of Activities and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 3, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Pacific Crest Trail Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pacific Crest Trail Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

3416 American River Dr.
Suite A
Sacramento, CA 95864
916/488/2460
Fax/488/2466

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pacific Crest Trail Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

John Waddell & Co., CPAs

3416 American River Dr.
Suite A
Sacramento, CA 95864
916/488/2460
Fax/488/2466