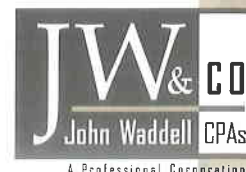


August 13, 2010



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Pacific Crest Trail Association  
Sacramento, California

We have audited the accompanying Statement of Financial Position of Pacific Crest Trail Association (a nonprofit corporation) as of December 31, 2009, and the related Statements of Activity and Cash Flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Association's 2008 financial statements, and in our report dated April 15, 2009, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2010, on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*John Waddell & Co., CPAs*

# PACIFIC CREST TRAIL ASSOCIATION

## Statement of Financial Position December 31, 2009 (with comparative totals for 2008)

### ASSETS

	2009	2008
Cash	\$ 172,689	\$ 180,449
Accounts receivable	81,379	137,253
Grants receivable	-	10,000
Inventory	16,058	19,696
Prepaid expenses	25,755	16,594
Furniture and equipment, net	37,925	52,521
Investments	310,745	266,206
	<u>\$ 644,551</u>	<u>\$ 682,719</u>

### LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 51,329	\$ 93,516
Accrued expenses	45,668	44,008
Total Liabilities	<u>96,997</u>	<u>137,524</u>
Net Assets		
Unrestricted		
Designated for reserves	50,000	50,000
Undesignated	178,338	132,732
Temporarily restricted	233,961	281,708
Permanently restricted	85,255	80,755
Total Net Assets	<u>547,554</u>	<u>545,195</u>
	<u>\$ 644,551</u>	<u>\$ 682,719</u>

See accompanying notes to financial statements.

# PACIFIC CREST TRAIL ASSOCIATION

## Statement of Activity For the Year Ended December 31, 2009 (with comparative totals for 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
<b>Revenue and Support</b>					
Contributions and memberships	\$ 819,269	\$ 77,299	\$ 4,500	\$ 901,068	\$ 957,638
Government grants	766,880	-	-	766,880	599,500
Trail expense reimbursements	-	-	-	-	6,685
Store sales	52,851	-	-	52,851	61,126
Annual conference	29,568	-	-	29,568	47,809
Investment income	2,526	1,923	-	4,449	9,799
Other income	810	-	-	810	2,760
In-kind contributions	146,712	-	-	146,712	90,734
Net assets released from restrictions	126,969	(126,969)	-	-	-
<b>Total Revenue and Support</b>	<b>1,945,585</b>	<b>(47,747)</b>	<b>4,500</b>	<b>1,902,338</b>	<b>1,776,051</b>
<b>Expenses</b>					
Public information and education	372,038	-	-	372,038	423,000
Trail program	1,044,613	-	-	1,044,613	1,015,513
Annual conference	29,221	-	-	29,221	44,676
Management and general	176,375	-	-	176,375	146,735
Fundraising and membership development	277,732	-	-	277,732	307,429
<b>Total Expenses</b>	<b>1,899,979</b>	<b>-</b>	<b>-</b>	<b>1,899,979</b>	<b>1,937,353</b>
<b>Change in Net Assets</b>	<b>45,606</b>	<b>(47,747)</b>	<b>4,500</b>	<b>2,359</b>	<b>(161,302)</b>
<b>Net Assets, Beginning of Year</b>	<b>182,732</b>	<b>281,708</b>	<b>80,755</b>	<b>545,195</b>	<b>706,497</b>
<b>Net Assets, End of Year</b>	<b>\$ 228,338</b>	<b>\$ 233,961</b>	<b>\$ 85,255</b>	<b>\$ 547,554</b>	<b>\$ 545,195</b>

See accompanying notes to financial statements.

# PACIFIC CREST TRAIL ASSOCIATION

## Statement of Cash Flows For the Year Ended December 31, 2009 (with comparative totals for 2008)

	2009	2008
Cash Flows from Operating Activities:		
Change in net assets	\$ 2,359	\$ (161,302)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	22,631	26,774
Loss on disposal of equipment	1,191	-
Dividends reinvested	(3,355)	(8,687)
Unrealized investment (gains)/losses	(1,058)	(1,112)
Changes in operating assets and liabilities:		
Accounts receivable	55,874	96,554
Grants receivable	10,000	31,000
Inventory	3,638	742
Prepaid expenses	(9,161)	492
Accounts payable	(42,187)	(59,215)
Accrued expenses	1,660	22,125
Contributions restricted for long-term purposes	(4,500)	(2,198)
Cash Provided (Used) by Operating Activities	<u>37,092</u>	<u>(54,827)</u>
Cash Flows from Investing Activities:		
Purchases of equipment	(9,226)	(19,205)
Purchases of securities	(265,126)	(3,198)
Sales of securities	225,000	141,000
Cash Provided (Used) by Investing Activities	<u>(49,352)</u>	<u>118,597</u>
Cash Flows from Financing Activities		
Collection of support for endowment	4,500	2,198
Cash Provided by Financing Activities	<u>4,500</u>	<u>2,198</u>
Net Increase (Decrease) in Cash	(7,760)	65,968
Cash and Cash Equivalents, Beginning of Year	180,449	114,481
Cash and Cash Equivalents, End of Year	<u>\$ 172,689</u>	<u>\$ 180,449</u>

See accompanying notes to financial statements.

# **PACIFIC CREST TRAIL ASSOCIATION**

## **Notes to Financial Statements December 31, 2009**

### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Organization**

Pacific Crest Trail Association (the Association) 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 an internationally significant resource for the enjoyment of hikers and equestrians, and for the value that wild and scenic lands provide to all people. The Association promotes the management, maintenance, conservation and safe public use of the Trail. It protects and defends the Trail from improper use, abuse, and commercial or private encroachment. It provides information to help people enjoy the Trail. It encourages good trail ethics, safe travel practices and appreciative awareness of the Trail as a valued national heritage.

#### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **Cash**

Cash consists of cash and short-term investments not designated for investment with maturities of three months or less.

#### **Accounts Receivable**

Substantially all 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.

#### **Inventory**

Inventory is stated at the lower of cost or market using the first-in, first-out method. Cost of sales of \$48,264 is included in public information and education expenses.

#### **Furniture and Equipment**

Furniture and equipment in excess of \$1,000 are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years.

# **PACIFIC CREST TRAIL ASSOCIATION**

## **Notes to Financial Statements December 31, 2009**

### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

#### **Investments**

Investments are reported at fair value as determined by quoted prices for identical assets in an active market.

#### **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. Temporarily restricted contributions whose restrictions are met during the year are classified as unrestricted contributions.

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.

#### **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 Activity. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

To achieve some of its public information and education goals, the Association uses direct mail campaigns and a website that include requests for contributions. Of the total joint costs of these campaigns and the website of \$121,948, \$99,064 has been allocated to public information and education, \$2,179 to trail program, and \$20,705 to fundraising.

#### **Income Tax Status**

The Association 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. The Association 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. The Association's federal and state exempt organization tax returns are generally subject to examination by the IRS and California Franchise Tax Board for three and four years, respectively, after they were filed.

#### **Subsequent Events**

Subsequent events have been evaluated through the date the financial statements were available to be issued, which was August 13, 2010.



# PACIFIC CREST TRAIL ASSOCIATION

## Notes to Financial Statements December 31, 2009

### NOTE 2 FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

Equipment and software	\$ 119,541
Less accumulated depreciation	<u>(81,616)</u>
	<u>\$ 37,925</u>

Depreciation expense amounted to \$22,631. The Association has acquired \$27,350 of equipment with restricted grant funds. Although the grantor reserves the right to request the return of the equipment, the Association has capitalized the equipment since it is probable that it will be allowed to keep the equipment at the end of the grant period.

### NOTE 3 INVESTMENTS

Investments consist of the following at December 31:

Money market fund	\$ 223,566
Short-term bond index fund	<u>87,179</u>
	<u>\$ 310,745</u>

### NOTE 4 LEASES

Prior to September 2009, the Association leased office space on a month-to-month basis. In September 2009, the Association entered into a five-year lease for office space with an option to renew for one additional five-year period. Rent expense amounted to \$43,528 for the year ended December 31, 2009.

Future minimum lease payments under this agreement are as follows:

2010	\$ 62,445
2011	63,892
2012	65,338
2013	66,785
2014	<u>56,658</u>
	<u>\$ 315,118</u>

### NOTE 5 EMPLOYEE BENEFIT PLAN

The Association sponsors a 401(k) plan covering substantially all employees. Contributions to the plan for the year amounted to \$18,268.



# PACIFIC CREST TRAIL ASSOCIATION

## Notes to Financial Statements December 31, 2009

### NOTE 6 RESTRICTIONS ON ASSETS

Temporarily restricted net assets are restricted for the following purposes:

Land protection	\$ 230,017
Training curriculum	2,021
Endowment earnings	<u>1,923</u>
	<u>\$ 233,961</u>

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

Permanently restricted net assets are restricted to investment in perpetuity; see Note 9.

### NOTE 7 LINE OF CREDIT

The Association has a line of credit of \$75,000 with a bank. Borrowings under the line bear interest at prime plus 2%. As of December 31, 2009, there were no borrowings against the line of credit. The agreement expires December 1, 2010.

### NOTE 8 DONATED SERVICES

The value of donated services is included in in-kind contributions in the financial statements and the corresponding program expenses for the year ended December 31, 2009 are as follows:

Graphic design (public information and education)	\$ 30,100
Editorial services (public information and education)	1,616
Chain-saw operation and skilled construction (trail program)	<u>111,636</u>
	<u>\$ 143,352</u>

In addition, volunteers donated 80,768 hours to PCTA in 2009. Of these hours, 74,566 were not recognized in the financial statements because they did not meet the criteria for recognition under generally accepted accounting principles.

# PACIFIC CREST TRAIL ASSOCIATION

## Notes to Financial Statements December 31, 2009

### NOTE 9 ENDOWMENT FUND

The Association has an endowment, The Endowment for the Preservation of the Pacific Crest Trail. 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.

The Association 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, the Association 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.

The Association has adopted an investment policy that specifies the primary objectives are capital preservation and safety of principal and high liquidity. The policy also requires the use of professional advice when investments exceed \$500,000. The Association has not adopted a spending policy as the income generated by the endowment has not been significant to date. The endowment is currently invested in a short-term bond index fund.

Changes in endowment net assets as of December 31, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (1,461)		\$ 80,755	\$ 79,294
Contributions	-		4,500	4,500
Investment income	1,461	829		2,290
Net appreciation (depreciation)		1,094		1,094
Amounts appropriated for expenditure	-			-
Endowment net assets, end of year	\$ -	\$ 1,923	\$ 85,255	\$ 87,178

### NOTE 10 SUBSEQUENT EVENT

In August 2010, the Association purchased an easement on the Keene Creek property for \$252,000 and immediately transferred it to the Bureau of Land Management, who reimbursed the Association \$66,500 of the purchase price.

August 13, 2010



**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**

Board of Directors  
Pacific Crest Trail Association  
Sacramento, California

We have audited the financial statements of Pacific Crest Trail Association (a nonprofit organization) as of and for the year ended December 31, 2009, and have issued our report thereon dated August 13, 2010. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Pacific Crest Trail Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pacific Crest Trail Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in



internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pacific Crest Trail Association's financial statements are free of 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*.

We noted a certain matter that we reported to management of Pacific Crest Trail Association in a separate letter dated August 13, 2010.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the USDA and is not intended to be and should not be used by anyone other than these specified parties.

*John Waddell & Co., CPAs*