



July 17, 2011

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, 2010, and the related Statements of Activity and Cash Flows for the year then ended. These financial statements are the responsibility of Pacific Crest Trail 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 Pacific Crest Trail Association's 2009 financial statements, and in our report dated August 13, 2010, 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, 2010, 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 July 17, 2011, 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

Board of Directors
Pacific Crest Trail Association
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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, 2010
(with comparative totals for 2009)**

ASSETS

	<u>2010</u>	<u>2009</u>
Cash	\$ 253,072	\$ 172,689
Accounts receivable	161,028	81,379
Pledges receivable	7,223	-
Inventory	12,343	16,058
Prepaid expenses	20,711	25,755
Furniture and equipment, net	36,094	37,925
Investments	106,892	310,745
	<u>597,363</u>	<u>644,551</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 79,842	\$ 51,329
Accrued expenses	58,658	45,668
Total Liabilities	<u>138,500</u>	<u>96,997</u>
Net Assets		
Unrestricted	309,838	228,338
Temporarily restricted	57,461	233,961
Permanently restricted	91,564	85,255
Total Net Assets	<u>458,863</u>	<u>547,554</u>
	<u>\$ 597,363</u>	<u>\$ 644,551</u>

See accompanying notes to financial statements.

PACIFIC CREST TRAIL ASSOCIATION

**Statement of Activity
For the Year Ended December 31, 2010
(with comparative totals for 2009)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
Revenue and Support					
Contributions and memberships	\$ 821,867	\$ 44,027	\$ 6,309	\$ 872,203	\$ 901,068
Government grants	1,230,547	-	-	1,230,547	766,880
Store sales	39,016	-	-	39,016	52,851
Annual conference	-	-	-	-	29,568
Investment income	41	3,461	-	3,502	4,449
Other income	6,604	-	-	6,604	810
In-kind contributions	201,683	-	-	201,683	146,712
Net assets released from restrictions	223,988	(223,988)	-	-	-
Total Revenue and Support	<u>2,523,746</u>	<u>(176,500)</u>	<u>6,309</u>	<u>2,353,555</u>	<u>1,902,338</u>
Expenses					
Public information and education	398,026	-	-	398,026	372,038
Trail program	1,566,447	-	-	1,566,447	1,044,613
Annual conference	-	-	-	-	29,221
Management and general	171,497	-	-	171,497	176,375
Fundraising and membership development	306,276	-	-	306,276	277,732
Total Expenses	<u>2,442,246</u>	<u>-</u>	<u>-</u>	<u>2,442,246</u>	<u>1,899,979</u>
Change in Net Assets	81,500	(176,500)	6,309	(88,691)	2,359
Net Assets, Beginning of Year	<u>228,338</u>	<u>233,961</u>	<u>85,255</u>	<u>547,554</u>	<u>545,195</u>
Net Assets, End of Year	<u><u>\$ 309,838</u></u>	<u><u>\$ 57,461</u></u>	<u><u>\$ 91,564</u></u>	<u><u>\$ 458,863</u></u>	<u><u>\$ 547,554</u></u>

See accompanying notes to financial statements.

PACIFIC CREST TRAIL ASSOCIATION

**Statement of Cash Flows
For the Year Ended December 31, 2010
(with comparative totals for 2009)**

	2010	2009
Cash Flows from Operating Activities:		
Change in net assets	\$ (88,691)	\$ 2,359
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	24,367	22,631
Loss on disposal of equipment	1,155	1,191
Dividends reinvested	(2,052)	(3,355)
Unrealized investment (gains)/losses	(1,361)	(1,058)
Changes in operating assets and liabilities:		
Accounts receivable	(79,649)	55,874
Grants receivable	(7,223)	10,000
Inventory	3,715	3,638
Prepaid expenses	5,044	(9,161)
Accounts payable	28,513	(42,187)
Accrued expenses	12,990	1,660
Contributions restricted for long-term purposes	(6,309)	(4,500)
Cash Provided (Used) by Operating Activities	(109,501)	37,092
Cash Flows from Investing Activities:		
Purchases of equipment	(23,691)	(9,226)
Purchases of securities	(153,323)	(265,126)
Sales of securities	360,589	225,000
Cash Provided (Used) by Investing Activities	183,575	(49,352)
Cash Flows from Financing Activities		
Collection of support for endowment	6,309	4,500
Cash Provided by Financing Activities	6,309	4,500
Net Increase (Decrease) in Cash	80,383	(7,760)
Cash and Cash Equivalents, Beginning of Year	172,689	180,449
Cash and Cash Equivalents, End of Year	\$ 253,072	\$ 172,689

See accompanying notes to financial statements.

PACIFIC CREST TRAIL ASSOCIATION

Notes to Financial Statements December 31, 2010

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 an internationally significant resource for the enjoyment of hikers and equestrians, and for the value that wild and scenic lands provide to all people. PCTA 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

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

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 \$46,669 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 5 years.

PACIFIC CREST TRAIL ASSOCIATION

Notes to Financial Statements December 31, 2010

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 (level one inputs).

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, PCTA uses direct mail campaigns and a website that include requests for contributions. Total joint costs of these campaigns and the website were \$136,112, of which \$112,232 has been allocated to public information and education, and \$23,880 to fundraising.

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 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 July 17, 2011.

PACIFIC CREST TRAIL ASSOCIATION

Notes to Financial Statements December 31, 2010

NOTE 2 FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

Equipment and software	\$	137,923
Less accumulated depreciation		<u>(101,829)</u>
	\$	<u>36,094</u>

Depreciation expense amounted to \$24,367. PCTA has acquired \$40,490 of equipment with restricted grant funds. Although the grantor reserves the right to request the return of the equipment, PCTA 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, 2010:

Money market fund	\$	9,932
Short-term bond index fund		<u>96,960</u>
	\$	<u>106,892</u>

Investment income consisted of interest income of \$2,121 and gain on sale of an investment of \$1,381 for the year ended December 31, 2010.

NOTE 4 LEASES

PCTA leases several office spaces with terms expiring from June 30, 2011 through October 31, 2014 and one office space on a month to month basis. Rent expense amounted to \$85,050 for the year ended December 31, 2010.

Future minimum lease payments under these agreements are as follows:

2011	\$	77,567
2012		65,811
2013		66,785
2014		<u>56,659</u>
	\$	<u>266,822</u>

PACIFIC CREST TRAIL ASSOCIATION

Notes to Financial Statements December 31, 2010

NOTE 5 EMPLOYEE BENEFIT PLAN

PCTA sponsors a 401(k) plan covering substantially all employees. Contributions to the plan for the year ended December 31, 2010 amounted to \$31,564.

NOTE 6 RESTRICTIONS AND DESIGNATIONS ON NET ASSETS

Unrestricted net assets are designated for the following purposes:

Reserves	\$	75,000
Endowment		<u>2,919</u>
	\$	<u>77,919</u>

Temporarily restricted net assets are restricted for the following purposes:

Land protection	\$	39,985
Training curriculum		15,000
Endowment earnings		<u>2,476</u>
	\$	<u>57,461</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

PCTA has a line of credit of \$100,000 with a bank. Borrowings under the line bear interest at prime plus 2%. As of December 31, 2010, there were no borrowings against the line of credit. The agreement expires December 1, 2011.

PACIFIC CREST TRAIL ASSOCIATION

Notes to Financial Statements December 31, 2010

NOTE 8 DONATED SERVICES

In 2010, volunteers donated a total of 102,600 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, 2010 is as follows:

Donated Services Recorded in the Financial Statements valued at Fair Market Value:

Graphic design (public information and education)	\$ 30,000
Chain-saw operation and skilled construction (trail program)	<u>160,502</u>
	<u>\$ 190,502</u>

Donated Services Not Recorded in the Financial Statements:

96,026 Volunteer Hours valued at standard federal rate	\$ 2,002,142
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NOTE 9 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 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.

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 to 4% annually.

PACIFIC CREST TRAIL ASSOCIATION

**Notes to Financial Statements
December 31, 2010**

NOTE 9 ENDOWMENT FUND – CONTINUED

Up to 4% of the endowment fund may be 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, 2010 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Donor Restricted Endowment</u>				
Endowment net assets, beginning of year	\$ -	\$ 1,923	\$ 85,255	\$ 87,178
Contributions	-	-	6,309	6,309
Investment income	-	2,051	-	2,051
Net appreciation (depreciation)	-	1,410	-	1,410
Amounts appropriated for Board Designated endowment	-	(2,908)	-	(2,908)
	<hr/>			
Endowment net assets, end of year	\$ -	\$ 2,476	\$ 91,564	\$ 94,040

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Board Designated Endowment</u>				
Endowment net assets, beginning of year	\$ -	\$ -	\$ -	\$ -
Amounts designated by the Board	2,908	-	-	2,908
Investment Income	40	-	-	40
Net appreciation (depreciation)	(29)	-	-	(29)
	<hr/>			
Endowment net assets, end of year	\$ 2,919	\$ -	\$ -	\$ 2,919



July 17, 2011

**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, 2010, and have issued our report thereon dated July 17, 2011. 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 certain matters that we reported to management of Pacific Crest Trail Association in a separate letter dated July 17, 2011.

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