



June 8, 2012

## 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, 2011, 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 2010 financial statements, and in our report dated July 17, 2011, 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, 2011, 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 June 8, 2012, 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  
June 8, 2012



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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, 2011  
(with comparative totals for 2010)**

**ASSETS**

	<u>2011</u>	<u>2010</u>
Cash	\$ 159,771	\$ 253,072
Accounts receivable	134,180	161,028
Pledges receivable	501,895	7,223
Inventory	8,128	12,343
Prepaid expenses	24,497	20,711
Furniture and equipment, net	32,879	36,094
Investments	564,286	106,892
	<u>\$ 1,425,636</u>	<u>\$ 597,363</u>

**LIABILITIES AND NET ASSETS**

Liabilities		
Accounts payable	\$ 55,819	\$ 79,842
Accrued expenses	68,055	58,658
Total Liabilities	<u>123,874</u>	<u>138,500</u>
Net Assets		
Unrestricted	341,170	309,838
Temporarily restricted	86,802	57,461
Permanently restricted	873,790	91,564
Total Net Assets	<u>1,301,762</u>	<u>458,863</u>
	<u>\$ 1,425,636</u>	<u>\$ 597,363</u>

See accompanying notes to financial statements.

**PACIFIC CREST TRAIL ASSOCIATION**

**Statement of Activity  
For the Year Ended December 31, 2011  
(with comparative totals for 2010)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
Revenue and Support					
Contributions and memberships	\$ 808,928	51,654	\$ 782,226	<b>\$ 1,642,808</b>	\$ 872,203
Government grants	1,254,588	-	-	<b>1,254,588</b>	1,230,547
Store sales	11,577	-	-	<b>11,577</b>	39,016
Investment income	(58)	19,220	-	<b>19,162</b>	3,502
Other income	1,968	-	-	<b>1,968</b>	6,604
In-kind contributions	310,802	-	-	<b>310,802</b>	201,683
Net assets released from restrictions	41,533	(41,533)	-	-	-
Total Revenue and Support	<u>2,429,338</u>	<u>29,341</u>	<u>782,226</u>	<b><u>3,240,905</u></b>	<u>2,353,555</u>
Expenses					
Public information and education	354,372	-	-	<b>354,372</b>	398,026
Trail program	1,489,709	-	-	<b>1,489,709</b>	1,566,447
Management and general	197,440	-	-	<b>197,440</b>	171,497
Fundraising and membership development	356,485	-	-	<b>356,485</b>	306,276
Total Expenses	<u>2,398,006</u>	<u>-</u>	<u>-</u>	<b><u>2,398,006</u></b>	<u>2,442,246</u>
Change in Net Assets	31,332	29,341	782,226	<b>842,899</b>	(88,691)
Net Assets, Beginning of Year	<u>309,838</u>	<u>57,461</u>	<u>91,564</u>	<b><u>458,863</u></b>	<u>547,554</u>
Net Assets, End of Year	<u><u>\$ 341,170</u></u>	<u><u>\$ 86,802</u></u>	<u><u>\$ 873,790</u></u>	<b><u><u>\$ 1,301,762</u></u></b>	<u><u>\$ 458,863</u></u>

See accompanying notes to financial statements.

**PACIFIC CREST TRAIL ASSOCIATION**

**Statement of Cash Flows  
For the Year Ended December 31, 2011  
(with comparative totals for 2010)**

	<b>2011</b>	<b>2010</b>
Cash Flows from Operating Activities:		
Change in net assets	\$ 842,899	\$ (88,691)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	17,145	24,367
Loss on disposal of equipment	-	1,155
Dividends reinvested	(5,329)	(2,052)
Unrealized investment (gains)/losses	(13,833)	(1,381)
Changes in operating assets and liabilities:		
Accounts receivable	26,848	(79,649)
Grants receivable	5,328	(7,223)
Inventory	4,215	3,715
Prepaid expenses	(3,786)	5,044
Accounts payable	(24,023)	28,513
Accrued expenses	9,397	12,990
Contributions restricted for long-term purposes	(782,226)	(6,309)
Cash Provided (Used) by Operating Activities	76,635	(109,521)
Cash Flows from Investing Activities:		
Purchases of equipment	(13,930)	(23,691)
Purchases of securities	(536,232)	(153,303)
Sales of securities	98,000	360,589
Cash Provided (Used) by Investing Activities	(452,162)	183,595
Cash Flows from Financing Activities		
Collection of support for endowment	282,226	6,309
Cash Provided by Financing Activities	282,226	6,309
Net Increase (Decrease) in Cash	(93,301)	80,383
Cash and Cash Equivalents, Beginning of Year	253,072	172,689
Cash and Cash Equivalents, End of Year	\$ 159,771	\$ 253,072

See accompanying notes to financial statements.

# PACIFIC CREST TRAIL ASSOCIATION

## Notes to Financial Statements December 31, 2011

### 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 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.

#### **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.

#### **Pledges Receivable**

Substantially all pledges receivable are due from a trust, are expected to be received in 2012, and are permanently restricted for the endowment.

#### **Inventory**

Inventory is stated at the lower of cost or market using the first-in, first-out method. Cost of sales of \$9,898 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, 2011

### 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 \$78,538, of which \$63,366 has been allocated to public information and education, and \$15,172 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 June 8, 2012.

## PACIFIC CREST TRAIL ASSOCIATION

### Notes to Financial Statements December 31, 2011

#### NOTE 2 FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

Equipment and software	\$	151,853
Less accumulated depreciation		<u>(118,974)</u>
	\$	<u>32,879</u>

Depreciation expense amounted to \$17,145. PCTA has acquired \$50,286 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, 2011:

Money market funds	\$	245,153
Government bond funds		27,542
Bond index fund		19,907
Balanced fund		6,209
Stocks		72,729
Stock index funds & ETFs		110,567
International stock index funds & ETFs		64,588
REIT ETF		<u>17,591</u>
	\$	<u>564,286</u>

Investment income consisted of interest income of \$5,329 and gain on sale of an investment of \$13,833 for the year ended December 31, 2011.

#### NOTE 4 LEASES

PCTA leases headquarter office space in Sacramento, CA with a lease term expiring October 31, 2014. In addition, PCTA has four regional offices located along the trail. Three regional offices are leased with terms expiring from June 30, 2011 through February, 2013, and one regional office space is rented on a month to month basis. Rent expense amounted to \$86,587 for the year ended December 31, 2011.

## PACIFIC CREST TRAIL ASSOCIATION

### Notes to Financial Statements December 31, 2011

#### NOTE 4 LEASES – CONTINUED

Future minimum lease payments under these agreements are as follows:

2012	\$	73,706
2013		67,260
2014		56,659
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	\$	197,625
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#### NOTE 5 EMPLOYEE BENEFIT PLAN

PCTA sponsors a 401(k) plan covering substantially all employees. For 2011, PCTA increased the match from 2% to 4%, in addition to the 3% safe harbor contribution. Contributions to the plan for the year ended December 31, 2011 amounted to \$53,469.

#### NOTE 6 RESTRICTIONS AND DESIGNATIONS ON NET ASSETS

Unrestricted net assets are designated for the following purposes:

Reserves	\$	125,000
Endowment		6,209
		<hr/>
	\$	131,209
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Temporarily restricted net assets are restricted for the following purposes:

Land protection	\$	43,434
Trail maintenance		5,000
Training curriculum		20,000
Endowment earnings		18,368
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	\$	86,802
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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Permanently restricted net assets are restricted to investment in perpetuity.

#### NOTE 7 LINE OF CREDIT

PCTA has a line of credit of \$100,000 with a bank. Subsequent to year end, the agreement was modified such that borrowings under the line bear interest at prime plus 1.75%, with a floor of 5%. As of December 31, 2011, there were no borrowings against the line of credit. The agreement expires February 1, 2013.

# PACIFIC CREST TRAIL ASSOCIATION

## Notes to Financial Statements December 31, 2011

### NOTE 8 DONATED SERVICES

In 2011, volunteers donated a total of 79,168 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, 2011 is as follows:

<u>Donated Services Recorded in the Financial Statements valued at Fair Market Value:</u>	
Graphic design (public information and education)	\$ 48,000
Chain-saw operation and skilled construction (trail program)	231,095
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	\$ 279,095
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 <u>Donated Services Not Recorded in the Financial Statements:</u>	
69,579 Volunteer Hours valued at standard federal rate	\$ 1,516,126

### 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 investment income 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, 2011**

**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, 2011 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b><u>Donor Restricted Endowment</u></b>				
Endowment net assets, beginning of year	\$ -	\$ 2,476	\$ 91,565	\$ 94,041
Contributions	-		281,976	281,976
Investment income	-	5,155	-	5,155
Net appreciation (depreciation)	-	14,048	-	14,048
Amounts appropriated for Board Designated endowment	-	(3,329)	-	(3,329)
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Endowment funds, end of year	\$ -	\$ 18,350	\$ 373,541	\$ 391,891

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b><u>Board Designated Endowment</u></b>				
Endowment net assets, beginning of year	\$ 2,919	\$ -	\$ -	\$ 2,919
Amounts designated by the Board	3,329	-	-	3,329
Investment Income	116	-	-	116
Net appreciation (depreciation)	(155)	-	-	(155)
	<hr/>			
Endowment funds, end of year	\$ 6,209	\$ -	\$ -	\$ 6,209



June 8, 2012

**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, 2011, and have issued our report thereon dated June 8, 2012. 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*.

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*