April 30, 2013

JW & CO
John Waddell CPAs
A Professional Corporation

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, 2012, 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 consolidated 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

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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, 2012, 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 2011 financial statements, and our report dated June 8, 2012, 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, 2011, 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 30, 2013 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, 2012
(with comparative totals for 2011)

ASSETS

	2012	2011
Cash	$ **234,083**	$ 159,771
Accounts receivable	**79,178**	134,180
Pledges receivable	**147,241**	501,895
Inventory	**7,806**	8,128
Prepaid expenses	**30,820**	24,497
Furniture and equipment, net	**28,929**	32,879
Investments	**904,226**	564,286
	$ **1,432,283**	$ 1,425,636

LIABILITIES AND NET ASSETS

	2012	2011
Liabilities		
Accounts payable	$ **40,822**	$ 55,819
Accrued expenses	**82,256**	68,055
Deferred revenue	**1,680**	-
Total Liabilities	**124,758**	123,874
Net Assets		
Unrestricted	**276,126**	341,170
Temporarily restricted	**113,369**	86,802
Permanently restricted	**918,030**	873,790
Total Net Assets	**1,307,525**	1,301,762
	$ **1,432,283**	$ 1,425,636

See accompanying notes to financial statements.

PACIFIC CREST TRAIL ASSOCIATION

Statement of Activities
For the Year Ended December 31, 2012
(with comparative totals for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Revenue and Support					
Contributions and memberships	$ 734,852	60,872	$ 44,240	**$ 839,964**	$ 1,642,808
Government grants	953,788	-	-	**953,788**	1,254,588
Program income	30,000	-	-	**30,000**	-
Store sales	14,073	-	-	**14,073**	11,577
Trail Fest	19,437	-	-	**19,437**	-
Investment income	1,487	73,802	-	**75,289**	19,162
Other income	1,056	-	-	**1,056**	1,968
In-kind contributions	365,739	-	-	**365,739**	310,802
Net assets released from restrictions	108,107	(108,107)	-	**-**	-
Total Revenue and Support	2,228,539	26,567	44,240	**2,299,346**	3,240,905
Expenses					
Public information and education	494,741	-	-	**494,741**	354,372
Trail program	1,206,132	-	-	**1,206,132**	1,489,709
Management and general	222,399	-	-	**222,399**	197,440
Fundraising and membership development	370,311	-	-	**370,311**	356,485
Total Expenses	2,293,583	-	-	**2,293,583**	2,398,006
Change in Net Assets	(65,044)	26,567	44,240	**5,763**	842,899
Net Assets, Beginning of Year	341,170	86,802	873,790	**1,301,762**	458,863
Net Assets, End of Year	$ 276,126	$ 113,369	$ 918,030	**$ 1,307,525**	$ 1,301,762

See accompanying notes to financial statements.

PACIFIC CREST TRAIL ASSOCIATION

Statement of Cash Flows
For the Year Ended December 31, 2012
(with comparative totals for 2011)

	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	**$ 5,763**	$ 842,899
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	**18,702**	17,145
Dividends reinvested	**(19,489)**	(5,329)
Realized and unrealized investment gains	**(55,800)**	(13,833)
Contributed securities	**(13,357)**	-
Changes in operating assets and liabilities:		
Accounts receivable	**55,002**	26,848
Pledges receivable	**(5,346)**	5,328
Inventory	**322**	4,215
Prepaid expenses	**(6,323)**	(3,786)
Accounts payable	**(14,997)**	(24,023)
Accrued expenses	**14,201**	9,397
Deferred revenue	**1,680**	-
Contributions restricted for long-term purposes	**(44,240)**	(782,226)
Cash Provided (Used) by Operating Activities	**(63,882)**	76,635
Cash Flows from Investing Activities:		
Purchases of equipment	**(14,752)**	(13,930)
Purchases of securities	**(451,151)**	(536,232)
Sales of securities	**199,857**	98,000
Cash Used by Investing Activities	**(266,046)**	(452,162)
Cash Flows from Financing Activities		
Collection of support for endowment	**404,240**	282,226
Cash Provided by Financing Activities	**404,240**	282,226
Net Increase (Decrease) in Cash	**74,312**	(93,301)
Cash, Beginning of Year	**159,771**	253,072
Cash, End of Year	**$ 234,083**	$ 159,771

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 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.

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

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 2013, 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 $10,653 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 as determined by quoted prices for identical assets in an active market (level one inputs). Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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, 2011, 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 30, 2013.

NOTE 2 FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

Equipment and software	$	153,148
Website development in process		12,161
Less accumulated depreciation		(136,380)
	$	28,929

Depreciation expense amounted to $18,702. The new website was completed and placed in service in 2013.

NOTE 3 INVESTMENTS

Investments at fair value (level one inputs) consist of the following at December 31, 2012:

Money market funds	$ 26,381
Government bond funds	164,213
Bond index fund	165,505
Balanced fund	19,608
Stock index funds & ETFs	344,617
International stock index funds & ETFs	183,902
	$ 904,226

Investment income consisted of interest and dividend income of $19,489 and unrealized gains on investments of $55,800 for the year ended December 31, 2012.

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. One lease has been prepaid through 2017, one is leased on a month to month basis, and the other two have lease terms expiring in 2013 and 2014. Rent expense amounted to $86,087 for the year ended December 31, 2012.

Future minimum lease payments under these agreements are as follows:

2013	$ 75,035
2014	57,134
	$ 132,169

NOTE 5 EMPLOYEE BENEFIT PLAN

PCTA sponsors a 401(k) plan covering substantially all employees. For 2012, PCTA increased the match from 4% to 6%, in addition to the 3% safe harbor contribution. Contributions to the plan for the year ended December 31, 2012 amounted to $67,048.

NOTE 6 RESTRICTIONS AND DESIGNATIONS ON NET ASSETS

Unrestricted net assets are designated for the following purposes:

Reserves	$	156,000
Endowment		19,608
	$	175,608

Temporarily restricted net assets are restricted for the following purposes:

Land protection	$	8,163
Trail maintenance		5,000
Training curriculum		20,000
Endowment earnings		80,206
	$	113,369

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. Borrowings under the line bear interest at prime plus 1.1%, with a floor of 5%. As of December 31, 2012, there were no borrowings against the line of credit. Subsequent to year end the agreement was renewed to March 1, 2014.

NOTE 8 DONATED SERVICES

In 2012, volunteers donated a total of 86,107 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, 2012 is as follows:

Donated Services Recorded in the Financial Statements valued at Fair Market Value:		
Graphic design (public information and education)	$	52,800
Chain-saw operation and skilled construction (trail program)		266,845
	$	319,645
Donated Services Not Recorded in the Financial Statements:		
75,202 Volunteer Hours valued at standard federal rate	$	1,638,652

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.

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, 2012 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment				
Endowment net assets, beginning of year	$ -	$ 18,368	$ 373,541	$ 391,909
Contributions	-	-	403,930	403,930
Investment income	-	19,006	-	19,006
Net appreciation (depreciation)	-	54,796	-	54,796
Amounts appropriated for Board Designated endowment	-	(11,964)	-	(11,964)
Endowment funds, end of year	$ -	$ 80,206	$ 777,471	$ 857,677

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board Designated Endowment				
Endowment net assets, beginning of year	$ 6,209	$ -	$ -	$ 6,209
Amounts designated by the Board	11,964	-	-	11,964
Investment Income	436	-	-	436
Net appreciation (depreciation)	999	-	-	999
Endowment funds, end of year	$ 19,608	$ -	$ -	$ 19,608

April 30, 2013

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, 2012, 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 30, 2013.

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.

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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