



April 6, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pacific Crest Trail Association

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, 2016, 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.

Auditor's 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 auditor's 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 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.

To the Board of Directors
Pacific Crest Trail Association
April 6, 2017



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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, 2016, 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 2015 financial statements, and our report dated April 8, 2016 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, 2015 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 8, 2016, 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, 2016
(with comparative totals for 2015)**

ASSETS

	<u>2016</u>	<u>2015</u>
Cash	\$ 181,691	\$ 141,749
Accounts receivable	35,020	34,793
Pledges receivable	338,409	323,697
Inventory	5,159	2,559
Prepaid expenses	42,398	32,665
Furniture and equipment, net	49,068	27,017
Investments	2,261,358	1,935,558
Land held for conservation	682,000	-
	<u>\$ 3,595,103</u>	<u>\$ 2,498,038</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 72,197	\$ 56,230
Accrued expenses	132,951	85,072
Refundable advance	49,675	-
Deferred revenue	6,697	8,628
Note payable	200,000	-
	<u>461,520</u>	<u>149,930</u>
Net Assets		
Unrestricted and undesignated	250,055	388,367
Board designated	1,065,332	240,571
Temporarily restricted	755,256	668,028
Permanently restricted	1,062,940	1,051,142
	<u>3,133,583</u>	<u>2,348,108</u>
	<u>\$ 3,595,103</u>	<u>\$ 2,498,038</u>

See accompanying notes to financial statements.

PACIFIC CREST TRAIL ASSOCIATION

**Statement of Activities
For the Year Ended December 31, 2016
(with comparative totals for 2015)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Revenue and Support					
Contributions and memberships	\$ 1,427,825	\$ 1,095,066	\$ 11,798	\$ 2,534,689	\$ 1,783,063
Government grants	955,740	-	-	955,740	889,681
In-kind contributions	474,952	-	-	474,952	405,670
Program income	44,917	-	-	44,917	21,291
Store sales	20,376	-	-	20,376	17,167
Investment income	4,477	89,360	-	93,837	(6,877)
Other income	13,172	-	-	13,172	18,291
Net assets released from restrictions	1,097,198	(1,097,198)	-	-	-
Total Revenue and Support	<u>4,038,657</u>	<u>87,228</u>	<u>11,798</u>	<u>4,137,683</u>	<u>3,128,286</u>
Expenses					
Trail operations	1,329,828	-	-	1,329,828	1,114,248
Land protection	404,129	-	-	404,129	346,878
Public information and education	687,757	-	-	687,757	610,200
Fundraising and membership development	618,531	-	-	618,531	579,781
Management and general	311,963	-	-	311,963	268,873
Total Expenses	<u>3,352,208</u>	<u>-</u>	<u>-</u>	<u>3,352,208</u>	<u>2,919,980</u>
Change in Net Assets	686,449	87,228	11,798	785,475	208,306
Net Assets, Beginning of Year	<u>628,938</u>	<u>668,028</u>	<u>1,051,142</u>	<u>2,348,108</u>	<u>2,139,802</u>
Net Assets, End of Year	<u>\$ 1,315,387</u>	<u>\$ 755,256</u>	<u>\$ 1,062,940</u>	<u>\$ 3,133,583</u>	<u>\$ 2,348,108</u>

See accompanying notes to financial statements.

PACIFIC CREST TRAIL ASSOCIATION

**Statement of Cash Flows
For the Year Ended December 31, 2016
(with comparative totals for 2015)**

	2016	2015
Cash Flows from Operating Activities:		
Change in net assets	\$ 785,475	\$ 208,306
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	20,415	20,730
Realized and unrealized investment (gains) losses	(61,788)	32,351
Donated securities	(332,511)	(35,645)
Changes in operating assets and liabilities:		
Accounts and pledges receivable	(14,939)	(253,243)
Inventory	(2,600)	912
Prepaid expenses	(9,733)	(9,534)
Accounts payable and accrued expenses	63,846	(1,045)
Refundable advance	49,675	-
Deferred revenue	(1,931)	(2,951)
Contributions restricted for long-term purposes	(11,798)	(9,929)
Cash Provided (Used) by Operating Activities	484,111	(50,048)
Cash Flows from Investing Activities:		
Purchases of equipment	(42,466)	(16,383)
Purchases of securities	(862,187)	(405,976)
Purchases of land	(682,000)	-
Sales of securities	930,686	385,645
Cash Used by Investing Activities	(655,967)	(36,714)
Cash Flows from Financing Activities		
Collection of support for endowment	11,798	9,929
Borrowing on note payable	200,000	-
Cash Provided by Financing Activities	211,798	9,929
Net Increase (Decrease) in Cash	39,942	(76,833)
Cash, Beginning of Year	141,749	218,582
Cash, End of Year	\$ 181,691	\$ 141,749

See accompanying notes to financial statements.

PACIFIC CREST TRAIL ASSOCIATION

Notes to Financial Statements December 31, 2016

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 PCTA 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.

PACIFIC CREST TRAIL ASSOCIATION

Notes to Financial Statements December 31, 2016

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. Receivables are charged off when management has exhausted all collection efforts.

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Conditional promises to give are recognized with the conditions on which they depend are substantially met and the promises become unconditional. 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 \$9,669 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.

Land Held for Conservation

Land held for conservation includes purchased properties to be sold or transferred to governmental agencies to protect the trail. Purchased land is stated at the lower of cost or fair market value.

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.

PACIFIC CREST TRAIL ASSOCIATION

Notes to Financial Statements December 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributions and Memberships – continued

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.

Advertising

Advertising costs are expensed as incurred and are generally donated. In-kind advertising expense amounted to \$86,087 for the year ended December 31, 2016.

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, 2015, 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 6, 2017.

PACIFIC CREST TRAIL ASSOCIATION

Notes to Financial Statements December 31, 2016

NOTE 2 FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at December 31, 2016:

Equipment	\$ 137,905
Website and software	72,752
Less accumulated depreciation	<u>(161,589)</u>
	<u>\$ 49,068</u>

Depreciation expense amounted to \$20,415.

NOTE 3 INVESTMENTS

Investments consist of the following at December 31, 2016:

Money market funds	\$ 991,374
Government bond funds	116,867
Bond index funds	229,611
Stock index funds	550,379
International bond index funds	116,806
International stock index funds	<u>256,321</u>
	<u>\$ 2,261,358</u>

Investment income consisted of interest and dividend income of \$32,049 and unrealized gains on investments of \$61,788 for the year ended December 31, 2016.

NOTE 4 FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis as of December 31, 2016 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	\$ 991,374	\$ -	\$ -	\$ 991,374
Mutual funds	<u>1,269,984</u>	<u>-</u>	<u>-</u>	<u>1,269,984</u>
	<u>\$ 2,261,358</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,261,358</u>

PACIFIC CREST TRAIL ASSOCIATION

Notes to Financial Statements December 31, 2016

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.

NOTE 5 LEASES

PCTA leases headquarter office space in Sacramento, CA with a lease term expiring September 30, 2021. 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 2017. Rent expense amounted to \$109,177 for the year ended December 31, 2016.

Future minimum lease payments under these agreements are as follows:

2017	\$	100,911
2018		101,511
2019		103,491
2020		105,471
2021		80,217
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	\$	491,601

NOTE 6 EMPLOYEE BENEFIT PLAN

PCTA sponsors a 401(k) plan covering substantially all employees. PCTA made a 4% match and a 3% safe harbor contribution for the year ended December 31, 2016. Contributions to the plan for the year ended December 31, 2016 amounted to \$75,349.

NOTE 7 RESTRICTIONS AND DESIGNATIONS ON NET ASSETS

Unrestricted net assets are designated for the following purposes:

Board designated for reserves	\$	536,000
Board designated for land protection		513,700
Board designated endowment		15,632
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	\$	1,065,332

PACIFIC CREST TRAIL ASSOCIATION

Notes to Financial Statements December 31, 2016

NOTE 7 RESTRICTIONS AND DESIGNATIONS ON NET ASSETS – CONTINUED

Temporarily restricted net assets are restricted for the following purposes:

Land protection	\$	198,602
Trail maintenance		97,189
Communications/marketing		186,596
Encore fellowships		65,825
Donor restricted endowment earnings		<u>207,044</u>
	\$	<u>755,256</u>

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 \$200,000 with a bank expiring October 1, 2017. Borrowings under the line bear interest at the greater of prime plus 2%, or 5%. As of December 31, 2016, there were no borrowings on the line of credit.

NOTE 9 NOTE PAYABLE

During the year, PCTA received an interest free loan of \$200,000 from a board member. The loan funds were used to purchase the Donomore Meadows property. PCTA will repay the principal either when the land is sold to the federal government or June 30, 2018, whichever is sooner. Imputed interest on the note amounted to \$916 for the year ended December 31, 2016.

PACIFIC CREST TRAIL ASSOCIATION

Notes to Financial Statements December 31, 2016

NOTE 10 DONATED SERVICES

In 2016, volunteers donated a total of 104,269 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, 2016 is as follows:

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

Graphic design (public information and education)	\$	54,960
Chain-saw operation and skilled construction (trail program)		<u>279,514</u>
	\$	<u>334,474</u>

Donated Services Not Recorded in the Financial Statements:

93,376 Volunteer hours valued at standard federal rate	\$	2,199,939
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NOTE 11 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 equal to or greater than the spending rate. 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.

PACIFIC CREST TRAIL ASSOCIATION

**Notes to Financial Statements
December 31, 2016**

NOTE 11 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, 2016 were as follows:

	Temporarily Permanently			Total
	Unrestricted	Restricted	Restricted	
<u>Donor Restricted Endowment</u>				
Endow ment net assets, beginning of year	\$ -	\$ 162,585	\$ 1,051,142	\$ 1,213,727
Contributions	-	-	11,798	11,798
Investment income	-	29,450		29,450
Net appreciation (depreciation)	-	59,909		59,909
Amounts appropriated for Board Designated endow ment	-	(44,900)		(44,900)
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Endow ment funds, end of year	\$ -	\$ 207,044	\$ 1,062,940	\$ 1,269,984

	Temporarily Permanently			Total
	Unrestricted	Restricted	Restricted	
<u>Board Designated Endowment</u>				
Endow ment net assets, beginning of year	\$ 15,571	\$ -	\$ -	\$ 15,571
Amounts designated by the Board	44,900	-	-	44,900
Investment Income	61	-	-	61
Net appreciation	-	-	-	-
Amounts appropriated for expenditure	(44,900)	-	-	(44,900)
	<hr/>			
Endow ment funds, end of year	\$ 15,632	\$ -	\$ -	\$ 15,632

NOTE 12 CONDITIONAL PROMISES TO GIVE

PCTA has two restricted matching gift opportunities. One conditional pledge for \$49,675 is restricted for land protection. The exact requirements of the match, which will involve obtaining donations from other sources for land protection, are being determined through conversations with the donor and the PCTA staff. The second grant is a one to one match conditioned upon raising \$35,000 in funds for marketing costs by March 31, 2018, and an additional \$35,000 for the same purpose by March 31, 2019. Receipts on conditional pledges amounted to \$49,675 and have been recorded as a refundable advance.



April 6, 2017

INDEPENDENT AUDITOR'S 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, 2016, 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 6, 2017.

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.

To the Board of Directors
Pacific Crest Trail Association
April 6, 2017



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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