PACIFIC CREST TRAIL ASSOCIATION

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2017 AND 2016

Gilbert Associates, Inc.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pacific Crest Trail Association
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Pacific Crest Trail Association, which comprise the statement of financial position as of December 31, 2017, 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. 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 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pacific Crest Trail Association as of December 31, 2017, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2018, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Association's internal control over financial reporting and compliance.

Other Matter

The financial statements of the Pacific Crest Trail Association as of December 31, 2016, were audited by other auditors whose report dated April 6, 2017, expressed an unmodified opinion on those statements.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

April 11, 2018

PACIFIC CREST TRAIL ASSOCIATION

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents	$ 229,611	$ 181,691
Accounts receivable	97,958	35,020
Pledges receivable	108,487	338,409
Inventory	19,405	5,159
Prepaid expenses	58,119	42,398
Total current assets	513,580	602,677
INVESTMENTS	2,254,104	2,261,358
LAND HELD FOR CONSERVATION	2,280,000	682,000
FURNITURE AND EQUIPMENT, Net	38,555	49,068
TOTAL ASSETS	$ 5,086,239	$ 3,595,103
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 88,484	$ 72,197
Accrued expenses	133,028	132,951
Refundable advance		49,675
Deferred revenue	11,163	6,697
Notes payable	1,478,400	
Total current liabilities	1,711,075	261,520
NOTE PAYABLE		200,000
TOTAL LIABILITIES	1,711,075	461,520
NET ASSETS:		
Unrestricted:		
Undesignated	186,927	250,055
Board designated	1,484,151	1,065,332
Temporarily restricted	631,448	755,256
Permanently restricted	1,072,638	1,062,940
Total net assets	3,375,164	3,133,583
TOTAL LIABILITIES AND NET ASSETS	$ 5,086,239	$ 3,595,103

The accompanying notes are an integral part of these financial statements.

PACIFIC CREST TRAIL ASSOCIATION

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
UNRESTRICTED NET ASSETS:		
REVENUES:		
Contributions and memberships	$ 1,569,373	$ 1,427,825
Government grants	964,602	955,740
Contributed goods and services	387,289	474,952
Program income	53,457	44,917
Store sales	13,641	20,376
Investment income	7,185	4,477
Other income	28,705	13,172
Net assets released from restriction	979,102	1,097,198
Total revenues	4,003,354	4,038,657
EXPENSES:		
Program services:		
Trail operations	1,312,413	1,329,828
Land protection	422,960	404,129
Public information and education	822,271	687,757
Total program services	2,557,644	2,421,714
Fundraising and membership development	691,516	618,531
General and administrative	398,503	311,963
Total expenses	3,647,663	3,352,208
INCREASE IN UNRESTRICTED NET ASSETS	355,691	686,449
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	667,074	1,095,066
Investment income	188,220	89,360
Net assets released from restriction	(979,102)	(1,097,198)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(123,808)	87,228
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	9,698	11,798
INCREASE IN NET ASSETS	241,581	785,475
NET ASSETS, Beginning of year	3,133,583	2,348,108
NET ASSETS, End of year	$ 3,375,164	$ 3,133,583

The accompanying notes are an integral part of these financial statements.

PACIFIC CREST TRAIL ASSOCIATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 241,581	$ 785,475
Reconciliation to net cash provided by operating activities:		
Depreciation	19,776	20,415
Net realized/unrealized gain on investments	(157,768)	(61,788)
Donated securities	(112,122)	(332,511)
Changes in:		
Accounts and pledges receivable	166,984	(14,939)
Inventory	(14,246)	(2,600)
Prepaid expenses	(15,721)	(9,733)
Accounts payable and accrued expenses	16,364	63,846
Refundable advance	(49,675)	49,675
Deferred revenue	4,466	(1,931)
Contributions restricted for long-term purposes	(9,698)	(11,798)
Net cash provided by operating activities	89,941	484,111
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of furniture and equipment	(9,263)	(42,466)
Purchases of land held for conservation	(1,598,000)	(682,000)
Purchase of investments	(524,334)	(862,187)
Proceeds from investment sales and maturities	801,478	930,686
Net cash used by investing activities	(1,330,119)	(655,967)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collection of support for endowment	9,698	11,798
Borrowings on note payable	1,278,400	200,000
Cash provided by financing activities	1,288,098	211,798
NET INCREASE IN CASH AND CASH EQUIVALENTS	47,920	39,942
CASH AND CASH EQUIVALENTS, Beginning of year	181,691	141,749
CASH AND CASH EQUIVALENTS, End of year	$ 229,611	$ 181,691

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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 accounting and financial statement presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. PCTA reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Revenue recognition – 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. Contributed services are recognized if the services received create nonfinancial assets or require specialized skills. Contributed services that do not meet the criteria for recognition are not reflected in the financial statements. Contributions of goods are recorded at their fair market value. Marketable securities and other noncash contributions are recorded at their estimated fair values at the date of donation. Revenues from government grants are recognized when qualifying expenses are incurred.

Cash and cash equivalents – For financial statement purposes, PCTA considers all investments with an initial maturity of three months or less to be cash equivalents, unless held for long-term investing purposes.

PCTA minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. PCTA has not experienced any losses in such accounts and management believes PCTA is not exposed to any significant credit risk related to cash.

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 when the conditions on which they depend are substantially met and the promises become unconditional. All pledges receivable are due within one year. Management believes all pledges receivable are collectible; accordingly, no allowance for uncollectible pledges has been established.

Inventory is stated at the lower of cost or market using the first-in, first-out method. Cost of sales of $8,038 and $9,669 in the year ended December 31, 2017 and 2016, respectively, are included in public information and education expenses.

Investments are reported at fair value. Unrealized gains and losses are included in the change in net assets.

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.

Furniture and equipment is stated at cost or, if donated, at the estimated fair market value at the date of donation. PCTA capitalizes all expenditures for property and equipment in excess of $1,000. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from 3 to 5 years.

Advertising costs are expensed as incurred and are generally donated. In-kind advertising expense amounted to $51,998 and $86,087 for the years ended December 31, 2017 and 2016, respectively.

Functional allocation of expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated based on employees' time incurred and management's estimates of the usage of resources.

Income taxes – 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 has applied the accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements. With some exceptions, PCTA is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2013.

Fair value measurements – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2 Inputs	Inputs other than quoted prices in active markets that are observable either directly or indirectly.
Level 3 Inputs	Unobservable inputs for the asset or liability.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. PCTA's significant estimates include the valuation of investments, the collectability of accounts and pledges receivable, selection of useful lives of furniture and equipment, and the allocation of functional expenses.

Subsequent events have been evaluated through April 11, 2018, the date the financial statements were issued. See Note 12 for significant subsequent events.

2. FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at December 31:

	2017	2016
Office furniture and equipment	$ 144,554	$ 137,905
Website and software	72,752	72,752
Total	217,306	210,657
Less accumulated depreciation	(178,751)	(161,589)
Furniture and equipment, net	$ 38,555	$ 49,068

3. INVESTMENTS

Investments consist of the following at December 31:

	2017	2016
Money market funds	$ 834,404	$ 991,524
Government bond funds	126,661	116,867
Bond index funds	254,977	229,611
Stock index funds	597,585	550,229
International bond index funds	126,178	116,806
International stock index funds	314,299	256,321
	$ 2,254,104	$ 2,261,358

These investments are classified as Level 1 in the fair value hierarchy, as fair values of money market funds and mutual funds are based on the daily closing price as reported by the funds.

Investment income consists of the following:

	2017	2016
Interest and investment income	$ 37,637	$ 32,049
Net realized and unrealized gain	157,768	61,788
Total	$ 195,405	$ 93,837

4. 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 June 2018, two are leased on a month-to-month basis, and the other lease term expires in January 2020. Rent expense was $123,695 and $109,177 for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease payments under these agreements are as follows:

2018	$ 103,197
2019	105,211
2020	107,224
2021	81,551
	$ 397,183

5. EMPLOYEE BENEFIT PLAN

PCTA sponsors a 401(k) plan covering substantially all employees. PCTA can elect to make a discretionary matching contribution as well as a safe harbor contribution annually. Employer contributions to the plan were $93,845 and $75,349 for the years ended December 31, 2017 and 2016, respectively.

6. RESTRICTIONS AND DESIGNATIONS ON NET ASSETS

Unrestricted net assets are designated for the following purposes at December 31:

	2017	2016
Board designated for land protection	$ 834,736	$ 513,700
Board designated for reserves	567,000	536,000
Board designated endowment	82,415	15,632
	$ 1,484,151	$ 1,065,332

Temporarily restricted net assets are restricted for the following purposes:

	2017	2016
Donor restricted endowment earnings	$ 347,064	$ 207,044
Trail maintenance	105,781	97,189
Land protection	100,191	198,602
Communications/marketing	67,487	186,596
Encore fellowships	8,225	65,825
Time restricted	2,700	
	$ 631,448	$ 755,256

Permanently restricted net assets consist of donor restricted endowments and are restricted to investment in perpetuity.

7. LINE OF CREDIT

PCTA has a line of credit of $200,000 with a bank expiring June 1, 2018. Borrowings under the line bear interest at the greater of prime plus 2%, or 5%. As of December 31, 2017, there were no borrowings on the line of credit.

8. NOTES PAYABLE

During 2017, PCTA issued a promissory note of $1,278,400 to purchase trail property at Stevens Pass. The note bears interest of 3.5% per annum and is due November 15, 2018. Interest expense on the note was $5,977 in 2017.

PCTA also has an interest free loan of $200,000 from a board member. The loan funds were used to purchase the Donomore Meadows property, which was sold in March 2018, at which time this note was paid in full. Imputed interest on the note was $11,000 and $916 for the years ended December 31, 2017 and 2016, respectively.

9. DONATED SERVICES

In 2017 and 2016, volunteers donated a total of 96,657 and 104,269 volunteer hours to PCTA, respectively. 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, 2017 and 2016 are as follows:

Donated services recorded in the financial statements valued at fair value:

	2017	2016
Graphic design (public information and education)	$ 54,960	$ 54,960
Chain-saw operation and skilled construction (trail program)	224,804	279,514
	$ 279,764	$ 334,474

Donated services not recorded in the financial statements:

	2017	2016
Volunteer hours	87,931	93,376
Value of hours at standard federal rate	$ 2,122,662	$ 2,199,939

10. 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.

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, 2017 were as follows:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 15,632	$ 207,044	$ 1,062,940	$ 1,285,616
Contributions			9,698	9,698
Investment income	740	30,467		31,207
Net realized/unrealized gain		157,753		157,753
Amounts appropriated for Board Designated endowment	99,043	(48,200)		50,843
Amounts appropriated for expenditure	(33,000)			(33,000)
Endowment funds, end of year	$ 82,415	$ 347,064	$ 1,072,638	$ 1,502,117

Changes in the endowment fund for the year ended December 31, 2016 were as follows:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 15,571	$ 162,585	$ 1,051,142	$ 1,229,298
Contributions			11,798	11,798
Interest and dividend income	61	29,450		29,511
Net realized/unrealized gain		59,909		59,909
Amounts appropriated for Board Designated endowment	44,900	(44,900)		
Amounts appropriated for expenditure	(44,900)			(44,900)
Endowment funds, end of year	$ 15,632	$ 207,044	$ 1,062,940	$ 1,285,616

11. CONDITIONAL PROMISES TO GIVE

PCTA has a restricted matching gift opportunity. A conditional pledge has been received which offers a one to one match 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.

12. SUBSEQUENT EVENTS

Landers Meadow and Donomore Meadows were properties included in the land held for conservation balance as of December 31, 2017. PCTA sold to the U.S. government, in January 2018, the Landers Meadow property for $467,000, and in March 2018, the Donomore Meadows property for $190,000.

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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*

Independent Auditor's Report

To the Board of Directors
Pacific Crest Trail Association
Sacramento, California

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 the Pacific Crest Trail Association (PCTA) , which comprise the statement of financial position as of December 31, 2017, 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 11, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PCTA’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 PCTA’s internal control. Accordingly, we do not express an opinion on the effectiveness of PCTA’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.

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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether PCTA'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 PCTA'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

April 11, 2018