

**PACIFIC CREST TRAIL ASSOCIATION**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED  
DECEMBER 31, 2019 AND 2018**

## **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 (PCTA), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

***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, 2019 and 2018, and the changes in its net assets and its cash flows for the years 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 14, 2020, on our consideration of PCTA'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 solely 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 effectiveness of PCTA's 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 PCTA's internal control over financial reporting and compliance.

Gilbert CPAs

**GILBERT CPAs  
Sacramento, California**

**April 14, 2020**

# PACIFIC CREST TRAIL ASSOCIATION

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2019 AND 2018

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<b>ASSETS</b>	<b><u>2019</u></b>	<b><u>2018</u></b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 298,416	\$ 307,836
Accounts receivable	88,534	108,636
Pledges receivable	122,438	100,082
Inventory	27,575	6,266
Prepaid expenses	<u>66,386</u>	<u>56,652</u>
Total current assets	603,349	579,472
<b>PLEDGES RECEIVABLE</b>	40,000	154,990
<b>INVESTMENTS</b>	3,876,726	2,980,025
<b>FURNITURE AND EQUIPMENT, Net</b>	<u>80,264</u>	<u>39,174</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 4,600,339</u></b>	<b><u>\$ 3,753,661</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 136,914	\$ 81,347
Accrued expenses	146,079	144,945
Deferred revenue	<u>4,129</u>	<u>3,834</u>
Total current liabilities	<u>287,122</u>	<u>230,126</u>
<b>NET ASSETS:</b>		
Without donor restrictions:		
Undesignated	116,744	250,416
Board designated	<u>1,755,821</u>	<u>1,373,306</u>
Total without donor restrictions	1,872,565	1,623,722
With donor restrictions	<u>2,440,652</u>	<u>1,899,813</u>
Total net assets	<u>4,313,217</u>	<u>3,523,535</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 4,600,339</u></b>	<b><u>\$ 3,753,661</u></b>

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

# PACIFIC CREST TRAIL ASSOCIATION

## STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS:</b>		
<b>REVENUES:</b>		
Contributions and memberships	\$ 2,274,549	\$ 1,682,639
Government grants	993,982	1,086,652
Contributed goods and services	456,180	441,093
Net investment income	39,515	21,873
Program income	28,788	55,527
Other income	27,574	9,630
Net assets released from restriction	<u>538,845</u>	<u>654,162</u>
<b>Total revenues</b>	<u><b>4,359,433</b></u>	<u><b>3,951,576</b></u>
<b>EXPENSES:</b>		
Program services:		
Trail operations	1,688,961	1,574,495
Public information and education	891,118	945,023
Land protection	<u>315,561</u>	<u>390,244</u>
<b>Total program services</b>	<b>2,895,640</b>	<b>2,909,762</b>
Supporting services:		
Fundraising and membership development	736,215	665,810
General and administrative	<u>478,735</u>	<u>423,360</u>
<b>Total expenses</b>	<u><b>4,110,590</b></u>	<u><b>3,998,932</b></u>
<b>INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<u><b>248,843</b></u>	<u><b>(47,356)</b></u>
<b>NET ASSETS WITH DONOR RESTRICTIONS:</b>		
Contributions	829,065	911,309
Net investment income (loss)	250,619	(61,420)
Net assets released from restriction	<u>(538,845)</u>	<u>(654,162)</u>
<b>INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<u><b>540,839</b></u>	<u><b>195,727</b></u>
<b>INCREASE IN NET ASSETS</b>	<b>789,682</b>	<b>148,371</b>
<b>NET ASSETS, Beginning of year</b>	<u><b>3,523,535</b></u>	<u><b>3,375,164</b></u>
<b>NET ASSETS, End of year</b>	<u><u><b>\$ 4,313,217</b></u></u>	<u><u><b>\$ 3,523,535</b></u></u>

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

# PACIFIC CREST TRAIL ASSOCIATION

## STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2019

	Program Services			Supporting Services			Total
	<u>Trail Operations</u>	<u>Public Information and Education</u>	<u>Land Protection</u>	<u>Total Program Services</u>	<u>Fundraising and Membership Development</u>	<u>General &amp; Administrative</u>	
Salaries, wages and benefits	\$ 1,104,732	\$ 453,527	\$ 207,139	\$ 1,765,398	\$ 453,506	\$ 407,533	\$ 2,626,437
Contractual services	78,113	103,167	22,086	203,366	28,454	13,831	245,651
Supplies	213,160	19,562	2,094	234,816	2,649	2,163	239,628
Travel	131,042	37,134	15,564	183,740	17,225	2,522	203,487
Printing	1,738	69,757	12,175	83,670	95,132	479	179,281
Occupancy	64,309	36,726	15,923	116,958	26,768	21,916	165,642
Postage	9,862	77,367	9,800	97,029	50,821	1,180	149,030
Events, meetings and training	32,980	22,120	8,109	63,209	12,332	4,571	80,112
IT services	14,408	19,838	4,210	38,456	7,848	6,320	52,624
Depreciation	8,277	4,590	2,027	14,894	4,611	4,009	23,514
Insurance	6,190	3,432	1,516	11,138	3,448	2,998	17,584
Other expenses	24,150	43,898	14,918	82,966	33,421	11,213	127,600
<b>Total expenses</b>	<b><u>\$ 1,688,961</u></b>	<b><u>\$ 891,118</u></b>	<b><u>\$ 315,561</u></b>	<b><u>\$ 2,895,640</u></b>	<b><u>\$ 736,215</u></b>	<b><u>\$ 478,735</u></b>	<b><u>\$ 4,110,590</u></b>

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

# PACIFIC CREST TRAIL ASSOCIATION

## STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2018

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total</u>
	<u>Trail Operations</u>	<u>Public Information and Education</u>	<u>Land Protection</u>	<u>Total Program Services</u>	<u>Fundraising and Membership Development</u>	<u>General &amp; Administrative</u>	
Salaries, wages and benefits	\$ 1,044,723	\$ 473,537	\$ 204,725	\$ 1,722,985	\$ 396,687	\$ 362,469	\$ 2,482,141
Contractual services	116,317	97,910	80,419	294,646	36,590	8,260	339,496
Supplies	105,130	20,810	1,773	127,713	14,203	2,038	143,954
Travel	127,636	49,026	14,711	191,373	25,024	1,754	218,151
Printing	2,869	57,492	9,019	69,380	70,848	1,184	141,412
Occupancy	59,478	39,656	21,154	120,288	24,400	19,865	164,553
Postage	8,802	66,827	7,101	82,730	43,718	1,009	127,457
Events, meetings and training	56,524	71,190	6,403	134,117	9,024	3,418	146,559
IT services	15,746	19,634	5,000	40,380	7,758	6,434	54,572
Depreciation	6,489	4,259	1,841	12,589	3,571	3,060	19,220
Insurance	6,875	4,512	2,474	13,861	3,783	3,241	20,885
Other expenses	23,906	40,170	35,624	99,700	30,204	10,628	140,532
<b>Total expenses</b>	<b><u>\$ 1,574,495</u></b>	<b><u>\$ 945,023</u></b>	<b><u>\$ 390,244</u></b>	<b><u>\$ 2,909,762</u></b>	<b><u>\$ 665,810</u></b>	<b><u>\$ 423,360</u></b>	<b><u>\$ 3,998,932</u></b>

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

# PACIFIC CREST TRAIL ASSOCIATION

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 789,682	\$ 148,371
Reconciliation to net cash provided (used) by operating activities:		
Depreciation	23,514	19,220
Net (gain) loss on disposal of long-term assets	(400)	16,505
Net realized/unrealized (gain) loss on investments	(205,373)	96,540
Donated securities	(448,352)	(192,069)
Contributions restricted for long-term purposes	(6,396)	(5,606)
Changes in:		
Accounts and pledges receivable	112,736	(157,263)
Inventory	(21,309)	13,139
Prepaid expenses	(9,734)	1,467
Accounts payable and accrued expenses	56,701	4,780
Deferred revenue	295	(7,329)
Net cash provided (used) by operating activities	<u>291,364</u>	<u>(62,245)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of furniture and equipment	(64,604)	(20,344)
Proceeds from sale of land held for conservation		2,264,000
Proceeds from sale of equipment	400	
Purchase of investments	(1,385,341)	(1,562,257)
Proceeds from investment sales and maturities	1,142,365	931,865
Net cash provided (used) by investing activities	<u>(307,180)</u>	<u>1,613,264</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Collection of support for endowment	6,396	5,606
Principal payments on notes payable		(1,478,400)
Net cash provided (used) by financing activities	<u>6,396</u>	<u>(1,472,794)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(9,420)	78,225
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<u>307,836</u>	<u>229,611</u>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<u>\$ 298,416</u>	<u>\$ 307,836</u>

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



# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### 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. PCTA defends the trail from improper use, abuse, and commercial or private encroachment through land acquisition and land protection programs. PCTA also provides information to help people enjoy the trail and encourages 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 two classes of net assets: without donor restrictions and with donor restrictions.

**Revenue recognition** – Contributions and memberships received are recognized in full when received or unconditionally promised, in accordance with professional standards. Conditional contributions are not recognized until the conditions on which they depend have been substantially met or the donor has explicitly released the condition. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in net assets with donor restrictions. Net assets with donor restrictions become unrestricted and are reported in the statements of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose.

PCTA's revenues from contracts with customers consist of government grants. Revenues from government grants are recognized when PCTA incurs qualifying expenditures in compliance with specific grant provisions. Funds received in advance of being earned are recognized as deferred revenue, which represents a contract liability. Generally, payment is due from the grantor government once PCTA submits an invoice for payment.

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.

**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. The cash balance did not exceed federally insured limits as of December 31, 2019. As of December 31, 2018 the cash balance exceeded federally insured limits by approximately \$14,000. PCTA has not experienced any losses in such accounts and management believes PCTA is not exposed to any significant credit risk related to cash.

# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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**Accounts receivable** – Substantially all accounts receivable are due from the U.S. Forest Service and are scheduled to be received within one year. Accounts receivable totaled \$88,534, \$108,636, and \$97,958 at December 31, 2019, 2018, and 2017, respectively. 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. Management has determined that the present value discount related to long-term pledges receivable is not material, therefore a present value discount has not been recorded. 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 \$3,439 and \$4,421 in the year ended December 31, 2019 and 2018, respectively, are included in public information and education expenses.

**Investments** are reported at fair value and held for long-term purposes. 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.

**Functional allocation of expenses** – The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, wages, and benefits, which are allocated based on estimates of employees' time incurred. All other expenses are allocated based on management's estimate 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.

# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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**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.

**Recent Accounting Pronouncement** – In May 2014, the Financial Accounting Standards Board (FASB) issued Topic 606, *Revenue from Contracts with Customers*. The new accounting standard develops a common standard that will remove inconsistencies in revenue requirements, improve comparability of revenue recognition practices, provide more useful information to users of financial statements and simplify the preparation of financial statements. PCTA has implemented Topic 606 effective January 1, 2019, for all contracts with no effect on beginning net assets.

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new accounting standard clarifies and improves the guidance for (1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. PCTA has implemented this accounting standard in the accompanying financial statements effective January 1, 2019 under the modified prospective basis. Accordingly, there is no effect on beginning net assets in connection with the implementation of ASU 2018-08.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The new accounting standard requires lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases with terms longer than 12 months. Application of this statement is effective for the year ending December 31, 2021. PCTA is currently evaluating the impact this pronouncement will have on the financial statements.

# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

**Subsequent events** have been evaluated through April 14, 2020, the date the financial statements were available to issue. Management concluded that no material subsequent events have occurred since December 31, 2019, that require recognition or disclosure in such financial statements.

### 2. LIQUIDITY AND AVAILABILITY OF RESOURCES

PCTA's cash flow has seasonal variations during the year attributable to a concentration of contributions received near calendar year-end. To manage liquidity, PCTA maintains a Board Designated Cash Reserve with a balance of \$683,723 and \$620,000 at December 31, 2019 and 2018, respectively. The cash reserve can be drawn on as needed throughout the year to manage cash flow and is then replenished by the end of the fiscal year. The Board may also choose to appropriate funds for use from the Board Designated Endowment for special projects or for unanticipated liquidity needs. The Board has also established a Board Designated Land Protection fund which may be appropriated for land protection program expenses as needed. Board Designated funds are invested in short-term investments. Additionally, PCTA has a bank line of credit of \$200,000 that may be drawn upon in the event of an unanticipated liquidity need. If the line of credit is used, the bank requires it to be repaid within 12 months.

The following reflects PCTA's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of donor-imposed restrictions or internal designations. Amounts available include the board-approved appropriation from the endowment fund for the following year. Amounts set aside for operating and other reserves can be drawn upon if the Board of Directors approves that action.

	<u>2019</u>	<u>2018</u>
Financial assets, at year-end	\$ 4,426,114	\$ 3,651,569
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions:		
Endowment funds to be held in perpetuity	(1,084,640)	(1,078,244)
Restricted by donor for specific purposes	(922,997)	(586,550)
Accumulated earnings on endowment funds	(433,015)	(235,019)
Board designations:		
Land protection	(994,232)	(662,472)
Endowment	(77,866)	(90,834)
Plus Board approved appropriation for following year	<u>250,000</u>	<u>257,500</u>
Financial assets available for general expenditures within one year	<u>\$ 1,163,364</u>	<u>\$ 1,255,950</u>

# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

### 3. FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Office furniture and equipment	\$ 206,672	\$ 158,206
Website and software	72,752	72,752
Leasehold improvements	6,124	
Total	<u>285,548</u>	<u>230,958</u>
Less accumulated depreciation	<u>(205,284)</u>	<u>(191,784)</u>
Furniture and equipment, net	<u>\$ 80,264</u>	<u>\$ 39,174</u>

### 4. INVESTMENTS

Investments consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 2,362,359	\$ 1,669,166
Government bond funds	141,256	138,452
Bond index funds	284,208	280,981
Stock index funds	646,159	515,682
International bond index funds	140,179	144,010
International stock index funds	<u>302,565</u>	<u>231,734</u>
	<u>\$ 3,876,726</u>	<u>\$ 2,980,025</u>

Investments are classified as Level 1 in the fair value hierarchy, as the fair value of the assorted funds are based on their daily closing prices.

### 5. LEASES

PCTA leases headquarter office space in Sacramento, California with a lease term expiring September 30, 2021. In addition, PCTA has five regional offices, three with lease agreements, located along the trail. One lease has been prepaid through June 2020, one leased on a month-to-month basis, and the other lease term expires in January 2022. Rent expense was \$132,500 and \$130,026 for the years ended December 31, 2019 and 2018, respectively.

Future minimum lease payments under noncancelable lease agreements are as follows:

2020	\$ 122,685
2021	94,891
2022	<u>535</u>
	<u>\$ 218,111</u>

# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

### 6. 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 \$123,477 and \$106,903 for the years ended December 31, 2019 and 2018, respectively.

### 7. RESTRICTIONS AND DESIGNATIONS ON NET ASSETS

Net assets without donor restrictions are designated for the following purposes at December 31:

	<u>2019</u>	<u>2018</u>
Board designated for land protection	\$ 994,232	\$ 662,472
Board designated for reserves	683,723	620,000
Board designated endowment	<u>77,866</u>	<u>90,834</u>
	<u>\$ 1,755,821</u>	<u>\$ 1,373,306</u>

Net assets with donor restrictions that are not perpetual in nature are restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
Trail maintenance	\$ 470,103	\$ 586,550
Donor restricted endowment earnings	433,015	235,019
Technology upgrade project	355,233	
Land protection	<u>97,661</u>	<u>          </u>
	<u>\$ 1,356,012</u>	<u>\$ 821,569</u>

At December 31, 2019 and 2018, net assets with perpetual donor restrictions consist of endowments totaling \$1,084,640 and \$1,078,244, respectively, which are restricted to investment in perpetuity.

### 8. LINE OF CREDIT

PCTA has a line of credit of \$200,000 with a bank expiring January 1, 2021. Borrowings under the line bear interest at the greater of prime plus 2%, or 5%. As of December 31, 2019 and 2018, there were no borrowings on the line of credit.

# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

### 9. DONATED SERVICES

In 2019 and 2018, volunteers donated a total of 106,512 and 122,260 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, 2019 and 2018 are as follows:

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

	<u>2019</u>	<u>2018</u>
Graphic design (public information and education)	\$ 57,360	\$ 57,360
Chain-saw operation and skilled construction (trail program)	<u>293,310</u>	<u>326,494</u>
	<u>\$ 350,670</u>	<u>\$ 383,854</u>

Donated services not recorded in the financial statements:

	<u>2019</u>	<u>2018</u>
Volunteer hours	95,673	109,846
Value of hours at standard federal rate	\$ 2,432,952	\$ 2,712,085

### 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 net assets with donor restrictions 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 5% – 6% annually and inflation to average 2 – 3% annually.

# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Three percent (3%) of the endowment fund is appropriated for distribution each year, calculated based on the average fair market value of the prior 12 quarters. The 3% 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, 2019 were as follows:

	<b>Board Designated Unrestricted</b>	<b>Purpose Restrictions</b>	<b>Perpetual Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 90,834	\$ 235,019	\$ 1,078,244	\$ 1,404,097
Contributions			6,396	6,396
Investment income	1,748	35,737		37,485
Net realized/unrealized gain		214,882		214,882
Amounts appropriated for Board Designated cash reserves		(52,623)		(52,623)
Amounts appropriated for expenditure	(14,716)			(14,716)
Endowment funds, end of year	<u>\$ 77,866</u>	<u>\$ 433,015</u>	<u>\$ 1,084,640</u>	<u>\$ 1,595,521</u>

Changes in the endowment fund for the year ended December 31, 2018 were as follows:

	<b>Board Designated Unrestricted</b>	<b>Purpose Restrictions</b>	<b>Perpetual Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 82,415	\$ 347,064	\$ 1,072,638	\$ 1,502,117
Contributions			5,606	5,606
Interest and dividend income	1,737	33,666		35,403
Net realized/unrealized loss		(95,086)		(95,086)
Amounts appropriated for Board Designated endowment	28,966			28,966
Amounts appropriated for Board Designated cash reserves		(50,625)		(50,625)
Amounts appropriated for expenditure	(22,284)			(22,284)
Endowment funds, end of year	<u>\$ 90,834</u>	<u>\$ 235,019</u>	<u>\$ 1,078,244</u>	<u>\$ 1,404,097</u>



**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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 14, 2020.

**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.

### **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 origination's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gilbert CPAs

**GILBERT CPAs**  
**Sacramento, California**

**April 14, 2020**