

PACIFIC CREST TRAIL ASSOCIATION

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

**YEARS ENDED
DECEMBER 31, 2021 AND 2020**

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PCTA as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PCTA and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PCTA's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material

misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PCTA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PCTA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2022, 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 18, 2022

PACIFIC CREST TRAIL ASSOCIATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2021 AND 2020

ASSETS	<u>2021</u>	<u>2020</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 615,348	\$ 380,828
Accounts receivable	518,167	141,095
Pledges receivable	149,064	333,715
Prepaid expenses and other assets	<u>115,254</u>	<u>105,371</u>
Total current assets	1,397,833	961,009
PLEDGES RECEIVABLE, Net	31,255	71,500
INVESTMENTS	3,891,452	4,136,786
LAND HELD FOR CONSERVATION	42,000	42,000
FURNITURE AND EQUIPMENT, Net	<u>499,984</u>	<u>249,386</u>
TOTAL ASSETS	<u>\$ 5,862,524</u>	<u>\$ 5,460,681</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 197,561	\$ 81,305
Accrued expenses	282,677	170,124
Paycheck Protection Program loan, current	<u> </u>	<u>139,581</u>
Total current liabilities	480,238	391,010
PAYCHECK PROTECTION PROGRAM LOAN, Net	<u> </u>	<u>281,977</u>
TOTAL LIABILITIES	<u>480,238</u>	<u>672,987</u>
NET ASSETS:		
Without donor restrictions:		
Undesignated	1,075,517	576,064
Board designated	<u>1,961,549</u>	<u>1,579,174</u>
Total without donor restrictions	3,037,066	2,155,238
With donor restrictions	<u>2,345,220</u>	<u>2,632,456</u>
Total net assets	<u>5,382,286</u>	<u>4,787,694</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,862,524</u>	<u>\$ 5,460,681</u>

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

PACIFIC CREST TRAIL ASSOCIATION

STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES:		
Contributions and memberships	\$ 2,322,340	\$ 1,951,323
Government grants	1,272,810	818,215
Contributed goods and services	303,053	180,417
Program income	3,000	9,462
Net investment income (loss)	(433)	9,397
Other income	284,236	122,581
Net assets released from restriction	<u>960,804</u>	<u>738,420</u>
Total revenues	<u>5,145,810</u>	<u>3,829,815</u>
EXPENSES:		
Program services:		
Trail operations	2,223,883	1,197,818
Public information and education	913,252	858,087
Land protection	<u>223,614</u>	<u>305,371</u>
Total program services	3,360,749	2,361,276
Supporting services:		
Fundraising and membership development	919,561	706,644
General and administrative	<u>410,959</u>	<u>479,222</u>
Total expenses	<u>4,691,269</u>	<u>3,547,142</u>
INCOME FROM OPERATIONS	454,541	282,673
GAIN ON FORGIVENESS OF PAYCHECK PROTECTION PROGRAM LOAN	<u>427,287</u>	<u> </u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>881,828</u>	<u>282,673</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	477,347	728,024
Net investment income	196,221	202,200
Net assets released from restriction	<u>(960,804)</u>	<u>(738,420)</u>
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(287,236)</u>	<u>191,804</u>
INCREASE IN NET ASSETS	594,592	474,477
NET ASSETS, Beginning of year	<u>4,787,694</u>	<u>4,313,217</u>
NET ASSETS, End of year	<u>\$ 5,382,286</u>	<u>\$ 4,787,694</u>

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

PACIFIC CREST TRAIL ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2021

	<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 and Administrative</u>	
Salaries, wages and benefits	\$ 1,401,030	\$ 478,044	\$ 142,807	\$ 2,021,881	\$ 561,207	\$ 312,714	\$ 2,895,802
Contractual services	454,646	168,256	28,904	651,806	87,590	48,935	788,331
Occupancy	92,427	32,859	7,293	132,579	30,835	15,226	178,640
Printing	2,409	52,675	15,160	70,244	97,029	324	167,597
Postage	12,026	74,851	11,190	98,067	62,511	1,071	161,649
IT services	44,110	30,787	3,323	78,220	16,391	8,308	102,919
Supplies	68,108	13,929	479	82,516	2,065	2,852	87,433
Depreciation	33,682	11,403	2,357	47,442	14,409	7,457	69,308
Travel	51,028	913	340	52,281	6,630	1,213	60,124
Insurance	8,664	2,933	606	12,203	3,706	2,244	18,153
Events, meetings and training	3,472	1,110	543	5,125	611	772	6,508
Other expenses	52,281	45,492	10,612	108,385	36,577	9,843	154,805
Total expenses	<u>\$ 2,223,883</u>	<u>\$ 913,252</u>	<u>\$ 223,614</u>	<u>\$ 3,360,749</u>	<u>\$ 919,561</u>	<u>\$ 410,959</u>	<u>\$ 4,691,269</u>

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

PACIFIC CREST TRAIL ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2020

	<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 and Administrative</u>	
Salaries, wages and benefits	\$ 868,984	\$ 474,932	\$ 205,699	\$ 1,549,615	\$ 437,990	\$ 404,723	\$ 2,392,328
Contractual services	70,626	122,099	24,679	217,404	34,785	16,667	268,856
Occupancy	63,122	40,434	17,693	121,249	27,233	23,549	172,031
Printing	1,562	51,715	13,744	67,021	94,921	471	162,413
Postage	11,147	65,304	8,732	85,183	58,735	1,415	145,333
IT services	19,384	23,241	5,264	47,889	9,129	8,310	65,328
Supplies	65,613	21,658	1,206	88,477	10,545	1,569	100,591
Depreciation	10,248	6,366	2,753	19,367	5,879	5,374	30,620
Travel	48,476	7,402	4,925	60,803	2,138	608	63,549
Insurance	5,865	3,643	1,575	11,083	3,365	3,075	17,523
Events, meetings and training	7,813	4,110	533	12,456	1,345	789	14,590
Other expenses	24,978	37,183	18,568	80,729	20,579	12,672	113,980
Total expenses	<u>\$ 1,197,818</u>	<u>\$ 858,087</u>	<u>\$ 305,371</u>	<u>\$ 2,361,276</u>	<u>\$ 706,644</u>	<u>\$ 479,222</u>	<u>\$ 3,547,142</u>

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

PACIFIC CREST TRAIL ASSOCIATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 594,592	\$ 474,477
Reconciliation to net cash used by operating activities:		
Depreciation	69,308	30,620
Net gain on disposal of long-term assets	(249)	
Net realized/unrealized gain on investments	(156,209)	(170,624)
Donated securities	(157,824)	(148,582)
Contributions restricted for long-term purposes	(7,208)	(6,474)
Gain on forgiveness of Paycheck Protection Program loan	(421,558)	
Changes in:		
Accounts and pledges receivable	(152,176)	(295,338)
Prepaid expenses	(9,883)	(11,410)
Accounts payable and accrued expenses	121,645	(31,564)
Deferred revenue		(4,129)
Net cash used by operating activities	<u>(119,562)</u>	<u>(163,024)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of furniture and equipment	(213,359)	(241,742)
Proceeds from sale of equipment	866	
Purchase of investments	(1,186,778)	(561,463)
Proceeds from investment sales and maturities	<u>1,746,145</u>	<u>620,609</u>
Net cash provided (used) by investing activities	<u>346,874</u>	<u>(182,596)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collection of support for endowment	7,208	6,474
Proceeds from Paycheck Protection Program loan	<u></u>	<u>421,558</u>
Net cash provided by financing activities	<u>7,208</u>	<u>428,032</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	234,520	82,412
CASH AND CASH EQUIVALENTS, Beginning of year	<u>380,828</u>	<u>298,416</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 615,348</u>	<u>\$ 380,828</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Equipment acquired through accounts payable	<u>\$ 92,447</u>	<u>\$</u>
Equipment financed through capital lease	<u>\$ 14,717</u>	<u>\$</u>

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

PACIFIC CREST TRAIL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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 U.S. 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.

Outstanding conditional promises to give to support staff salaries and benefits were \$113,000 at both December 31, 2021 and 2020, and will be recognized as revenue as the conditions are met – a 1:1 match in additional funds raised from new or existing sources.

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.

PACIFIC CREST TRAIL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

PCTA minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. PCTA's deposits held with financial institutions in excess of federally insured limits were \$194,536 and \$24,914 as of December 31, 2021 and 2020, respectively. 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 – The majority of accounts receivable are due from the U.S. Forest Service and are scheduled to be received within one year. Accounts receivable related to contracts with customers totaled \$518,167, \$141,095, and \$88,534 at December 31, 2021, 2020, and 2019, 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. Noncurrent pledge receivables are all expected to be collected in 2023.

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, 2021 AND 2020

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 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, 2022. PCTA is currently evaluating the impact this pronouncement will have on the financial statements.

Subsequent events have been evaluated through April 18, 2022, the date the financial statements were available to issue. Management concluded that no material subsequent events have occurred since December 31, 2021, 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 \$706,157 at December 31, 2021 and \$683,723 at December 31, 2020. 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.

PACIFIC CREST TRAIL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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>2021</u>	<u>2020</u>
Financial assets, at year-end	\$ 5,205,286	\$ 5,063,924
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions:		
Endowment funds to be held in perpetuity	(1,098,322)	(1,091,114)
Accumulated earnings on endowment funds	(746,945)	(593,713)
Restricted by donor for specific purposes	(499,953)	(947,629)
Board designations:		
Endowment	(633,156)	(81,676)
Land protection	(622,236)	(813,775)
Plus Board approved appropriation for following year	<u>250,000</u>	<u>250,000</u>
Financial assets available for general expenditures within one year	<u>\$ 1,854,674</u>	<u>\$ 1,786,017</u>

3. FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Office furniture and equipment	\$ 219,511	\$ 210,774
Equipment in process	128,044	
Website and software	348,966	72,752
Software in process		195,640
Leasehold improvements	<u>23,212</u>	<u>6,124</u>
Total	719,733	485,290
Less accumulated depreciation	<u>(219,749)</u>	<u>(235,904)</u>
Furniture and equipment, net	<u>\$ 499,984</u>	<u>\$ 249,386</u>

PACIFIC CREST TRAIL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

4. INVESTMENTS

Investments consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Money market funds	\$ 2,050,152	\$ 2,456,072
Government bond funds	176,682	163,473
Bond index funds	332,309	316,940
Stock index funds	816,502	710,960
International bond index funds	164,592	153,585
International stock index funds	<u>351,215</u>	<u>335,756</u>
	<u>\$ 3,891,452</u>	<u>\$ 4,136,786</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. PAYCHECK PROTECTION PROGRAM LOAN

On May 3, 2020, PCTA received a Paycheck Protection Program (PPP) loan under the Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act totaling \$421,558. Under the CARES Act, a portion or all of the loan and accrued interest may be forgiven provided the funds are spent on qualifying expenditures and certain other criteria regarding full-time equivalent employee and payroll levels are maintained. The PPP requires the portion of the loan that does not qualify for forgiveness or that is retained as a loan, to be repaid within 5 years at 1% interest.

PCTA received notification that its application for loan forgiveness was approved on September 16, 2021 and therefore, the principal and accrued interest totaling \$427,287 was recognized as income in the year ended December 31, 2021.

6. LEASES

PCTA leases headquarter office space in Sacramento, California with a lease term expiring April 30, 2029. In addition, PCTA has five regional offices, three with lease agreements, located along the trail. Two are leased on a month-to-month basis and the other lease term expires in January 2023. Rent expense was \$141,646 and \$135,452 for the years ended December 31, 2021 and 2020, respectively.

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

2022	\$ 95,644
2023	137,635
2024	141,213
2025	145,441
2026	149,782
Thereafter	<u>367,348</u>
	<u>\$ 1,037,063</u>

PACIFIC CREST TRAIL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

7. 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 \$123,286 and \$122,091 for the years ended December 31, 2021 and 2020, respectively.

8. RESTRICTIONS AND DESIGNATIONS OF NET ASSETS

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

	<u>2021</u>	<u>2020</u>
Board designated for reserves	\$ 706,157	\$ 683,723
Board designated endowment	633,156	81,676
Board designated for land protection	<u>622,236</u>	<u>813,775</u>
	<u>\$ 1,961,549</u>	<u>\$ 1,579,174</u>

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

	<u>2021</u>	<u>2020</u>
Donor restricted endowment earnings	\$ 746,945	\$ 593,713
Trail maintenance	292,578	417,395
Technology upgrade project	135,583	476,895
Philanthropy	36,706	
Land protection	20,086	40,172
Advocacy	<u>15,000</u>	<u>13,167</u>
	<u>\$ 1,246,898</u>	<u>\$ 1,541,342</u>

At December 31, 2021 and 2020, net assets with perpetual donor restrictions consist of endowments totaling \$1,098,322 and \$1,091,114, respectively, which are restricted to investment in perpetuity. See Note 11.

9. LINE OF CREDIT

PCTA has a line of credit of \$200,000 with a bank expiring March 1, 2022. Borrowings under the line bear interest at the greater of prime plus 2%, or 5%. As of December 31, 2021 and 2020, there were no borrowings on the line of credit.

PACIFIC CREST TRAIL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

10. DONATED SERVICES

In 2021 and 2020, volunteers donated a total of 57,643 and 31,295 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. COVID-19 closures and safety protocols affected volunteers ability to get out on the trail and contribute their time in 2021 and 2020. The total value of donated services for the year ended December 31, 2021 and 2020 are as follows:

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

	<u>2021</u>	<u>2020</u>
Graphic design (public information and education)	\$ 60,000	\$ 60,000
Chain-saw operation and skilled construction (trail program)	<u>239,292</u>	<u>102,772</u>
	<u>\$ 299,292</u>	<u>\$ 162,772</u>

Donated services not recorded in the financial statements:

	<u>2021</u>	<u>2020</u>
Volunteer hours	49,106	27,246
Value of hours at standard federal rate	\$ 1,401,471	\$ 741,098

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 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, 2021 AND 2020

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, 2021 were as follows:

	Board Designated Unrestricted	Purpose Restrictions	Perpetual Restrictions	Total
Endowment net assets, beginning of year	\$ 81,676	\$ 593,713	\$ 1,091,114	\$ 1,766,503
Contributions			7,208	7,208
Investment income, net	19	196,221		196,240
Amounts appropriated for Board				
Designated cash reserves	605,461	(42,989)		562,472
Amounts appropriated for expenditure	<u>(54,000)</u>			<u>(54,000)</u>
Endowment funds, end of year	<u>\$ 633,156</u>	<u>\$ 746,945</u>	<u>\$ 1,098,322</u>	<u>\$ 2,478,423</u>

Changes in the endowment fund for the year ended December 31, 2020 were as follows:

	Board Designated Unrestricted	Purpose Restrictions	Perpetual Restrictions	Total
Endowment net assets, beginning of year	\$ 77,866	\$ 433,015	\$ 1,084,640	\$ 1,595,521
Contributions			6,474	6,474
Investment income, net	495	202,200		202,695
Amounts appropriated for Board				
Designated cash reserves	58,315	(41,502)		16,813
Amounts appropriated for expenditure	<u>(55,000)</u>			<u>(55,000)</u>
Endowment funds, end of year	<u>\$ 81,676</u>	<u>\$ 593,713</u>	<u>\$ 1,091,114</u>	<u>\$ 1,766,503</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, 2021, 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 18, 2022.

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) as a basis for designing 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 financial statements. 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 18, 2022