

**PACIFIC CREST TRAIL ASSOCIATION**

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

**YEARS ENDED  
DECEMBER 31, 2022 AND 2021**

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Audit of the Financial Statements**

#### ***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, 2022 and 2021, 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 present fairly, in all material respects, the financial position of PCTA as of December 31, 2022 and 2021, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 and *Government 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 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 and *Government 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 17, 2023, 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 17, 2023**

# PACIFIC CREST TRAIL ASSOCIATION

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2022 AND 2021

<b>ASSETS</b>	<b><u>2022</u></b>	<b><u>2021</u></b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 805,709	\$ 615,348
Accounts receivable	225,477	518,167
Pledges receivable	99,268	149,064
Prepaid expenses and other assets	<u>132,039</u>	<u>115,254</u>
Total current assets	<u>1,262,493</u>	<u>1,397,833</u>
<b>NON-CURRENT ASSETS:</b>		
Pledges receivable, net	33,508	31,255
Investments	3,641,627	3,891,452
Land held for conservation		42,000
Furniture and equipment, net	461,300	499,984
Operating lease, right-of-use asset	<u>1,360,234</u>	
Total non-current assets	<u>5,496,669</u>	<u>4,464,691</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 6,759,162</u></b>	<b><u>\$ 5,862,524</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 113,927	\$ 197,561
Accrued expenses	243,281	282,677
Current portion of operating lease liability	<u>137,429</u>	
Total current liabilities	494,637	480,238
<b>OPERATING LEASE LIABILITY, Net</b>	<u>1,289,294</u>	
<b>TOTAL LIABILITIES</b>	<u>1,783,931</u>	<u>480,238</u>
<b>NET ASSETS:</b>		
Without donor restrictions:		
Undesignated	730,694	1,075,517
Board designated	<u>2,129,535</u>	<u>1,961,549</u>
Total without donor restrictions	2,860,229	3,037,066
With donor restrictions	<u>2,115,002</u>	<u>2,345,220</u>
Total net assets	<u>4,975,231</u>	<u>5,382,286</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 6,759,162</u></b>	<b><u>\$ 5,862,524</u></b>

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

# PACIFIC CREST TRAIL ASSOCIATION

## STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS:</b>		
<b>REVENUES:</b>		
Contributions and memberships	\$ 2,269,460	\$ 2,322,340
Government grants	1,717,255	1,272,810
In-kind contributions	346,309	303,053
Net investment income (loss)	32,685	(433)
Program income	20,000	3,000
Other income	68,418	284,236
Net assets released from restriction	902,400	960,804
Total revenues	<u>5,356,527</u>	<u>5,145,810</u>
<b>EXPENSES:</b>		
Program services:		
Trail operations	2,658,367	2,223,883
Public information and education	1,060,212	913,252
Land protection	262,370	223,614
Total program services	<u>3,980,949</u>	<u>3,360,749</u>
Supporting services:		
Fundraising and membership development	1,081,345	919,561
General and administrative	471,070	410,959
Total expenses	<u>5,533,364</u>	<u>4,691,269</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	(176,837)	454,541
<b>GAIN ON FORGIVENESS OF PAYCHECK PROTECTION PROGRAM LOAN</b>		<u>427,287</u>
<b>INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<u>(176,837)</u>	<u>881,828</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS:</b>		
Contributions	966,365	477,347
Net investment income (loss)	(294,183)	196,221
Net assets released from restriction	(902,400)	(960,804)
<b>DECREASE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<u>(230,218)</u>	<u>(287,236)</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(407,055)	594,592
<b>NET ASSETS, Beginning of year</b>	<u>5,382,286</u>	<u>4,787,694</u>
<b>NET ASSETS, End of year</b>	<u>\$ 4,975,231</u>	<u>\$ 5,382,286</u>

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

# PACIFIC CREST TRAIL ASSOCIATION

## STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2022

	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 and Administrative</u>	
Salaries, wages and benefits	\$ 1,819,533	\$ 583,057	\$ 177,442	\$ 2,580,032	\$ 638,718	\$ 354,469	\$ 3,573,219
Contractual services	281,345	152,722	883	434,950	108,265	56,548	599,763
Printing	1,314	66,388	20,972	88,674	125,890	193	214,757
Travel	124,218	24,433	10,407	159,058	18,810	3,859	181,727
Postage	12,112	86,225	8,031	106,368	68,727	971	176,066
Occupancy	97,911	28,941	8,328	135,180	26,796	11,528	173,504
Supplies	117,661	18,601	1,148	137,410	9,963	2,903	150,276
Depreciation	70,403	20,514	6,074	96,991	25,206	11,381	133,578
IT services	35,485	28,992	2,626	67,103	16,905	5,086	89,094
Events, meetings and training	37,503	8,668	7,097	53,268	7,412	14,724	75,404
Insurance	10,365	3,020	894	14,279	3,711	1,675	19,665
Other expenses	<u>50,517</u>	<u>38,651</u>	<u>18,468</u>	<u>107,636</u>	<u>30,942</u>	<u>7,733</u>	<u>146,311</u>
 Total expenses	 <u>\$ 2,658,367</u>	 <u>\$ 1,060,212</u>	 <u>\$ 262,370</u>	 <u>\$ 3,980,949</u>	 <u>\$ 1,081,345</u>	 <u>\$ 471,070</u>	 <u>\$ 5,533,364</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
Printing	2,409	52,675	15,160	70,244	97,029	324	167,597
Travel	51,028	913	340	52,281	6,630	1,213	60,124
Postage	12,026	74,851	11,190	98,067	62,511	1,071	161,649
Occupancy	92,427	32,859	7,293	132,579	30,835	15,226	178,640
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
IT services	44,110	30,787	3,323	78,220	16,391	8,308	102,919
Events, meetings and training	3,472	1,110	543	5,125	611	772	6,508
Insurance	8,664	2,933	606	12,203	3,706	2,244	18,153
Other expenses	52,281	45,492	10,612	108,385	36,577	9,843	154,805
<b>Total expenses</b>	<b><u>\$ 2,223,883</u></b>	<b><u>\$ 913,252</u></b>	<b><u>\$ 223,614</u></b>	<b><u>\$ 3,360,749</u></b>	<b><u>\$ 919,561</u></b>	<b><u>\$ 410,959</u></b>	<b><u>\$ 4,691,269</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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase (decrease) in net assets	\$ (407,055)	\$ 594,592
Reconciliation to net cash provided (used) by operating activities:		
Depreciation	133,578	69,308
Net gain on sale of long-term assets	(10,285)	(249)
Net realized/unrealized loss (gain) on investments	335,163	(156,209)
Donated securities	(55,581)	(157,824)
Contributions restricted for long-term purposes	(5,232)	(7,208)
Gain on forgiveness of Paycheck Protection Program loan		(421,558)
Reduction in operating lease, right-of-use asset	92,535	
Changes in:		
Accounts and pledges receivable	340,233	(152,176)
Prepaid expenses and other assets	(16,785)	(9,883)
Accounts payable and accrued expenses	(123,030)	121,645
Operating lease liability	(26,046)	
Net cash provided (used) by operating activities	<u>257,495</u>	<u>(119,562)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of furniture and equipment	(94,894)	(213,359)
Proceeds from sale of long-term assets	52,285	866
Purchase of investments	(805,277)	(1,186,778)
Proceeds from investment sales and maturities	<u>775,520</u>	<u>1,746,145</u>
Net cash provided (used) by investing activities	<u>(72,366)</u>	<u>346,874</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Collection of support for endowment	<u>5,232</u>	<u>7,208</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	190,361	234,520
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<u>615,348</u>	<u>380,828</u>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<u>\$ 805,709</u>	<u>\$ 615,348</u>
<b>NON-CASH INVESTING ACTIVITIES</b>		
Right-of-use asset upon adoption of ASC 842	<u>\$ 1,452,769</u>	<u>\$</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Equipment acquired through accounts payable	<u>\$</u>	<u>\$ 92,447</u>
Equipment financed through capital lease	<u>\$</u>	<u>\$ 14,717</u>

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



# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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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 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 \$62,000 and \$113,000 at December 31, 2022 and 2021, respectively, 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, 2022 AND 2021

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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 \$455,150 and \$194,536 as of December 31, 2022 and 2021, 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 \$225,477, \$518,167, and \$141,095 at December 31, 2022, 2021, and 2020, 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 of \$9,749 are expected to be collected in 2024 and \$23,759 are expected to be collected in 2025.

**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. Land held for conservation was sold during the year ended December 31, 2022.

**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.

**Leases** – PCTA determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statements of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets are also adjusted for prepaid or accrued rent. PCTA uses the rate implicit in the lease if it is determinable. If the rate is not determinable, management uses PCTA's incremental borrowing rate based on the information available at lease commencement. Operating lease expense is recognized on a straight-line basis over the lease term. Lease terms may include options to renew, extend or terminate to the extent they are reasonably certain to be exercised. PCTA does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

**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

# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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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.

**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 pronouncements** – Effective January 1, 2022, PCTA adopted Accounting Standards Codification (ASC) 842, *Leases*, using the modified retrospective approach with January 1, 2022 as the date of initial adoption. ASC 842 is intended to improve financial reporting of lease transactions by requiring entities that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than 12 months. Key provisions in this guidance include additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. For leases existing at the transition date, PCTA applied the package of three transition practical expedients and therefore did not reassess whether an arrangement is or contains a lease, did not reassess lease classification, and did not reassess what qualifies as an initial direct cost. Additionally, PCTA applied the practical expedient to use hindsight for the purpose of determining the lease term.

# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Under the modified retrospective approach, the adoption of ASC 842 resulted in the recognition of ROU assets and lease liabilities of \$1,452,769 as of January 1, 2022. There is no cumulative effect adjustment to net assets at the transition date.

Effective for the year ended December 31, 2022, and applied retrospectively, PCTA implemented ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received.

**Subsequent events** have been evaluated through April 17, 2023, the date the financial statements were available to issue. Management concluded that no material subsequent events have occurred since December 31, 2022, 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 \$1,145,054 at December 31, 2022 and \$706,157 at December 31, 2021. 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>2022</u>	<u>2021</u>
Financial assets, at year-end	\$ 4,805,589	\$ 5,205,286
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions:		
Endowment funds to be held in perpetuity	(1,103,554)	(1,098,322)
Accumulated earnings on endowment funds	(405,840)	(746,945)
Restricted by donor for specific purposes	(605,608)	(499,953)
Board designations:		
Endowment	(439,378)	(633,156)
Land protection	(545,103)	(622,236)
Plus Board approved appropriation for following year	<u>200,000</u>	<u>250,000</u>
Financial assets available for general expenditures within one year	<u>\$ 1,906,106</u>	<u>\$ 1,854,674</u>

# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

### 3. FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Office furniture and equipment	\$ 398,094	\$ 347,555
Website and software	392,116	348,966
Leasehold improvements	24,417	23,212
Total	<u>814,627</u>	<u>719,733</u>
Less accumulated depreciation	<u>(353,327)</u>	<u>(219,749)</u>
Furniture and equipment, net	<u>\$ 461,300</u>	<u>\$ 499,984</u>

### 4. INVESTMENTS

Investments consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Money market funds	\$ 2,135,877	\$ 2,050,152
Stock index funds	591,241	816,502
Bond index funds	307,857	332,309
International stock index funds	296,420	351,215
Government bond funds	156,742	176,682
International bond index funds	<u>153,490</u>	<u>164,592</u>
	<u>\$ 3,641,627</u>	<u>\$ 3,891,452</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.

# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

### 6. LEASES

PCTA has a lease agreement for office space through April 30, 2029, which is included on the statement of financial position as of December 31, 2022 as an ROU asset and operating lease liability of \$1,360,234 and \$1,426,723, respectively.

This lease agreement has an option to extend the lease an additional five years. PCTA expects to exercise the option to extend this lease the five additional years allowed per the agreement and therefore has included this extension period in the amounts recognized as an ROU asset and operating lease liability. The lease agreement does not specify the monthly payments during the five-year extension period. Management has estimated that rent will increase 3% per year, which is consistent with its current annual rent increase.

The ROU asset and operating lease liability were calculated using PCTA's incremental borrowing rate of 4.35%. Rent expense for this lease totaled \$121,595 for 2022. Cash paid for amounts included in the measurement of operating lease liabilities totaled \$78,052 for 2022.

Maturities of the lease liability for this lease are as follows:

2023	\$	137,429
2024		141,552
2025		145,799
2026		150,173
2027		154,678
Thereafter		<u>1,088,407</u>
Total lease payments		1,818,038
Less: present value discount		<u>(391,315)</u>
Total operating lease liability	\$	<u>1,426,723</u>

Prior to the implementation of ASC 842 in 2022, leases were accounted for in accordance with the previous lease standard, ASC 840. Total rent expense for all operating leases under ASC 840 was \$141,646 for 2021.

### 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 \$145,414 and \$123,286 for the years ended December 31, 2022 and 2021, respectively.

# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

### 8. RESTRICTIONS AND DESIGNATIONS OF NET ASSETS

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

	<u>2022</u>	<u>2021</u>
Board designated for reserves	\$ 1,145,054	\$ 706,157
Board designated endowment	439,378	633,156
Board designated for land protection	<u>545,103</u>	<u>622,236</u>
	<u>\$ 2,129,535</u>	<u>\$ 1,961,549</u>

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

	<u>2022</u>	<u>2021</u>
Trail maintenance	\$ 449,737	\$ 292,578
Donor restricted endowment earnings	405,840	746,945
Land protection	117,700	20,086
Advocacy	19,583	15,000
Technology upgrade project	8,988	135,583
Philanthropy		36,706
Other	<u>9,600</u>	<u>          </u>
	<u>\$ 1,011,448</u>	<u>\$ 1,246,898</u>

At December 31, 2022 and 2021, net assets with perpetual donor restrictions consist of endowments totaling \$1,103,554 and \$1,098,322, respectively, which are restricted to investment in perpetuity. See Note 9.

### 9. ENDOWMENT FUND

As required by generally accepted accounting principles, net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

PCTA has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, PCTA classifies as permanently restricted net assets a) the original value of gifts donated to the permanent endowment, b) the original value of subsequent gifts to the permanent endowment, and c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The investment income of 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)

# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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.

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, 2022 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	\$ 633,156	\$ 746,945	\$ 1,098,322	\$ 2,478,423
Contributions			5,232	5,232
Investment income (loss), net	7,443	(294,183)		(286,740)
Amounts appropriated for Board Designated cash reserves	104,621	(46,922)		(57,699)
Amounts appropriated for expenditure	(305,842)			(305,842)
Endowment funds, end of year	\$ 439,378	\$ 405,840	\$ 1,103,554	\$ 1,948,772

Changes in the endowment fund for the year ended December 31, 2021 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	\$ 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	(54,000)			(54,000)
Endowment funds, end of year	\$ 633,156	\$ 746,945	\$ 1,098,322	\$ 2,478,423

### 10. LINE OF CREDIT

PCTA has a line of credit of \$200,000 with a bank expiring May 1, 2023. Borrowings under the line bear interest at the greater of prime plus 2%, or 5%. As of December 31, 2022 and 2021, there were no borrowings on the line of credit.



# PACIFIC CREST TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

### 11. IN-KIND CONTRIBUTIONS

PCTA receives donated skilled construction services, graphic design services, and other goods and materials. Goods and materials consist of maps, tools, and various other items for PCTA events and program activities. All donated items were valued based upon estimates of fair market or wholesale values that would be received for selling the goods in their principal market considering their condition and utility for use at the time the goods are contributed by the donor. In 2022 and 2021, volunteers donated a total of 67,503 and 57,643 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.

PCTA's policy related to in-kind contributions is to utilize the assets given to carry out their mission. All in-kind contributions received by PCTA for the years ended December 31, 2022 and 2021 were considered without donor restrictions and able to be used by PCTA as determined by the Board and management.

The total value of contributed goods and services for the year ended December 31, 2022 and 2021 are as follows:

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

	<u>2022</u>	<u>2021</u>
Chain-saw operation and skilled construction (trail program)	\$ 267,695	\$ 239,292
Graphic design (public information and education)	60,000	60,000
Donated goods and materials	<u>18,614</u>	<u>3,761</u>
	<u>\$ 346,309</u>	<u>\$ 303,053</u>

Donated services not recorded in the financial statements:

	<u>2022</u>	<u>2021</u>
Volunteer hours	58,242	49,106
Value of hours at standard federal rate	\$ 1,744,348	\$ 1,401,471

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

**To the Board of Directors  
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, 2022, 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 17, 2023.

**Report on 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 or significant deficiencies may exist that were not identified.

### **Report on 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 the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Gilbert CPAs*

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

**April 17, 2023**