AMERICAN HIKING SOCIETY

American Hiking Society

AUDITED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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**INDEPENDENT AUDITORS' REPORT
ON FINANCIAL STATEMENTS**

To the Board of Directors
American Hiking Society
Silver Spring, Maryland

Report on Financial Statements

We have audited the accompanying financial statements of the American Hiking Society, which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

To the Board of Directors
American Hiking Society

Auditor's Responsibility – Continued

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 American Hiking Society as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the American Hiking Society's financial statements as of and for the year ended December 31, 2012, and our report dated July 31, 2013 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Frye & Company, CPAs

Frye & Company, CPAs
Manassas, Virginia
November 12, 2014

AMERICAN HIKING SOCIETY

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2013
(*WITH 2012 COMPARATIVE TOTALS*)

	2013	2012
Assets		
Cash and cash equivalents	$ 27,005	$ 50,551
Marketable securities	36,692	37,396
Accounts receivable, net	4,500	30,200
Tax and other receivables	-	1,000
Inventory, net	3,018	2,476
Prepaid expenses and other assets	4,246	7,699
Property and equipment:		
Office furniture and equipment	24,972	25,518
Accumulated depreciation	(18,736)	(19,032)
Property and equipment, net	6,236	6,486
Total Assets	$ 81,697	$ 135,808
Liabilities and Net Assets		
Liabilities		
Lines-of-credit	$ 48,876	$ 48,876
Accounts payable	13,896	21,171
Accrued vacation	7,532	7,458
Deferred revenue	32,565	34,575
Capital lease liability	-	3,571
Total liabilities	102,869	115,651
Net assets		
Unrestricted net assets:		
Undesignated	(356,616)	(302,607)
Board designated	21,110	20,430
Total unrestricted	(335,506)	(282,177)
Temporarily restricted	164,703	160,703
Permanently restricted	149,631	141,631
Total net assets	(21,172)	20,157
Total Liabilities and Net Assets	$ 81,697	$ 135,808

See accompanying auditors' report and notes to financial statements.

AMERICAN HIKING SOCIETY

STATEMENT OF ACTIVITIES & CHANGE IN NET ASSETS

YEAR ENDED DECEMBER 31, 2013 (*WITH 2012 COMPARATIVE TOTALS*)

	2013				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**2012**
Revenue and Support					
In-kind donations and services	$ 306,937	$ -	$ -	$ 306,937	$ 330,983
Membership and individuals	252,604	-	8,000	260,604	253,748
Corporate grants and support	121,515	30,000	-	151,515	228,623
Event registrations and fees	132,005	-	-	132,005	111,305
Government grants and support	71,150	30,000	-	101,150	121,200
Inventory and other sales	23,175	-	-	23,175	27,297
Alliance member support	23,175	-	-	23,175	20,370
Foundations and nonprofit support	17,848	-	-	17,848	17,635
Fundraising programs	14,481	-	-	14,481	12,000
Combined federal campaign	8,982	-	-	8,982	15,517
Investment and other income	4,415	-	-	4,415	4,328
Net assets released from restriction	56,000	(56,000)	-	-	-
Total revenue and support	1,032,287	4,000	8,000	1,044,287	1,143,006
Expense					
Program services:					
National trails day	228,233	-	-	228,233	218,996
Volunteer vacations	208,676	-	-	208,676	219,351
Outreach initiatives	163,917	-	-	163,917	101,595
Legislative policy	147,168	-	-	147,168	152,241
Member services	96,687	-	-	96,687	202,560
National trails fund	51,662	-	-	51,662	42,191
Hiker magazine	32,923	-	-	32,923	31,619
Alliance member	11,897	-	-	11,897	14,446
Total program services	941,163	-	-	941,163	982,999
Supporting services:					
Management and general	57,727	-	-	57,727	73,035
Fundraising and development	86,726	-	-	86,726	55,594
Total supporting services	144,453	-	-	144,453	128,629
Total expense	1,085,616	-	-	1,085,616	1,111,628
Change in Net Assets	(53,329)	4,000	8,000	(41,329)	31,378
Net assets, beginning of year	(282,177)	160,703	141,631	20,157	(11,221)
Net Assets, End of Year	$ (335,506)	$ 164,703	$ 149,631	$ (21,172)	$ 20,157

See accompanying auditors' report and notes to financial statements.

AMERICAN HIKING SOCIETY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2013
(*WITH 2012 COMPARATIVE TOTALS*)

	2013	2012
Cash Provided (Used) by Operating Activities		
Change in net assets	$ (41,329)	$ 31,378
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	1,528	1,083
Provision for doubtful accounts	200	-
Unrealized loss (gain) on securities	1,383	(120)
Changes in assets and liabilities:		
Grants and other receivables	26,500	16,964
Inventory	(542)	(495)
Prepaid expenses and other assets	3,453	(3,009)
Accounts payable	(7,275)	(11,988)
Accrued vacation	74	2,196
Other liabilities	(2,010)	(11,300)
Deferred revenue	-	11,030
Total adjustments	23,311	4,361
Net cash provided (used) by operating activities	(18,018)	35,739
Cash Provided (Used) by Investing Activities		
Purchases and reinvestments in securities	(679)	(418)
Purchases of property and equipment	(1,278)	(700)
Net cash provided (used) by investing activities	(1,957)	(1,118)
Cash Provided (Used) by Financing Activities		
Principal borrowings on lines-of-credit and debt	13,108	-
Principal repayments on lines-of-credit and debt	(16,679)	(1,004)
Net cash provided (used) by financing activities	(3,571)	(1,004)
Net Increase (Decrease) in Cash and Cash Equivalents	(23,546)	33,617
Cash and cash equivalents, beginning of year	50,551	16,934
Cash and Cash Equivalents, End of Year	$ 27,005	$ 50,551
Supplemental Cash Flows Information:		
Cash paid for interest	$ 5,442	$ 8,956
Cash paid for income taxes	$ -	$ -
Schedule of Noncash Transactions:		
Acquisition of leased equipment	$ -	$ 4,575
Donated assets and equipment	$ -	$ -

See accompanying auditors' report and notes to financial statements.

AMERICAN HIKING SOCIETY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Note A – Organization and Activities

Organization: The American Hiking Society (referred to as "the Society") was founded in October 1976 as a non-stock, nonprofit corporation pursuant to the laws of the Commonwealth of Virginia. The Society's purpose is to encourage public use, appreciation, preservation, and expansion of hiking trails throughout the United States of America. The Society accomplishes its mission by educating and encouraging volunteerism and stewardship designed to protect hiking trails and outdoor recreation. The Society is supported by concerned individuals, businesses, governmental agencies, and other like-minded organizations. The Society is managed by its board of directors and has approximately 6,500 members and contributors.

Activities: The Society carries out various program activities designed to educate and encourage hiking and outdoor recreation, including initiatives designed to protect and enhance hiking trails, encourage volunteerism and community involvement, educational publications and activities, and various legislative and outreach initiatives.

Note B - Summary of Significant Accounting Policies

Basis of Accounting & Presentation: The Society prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expense when obligations are incurred. The financial statements include certain prior-year summarized comparative information in total and not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society's financial statements as of and for the year ended December 31, 2012, from which the summarized information was derived. Certain prior year information was reclassified to adhere with the current financial statement presentation.

Revenue Recognition: The Society recognizes revenue when earned in accordance with the accrual basis of accounting. Contributed support, including membership dues and certain grants, are recognized in the period in which an unconditional promise-to-give is known or when a contribution is received, at the earliest point the contribution is both determinable and measurable. Grants are reviewed by management to determine if the income is either contributed support or earned income based upon the nature of the award. Revenue from registration fees, product sales, and other earned income sources is recognized as revenue when the goods or services are provided in accordance with the agreement with members, customers, and grantors.

Income Tax Status: The Society received a favorable tax determination letter from the Internal Revenue Service in April 1977 setting forth the Society's exemption from income taxes on its exempt activities under Internal Revenue Code Section 501(c)(3) as a publicly supported organization under Section 509(a)(2).

Note B – Summary of Significant Accounting Policies – Continued

Income Tax Status – Continued: However, any business-type activities unrelated to the entity's tax exemption, such as publication advertising, are subject to income taxation. Although the Society has not received any notice of intent to examine its tax returns, the Society's tax returns remain subject to examination by tax authorities pursuant to various statutes of limitations.

Cash and Cash Equivalents: For financial statement presentation purposes, the Society considers highly liquid debt instruments with maturities of three months or less, including money market funds, to be cash equivalents. The Society may at times have cash in excess of federal insurance.

Marketable Securities: The Society's marketable securities consist principally of investments in fixed income money market and mutual funds that are held for investment purposes. As part of the Society's investment strategy, certain money market funds are held within the investment portfolio with the intent for these amounts to be available for reinvestment. Marketable securities are reported at fair value, with realized interest and dividend, capital gains or losses, and unrealized gain or losses included as components of investment income.

Accounts and Other Receivables: The Society's accounts and other receivables consist primarily of amounts due under grants and other reimbursable arrangements, product sales, and registration fees. Receivables are reported in the accompanying financial statements at their net realizable value whereby the Society periodically reviews an aging of its accounts receivable for collection purposes and to evaluate the necessity for an allowance for doubtful accounts. As of December 31, 2013 and 2012, management determined that an allowance for doubtful accounts was unnecessary, and bad debts expense was approximately $200 and $-0-, respectively, for the years then ended.

Inventory: Inventory consists primarily of promotional items, such as tee shirts, hats, buttons, and patches, and other items held for resale or used in program activities. Inventory is valued at the lower of cost or net realizable value or at the estimated fair value at the time of donation on a first-in, first-out basis. The Society also periodically reviews inventory for slow moving or obsolete items and to establish a reserve for obsolescence. Management determined that a reserve for inventory obsolescence was unnecessary as of December 31, 2013 and 2012, and no significant provision for inventory obsolescence was recognized during the years then ended.

Prepaid Expenses and Other Assets: The Society's prepaid expenses and other assets consist primarily of prepaid insurance, rent, and refundable security deposits as of December 31, 2013 and 2012.

Property and Equipment: The Society capitalizes property and equipment acquisitions at cost or estimated fair value at time of donation and depreciates these items using the straight-line method of depreciation over their estimated useful lives, which range from 3 – 7 years.

Note B – Summary of Significant Accounting Policies – Continued

Property and Equipment – Continued: Depreciation and amortization expense was approximately $1,500 and $1,100, respectively, for the years ended December 31, 2013 and 2012. Expenditures for repairs and maintenance that do not extend the useful life of an asset, consumable supplies, and other de minimis items are expensed as incurred.

Deferred Revenue: The Society recognized revenue when earned in accordance with the accrual basis of accounting. Accordingly, deferred revenue consists principally of registration fees received in advance of the applicable program activity or grant receipts received in excess of allocable expenses as defined by the applicable grant and other agreements. Grants are treated as either contributory support or earned income depending upon the terms of the grant award.

Deferred Rent Liability: The Society recognizes rent expense on its long-term operating leases on a straight-line basis. A deferred rent liability is reflected for the effects of rent escalations and the difference between actual rental payments and the straight-line amortization. As of December 31, 2013 and 2012, no significant deferred rent liability was report.

Net Assets: The Society classifies its net assets based upon the existence or lack of donor imposed restrictions. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted based upon donor stipulations. When the Society receives contributory support, whether in the form of donations, grants, or sponsorships, that are restricted by the donor or limited as to their use and the Society has not met the donor's restriction by the end of the reporting period, the Society reports the unexpended amount as temporarily restricted or permanently restricted net assets based upon the donor's stipulation. Any temporarily restricted amounts that are received and released from restriction during the same year are reported as unrestricted revenue and support. The Society's net assets are further defined as follows:

- *Unrestricted* – Represents unrestricted resources that are available to support the Society's operations at the discretion of the Society's board of directors. The Society's board of directors may from time-to-time internally designate a portion of the Society's unrestricted net assets for specific programs or purposes. As of December 31, 2013, the Society reported designated funds of approximately $21,100 and $20,400, respectively, from unexpended earnings on the National Trails Endowment to protect hiking trails.
- *Temporarily restricted* – Represents contributions and interest earned on permanently restricted net assets that are restricted for the National Trails Endowment restricted to help procure land for hiking trails, build and maintain hiking trails, and protect the natural and scenic value of hiking trails, and grant resources received in support of the Society's National Trails Day and Volunteer Vacations. Temporarily restricted net assets are released from restriction by either the passage of time on time restricted support or by the Society using the funds in accordance with the donor or grantor's requirements on purpose restricted support.

Note B – Summary of Significant Accounting Policies – Continued

Net Assets – Continued:

- *Temporarily restricted* – Temporarily restricted amounts that are received and released from restriction during the same year are reported as unrestricted revenue and support.
- *Permanently restricted* – Represents contributions with donor-imposed restrictions that stipulate that the amounts be held in perpetuity but allow that interest earned thereon to be used in support of the Society's initiatives to procure land for hiking trails, build and maintain hiking trails, and protect the natural and scenic value of hiking trails.

Contributions and Donations: Contributions and donations are recognized in the period in which an unconditional promise-to-give is known or when a contribution is received, at the earliest point the donation is both determinable and measurable by the Society. Contributions are measured at fair value and recognized as unrestricted, temporarily restricted, or permanently restricted support based upon the existence or lack of donor-imposed restrictions. Temporarily restricted amounts both received and released during the same reporting year are reflected as unrestricted support. Temporarily restricted net assets carried over from prior years that are released during the current report period are reflected as net assets released from restriction. Grants are treated as either contributory support or earned income depending upon the nature and terms of the grant agreement and other related awarding documentation, such as the proposals.

Advertising Costs: The Society expenses advertising costs as incurred. During the years ended December 31, 2013 and 2012, the Society reported approximately $2,700 and $2,600, respectively, in advertising and promotion expense. Fundraising and development costs, including allocable indirect costs, totaled approximately $86,700 and $55,600, respectively, for the years ended December 31, 2013 and 2012.

Functional Allocation of Expenses: The Society summarizes the cost of providing its various programs and activities on a functional basis in the accompanying financial statements. Accordingly, certain expenses were allocated to the program and supporting services benefited.

Fair Value Measurements: The Society establishes a reporting framework for measuring and disclosing fair value measurements. Fair value measurement disclosures are required for assets and liabilities measured and reported at fair value in the financial statements. Management uses a fair value measurement hierarchy based upon the lowest level of any input that is significant to the measurement with Level 3 being the lowest level of recognition. Management also attempts to maximize the use of observable inputs (Level 1 and 2) and minimize unobservable inputs (Level 3). Accordingly, the Society classifies its investments in marketable securities in the following fair value measurement classifications:

Note B – Summary of Significant Accounting Policies – Continued

Fair Value Measurements - Continued:

Level 1 – valuation methodology based upon unadjusted quoted prices for identical assets or liabilities traded in an active market;

Level 2 – valuation methodology based upon unadjusted quoted prices for similar assets and liabilities traded in active markets or identical or similar assets and liabilities in inactive markets, observable market inputs for assets and liabilities not traded in active markets, or Level 1 instruments where there is a contractual restriction; and

Level 3 – valuation methodology are unobservable and significant to the fair value measurement.

As of December 31, 2013 and 2012, the Society determined that its investments in marketable securities would generally be classified as Level 1 financial instruments as fair value is generally determined based upon quoted market prices as detailed above. Disclosures about estimated fair values and fair value measurements were determined by the Society based upon pertinent market data and other information available as of December 31, 2013 and 2012. Considerable judgment may be necessary to interpret market and financial data and to develop fair value measurements in certain circumstances, and the Society's estimates of fair values and fair value measurements may not be indicative of amounts realized at disposition.

Reclassifications: Certain prior year information was reclassified to adhere with the current financial statement presentation.

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 and any difference could be significant.

Note C – Concentrations of Risk

Cash Balances: Financial instruments that potentially subject the Society to concentrations of risk consist of deposits with banking institutions that exceed the federal insurance available for such accounts. The Society may at times have cash balance in excess of federal insurance. The Society may also invest in money market, mutual funds and other marketable securities not covered by federal insurance. As of December 31, 2013 and 2012, the Society reported approximately $36,700 and $37,400, respectively, of fixed income money market and mutual funds held within the Society's investment portfolio that are not covered by federal insurance.

Note C – Concentrations of Risk – Continued

Revenue and Support: During the years ended December 31, 2013 and 2012, the Society reported revenue from grants and contracts with the federal government totaling approximately $101,200 (or 10%) and $121,200 (or 11%), respectively, of the Society's total revenue and support for the years then ended. The Society also reported in-kind donations and contributed services from corporate sponsors totaling approximately $306,900 (or 29%) and $331,000 (or 29%), respectively, of the Society's total revenue and support for the years ended December 31, 2013 and 2012. The two largest contributors of in-kind donations and contributed services totaled approximately $148,700 (or 14%) and $149,000 (or 13%) of the Society's total revenue and support for the years ended December 31, 2013 and 2012.

Note D – Marketable Securities

The Society reports its investments in equity securities with readily determinable fair value and all debt securities at fair value in the accompanying financial statements, with any realized and unrealized gains or losses included as a component of investment income. The Society's marketable securities consist of the following as of December 31, 2013 and 2012:

	2013		2012	
	Cost	Market	Cost	Market
Marketable securities:				
Cash and money market funds	$ 143	$ 143	$ 602	$ 602
Fixed income mutual funds	37,812	36,549	36,674	36,794
	$ 37,955	$ 36,692	$ 37,276	$ 37,396

Investment income consists of the follow for the years ended December 31, 2013 and 2012:

	2013	2012
Investment income:		
Realized interest and dividends	$ 1,139	$ 754
Realized gain (loss) on sales of securities	-	-
Unrealized gain (loss) on marketable securities	(1,383)	120
	$ (244)	$ 874

Note E – Fair Value Measurements

The Society's investments in marketable securities are reported at fair value in the accompanying financial statements. The investments consist principally of the fixed income money market and mutual funds valued based upon the closing price reported in active markets on which the securities are traded. As of December 31, 2013 and 2012, the Society's investments in marketable securities are classified in the following fair value measurement classifications:

	Fair Value	Level 1	Level 2	Level 3
December 31, 2013:				
Fixed income securities	$ 36,692	$ 36,692	$ -	$ -
December 31, 2012:				
Fixed income securities	$ 37,396	$ 37,396	$ -	$ -

Note F – Accounts Receivables

The Society's accounts and other receivables consist primarily of amounts due under grants and other reimbursable arrangements, product sales, and registration fees. Accounts receivables are recognized when an unconditional promises-to-give from a donor or grantor is both determinable and measurable by the Society. The Society reports its accounts receivable at their net realizable value by periodically reviewing an aging of its accounts receivable for collection purposes and to evaluate an allowance for doubtful accounts. The Society also discounts any pledge or bequest receivable using a present value discount when the pledge or bequest receivables are due over an extended period of time. As of December 31, 2013 and 2012, the Society's receivable consists principally of outstanding grants and registration fees. The Society determined that an allowance for doubtful accounts was unnecessary as of December 31, 2013 and 2012, and bad debts expense was approximately $200 and $-0-, respectively, during the years then ended.

Note G – Lines-of-Credit

The Society maintains several lines-of-credit that are used to provide working capital when needed. The details of the lines-of-credit and other credit arrangements are as follows:

<u>Secured Line-of-Credit</u>: The Society maintains a $30,000 secured line-of-credit with a regional bank, which is secured by all of the Society's assets and personally guaranteed by the Society's President. The line-of-credit is due upon demand and subject to annual renewals and certain restrictive covenants. Interest is due monthly and accrues at a variable interest rate of 2% above the bank's prime lending rate, which was 5.25% as of December 31, 2013 and 2012.

Note G – Lines-of-Credit – Continued

Secured Line-of-Credit – Continued: The outstanding principal balance on the secured line-of-credit was approximately $26,700 as of December 31, 2013 and 2012, and interest expense incurred on the secured line-of-credit was approximately $1,400 for each of the years then ended.

Unsecured Line-of-Credit: The Society also maintains a $30,000 unsecured line-of-credit with another national bank. The unsecured line-of-credit is also due upon the lender's demand. The unsecured line-of-credit is also subject to annual renewals and certain restrictive covenants. Interest is due monthly and accrued at a variable interest rate of 5.125% above the Wall Street Journal's prime lending rate, which was 8.38% as of December 31, 2013 and 2012. The outstanding principal balance on the unsecured line-of-credit was approximately $22,200 as of December 31, 2013 and 2012, and interest expense incurred on the unsecured line-of-credit was approximately $1,900 and $2,100, respectively, for the years then ended.

Credit Cards: The Society maintains various credit cards which are also used to provide working capital as needed. The total available credit on the cards was approximately $75,000 as of December 31, 2013. The credit cards are generally unsecured and require minimum monthly payments of principal and interest with interest at variable annual interest rates that ranged from approximately 8% - 14% as of December 31, 2013. The outstanding balances on the credit cards totaled approximately $1,800 and $11,900, respectively, as of December 31, 2013 and 2012 and were included in the amounts reported as accounts payable in the accompanying financial statements. Interest expense incurred by the Society on the credit cards totaled approximately $2,000 and $5,200, respectively, for the years ended December 31, 2013 and 2012. The Society also incurred interest expense of approximately $100 and $150, respectively, on amounts owed to vendors and service providers during the years ended December 31, 2013 and 2012.

Interest Expense: Interest expense totaled approximately $3,500 and $9,000, respectively, for the years ended December 31, 2013 and 2012, including interest incurred on the lines-of-credit, credit cards, and accounts payables as noted above.

Note H – Lease Obligations

The Society entered into several leasing agreements to acquire equipment and lease facilities for its operations. The details of the leasing obligations and credit arrangements are as follows:

Capital Lease: In September 2012, the Society entered into a non-cancelable capital lease agreement to acquire a new phone system. The lease is for 13 months maturing in October 2013 at which time the Society retained ownership of the phone system at the termination of the lease. The lease agreement required monthly payments of approximately $400 with the present value of the lease payments discounted using an effective annual interest rate of 12%.

Note H – Lease Obligations – Continued

Capital Lease – Continued: The net present value of the future lease commitments resulted in a capitalized value of approximately $4,600 for the phone system. Given the Society is depreciating the phone system in accordance with the Society's capitalization and depreciation policy. Depreciation expense on the capital leased asset was approximately $700 and $200, respectively, during the years ended December 31, 2013 and 2012. The outstanding principal balance on the capital lease agreement was approximately $-0- and $3,600, respectively, as of December 31, 2013 and 2012, and interest expense incurred by the Society on the capital lease was approximately $100 for each of the years then ended.

Operating Leases: The Society leases office facilities and a postage machine under several non-cancelable operating leases. The leases have original terms that range from 15 to 36 months. The operating lease agreements expire at various times through the years ending December 31, 2015. The leases require total minimum monthly payments of approximately $4,400 as of December 31, 2013. The lease for office space was renewed in September 2014 through December 31, 2015 at which time the property is set for demolition and conversion. The Society is also responsible for allocable property taxes, utilities, and other maintenance costs. Rent expense incurred by the Society on the operating leases totaled approximately $52,600 and $52,700, respectively, for the years ended December 31, 2013 and 2012.

Future Commitments: The approximate future minimum payments required under the non-cancelable operating lease agreements are as follows for the years ending December 31:

	Office Lease	Equipment Lease	Total
2014	49,200	2,100	51,300
2015	47,600	900	48,500
	$ 96,800	$ 3,000	$ 99,800

Note I – In-kind Donations and Contributed Services

The Society recognized in-kind donations and contributed services totaling approximately $306,900 and $331,000, respectively, during the years ended December 31, 2013 and 2012. The Society allocates the in-kind donations and contributed services in accordance with its functional allocation of expenses. For the years ended December 31, 2013 and 2012, in-kind donations and contributed services were allocated to the following program and supporting services:

Note I – In-kind Donations and Contributed Services

	2013	2012
Program services:		
National trails day	$ 101,581	$ 95,212
Volunteer vacations	58,854	74,898
Outreach initiatives	117,500	66,869
Legislative policy	2,758	4,042
Member services	4,291	89,262
Total program services	284,984	330,283
Supporting services:		
Management and general	-	700
Fundraising and development	21,953	-
	21,953	700
	$ 306,937	$ 330,983

Although the Society receives a significant amount of support from volunteers, no amounts were recognized in the accompanying financial statements for contributed volunteer services as they did not meet the criteria for recognition under generally accepted accounting principles.

Note J – Restricted Net Assets

The Society's temporarily restricted and permanently restricted net assets consist of unexpended resources earmarked by donors for the following programs or purposes as of December 31, 2013:

	Temporarily Restricted	Permanently Restricted	Total
December 31, 2013:			
National trails endowment	$ 134,703	$ -	$ 134,703
National trails (volunteer vacations)	30,000	-	30,000
Life membership endowment	-	139,031	139,031
Galen Rowell national trails fund	-	10,600	10,600
	$ 164,703	$ 149,631	$ 314,334

Note J – Restricted Net Assets – Continued

The Society's temporarily restricted and permanently restricted net assets consist of unexpended resources earmarked by donors for the following programs or purposes as of December 31, 2012:

	Temporarily Restricted	Permanently Restricted	Total
December 31, 2012:			
National trails endowment	$ 130,703	$ -	$ 130,703
National trails (volunteer vacations)	30,000	-	30,000
Life membership endowment	-	131,031	131,031
Galen Rowell national trails fund	-	10,600	10,600
	$ 160,703	$ 141,631	$ 302,334

Note K – Endowment Funds

Endowment Funds: The Society's endowments consist of three individual endowment funds called the National Trails Endowment, Life Member Endowment, and Galen Rowell Endowment that were established to provide financial stability and support for national trails initiatives. The endowment funds were either created by internal designations by the board of directors or from contributions restricted by donors for the establishment of the endowments. As such, the endowment funds may be reflected in board designated, temporarily restricted, or permanently restricted net assets based upon whether the endowment fund was established by internal designations by the board of directors or from donor restricted contributions, respectively.

The Society has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift at the time of donation for the donor-restricted endowment funds absent any explicit donor stipulation to the contrary. Accordingly, the Society classifies as temporarily restricted or permanently restricted net assets the original value of restricted donations, the original value of additional donations to the fund, and accumulations of the fund in accordance with the original donors' gift instruments. The board has also designated earnings from certain temporarily restricted net assets that are reflected as board designated funds, and donors have restricted earnings from permanently restricted funds for which any remaining unexpended earnings are reflected as temporarily restricted net assets in the accompanying financial statements.

In accordance with UPMFIA, the Society considers the following factors in making a determination to appropriate or accumulate internally designated or donor-restricted endowment funds:

Note K – Endowment Funds – Continued

(1) the duration and preservation of the various funds, (2) the purpose of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and appreciation of investments, (6) other resources of the Society, and (7) the Society's investment policies.

Investment Strategies: The Society has adopted investment and spending policies, approved by the board of directors, for endowment and other investment assets in an attempt to provide for a predictable stream of funding in support of the endowment funds purposes while preserving capital and maintaining the purchasing power of the endowment fund assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total rate of return, including investment income as well as capital appreciation, with acceptable risk as set forth in the investment policy approved by the board of directors. As such, the investment calls for a well-diversified investment portfolio, including cash and money market funds to provide adequate liquidity, and mutual bond and equity funds, government and corporate bonds, and corporate equity securities that is intended to manage risk and inflation and provide for an overall reasonable market return. As such, the Society expects its endowment assets to produce an average rate of return commensurate with market returns over the long-term for similar type investments. Investment risk is managed in an attempt to also ensure preservation of capital.

Spending Policies: The Society's spending policies in regard to the National Trails Endowment provides that no disbursements will be made from the fund until the corpus reaches $400,000 and after which the fund will allow for annual distributions of up to 5% of the rolling 12-quarter average fund balance. The 5% allowable distribution will be split with 4% directed towards the endowment purpose to help acquire, maintain, and improve hiking trails throughout the United States of America and 1% directed towards the Society's administrative costs. The corpus of the Life Member Endowment was designed to ensure stability and legacy funding in support of the Society's exempt purposes with any earnings thereon directed to such initiatives. The corpus of the Galen Rowell Endowment was to fund a permanently restricted endowment in the honor of Galen Rowell with any earnings thereon used to acquire, maintain, and improve hiking trails.

In establishing its spending policies, the Society considers the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which are required to be held in perpetuity as permanently restricted net assets as directed by the original donor, and the possible effects of risk, inflation, and other economic matters. The Society expects its spending policies to allow its endowment funds to grow at a nominal average annual rate of 6%. This is consistent with the Society's objective to maintain the purchasing power of the endowment funds as well as provide additional growth from investments and new gifts.

Fund Balances: The Society's endowment fund balances and change in endowment fund balances consist of the following as of and for the year ended December 31, 2013 and 2012:

Note K – Endowment Funds – Continued

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total Endowment Funds
December 31, 2013:				
National Trials Endowment	$ 21,110	$ 134,703	$ -	$ 155,813
Life Member Endowment	-	-	139,031	139,031
Galen Rowell Endowment	-	-	10,600	10,600
	$ 21,110	$ 134,703	$ 149,631	$ 305,444
Endowment fund balances as of December 31, 2012	$ 20,430	$ 130,703	$ 141,631	$ 292,764
Contributions and grants	-	30,000	8,000	38,000
Investment income	1,138	-	-	1,138
Expenditures and other	(458)	(26,000)	-	(26,458)
Endowment fund balances as of December 31, 2013	$ 21,110	$ 134,703	$ 149,631	$ 305,444
December 31, 2012:				
National Trials Endowment	$ 20,430	$ 130,703	$ -	$ 151,133
Life Member Endowment	-	-	131,031	131,031
Galen Rowell Endowment	-	-	10,600	10,600
	$ 20,430	$ 130,703	$ 141,631	$ 292,764
Endowment fund balances as of December 31, 2011	$ 20,012	$ 126,703	$ 131,631	$ 278,346
Contributions and grants	-	30,000	10,000	40,000
Investment income	676	-	-	676
Expenditures and other	(258)	(26,000)	-	(26,258)
Endowment fund balances as of December 31, 2012	$ 20,430	$ 130,703	$ 141,631	$ 292,764

Note L – Retirement Plan

The Society has a contributory tax-deferred annuity retirement plan under IRC Section 403(b). All employees meeting certain minimum requirements are eligible to participate in the retirement plan. The Society suspended discretionary matching contributions to the retirement plan in February 2009. Accordingly, no significant matching contributions were incurred by the Society during the years ended December 31, 2013 and 2012.

Note M – Commitments and Contingencies

Disputes and Disagreements: The Society is periodically party to various disputes and disagreements that occur in the normal course of operation. The Society is contingently liable for any action not covered by insurance. As of December 31, 2013 and 2012, the Society was unaware of any significant pending or threatened litigation, claims, or assessments. Accordingly, no liabilities were accrued for such contingencies in the accompanying financial statements.

Volunteer Vacations: The Society has a long standing program whereby members take vacations and donate their time helping to improve and maintain hiking trails. The Society sponsors volunteer vacations whereby members register to take one or two-week vacations to support improvements and maintenance of hiking trails through the United States of America. Given the nature of the program, there are risks associated with the program whereby members could be injured or suffer other harm. Although the Society fully disclaims any liabilities for accidents which may occur by volunteers and also retains minimum liability insurance, there are certain risks and uncertainties associated with this program activity. The Society has not accrued any liabilities or this uncertainty in the accompanying financial statements.

Note N – Income Tax Considerations

The Society obtained a favorable tax determination letter setting forth its exemption under Section 501(c)(3) of the Internal Revenue Code. However, activities unrelated to the tax exemptions, such as publication advertising and non-qualified sponsorships, are subject to income taxation. During the years ended December 31, 2013 and 2012, the Society reported unrelated business income from advertising and non-qualified sponsorships. However, the Society incurred net operating losses from its unrelated business activities of approximately $600 for each of the years ended December 31, 2013 and 2012. Accordingly, the Society has accumulated a net operating loss deduction totaling approximately $1,200 through the year ended December 2013. The net operating loss deduction may be carried forward to offset future taxable income through the years ending December 31, 2033. Given the nature of the Society's unrelated business activities, management is unable to determine if or when the Society will benefit from the net operating loss deduction carryover.

Note N – Income Tax Considerations – Continued

As such, any potential deferred tax asset was reserved by a valuation allowance as of December 31, 2013 and 2012. Furthermore, no significant income tax expense or benefit was recognized in the accompanying financial statements for the years ended December 31, 2013 and 2012.

Although the Society has not received any notice of intent to examine its tax returns, the Society's tax returns remain subject to examination by tax authorities pursuant to various statutes of limitations. Management believes that the Society's tax returns through the year ended December 31, 2010 are no longer subject to examination. Management is also unaware of any significant uncertain tax positions that are more likely than not to be sustained should the Society's tax returns be subject to examination. As such, the Society did not incur or accrue any penalties and interest assessed by taxing authorities during the years ended December 31, 2013 and 2012.

Note O – Subsequent Events Evaluation

Management has evaluated subsequent events for the period January 1, 2014 through November 12, 2014, the date on which these financial statements were available to be issued.