

AMERICAN HIKING SOCIETY

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

DECEMBER 31, 2016 AND 2015

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Independent Auditor's Report

To the Board of Directors
American Hiking Society
Washington, DC

We have audited the accompanying financial statements of the American Hiking Society (a non-profit organization), which comprise the statements of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits 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. 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, 2016 and 2015, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The 2015 financial statements of the American Hiking Society as of December 31, 2015, were audited by other auditors whose report dated August 19, 2016, expressed an unmodified opinion on those statements.

Jane Murray & McQuade PA

Washington, DC
January 22, 2018

**AMERICAN HIKING SOCIETY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015**

	2016	2015
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 48,368	\$ 31,077
Investments	37,750	37,606
Grants receivable	100,000	-
Inventory	5,353	5,347
Prepaid expenses	3,031	8,739
Total Current Assets	194,502	82,769
PROPERTY AND EQUIPMENT		
Office equipment	9,120	9,120
Accumulated depreciation	(6,876)	(5,539)
Total Property and Equipment	2,244	3,581
OTHER ASSETS		
Deposits	4,000	4,000
TOTAL ASSETS	\$ 200,746	\$ 90,350
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 29,843	\$ 76,656
Accrued vacation	5,524	7,499
Line of credit	41,830	59,977
Loan payable, current portion	9,900	-
Deferred revenue	51,287	42,001
Total Current Liabilities	138,384	186,133
NON-CURRENT LIABILITIES		
Loan payable, non-current portion	12,353	-
Total Current Liabilities	12,353	-
NET ASSETS		
Unrestricted		
Undesignated	(213,150)	(293,719)
Board designated	-	22,424
Total Unrestricted	(213,150)	(271,295)
Temporarily restricted	233,463	133,463
Permanently restricted	42,049	42,049
Total Net Assets	62,362	(95,783)
TOTAL LIABILITIES AND NET ASSETS	\$ 200,746	\$ 90,350

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

**AMERICAN HIKING SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Membership and individuals	\$ 269,416	\$ -	\$ -	\$ 269,416
Corporate grants and support	264,197	180,000	-	444,197
In-kind donations and services	264,910	-	-	264,910
Government and foundation grants	196,500	-	-	196,500
Event registrations and fees	136,726	-	-	136,726
Inventory and other sales	27,571	-	-	27,571
Alliance member support	21,963	-	-	21,963
Combined federal campaign	5,778	-	-	5,778
Investment and other income	3,459	-	-	3,459
Net assets released from restrictions	80,000	(80,000)	-	-
Total Revenue and Support	<u>1,270,520</u>	<u>100,000</u>	<u>-</u>	<u>1,370,520</u>
EXPENSES				
Program Services:				
Outreach initiatives	54,139	-	-	54,139
Volunteer vacations	194,910	-	-	194,910
Member services	254,561	-	-	254,561
National trails day	196,538	-	-	196,538
Legislative policy	191,950	-	-	191,950
National trails fund	101,181	-	-	101,181
Hiker Magazine	32,770	-	-	32,770
Alliance member	17,693	-	-	17,693
Total Program Services	<u>1,043,742</u>	<u>-</u>	<u>-</u>	<u>1,043,742</u>
Supporting Services:				
Management and general	66,982	-	-	66,982
Fundraising and development	101,651	-	-	101,651
Total Supporting Services	<u>168,633</u>	<u>-</u>	<u>-</u>	<u>168,633</u>
Total Expenses	<u>1,212,375</u>	<u>-</u>	<u>-</u>	<u>1,212,375</u>
CHANGE IN NET ASSETS	58,145	100,000	-	158,145
NET ASSETS, beginning of year	<u>(271,295)</u>	<u>133,463</u>	<u>42,049</u>	<u>(95,783)</u>
NET ASSETS, end of year	<u>\$ (213,150)</u>	<u>\$ 233,463</u>	<u>\$ 42,049</u>	<u>\$ 62,362</u>

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

**AMERICAN HIKING SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Membership and individuals	\$ 281,064	\$ -	\$ -	\$ 281,064
Corporate grants and support	168,643	70,000	-	238,643
In-kind donations and services	200,354	-	-	200,354
Government and foundation grants	137,899	-	-	137,899
Event registrations and fees	124,407	-	-	124,407
Inventory and other sales	29,127	-	-	29,127
Alliance member support	18,557	-	-	18,557
Combined federal campaign	7,033	-	-	7,033
Investment and other income	2,557	-	-	2,557
Net assets released from restrictions	71,240	(71,240)	-	-
Total Revenue and Support	<u>1,040,881</u>	<u>(1,240)</u>	<u>-</u>	<u>1,039,641</u>
EXPENSES				
Program Services:				
Outreach initiatives	163,987	-	-	163,987
Volunteer vacations	152,278	-	-	152,278
Member services	146,047	-	-	146,047
National trails day	124,012	-	-	124,012
Legislative policy	116,822	-	-	116,822
National trails fund	97,369	-	-	97,369
Hiker Magazine	25,304	-	-	25,304
Alliance member	20,676	-	-	20,676
Total Program Services	<u>846,495</u>	<u>-</u>	<u>-</u>	<u>846,495</u>
Supporting Services:				
Management and general	76,924	-	-	76,924
Fundraising and development	100,712	-	-	100,712
Total Supporting Services	<u>177,636</u>	<u>-</u>	<u>-</u>	<u>177,636</u>
Total Expenses	<u>1,024,131</u>	<u>-</u>	<u>-</u>	<u>1,024,131</u>
CHANGE IN NET ASSETS	16,750	(1,240)	-	15,510
NET ASSETS, beginning of year	<u>(288,045)</u>	<u>134,703</u>	<u>42,049</u>	<u>(111,293)</u>
NET ASSETS, end of year	<u>\$ (271,295)</u>	<u>\$ 133,463</u>	<u>\$ 42,049</u>	<u>\$ (95,783)</u>

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

**AMERICAN HIKING SOCIETY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 58,145	\$ 15,510
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,337	2,081
Loss on disposals	-	2,484
Realized loss (gain) on securities	57	(53)
Unrealized loss (gain) on securities	509	(630)
Decrease (increase) in assets:		
Grants and other receivables	(100,000)	2,500
Inventory	(6)	(1,710)
Prepaid expenses and other assets	5,708	(5,853)
Increase (decrease) in liabilities:		
Accounts payable	(46,813)	(7,885)
Accrued vacation	(1,975)	652
Deferred revenue	9,286	(4,634)
Net Cash Provided By Operating Activities	(73,752)	2,462
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of marketable securities	994	1,172
Reinvested interest and dividends	(1,014)	-
Purchases of marketable securities	(690)	(431)
Proceeds from sales of property and equipment	-	75
Net Cash (Used by) Provided by Investing Activities	(710)	816
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal borrowings on line-of-credit and debt	-	5,900
Principal repayments on line-of-credit and debt	(8,247)	(2,370)
Net Cash Provided by Financing Activities	(8,247)	3,530
NET INCREASE IN CASH AND CASH EQUIVALENTS	(82,709)	6,808
CASH AND CASH EQUIVALENTS, beginning of year	31,077	24,269
CASH AND CASH EQUIVALENTS, end of year	\$ (51,632)	\$ 31,077

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

**AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE A – NATURE OF THE 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 5,500 members and contributors.

Program Services

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

Financial Statement Presentation

Financial statement presentation follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic *Not-for-Profit-Entities*. In accordance with the topic, the Society is required to report information regarding its financial position and activities according to three classes of net assets. Accordingly, the net assets of the Society and changes therein, are classified and reported as follows:

Unrestricted Net Assets - Net assets not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that may or will be met by either actions of the Society and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Society.

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Accounting

The Society prepares its financial statements on the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligation is incurred.

Cash and Cash Equivalents

The Society considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents include any cash on hand, checking account balances, and money market accounts. The Society maintains its cash in bank deposit accounts which may, at times, exceed federally insured limits. The Society believes it is not exposed to any significant credit risk on cash or cash equivalents.

Investments

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 Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. Annually, management determines if an allowance for doubtful accounts is necessary based upon a review of outstanding receivables, historical collection of information and existing economic conditions. Accounts deemed uncollectible are charged off. As of December 31, 2016 and 2015, management had determined that all receivables are collectible within one year or less; therefore an allowance for doubtful accounts has not been established.

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, 2016 and 2015, and no significant provision for inventory obsolescence was recognized during the years then ended.

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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. Depreciation and amortization expense was approximately \$1,337 and \$2,081, respectively, for the years ended December 31, 2016 and 2015. 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.

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.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(continued)

NOTE C – INCOME TAXES

The Society is a 501(c)(3) entity exempt from federal income tax under Section 501(a) of the Internal Revenue Code. The Society is, however, subject to tax on business income unrelated to their exempt purpose.

The Society believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements or that would have an effect on its tax-exempt status. There are no unrecognized tax benefits or liabilities that need to be recorded.

The Society's information returns are subject to examination by the Internal Revenue Service for a period of three years from the date they were filed, except under certain circumstances. The Society's information returns for the years ended December 31, 2013 through 2015 are open for a tax examination by the Internal Revenue Service, although no request has been made as of the date of these financial statements.

NOTE D – INVESTMENTS AND FAIR VALUE MEASUREMENT

Fair value, as defined in the fair value measurement accounting guidance, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or exit price.

The guidance on fair value measurement accounting requires that the Society make assumptions market participants would use in pricing an asset or liability based on the best information available. The Society considers factors that were not previously measured when determining the fair value of financial instruments. These factors include nonperformance risk (the risk that the obligation will not be fulfilled) and credit risk, of the reporting entity (for liabilities) and of the counterparty (for assets). The fair value measurement guidance prohibits inclusion of transaction costs and any adjustments for blockage factors in determining the instruments' fair value. The principal or most advantageous market should be considered from the perspective of the reporting entity.

Fair value, where available, is based on observable quoted market prices. Where observable prices or inputs are not available, several valuation models and techniques are applied. These models and techniques attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The process involves varying levels of management judgment, the degree of which is dependent on the price transparency of the instruments or market and the instruments' complexity.

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(continued)

NOTE D – INVESTMENTS AND FAIR VALUE MEASUREMENT – continued

To increase consistency and enhance disclosure of the fair value of financial instruments, the fair value measurement accounting guidance established a fair value of inputs to the valuation in technique, into a three-level fair value hierarchy. A financial instrument’s level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement, where level 1 is the highest and level 3 is the lowest. The three levels are defined as follows:

Level 1 – Observable inputs such as quoted prices in active markets. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Inputs other than quoted prices in active markets that are either directly or indirectly observable. These include quoted market prices for similar assets or liabilities, quoted market prices for identical or similar assets in markets that are not active, adjusted quoted market prices, inputs from observable data such as interest rate and yield curves, volatilities or default rates observable at commonly quoted intervals or inputs derived from observable market data by correlation or other means.

Level 3 – Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Unobservable inputs should only be used to the extent observable inputs are not available.

The fair value of money market funds is valued by carrying amount, which approximates fair value. The fair values of the Association’s mutual funds and equities have been determined from observable market quotations. The fair values of the Society’s fixed income are valued on the market approach and the values have been provided by the Society’s investment managers and custodian banks.

The following table presents the Society’s fair value hierarchy for financial instruments measured at fair value on a recurring basis as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
Fixed income	\$ 37,750	\$ -	\$ -	\$ 37,750
Total	<u>\$ 37,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,750</u>

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(continued)

NOTE D – INVESTMENTS AND FAIR VALUE MEASUREMENT – continued

The following table presents the Society’s fair value hierarchy for financial instruments measured at fair value on a recurring basis as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
Fixed Income	\$ 37,606	\$ -	\$ -	\$ 37,606
Total	<u>\$ 37,606</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,606</u>

Investment income consisted of the following for the years ended December 31,:

	<u>2016</u>	<u>2015</u>
Investment income:		
Interest and dividends	\$ 1,014	\$ 1,090
Realized (loss) gain on sales of securities	(57)	53
Unrealized (loss) gain on marketable securities	(509)	630
	<u>\$ 448</u>	<u>\$ 1,773</u>

NOTE E – DEBT

The Society maintains a line-of-credit that is used to provide working capital when needed. The Society also has a loan payable that was converted from a line-of-credit. The details of the lines-of-credit and loan payable are as follows:

Secured Line-of-Credit: 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 totaled approximately 5.75% and 5.50% as of December 31, 2016 and 2015, respectively. The outstanding principal balance on the secured line-of-credit was approximately \$29,477 and \$29,977, respectively, as of December 31, 2016 and 2015, and interest expense incurred on the secured line-of-credit was approximately \$1,665 and \$1,400, respectively, for the years then ended.

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(continued)

NOTE E – DEBT – continued

Secured Loan Payable: The Society also maintained \$30,000 unsecured line-of-credit with a national bank. In February 2016, the unsecured line-of-credit was converted to a \$30,000 secured term loan with a more favorable interest rate. The loan is now payable over 36 monthly installments of principal and interest of approximately \$900. Interest accrues on the secured loan at an annual fixed interest rate of 6.54%. The loan payable is secured by the Society's accounts receivable, inventory, and property and equipment. The outstanding principal balance on the loan payable was approximately \$22,253 and \$30,000, respectively, as of December 31, 2016 and 2015, and interest expense incurred on the loan payable was approximately \$1,975 and \$2,700, respectively, for the years then ended.

Future Principal Maturities: The approximate future principal maturities on the secured line-of-credit and secured loan payable are as follows for the year ending December 31 :

2017	\$ 51,730
2018	10,600
2019	1,753
	\$ 64,083

NOTE F – LEASE COMMITMENTS

The Society leases office facilities and a postage machine under several non-cancelable operating leases. The leases have original terms that range from 12 to 63 months. The operating lease agreements expire at various times through the years ending December 31, 2020. The leases require total minimum monthly payments of approximately \$2,900 as of December 31, 2016, including the estimated monthly allocation property taxes, utilities, and other maintenance costs. Rent expense incurred by the Society on the operating leases totaled approximately \$32,000 and \$19,500, respectively, for the years ended December 31, 2016 and 2015. The approximate future minimum payments required under the non-cancelable operating lease agreements are as follows for the years ending December 31 :

2017	\$ 26,200
2018	26,900
2019	27,700
2020	21,900
	\$ 102,700

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(continued)

NOTE G – IN-KIND DONATIONS AND CONTRIBUTED SERVICES

The Society recognized in-kind donations of hiking equipment and contributed advertising services totaling \$264,910 and \$200,354, respectively, during the years ended December 31, 2016 and 2015. The Society allocates the in-kind donations and contributed services in accordance with its functional allocation of expenses as described above. The Society also receives a significant amount of support from its board members and volunteers. No amounts were recognized in the accompanying financial statements for contributed volunteer services as they did not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

NOTE H – 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:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2016:			
National trails endowment	\$ 133,463	\$ -	\$ 133,463
National trails fund	100,000	-	100,000
Life membership endowment	-	31,449	31,449
<i>Galen Rowell</i> national trails fund	-	10,600	10,600
	<u>\$ 233,463</u>	<u>\$ 42,049</u>	<u>\$ 275,512</u>
December 31, 2015:			
National trails endowment	\$ 133,463	\$ -	\$ 133,463
Life membership endowment	-	31,449	31,449
<i>Galen Rowell</i> national trails fund	-	10,600	10,600
	<u>\$ 133,463</u>	<u>\$ 42,049</u>	<u>\$ 175,512</u>

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(continued)

NOTE I – 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 (UPMIF A) 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 UPMIF A, the Society considers the following factors in making a determination to appropriate or accumulate internally designated or donor-restricted endowment funds: (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.

The Society's investment policy 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. 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

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
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NOTE I – ENDOWMENT FUNDS – continued

ensure preservation of capital under prudent investment policy, including economic, inflationary and other factors.

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.

NOTE J – 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, 2016 and 2015.

NOTE K – BOARD DESIGNATED NET ASSETS

As of December 31, 2016 and 2015, the board has designated \$0 and \$22,424 on the National Trails Endowment to protect hiking trails.

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NOTE L – 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, 2016 and 2015, 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 M – SUBSEQUENT EVENTS

In preparing these financial statements, the Society's management has evaluated events and transactions for potential recognition or disclosure through January 22, 2018, the date the financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required further recognition or disclosure.