

AMERICAN HIKING SOCIETY

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

DECEMBER 31, 2018 AND 2017

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statement of Activities, Year Ended December 31, 2018	4
Statement of Activities, Year Ended December 31, 2017	5
Statement of Functional Expenses, Year Ended December 31, 2018	6
Statements of Cash Flows	7
Notes to the Financial Statements	8 - 20



Independent Auditor's Report

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

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, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, the statement of functional expenses for the year ended December 31, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2018 and 2017, 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.

Janice Maruca & McQuade PA

Washington, DC
September 4, 2019

**AMERICAN HIKING SOCIETY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017**

	2018	2017
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 361,796	\$ 271,503
Grants receivable	11,414	10,101
Inventory	1,355	935
Prepaid expenses	4,706	-
Total Current Assets	379,271	282,539
PROPERTY AND EQUIPMENT		
Office equipment	9,120	9,120
Accumulated depreciation	(8,810)	(8,006)
Total Property and Equipment, Net	310	1,114
OTHER ASSETS		
Investments	38,124	38,179
Deposits	4,000	4,000
Total Other Assets	42,124	42,179
TOTAL ASSETS	\$ 421,705	\$ 325,832
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 9,575	\$ 43,072
Accrued expenses	27,123	8,685
Deferred revenue	115,760	55,508
Total Current Liabilities	152,458	107,265
NET ASSETS		
Without donor restrictions:		
Undesignated	21,627	176,058
Board designated	205,571	-
Total Without Donor Restrictions	227,198	176,058
With donor restrictions	42,049	42,509
Total Net Assets	269,247	218,567
TOTAL LIABILITIES AND NET ASSETS	\$ 421,705	\$ 325,832

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

**AMERICAN HIKING SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Membership	\$ 209,071	\$ -	\$ 209,071
Gifts and donations	108,686	-	108,686
Corporate grants and support	241,482	-	241,482
In-kind donations and services	310,063	-	310,063
Government and foundation grants	115,148	-	115,148
Event registrations and fees	148,287	-	148,287
Inventory and other sales	10,767	-	10,767
Alliance member support	17,392	-	17,392
Combined federal campaign	3,859	-	3,859
Investment and other income	1,026	-	1,026
Net assets released from restrictions	460	(460)	-
Total Revenue and Support	1,166,241	(460)	1,165,781
EXPENSES			
Program Services:			
Outreach initiatives	129,127	-	129,127
Volunteer vacations	172,959	-	172,959
Member services	232,482	-	232,482
National trails day	173,737	-	173,737
Legislative policy	132,333	-	132,333
National trails fund	38,731	-	38,731
Hiker Magazine	20,988	-	20,988
Alliance member	24,905	-	24,905
Total Program Services	925,262	-	925,262
Supporting Services:			
Management and general	86,606	-	86,606
Fundraising and development	103,233	-	103,233
Total Supporting Services	189,839	-	189,839
Total Expenses	1,115,101	-	1,115,101
CHANGE IN NET ASSETS	51,140	(460)	50,680
NET ASSETS, beginning of year	176,058	42,509	218,567
NET ASSETS, end of year	\$ 227,198	\$ 42,049	\$ 269,247

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

**AMERICAN HIKING SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Membership	\$ 206,504	\$ -	\$ 206,504
Gifts and donations	375,131	-	375,131
Corporate grants and support	137,065	80,000	217,065
In-kind donations and services	323,596	-	323,596
Government and foundation grants	117,621	-	117,621
Event registrations and fees	126,428	-	126,428
Inventory and other sales	24,161	-	24,161
Alliance member support	18,051	-	18,051
Combined federal campaign	6,897	-	6,897
Investment and other income	1,507	-	1,507
Net assets released from restrictions	<u>313,003</u>	<u>(313,003)</u>	<u>-</u>
Total Revenue and Support	1,649,964	(233,003)	1,416,961
EXPENSES			
Program Services:			
Outreach initiatives	46,338	-	46,338
Volunteer vacations	198,640	-	198,640
Member services	267,603	-	267,603
National trails day	216,943	-	216,943
Legislative policy	155,133	-	155,133
National trails fund	180,199	-	180,199
Hiker Magazine	27,200	-	27,200
Alliance member	<u>15,135</u>	<u>-</u>	<u>15,135</u>
Total Program Services	1,107,191	-	1,107,191
Supporting Services:			
Management and general	58,792	-	58,792
Fundraising and development	<u>94,773</u>	<u>-</u>	<u>94,773</u>
Total Supporting Services	<u>153,565</u>	<u>-</u>	<u>153,565</u>
Total Expenses	<u>1,260,756</u>	<u>-</u>	<u>1,260,756</u>
CHANGE IN NET ASSETS	389,208	(233,003)	156,205
NET ASSETS, beginning of year	<u>(213,150)</u>	<u>275,512</u>	<u>62,362</u>
NET ASSETS, end of year	<u>\$ 176,058</u>	<u>\$ 42,509</u>	<u>\$ 218,567</u>

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

AMERICAN HIKING SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	OUTREACH INITIATIVES	VOLUNTEER VACATIONS	MEMBER SERVICES	NATIONAL TRAILS DAY	LEGISLATIVE POLICY	NATIONAL TRAILS FUND	HIKER MAGAZINE	ALIANCE MEMBER	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING AND DEVELOPMENT	TOTAL SUPPORT SERVICES	TOTAL
Personnel costs:													
Salaries	\$ 91,565	\$ 48,343	\$ 46,682	\$ 36,048	\$ 69,905	\$ 14,227	\$ 15,107	\$ 18,308	\$ 340,185	\$ 35,374	\$ 55,746	\$ 91,120	\$ 431,305
Payroll taxes	7,193	3,798	3,667	2,832	5,492	1,118	1,187	1,438	26,725	2,779	4,379	7,158	33,883
Benefits	5,062	3,131	2,814	2,455	4,297	862	890	1,056	20,567	1,988	3,260	5,248	25,815
Subtotal personnel costs	103,820	55,272	53,163	41,335	79,694	16,207	17,184	20,802	387,477	40,141	63,385	103,526	491,003
Accounting	-	-	-	-	-	-	-	-	-	14,523	-	-	14,523
Advertising	38	339	3,320	5,860	955	6	553	8	11,079	64	3,626	3,690	14,769
Bank charges	2,063	1,555	1,281	812	1,575	321	340	413	8,360	797	1,457	2,254	10,614
Cost of goods sold	-	-	-	4,408	-	-	-	-	4,408	-	-	-	4,408
Consulting	5,755	3,082	2,590	2,293	6,357	907	963	1,151	23,098	2,585	3,729	6,314	29,412
Depreciation	199	61	84	45	185	16	16	23	629	88	87	175	804
Dues and subscriptions	75	6,124	539	2,248	557	12	12	15	9,582	44	810	854	10,436
Equipment rental	602	318	583	237	460	94	99	120	2,513	508	367	875	3,388
Insurance	794	419	405	313	606	123	131	159	2,950	511	483	994	3,944
Interest	379	200	193	149	289	59	62	76	1,407	146	230	376	1,783
In-kind goods	-	70,561	124,700	106,886	4,792	-	-	-	306,939	-	3,124	3,124	310,063
Grants	-	-	-	-	-	19,464	-	-	19,464	-	-	-	19,464
License	77	41	40	31	1,669	12	13	15	1,898	30	4,412	4,442	6,340
Meetings	-	24,135	-	-	18,106	-	-	-	42,241	11,826	2,514	14,340	56,581
Office supplies and expenses	432	172	672	408	707	37	38	55	2,521	2,618	570	3,188	5,709
Postage and delivery	-	1,705	4,138	121	167	-	-	-	6,131	767	3,476	4,243	10,374
Printing and copying	548	388	32,917	203	825	80	85	103	35,149	569	6,134	6,703	41,852
Professional fees	2,479	1,649	2,799	1,427	2,278	385	409	496	11,922	1,048	2,063	3,111	15,033
Rent	10,253	4,852	4,303	3,527	9,517	816	840	1,208	35,316	4,567	4,469	9,036	44,352
Repairs and maintenance	1,225	480	557	357	1,059	133	140	183	4,134	518	636	1,154	5,288
Telephone	180	259	92	71	137	28	30	36	833	80	108	188	1,021
Travel	-	1,084	-	-	1,901	-	-	-	2,985	4,826	1,425	6,251	9,236
Website maintenance	208	263	106	3,006	497	31	73	42	4,226	350	128	478	4,704
Total	\$ 129,127	\$ 172,959	\$ 232,482	\$ 173,737	\$ 132,333	\$ 38,731	\$ 20,988	\$ 24,905	\$ 925,262	\$ 86,606	\$ 103,233	\$ 189,839	\$ 1,115,101

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

**AMERICAN HIKING SOCIETY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 50,680	\$ 156,205
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	804	1,130
Net appreciation (depreciation) in fair value of investments	611	(105)
Decrease (increase) in assets:		
Grants and other receivables	(1,313)	89,899
Inventory	(420)	4,418
Prepaid expenses and other assets	(4,706)	3,030
Increase (decrease) in liabilities:		
Accounts payable	(33,497)	13,229
Accrued vacation	18,438	3,161
Deferred revenue	60,252	4,221
Net Cash Provided By Operating Activities	<u>90,849</u>	<u>275,188</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Reinvested interest and dividends, net	<u>(556)</u>	<u>(324)</u>
Net Cash Used for Investing Activities	<u>(556)</u>	<u>(324)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments on line-of-credit and debt	<u>-</u>	<u>(51,730)</u>
Net Cash Used For Financing Activities	<u>-</u>	<u>(51,730)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	90,293	223,134
CASH AND CASH EQUIVALENTS, beginning of year	<u>271,503</u>	<u>48,369</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 361,796</u>	<u>\$ 271,503</u>
Cash paid for interest	<u>\$ 1,783</u>	<u>\$ 5,368</u>

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

**AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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

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.

Adoption of New Accounting Pronouncement

For the year ended December 31, 2018, the Society adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 – Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This update addresses the complexity and understandability of net assets classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 is the change to the net assets classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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:

Net Assets without Donor Restrictions – Net assets not subject to donor-imposed restrictions or stipulations.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met by either actions of the Society and/or the passage of time, or that must be maintained permanently by the Society. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions. Contributions received with donor restrictions that are met in the same reporting period are reported as support without donor restrictions and an increase in net assets without donor restrictions.

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 mutual funds that are held for investment purposes. 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.

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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, 2018 and 2017, 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, 2018 and 2017, and no significant provision for inventory obsolescence was recognized during the years then ended.

Property and Equipment

The Society capitalizes property and equipment acquisitions at cost or estimated fair value at the 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 \$804 and \$1,130, respectively, for the years ended December 31, 2018 and 2017. 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.

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue Recognition - continued

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 are recognized as revenue when the goods or services are provided in accordance with the agreement with members, customers, and grantors.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Society. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include rent and depreciation as well as salaries, benefits and payroll taxes, all of which are allocated on the basis of estimates of time and effort.

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.

Reclassifications

Certain amounts for December 31, 2017 have been reclassified to conform to the current year presentation. The reclassification had no effect on previously reported net assets or change in net assets.

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.

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(continued)

NOTE C – INCOME TAXES - continued

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, 2015 through 2017 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 – AVAILABLE RESOURCES AND LIQUIDITY

The Society regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Society strives to maintain liquid financial assets sufficient to cover six months of general expenditures. Financial assets in excess of daily cash requirements are invested in a brokered investment account which includes mutual funds. The Society has various sources of liquidity at its disposal including cash and brokered investment accounts.

In addition to financial assets available to meet general expenditures over the next 12 months, the Society operates with a budget plan to result in a positive change in net assets and anticipates collecting sufficient revenue to cover general expenditures. Timing of revenue receipt also ensures the availability of necessary operational funds. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions, however, the Society expects to utilize purpose restricted net assets within one year.

The following table reflects the Society’s financial assets as of December 31, 2018 and 2017, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations:

	<u>2018</u>	<u>2017</u>
Cash	\$ 361,796	\$ 271,503
Grants receivable	11,414	10,101
Investments	<u>38,124</u>	<u>38,179</u>
Total financial assets	<u>411,334</u>	<u>319,783</u>
Less: Net assets with donor restrictions – perpetual in nature	(42,049)	(42,049)
Less: Board designated net assets – reserves	<u>(205,571)</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 163,714</u>	<u>\$ 277,734</u>

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(continued)

NOTE E – 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.

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.

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(continued)

NOTE E – INVESTMENTS AND FAIR VALUE MEASUREMENT – continued

The fair values of the Society’s mutual funds and equities have been determined from observable market quotations. The fair values of the Society’s fixed income mutual funds 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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
Fixed income	\$ 38,124	\$ -	\$ -	\$ 38,124
Total	<u>\$ 38,124</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,124</u>

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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
Fixed income	\$ 38,179	\$ -	\$ -	\$ 38,179
Total	<u>\$ 38,179</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,179</u>

NOTE F – DEBT

The Society maintains a line-of-credit that is used to provide working capital when needed. The Society also had a loan payable that was converted from a line-of-credit during 2017. 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 7.5% and 6.5% as of December 31, 2018 and 2017, respectively. The outstanding principal balance on the secured line-of-credit was \$0 and \$0, respectively, as of December 31, 2018 and 2017, and interest expense incurred on the secured line-of-credit was \$0 and \$5,368, respectively, for the years then ended.

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(continued)

NOTE F – DEBT - continued

Secured Loan Payable: The Society also maintained a \$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 was payable over 36 monthly installments of principal and interest of \$900. Interest accrued on the secured loan at an annual fixed interest rate of 6.54%. The loan payable was secured by the Society's accounts receivable, inventory, and property and equipment. The loan was paid off during 2017.

NOTE G – LEASE COMMITMENTS

The Society leases office facilities under a non-cancelable operating lease. The lease has an original term of 60 months and expires on October 31, 2020. The lease requires total minimum monthly payments of \$2,122. Rent expense incurred by the Society on the operating leases totaled \$44,352 and \$40,089, respectively, for the years ended December 31, 2018 and 2017, including other operating expenses. The approximate future minimum payments required under the non-cancelable operating lease agreements are as follows for the years ending December 31 :

2019	\$ 25,600
2020	21,900
	<u>\$ 47,500</u>

NOTE H – IN-KIND DONATIONS AND CONTRIBUTED SERVICES

The Society recognized in-kind donations of hiking equipment and contributed advertising services totaling \$310,063 and \$323,596, respectively, during the years ended December 31, 2018 and 2017. 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.

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(continued)

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS

The Society's net assets with donor restrictions consist of unexpended resources earmarked by donors for the following programs or purposes as of:

	Purpose Restricted	Perpetual in Nature	Total
December 31, 2018:			
Life membership endowment	\$ -	\$ 31,449	\$ 31,449
<i>Galen Rowell</i> national trails fund	-	10,600	10,600
	\$ -	\$ 42,049	\$ 42,049
	Purpose Restricted	Perpetual in Nature	Total
December 31, 2017:			
National trail	\$ 460	\$ -	\$ 460
Life membership endowment	-	31,449	31,449
<i>Galen Rowell</i> national trails fund	-	10,600	10,600
	\$ 460	\$ 42,049	\$ 42,509

NOTE J – ENDOWMENT FUNDS

Endowment Funds: The Society's endowments consist of two individual endowment funds called Life Member Endowment, and Galen Rowell Endowment that was established to provide financial stability and support for national trails initiatives. The endowment funds were created from contributions restricted by donors for the establishment of the endowments.

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 the original value of restricted donations and the original value of additional donations to the fund, as net assets with donor restrictions. The Society classifies accumulations of the fund in accordance with the original donors' gift instruments, which are with donor restrictions for the Galen Rowell Endowment and without donor restrictions for the Life Membership Endowment. Accumulations of the fund are subject to appropriation under UPMIFA.

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(continued)

NOTE J – ENDOWMENT FUNDS – continued

In accordance with UPMIFA, 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 are 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 ensure the preservation of capital under prudent investment policy, including economic, inflationary and other factors.

Spending Policies: 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 donor 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.

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(continued)

NOTE J – ENDOWMENT FUNDS – continued

Endowment funds consisted of the following as of December 31, 2018:

	Net Assets Without Donor Restrictions	Net Assets with Donor Restrictions - Perpetual in Nature	Total
Life membership endowment	\$ 6,675	\$ 31,449	\$ 38,124
<i>Galen Rowell</i> national trails fund	-	10,600	10,600
	<u>\$ 6,675</u>	<u>\$ 42,049</u>	<u>\$ 48,724</u>

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

	Net Assets Without Donor Restrictions	Net Assets with Donor Restrictions - Perpetual in Nature	Total
Endowment net assets, beginning of year	\$ 6,730	\$ 42,049	\$ 48,779
Investment return, net	(55)	-	(55)
	<u>\$ 6,675</u>	<u>\$ 42,049</u>	<u>\$ 48,724</u>

Endowment assets consisted of \$38,124 in mutual funds and \$10,600 in cash and cash equivalents as of December 31, 2018.

Endowment funds consisted of the following as of December 31, 2017:

	Net Assets Without Donor Restrictions	Net Assets with Donor Restrictions - Perpetual in Nature	Total
Life membership endowment	\$ 6,730	31,449	38,179
<i>Galen Rowell</i> national trails fund	-	10,600	10,600
	<u>\$ 6,730</u>	<u>\$ 42,049</u>	<u>\$ 48,779</u>

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(continued)

NOTE J – ENDOWMENT FUNDS – continued

Changes in endowment net assets were as follows for the year ended December 31, 2017:

	Net Assets Without Donor Restrictions	Net Assets with Donor Restrictions - Perpetual in Nature	Total
Endowment net assets, beginning of year	\$ 6,301	\$ 42,049	\$ 48,350
Investment return, net	429	-	429
	<u>\$ 6,730</u>	<u>\$ 42,049</u>	<u>\$ 48,779</u>

Endowment assets consisted of \$38,179 in mutual funds and \$10,600 in cash and cash equivalents as of December 31, 2017.

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 matching contributions were incurred by the Society during the years ended December 31, 2018 and 2017.

NOTE K – BOARD DESIGNATED ASSETS

Board designated net assets are net assets without donor restrictions that have been earmarked by the board of directors for future reserves. As of December 31, 2018 and 2017, board designated net assets totaled \$205,571 and \$0, respectively.

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, 2018 and 2017, 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.

AMERICAN HIKING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(continued)

NOTE L – COMMITMENTS AND CONTINGENCIES

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 September 4, 2019, 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.