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AMERICAN HIKING SOCIETY



AUDITED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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**INDEPENDENT AUDITORS' REPORT
ON FINANCIAL STATEMENTS**

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

We have audited the accompanying statement of financial position of the American Hiking Society (referred to as "the Society") as of December 31, 2011, and the related statements of activities and change in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based upon our audit. The prior year summarized comparative information was derived from the Society's financial statements as of and for the year ended December 31, 2010 and, in our report dated July 15, 2011, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes a consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Frye & Company, CPAs
Frye & Company, CPAs
Manassas, Virginia
August 13, 2012

AMERICAN HIKING SOCIETY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011
(WITH 2010 COMPARATIVE TOTALS)

	2011	2010
Assets		
Cash and cash equivalents	\$ 53,792	\$ 64,417
Grant and other receivables, net	48,164	24,375
Inventory, net	1,981	6,971
Prepaid expenses and other assets	4,690	4,454
Property and equipment:		
Office furniture and equipment	29,673	29,312
Accumulated depreciation	(27,379)	(25,964)
Property and equipment, net	2,294	3,348
Total Assets	\$ 110,921	\$ 103,565
Liabilities and Net Assets		
Liabilities		
Lines-of-credit	\$ 48,876	\$ 58,515
Accounts payable	33,159	17,410
Accrued vacation	5,262	5,407
Other liabilities	11,300	3,894
Deferred revenue	23,545	32,050
Total liabilities	122,142	117,276
Net assets		
Unrestricted net assets:		
Undesignated	(289,567)	(283,245)
Board designated	20,012	20,083
Total unrestricted	(269,555)	(263,162)
Temporarily restricted	126,703	122,703
Permanently restricted	131,631	126,748
Total net assets	(11,221)	(13,711)
Total Liabilities and Net Assets	\$ 110,921	\$ 103,565

See accompanying auditors' report and notes to financial statements.

AMERICAN HIKING SOCIETY
STATEMENT OF ACTIVITIES &
CHANGE IN NET ASSETS
YEAR ENDED DECEMBER 31, 2011
(WITH 2010 COMPARATIVE TOTALS)

	2011			Total	2010
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and Support					
Membership and individuals	\$ 254,727	\$ -	\$ 4,883	\$ 259,610	\$ 230,888
Corporate grants and support	176,597	31,000	-	207,597	388,347
In-kind donations and services	190,464	-	-	190,464	138,992
Government grants and support	148,859	-	-	148,859	85,000
Event registrations and fees	125,790	-	-	125,790	101,950
Inventory and other sales	24,908	-	-	24,908	43,374
Combined federal campaign	20,369	-	-	20,369	19,667
Alliance member support	16,126	-	-	16,126	16,790
Foundations and nonprofit support	15,159	-	-	15,159	61,511
Investment and other income	765	-	-	765	8
Net assets released from restriction	27,000	(27,000)	-	-	-
Total revenue and support	1,000,764	4,000	4,883	1,009,647	1,086,527
Expense					
Program services:					
National trails day	272,317	-	-	272,317	260,778
Volunteer vacations	185,117	-	-	185,117	138,702
Legislative policy	138,989	-	-	138,989	101,069
Member services	117,771	-	-	117,771	140,240
National trails fund	44,487	-	-	44,487	48,754
Hiker magazine	40,646	-	-	40,646	39,825
Outreach initiatives	22,038	-	-	22,038	39,972
Alliance member	16,590	-	-	16,590	14,745
NWSA initiative	10,980	-	-	10,980	-
ORV policy	1,931	-	-	1,931	72,079
Trails and public lands	-	-	-	-	11,062
Total program services	850,866	-	-	850,866	867,226
Supporting services:					
Management and general	94,932	-	-	94,932	93,230
Fundraising and development	61,359	-	-	61,359	99,393
Total supporting services	156,291	-	-	156,291	192,623
Total expense	1,007,157	-	-	1,007,157	1,059,849
Change in Net Assets	(6,393)	4,000	4,883	2,490	26,678
Net assets, beginning of year	(263,162)	122,703	126,748	(13,711)	(40,389)
Net Assets, End of Year	<u>\$ (269,555)</u>	<u>\$ 126,703</u>	<u>\$ 131,631</u>	<u>\$ (11,221)</u>	<u>\$ (13,711)</u>

See accompanying auditors' report and notes to financial statements.

AMERICAN HIKING SOCIETY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011
(WITH 2010 COMPARATIVE TOTALS)

	<u>2011</u>	<u>2010</u>
Cash Provided (Used) by Operating Activities		
Change in net assets	\$ 2,490	\$ 26,678
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	2,845	3,927
Changes in assets and liabilities:		
Grants and other receivables	(23,789)	(16,892)
Inventory	4,990	20,427
Prepaid expenses and other assets	(236)	(418)
Accounts payable	15,749	(44,327)
Accrued vacation	(145)	(2,789)
Other liabilities	7,406	3,894
Deferred revenue	(8,505)	15,075
Total adjustments	<u>(1,685)</u>	<u>(21,103)</u>
Net cash provided (used) by operating activities	805	5,575
Cash Provided (Used) by Investing Activities		
Purchases of property and equipment	<u>(1,791)</u>	-
Net cash provided (used) by investing activities	(1,791)	-
Cash Provided (Used) by Financing Activities		
Principal borrowings on lines-of-credit	13,000	-
Principal repayments on lines-of-credit	<u>(22,639)</u>	<u>(177)</u>
Net cash provided (used) by financing activities	<u>(9,639)</u>	<u>(177)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(10,625)	5,398
Cash and cash equivalents, beginning of year	<u>64,417</u>	<u>59,019</u>
Cash and Cash Equivalents, End of Year	<u>\$ 53,792</u>	<u>\$ 64,417</u>
Supplemental Cash Flows Information:		
Cash paid for interest	<u>\$ 5,856</u>	<u>\$ 8,564</u>
Cash paid for income taxes	<u>\$ 3,701</u>	<u>\$ -</u>

See accompanying auditors' report and notes to financial statements.

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

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 contributors and volunteers.

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, 2010, 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).

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

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.

Grant and Other Receivable: The Society's grant 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, 2011, management determined that an allowance for doubtful accounts was unnecessary, and no significant bad debts expense was recognized during the year then ended.

Inventory: Inventory consists primarily of donated hiking poles, promotional tee shirts and other items held for resale or used in various program activities. Inventory is valued at the lower of cost or market 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 when necessary. Management determined that a reserve for inventory obsolescence was unnecessary as of December 31, 2011, and no significant provision for inventory obsolescence was recognized during the year then ended.

Prepaid Expenses and Other Assets: The Society's prepaid expenses and other assets consist primarily of prepaid insurance and refundable security deposits as of December 31, 2011.

Property and Equipment: The Society capitalizes property and equipment acquisitions at cost or 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 – 5 years. Depreciation and amortization expense was approximately \$2,800 for the year ended December 31, 2011. 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 program 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.

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

Note B – Summary of Significant Accounting Policies – Continued

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 contributed 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, 2011, the Society reported designated funds of approximately \$20,000 from unexpended earnings on the National Trails Endowment established to protect and maintain hiking trails.
- *Temporarily restricted* – Represents contributions and interest earned on permanently restricted net assets that are restricted for the National Trails Endowment designed 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 efforts to restrict the use of off-road recreation vehicles. 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. 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 terms of the grant agreement award.

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

Note B – Summary of Significant Accounting Policies – Continued

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 accompanying financial statements reflect the adoption of fair value measurements as required under generally accepted accounting principles in the United States of America. As such, 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 accompanying financial statements. Accordingly, the Society would classify investments in financial instruments in Level 1, which refers to instruments traded in an active market, Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available or Level 1 securities where there is a contractual restriction, and Level 3, which refers to securities not traded in an active market and for which no significant observable market inputs are available. As of December 31, 2011, the Society report no significant investments in marketable securities, other financial instruments, or assets or liabilities reported at fair value. Fair values, when required, are determined by the Society and based upon pertinent market and other readily available information. Considerable judgment is necessary to interpret market and financial data and to develop fair value measurements in certain circumstances. Although the Society is unaware of any factors that would significantly affect their estimates, the Society's estimates of fair values and fair value measurements may not be indicative of amounts realized at disposition.

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, 2011, the Society reported approximately \$36,900 in money market funds generally not covered by federal insurance.

Revenue and Support: During the year ended December 31, 2011, the Society reported revenue from grants and contracts with the federal government totaling approximately \$148,900 or 15% of the Society's total revenue and support for the year ended December 31, 2011.

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

Note C – Concentrations of Risk – Continued

Revenue and Support – Continued: The Society also reported in-kind donations and contributed services from corporate sponsors totaling approximately \$190,500 or 19% of the Society's total revenue and support for the year ended December 31, 2011. The largest contributor of in-kind donations and contributed services totaled approximately \$75,000 or 7% of the Society's total revenue and support for the year ended December 31, 2011.

Note D – Fair Value Measurements

The accompanying financial statements reflect the adoption of fair value measurements as required under generally accepted accounting principles in the United States of America. As such, the Society determines fair value using 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 recognized measurement. Accordingly, the Society attempts to maximize the use of observable inputs and minimize unobservable inputs. As of December 31, 2011, the Society's reported no significant investments in marketable securities, other financial instruments, or assets or liabilities reported at fair value. The Society reported approximately \$36,900 of money market funds included as a component of cash and cash equivalents as of December 31, 2011.

Note E – Lines-of-Credit

The Society maintains several lines-of-credit that are used to provide working capital when necessary. The details of the lines-of-credit and other credit arrangements 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 resulted in an annual interest rate of 5.25% as of December 31, 2011. The principal balance was approximately \$26,700 as of December 31, 2011, and interest expense on the line-of-credit totaled approximately \$1,400 for the year 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 demand and is 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 resulted in an annual interest rate of 8.38% as of December 31, 2011. The principal balance was approximately \$22,200 as of December 31, 2011, and interest expense incurred on the unsecured line-of-credit totaled approximately \$2,600 for the year then ended.

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

Note E – Lines-of-Credit – Continued

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, 2011. 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, 2011. The outstanding balances on the credit cards totaled approximately \$26,200 as of December 31, 2011 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 \$1,700 for the year ended December 31, 2011. The Society also incurred interest expense of approximately \$200 on amounts owed to vendors and service providers during the year ended December 31, 2011.

Interest Expense: Interest expense totaled approximately \$5,900 00 for the year ended December 31, 2011, including interest incurred on the lines-of-credit, credit cards, and accounts payables.

Note F – Lease Obligations

The Society leases office facilities and a postage machine under several non-cancelable operating leases that expire at various times through the years ending December 31, 2015. The leases have original terms that range from 36 to 63 months and require total minimum monthly payments of approximately \$4,400 as of December 31, 2011. The lease for office space requires nominal annual escalations. 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 \$52,100 for the year ended December 31, 2011. Approximate future minimum payments required under the non-cancelable operating leases are as follows for the years ending December 31:

2012		\$ 52,700
2013		54,200
2014		37,500
2015		900
		\$ 145,300

Note G – Restricted Net Assets

The Society's temporarily restricted and permanently restricted net assets consist of unexpended resources earmarked by donors for the following programs as of December 31, 2011:

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

Note G – Restricted Net Assets – Continued

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Restricted net assets:			
National trails endowment	\$ 126,703	\$ -	\$ 126,703
Life membership endowment	-	121,031	121,031
<i>Galen Rowell</i> national trails fund	-	10,600	10,600
	<u>\$ 126,703</u>	<u>\$ 131,631</u>	<u>\$ 258,334</u>

Note H – 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 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.

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

Note H – Endowment Funds – Continued

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 determined by overall investment assets and allocations and is designed to manage overall risk with preservation of capital paramount.

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 in support of grants 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, 2011:

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

Note H – Endowment Funds – Continued

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total Endowment Funds
National Trials Endowment	\$ 20,012	\$ 126,703	\$ -	\$ 146,715
Life Member Endowment	-	-	121,031	121,031
Galen Rowell Endowment	-	-	10,600	10,600
	<u>\$ 20,012</u>	<u>\$ 126,703</u>	<u>\$ 131,631</u>	<u>\$ 278,346</u>
Endowment fund balances as of December 31, 2010	\$ 20,083	\$ 122,703	\$ 126,748	\$ 269,534
Contributions and grants	-	31,000	4,883	35,883
Investment income	4	-	-	4
Expenditures and other	(75)	(27,000)	-	(27,075)
Endowment fund balances as of December 31, 2011	<u>\$ 20,012</u>	<u>\$ 126,703</u>	<u>\$ 131,631</u>	<u>\$ 278,346</u>

Note I – 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 year ended December 31, 2011.

Note J – 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, 2011, the Society was unaware of any significant disputes or disagreements. Accordingly, no liabilities were accrued in the accompanying financial statements for any contingent liability.

Volunteer Vacations: The Society has a long standing program whereby members take one or two week vacations to donate their time helping to improve and maintain hiking trails.

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

Note J – Commitments and Contingencies – Continued

Volunteer Vacations – Continued: 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 liability for this uncertainty.

Note K – Unrelated Business Income Taxes

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 year ended December 31, 2011, the Society reported unrelated business income from advertising and non-qualified sponsorships and also from a distribution from a tax deferred annuity in which the Society was a named beneficiary. Accordingly, the Society reported net taxable income from the unrelated business activities of approximately \$11,600 of which approximately \$1,100 was offset from net operating loss deductions carried forward from prior years. No significant net operating loss deductions remain as of December 31, 2011. As such, the Society recognized income tax expense of approximately \$2,500 during the year ended December 31, 2011, which was included in the Society's functional allocation of expenses. Given that there was federal withholding on the distribution from the tax deferred annuity, the Society reported an income tax receivable of approximately \$2,200 and an income tax payable of approximately \$900 as of December 31, 2011.

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 is also unaware of any significant uncertain tax positions arising during the year ended December 31, 2011 that are more likely than not to be sustained should the Society's tax returns be subject to examination. Accordingly, the Society did not incur or accrue any penalties or interest assessed by taxing authorities associated with uncertain tax positions during the year ended December 31, 2011.

Note L – In-kind Donations and Contributed Services

The Society recognized in-kind donations and contributed services of approximately \$190,500 during the year ended December 31, 2011, with substantially all of the in-kind donations and contributed services allocated to program services during the year then ended.

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

Note L – In-kind Donations and Contributed Services – Continued

In-kind donations and contributed services were allocated to the following program services for the year ended December 31, 2011:

Program services:	
National trails day	\$ 142,056
Volunteer vacations	47,162
Legislative policy	<u>1,246</u>
Total program services	<u>\$ 190,464</u>

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

Note M – Subsequent Events Evaluation

Management has evaluated subsequent events for the period January 1, 2012 through August 13, 2012, the date on which these financial statements were available to be issued.