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AMERICAN HIKING SOCIETY



AUDITED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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**INDEPENDENT AUDITORS' REPORT
ON FINANCIAL STATEMENTS**

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

Report on Financial Statements

We have audited the accompanying financial statements of the American Hiking Society, which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility

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

Auditor's Responsibility

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

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

To the Board of Directors
American Hiking Society


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, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the American Hiking Society's financial statements as of and for the year ended December 31, 2011, and our report dated August 13, 2012 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.


Frye & Company, CPAs
Manassas, Virginia
July 31, 2013

AMERICAN HIKING SOCIETY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012
(WITH 2011 COMPARATIVE TOTALS)

	2012	2011
Assets		
Cash and cash equivalents	\$ 87,947	\$ 53,792
Grant receivables, net	30,200	46,000
Tax and other receivables	1,000	2,164
Inventory, net	2,476	1,981
Prepaid expenses and other assets	7,699	4,690
Property and equipment:		
Office furniture and equipment	25,518	29,673
Accumulated depreciation	(19,032)	(27,379)
Property and equipment, net	6,486	2,294
Total Assets	\$ 135,808	\$ 110,921
 Liabilities and Net Assets		
Liabilities		
Lines-of-credit	\$ 48,876	\$ 48,876
Accounts payable	21,171	33,159
Accrued vacation	7,458	5,262
Other liabilities	-	11,300
Deferred revenue	34,575	23,545
Capital lease liability	3,571	-
Total liabilities	115,651	122,142
Net assets		
Unrestricted net assets:		
Undesignated	(272,607)	(289,567)
Board designated	20,430	20,012
Total unrestricted	(252,177)	(269,555)
Temporarily restricted	130,703	126,703
Permanently restricted	141,631	131,631
Total net assets	20,157	(11,221)
Total Liabilities and Net Assets	\$ 135,808	\$ 110,921

See accompanying auditors' report and notes to financial statements.

AMERICAN HIKING SOCIETY
STATEMENT OF ACTIVITIES &
CHANGE IN NET ASSETS
YEAR ENDED DECEMBER 31, 2012
(WITH 2011 COMPARATIVE TOTALS)

	2012			Total	2011
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and Support					
In-kind donations and services	\$ 330,983	\$ -	\$ -	\$ 330,983	\$ 190,464
Membership and individuals	243,748	-	10,000	253,748	259,610
Corporate grants and support	198,623	30,000	-	228,623	207,597
Government grants and support	121,200	-	-	121,200	148,859
Event registrations and fees	111,305	-	-	111,305	125,790
Inventory and other sales	27,297	-	-	27,297	24,908
Alliance member support	20,370	-	-	20,370	16,126
Foundations and nonprofit support	17,635	-	-	17,635	15,159
Combined federal campaign	15,517	-	-	15,517	20,369
Fundraising programs	12,000	-	-	12,000	-
Investment and other income	4,328	-	-	4,328	765
Net assets released from restriction	26,000	(26,000)	-	-	-
Total revenue and support	1,129,006	4,000	10,000	1,143,006	1,009,647
Expense					
Program services:					
Volunteer vacations	219,351	-	-	219,351	185,117
National trails day	218,996	-	-	218,996	272,317
Member services	202,560	-	-	202,560	117,771
Legislative policy	152,241	-	-	152,241	151,900
Outreach initiatives	101,595	-	-	101,595	22,038
National trails fund	42,191	-	-	42,191	44,487
Hiker magazine	31,619	-	-	31,619	40,646
Alliance member	14,446	-	-	14,446	16,590
Total program services	982,999	-	-	982,999	850,866
Supporting services:					
Management and general	73,035	-	-	73,035	94,932
Fundraising and development	55,594	-	-	55,594	61,359
Total supporting services	128,629	-	-	128,629	156,291
Total expense	1,111,628	-	-	1,111,628	1,007,157
Change in Net Assets	17,378	4,000	10,000	31,378	2,490
Net assets, beginning of year	(269,555)	126,703	131,631	(11,221)	(13,711)
Net Assets, End of Year	<u>\$ (252,177)</u>	<u>\$ 130,703</u>	<u>\$ 141,631</u>	<u>\$ 20,157</u>	<u>\$ (11,221)</u>

See accompanying auditors' report and notes to financial statements.

AMERICAN HIKING SOCIETY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012
(WITH 2011 COMPARATIVE TOTALS)

	<u>2012</u>	<u>2011</u>
Cash Provided (Used) by Operating Activities		
Change in net assets	\$ 31,378	\$ 2,490
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	1,083	2,845
Changes in assets and liabilities:		
Grants and other receivables	16,964	(23,789)
Inventory	(495)	4,990
Prepaid expenses and other assets	(3,009)	(236)
Accounts payable	(11,988)	15,749
Accrued vacation	2,196	(145)
Other liabilities	(11,300)	7,406
Deferred revenue	11,030	(8,505)
Total adjustments	<u>4,481</u>	<u>(1,685)</u>
Net cash provided (used) by operating activities	35,859	805
Cash Provided (Used) by Investing Activities		
Purchases of property and equipment	<u>(700)</u>	<u>(1,791)</u>
Net cash provided (used) by investing activities	(700)	(1,791)
Cash Provided (Used) by Financing Activities		
Principal borrowings on lines-of-credit and debt	-	13,000
Principal repayments on lines-of-credit and debt	<u>(1,004)</u>	<u>(22,639)</u>
Net cash provided (used) by financing activities	<u>(1,004)</u>	<u>(9,639)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	34,155	(10,625)
Cash and cash equivalents, beginning of year	<u>53,792</u>	<u>64,417</u>
Cash and Cash Equivalents, End of Year	<u>\$ 87,947</u>	<u>\$ 53,792</u>
Supplemental Cash Flows Information:		
Cash paid for interest	<u>\$ 8,956</u>	<u>\$ 5,856</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ 3,701</u>
Schedule of Noncash Transactions:		
Acquisition of leased equipment	<u>\$ 4,575</u>	<u>\$ -</u>
Donated assets	<u>\$ -</u>	<u>\$ -</u>

See accompanying auditors' report and notes to financial statements.

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

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, 2011, 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, 2012

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, 2012, 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 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 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, 2012, 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, 2012.

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 \$1,100 for the year ended December 31, 2012. Expenditures for repairs and maintenance that do not extend the useful life of an asset, consumable supplies, and other de minimis items are expensed as incurred.

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

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

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

- *Unrestricted* – Represents unrestricted resources that are available to support the Society's operations at the discretion of the Society's board of directors. The Society's board of directors may from time-to-time internally designate a portion of the Society's unrestricted net assets for specific programs or purposes. As of December 31, 2012, the Society reported designated funds of approximately \$20,400 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 nature and terms of the grant agreement and other related awarding documentation, such as the proposals.

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

Note B – Summary of Significant Accounting Policies – Continued

Advertising Costs: The Society expenses advertising costs as incurred. During the year ended December 31, 2012, the Society reported approximately \$2,600 in advertising and promotion expense. Fundraising and membership development costs, including allocable overhead, totaled approximately \$55,600 for the year ended December 31, 2012.

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

Fair Value Measurements: The 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 financial statements. Management uses a fair value measurement hierarchy based upon the lowest level of any input that is significant to the measurement with Level 3 being the lowest level of recognition. Management also attempts to maximize the use of observable inputs and minimize unobservable, Level 3, inputs. Accordingly, the Society would classify investments in financial instruments in the following categories:

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

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

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

As of December 31, 2012, the Society report no significant investments in marketable securities, financial instruments, or other 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.

Reclassifications: Certain prior year information was reclassified for comparative purposes.

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

Note B – Summary of Significant Accounting Policies – Continued

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, 2012, the Society reported approximately \$37,400 in money market funds generally not covered by federal insurance.

Revenue and Support: During the year ended December 31, 2012, the Society reported revenue from grants and contracts with the federal government totaling approximately \$121,200 or 11% of the Society's total revenue and support for the year ended December 31, 2012. The Society also reported in-kind donations and contributed services from corporate sponsors totaling approximately \$331,000 or 29% of the Society's total revenue and support for the year ended December 31, 2012. The two largest contributors of in-kind donations and contributed services totaled approximately \$149,000 or 13% of the Society's total revenue and support for the year ended December 31, 2012.

Note D – 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, 2012. The principal balance was approximately \$26,700 as of December 31, 2012, 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 the lender's demand.

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

Note D – Lines-of-Credit – Continued

Unsecured Line-of-Credit: The unsecured line-of-credit is also subject to annual renewals and certain restrictive covenants. Interest is due monthly and accrued at a variable interest rate of 5.125% above the Wall Street Journal's prime lending rate, which resulted in an annual interest rate of 8.38% as of December 31, 2012. The principal balance was approximately \$22,200 as of December 31, 2012, and interest expense incurred on the unsecured line-of-credit totaled approximately \$2,100 for the year then ended.

Credit Cards: The Society maintains various credit cards which are also used to provide working capital as needed. The total available credit on the cards was approximately \$75,000 as of December 31, 2012. 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 10% - 14% as of December 31, 2012. The outstanding balances on the credit cards totaled approximately \$11,900 as of December 31, 2012 and were included in the amounts reported as accounts payable in the accompanying financial statements. Interest expense incurred by the Society on the credit cards totaled approximately \$5,200 for the year ended December 31, 2012. The Society also incurred interest expense of approximately \$150 on amounts owed to vendors and service providers during the year ended December 31, 2012.

Interest Expense: Interest expense totaled approximately \$9,000 for the year ended December 31, 2012, including interest incurred on the lines-of-credit, credit cards, and accounts payables.

Note E – Lease Obligations

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

Capital Lease: In September 2012, the Society entered into a non-cancelable capital lease agreement to acquire a new phone system. This is for 13 months maturing in October 2013 at which time the Society has the right to purchase the phone system for \$1. The lease agreement requires monthly payments of approximately \$400 with the present value of the lease payments discounted using an effective annual interest rate of 12% resulting in a capitalized value of approximately \$3,600. Interest expense recognized by the Society on the capital lease was approximately \$100 for the year ended December 31, 2012. Given the Society's intent is to acquire the phone system at the end of the lease, the system is being depreciated in accordance with the Society's capitalization and depreciation policy. Depreciation expense reflected on the capital lease during the year ended December 31, 2012 was approximately \$200.

Operating Leases: The Society leases office facilities and a postage machine under several non-cancelable operating leases. The leases have original terms that range from 36 to 63 months.

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

Note E – Lease Obligations – Continued

Operating Leases – Continued: The operating lease agreements expire at various times through the years ending December 31, 2015. The leases require total minimum monthly payments of approximately \$4,400 as of December 31, 2012. 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 \$52,700 for the year ended December 31, 2012.

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

	<u>Operating Lease</u>	<u>Capital Lease</u>	<u>Total</u>
2013	\$ 54,200	\$ 3,771	\$ 57,971
2014	37,500	-	37,500
2015	900	-	900
	<u>\$ 92,600</u>	<u>3,771</u>	<u>\$ 96,371</u>
Imputed interest		<u>200</u>	
Capital lease liability		<u>\$ 3,571</u>	

Note F – Restricted Net Assets

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

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Restricted net assets:			
National trails endowment	\$ 130,703	\$ -	\$ 130,703
Life membership endowment	-	131,031	131,031
<i>Galen Rowell</i> national trails fund	-	10,600	10,600
	<u>\$ 130,703</u>	<u>\$ 141,631</u>	<u>\$ 272,334</u>

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

Note G – 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.

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

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

Note G – Endowment Funds – Continued

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

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

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

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total Endowment Funds
National Trails Endowment	\$ 20,430	\$ 130,703	\$ -	\$ 151,133
Life Member Endowment	-	-	131,031	131,031
Galen Rowell Endowment	-	-	10,600	10,600
	<u>\$ 20,430</u>	<u>\$ 130,703</u>	<u>\$ 141,631</u>	<u>\$ 292,764</u>
Endowment fund balances as of December 31, 2011	\$ 20,012	\$ 126,703	\$ 131,631	\$ 278,346
Contributions and grants	-	30,000	10,000	40,000
Investment income	676	-	-	676
Expenditures and other	(258)	(26,000)	-	(26,258)
Endowment fund balances as of December 31, 2012	<u>\$ 20,430</u>	<u>\$ 130,703</u>	<u>\$ 141,631</u>	<u>\$ 292,764</u>

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

Note H – 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, 2012.

Note I – 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, 2012, the Society was unaware of any significant disputes, disagreements, or pending or threatened litigation, claims, or assessments. Accordingly, no liabilities for such matters were accrued 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 liability for this uncertainty.

Note J – Income Tax Considerations

The Society obtained a favorable tax determination letter setting forth its exemption under Section 501(c)(3) of the Internal Revenue Code. However, activities unrelated to the tax exemptions, such as publication advertising and non-qualified sponsorships, are subject to income taxation. During the year ended December 31, 2012, the Society reported unrelated business income from advertising and non-qualified sponsorships. Accordingly, the Society reported a net loss from its unrelated business activities of approximately \$600 during the year ended December 31, 2012. The net operating loss deduction may be carried forward to offset future taxable income through the years ending December 31, 2032. Given the nature of the Society's unrelated business activities, management is unable to determine if or when the Society will benefit from the net operating loss deduction carryover. As such, any potential deferred tax asset was reserved by a valuation allowance as of December 31, 2012. No significant income tax expense or benefit was recognized in the accompanying financial statements.

AMERICAN HIKING SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

Note J – Income Tax Considerations

Although the Society has not received any notice of intent to examine its tax returns, the Society’s tax returns remain subject to examination by tax authorities pursuant to various statutes of limitations. Management believes that the Society’s tax returns through the year ended December 31, 2009 are no longer subject to examination. Management is also unaware of any significant uncertain tax positions that are more likely than not to be sustained should the Society’s tax returns be subject to examination. As such, the Society did not incur or accrue any penalties and interest assessed by taxing authorities during the year ended December 31, 2012.

Note K – In-kind Donations and Contributed Services

The Society recognized in-kind donations and contributed services totaling approximately \$331,000 during the year ended December 31, 2012. Substantially all of the in-kind donations and contributed services recognized by the Society were allocated to program services. For the year ended December 31, 2012, in-kind donations and contributed services were reported in the following program and supporting services:

Program services:	
National trails day	\$ 95,212
Member services	89,262
Volunteer vacations	74,898
Outreach initiatives	66,869
Legislative policy	4,042
Total program services	330,283
Supporting services:	
Management and general	700
	330,983

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

Note L – Subsequent Events Evaluation

Management has evaluated subsequent events for the period January 1, 2013 through July 31, 2013, the date on which these financial statements were available to be issued.