

**AMERICAN HIKING SOCIETY**



**AUDITED FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

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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, 2015, 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 for the Financial Statements*

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

*Auditor's Responsibility*

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

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

To the Board of Directors  
American Hiking Society

***Auditor's Responsibility – Continued***

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Hiking Society as of December 31, 2015, 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, 2014, and our report dated November 21 2015 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.



***Frye & Company, CPAs***  
**Manassas, Virginia**  
**August 19, 2016**

**AMERICAN HIKING SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2015**  
**(WITH 2014 COMPARATIVE TOTALS )**

	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 31,077	\$ 24,269
Marketable securities	37,606	37,664
Accounts receivable, net	-	2,500
Inventory, net	5,347	3,637
Prepaid expenses and other assets	12,739	6,886
Property and equipment:		
Office furniture and equipment	9,120	13,695
Accumulated depreciation	(5,539)	(5,474)
Property and equipment, net	3,581	8,221
<b>Total Assets</b>	<b>\$ 90,350</b>	<b>\$ 83,177</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Lines-of-credit	\$ 59,977	\$ 56,447
Accounts payable	76,656	84,541
Accrued vacation	7,499	6,847
Deferred revenue	42,001	46,635
Total liabilities	186,133	194,470
Net assets		
Unrestricted net assets:		
Undesignated	(293,719)	(309,844)
Board designated	22,424	21,799
Total unrestricted	(271,295)	(288,045)
Temporarily restricted	133,463	134,703
Permanently restricted	42,049	42,049
Total net assets	(95,783)	(111,293)
<b>Total Liabilities and Net Assets</b>	<b>\$ 90,350</b>	<b>\$ 83,177</b>

See accompanying auditors' report and notes to financial statements.

**AMERICAN HIKING SOCIETY**  
**STATEMENT OF ACTIVITIES &**  
**CHANGE IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2015**  
**(WITH 2014 COMPARATIVE TOTALS)**

	2015			Total	2014
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Revenue and Support</b>					
Membership and individuals	\$ 281,064	\$ -	\$ -	\$ 281,064	\$ 299,478
Corporate grants and support	168,643	70,000	-	238,643	114,270
In-kind donations and services	200,354	-	-	200,354	207,880
Government and foundation grants	137,899	-	-	137,899	55,570
Event registrations and fees	124,407	-	-	124,407	113,545
Inventory and other sales	29,127	-	-	29,127	30,943
Alliance member support	18,557	-	-	18,557	21,850
Combined federal campaign	7,033	-	-	7,033	8,746
Investment and other income	2,557	-	-	2,557	11,293
Fundraising programs	-	-	-	-	1,347
Net assets released from restriction	<u>71,240</u>	<u>(71,240)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and support	1,040,881	(1,240)	-	1,039,641	864,922
<b>Expense</b>					
Program services:					
Outreach initiatives	163,987	-	-	163,987	152,585
Volunteer vacations	152,278	-	-	152,278	196,580
Member services	146,047	-	-	146,047	78,998
National trails day	124,012	-	-	124,012	139,412
Legislative policy	116,822	-	-	116,822	113,961
National trails fund	97,369	-	-	97,369	47,143
Hiker magazine	25,304	-	-	25,304	33,265
Alliance member	20,676	-	-	20,676	17,593
Total program services	<u>846,495</u>	<u>-</u>	<u>-</u>	<u>846,495</u>	<u>779,537</u>
Supporting services:					
Management and general	76,924	-	-	76,924	69,692
Fundraising and development	100,712	-	-	100,712	105,814
Total supporting services	<u>177,636</u>	<u>-</u>	<u>-</u>	<u>177,636</u>	<u>175,506</u>
Total expense	<u>1,024,131</u>	<u>-</u>	<u>-</u>	<u>1,024,131</u>	<u>955,043</u>
<b>Change in Net Assets</b>	16,750	(1,240)	-	15,510	(90,121)
Net assets, beginning of year	(293,373)	134,703	42,049	(116,621)	(21,172)
Prior period adjustment	5,328	-	-	5,328	-
Net assets, beginning, restated	<u>(288,045)</u>	<u>134,703</u>	<u>42,049</u>	<u>(111,293)</u>	<u>(21,172)</u>
<b>Net Assets, End of Year</b>	<u>\$ (271,295)</u>	<u>\$ 133,463</u>	<u>\$ 42,049</u>	<u>\$ (95,783)</u>	<u>\$ (111,293)</u>

See accompanying auditors' report and notes to financial statements.

**AMERICAN HIKING SOCIETY**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2015**  
**(WITH 2014 COMPARATIVE TOTALS)**

	<u>2015</u>	<u>2014</u>
<b>Cash Provided (Used) by Operating Activities</b>		
Change in net assets	\$ 15,510	\$ (90,121)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	2,081	1,922
Loss on dispositions of equipment	2,484	-
Provision for doubtful accounts	-	500
Realized loss (gain) on securities	(53)	-
Unrealized loss (gain) on securities	(630)	294
Prior period adjustments	-	-
Changes in assets and liabilities:		
Grants and other receivables	2,500	1,500
Inventory	(1,710)	(619)
Prepaid expenses and other assets	(5,853)	(2,640)
Accounts payable	(7,885)	70,645
Accrued vacation	652	(685)
Deferred revenue	(4,634)	14,070
Total adjustments	<u>(13,048)</u>	<u>84,987</u>
Net cash provided (used) by operating activities	2,462	(5,134)
<b>Cash Provided (Used) by Investing Activities</b>		
Proceeds from sales of marketable securities	1,172	-
Purchases and reinvestments in securities	(431)	(1,266)
Proceeds from sales of property and equipment	75	-
Purchases of property and equipment	-	(3,907)
Net cash provided (used) by investing activities	<u>816</u>	<u>(5,173)</u>
<b>Cash Provided (Used) by Financing Activities</b>		
Principal borrowings on lines-of-credit and debt	5,900	10,178
Principal repayments on lines-of-credit and debt	(2,370)	(2,607)
Net cash provided (used) by financing activities	<u>3,530</u>	<u>7,571</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	6,808	(2,736)
Cash and cash equivalents, beginning of year	<u>24,269</u>	<u>27,005</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 31,077</u>	<u>\$ 24,269</u>
<b>Supplemental Cash Flows Information:</b>		
Cash paid for interest	<u>\$ 14,269</u>	<u>\$ 7,326</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

See accompanying auditors' report and notes to financial statements.

**AMERICAN HIKING SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**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 5,500 members and contributors.

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

**Note B - Summary of Significant Accounting Policies**

Basis of Accounting & Presentation: The Society prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expense when obligations are incurred. The financial statements include certain prior-year summarized comparative information in total and not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society’s financial statements as of and for the year ended December 31, 2014, 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, 2015**

**Note B – Summary of Significant Accounting Policies – Continued**

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

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

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

Accounts and Other Receivables: The Society's accounts and other receivables consist primarily of amounts due under grants and other reimbursable arrangements, product sales, and registration fees. Receivables are reported in the accompanying financial statements at their net realizable value whereby the Society periodically reviews an aging of its accounts receivable for collection purposes and to evaluate the necessity for an allowance for doubtful accounts. As of December 31, 2015 and 2014, management determined that an allowance for doubtful accounts was unnecessary, and bad debts expense was approximately \$-0- and \$500, respectively, for the years then ended.

Inventory: Inventory consists primarily of promotional items, such as tee shirts, hats, buttons, and patches, and other items held for resale or used in program activities. Inventory is valued at the lower of cost or net realizable value or at the estimated fair value at the time of donation on a first-in, first-out basis. The Society also periodically reviews inventory for slow moving or obsolete items and to establish a reserve for obsolescence. Management determined that a reserve for inventory obsolescence was unnecessary as of December 31, 2015 and 2014, and no significant provision for inventory obsolescence was recognized during the years then ended.

Prepaid Expenses and Other Assets: The Society's prepaid expenses and other assets consist primarily of prepaid insurance, rent, and refundable security deposits as of December 31, 2015 and 2014.

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

**AMERICAN HIKING SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**Note B – Summary of Significant Accounting Policies – Continued**

Property and Equipment – Continued: Depreciation and amortization expense was approximately \$2,100 and \$1,900, respectively, for the years ended December 31, 2015 and 2014. Expenditures for repairs and maintenance that do not extend the useful life of an asset, consumable supplies, and other de minimis items are expensed as incurred.

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

Deferred Rent Liability: The Society recognizes rent expense on its long-term operating leases on a straight-line basis. A deferred rent liability is reflected for the effects of rent escalations and the difference between actual rental payments and the straight-line amortization. As of December 31, 2015 and 2014, no significant deferred rent liability was report.

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

- *Unrestricted* – Represents unrestricted resources that are available to support the Society's operations at the discretion of the Society's board of directors. The Society's board of directors may from time-to-time internally designate a portion of the Society's unrestricted net assets for specific programs or purposes. As of December 31, 2015, the Society reported designated funds of approximately \$22,400 and \$21,800, respectively, from unexpended earnings on the National Trails Endowment to protect hiking trails.
- *Temporarily restricted* – Represents contributions and interest earned on permanently restricted net assets that are restricted for the National Trails Endowment restricted to help procure land for hiking trails, build and maintain hiking trails, and protect the natural and scenic value of hiking trails, and grant resources received in support of the Society's National Trails Day and Volunteer Vacations. Temporarily restricted net assets are released from restriction by either the passage of time on time restricted support or by the Society using the funds in accordance with the donor or grantor's requirements on purpose restricted support.

**AMERICAN HIKING SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**Note B – Summary of Significant Accounting Policies – Continued**

Net Assets – Continued:

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

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

Advertising Costs: The Society expenses advertising costs as incurred. During the years ended December 31, 2015 and 2014, the Society reported approximately \$5,700 and \$1,800, respectively, in advertising and promotion expense. Fundraising and development costs, including allocable indirect costs, totaled approximately \$100,700 and \$105,800, respectively, for the years ended December 31, 2015 and 2014.

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

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

**AMERICAN HIKING SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**Note B – Summary of Significant Accounting Policies – Continued**

Fair Value Measurements - Continued:

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

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

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

As of December 31, 2015 and 2014, the Society determined that its investments in marketable securities would generally be classified as Level 1 financial instruments as fair value is generally determined based upon unadjusted quoted market prices as detailed above. Disclosures about estimated fair values and fair value measurements were determined by the Society based upon pertinent market data and other information available as of December 31, 2015 and 2014. Considerable judgment may be necessary to interpret market and financial data and to develop fair value measurements in certain circumstances, and the Society's estimates of fair values and fair value measurements may not be indicative of amounts realized at disposition.

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 – Going Concern Consideration**

During the year ended December 31, 2015, the Society experienced positive change in net assets and positive cash flows as result of management's ongoing plan to ensure the Society continues as a going concern. Management asserts its plans to generate additional revenue and support and to control costs are successfully being implemented in a manner to ensure the future financial viability of the Society. Management also established an updated strategic plan, established new fundraising efforts, and reevaluated the Society's use of technology in delivering its programs. The Society also restructured certain debt at more favorable interest rates and established more budgetary controls and oversight. As such, management contends that the positive results from the these actions and ongoing strategic initiative were established to ensure the Society continues as a going concern and provide reasonable assurance the Society will meet its cash flow needs.

**AMERICAN HIKING SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**Note C – Going Concern Consideration – Continued**

No assurance are provided regarding the future outcome of management’s plans or management’s ability generate additional revenue and continue to control costs adequately for the Society to meet its operating cash flow needs and pay its liabilities. The ability of the Society to continue as a going concern is dependent upon the success of management’s plans.

**Note D – 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, 2015 and 2014, the Society reported approximately \$37,600 and \$37,700, respectively, of fixed income money market and mutual funds held within the Society’s investment portfolio that are not covered by federal insurance.

Revenue and Support: During the years ended December 31, 2015 and 2014, the Society reported revenue from grants and contracts with the federal government totaling approximately \$112,700 (or 11%) and \$55,600 (or 6%), respectively, of the Society’s total revenue and support for the years then ended. The Society also reported in-kind donations and contributed services from corporate sponsors totaling approximately \$200,400 (or 19%) and \$207,900 (or 24%), respectively, of the Society’s total revenue and support for the years ended December 31, 2015 and 2014. The two largest contributors of in-kind donations and contributed services totaled approximately \$105,000 (or 10%) and \$141,200 (or 16%), respectively, of the Society’s total revenue and support for the years ended December 31, 2015 and 2014.

**Note E – Marketable Securities**

The Society’s marketable securities consist of the following as of December 31, 2015 and 2014:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Marketable securities:				
Cash and money market funds	\$ -	\$ -	\$ -	\$ -
Fixed income mutual funds	39,206	37,606	38,633	37,664
	<u>\$ 39,206</u>	<u>\$ 37,606</u>	<u>\$ 38,633</u>	<u>\$ 37,664</u>

**AMERICAN HIKING SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**Note E – Marketable Securities – Continued**

Investment income consists of the follow for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Investment income:		
Realized interest and dividends	\$ 1,090	\$ 1,156
Realized gain (loss) on sales of securities	(53)	(12)
Unrealized gain (loss) on marketable securities	<u>(630)</u>	<u>294</u>
	<u>\$ 407</u>	<u>\$ 1,438</u>

**Note F – Fair Value Measurements**

The Society’s investments in marketable securities are reported at fair value in the accompanying financial statements. The investments consist principally of the fixed income money market and mutual funds valued based upon the closing price reported in active markets on which the securities are traded. As of December 31, 2015 and 2014, the Society’s investments in marketable securities are classified in the following fair value measurement classifications:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>December 31, 2015:</b>				
Fixed income securities	<u>\$ 37,606</u>	<u>\$ 37,606</u>	<u>\$ -</u>	<u>\$ -</u>
<b>December 31, 2014:</b>				
Fixed income securities	<u>\$ 37,664</u>	<u>\$ 37,664</u>	<u>\$ -</u>	<u>\$ -</u>

**Note G – Accounts Receivables**

The Society’s accounts and other receivables consist primarily of amounts due under grants and other reimbursable arrangements, product sales, and registration fees. Accounts receivables are recognized when an unconditional promises-to-give from a donor or grantor is both determinable and measurable by the Society. The Society reports its accounts receivable at their net realizable value by periodically reviewing an aging of its accounts receivable for collection purposes and to evaluate an allowance for doubtful accounts. The Society also discounts any pledge or bequest receivable using a present value discount when the pledge or bequest receivables are due over an extended period of time. As of December 31, 2015 and 2014, the Society’s receivable consists principally of outstanding grants, sponsorships, and registration fees.

**AMERICAN HIKING SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**Note G – Accounts Receivables – Continued**

The Society determined that an allowance for doubtful accounts was unnecessary as of December 31, 2015 and 2014, and bad debts expense was approximately \$-0- and \$500, respectively, during the years then ended.

**Note H – Lines-of-Credit**

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

Secured Line-of-Credit: The Society maintains a \$30,000 secured line-of-credit with a regional bank, which is secured by all of the Society's assets and personally guaranteed by the Society's President. The line-of-credit is due upon demand and subject to annual renewals and certain restrictive covenants. Interest is due monthly and accrues at a variable interest rate of 2% above the bank's prime lending rate, which totaled approximately 5.5% as of December 31, 2015 and 2014. The outstanding principal balance on the secured line-of-credit was approximately \$30,000 and \$26,600, respectively, as of December 31, 2015 and 2014, and interest expense incurred on the secured line-of-credit was approximately \$1,400 and \$1,100, respectively, for the years then ended.

Secured Loan Payable: The Society also maintained \$30,000 unsecured line-of-credit with a national bank. In February 2016, the unsecured line-of-credit was converted to a \$30,000 secured term loan with a more favorable interest rate. The loan is now payable over 36 monthly installments of principal and interest of approximately \$900. Interest accrues on the secured loan at an annual fixed interest rate of approximately 6.5%. The line of credit is secured by the Society's accounts receivable, inventory, and property and equipment. The outstanding principal balance on the unsecured line-of-credit was approximately \$30,000 and \$29,900, respectively, as of December 31, 2015 and 2014, and interest expense incurred on the unsecured line-of-credit was approximately \$2,700 and \$2,300, respectively, for the years then ended.

Credit Cards: The Society maintains various credit cards which are also used to provide working capital as needed. The total available credit on the cards was approximately \$112,500 as of December 31, 2015. 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, 2015. The outstanding balances on the credit cards totaled approximately \$41,600 and \$68,100, respectively, as of December 31, 2015 and 2014 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 \$10,100 and \$3,900, respectively, for the years ended December 31, 2015 and 2014.

**AMERICAN HIKING SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**Note H – Lines-of-Credit – Continued**

Interest Expense: Interest expense totaled approximately \$14,300 and \$7,300, respectively, for the years ended December 31, 2015 and 2014, including interest incurred on the lines-of-credit, credit cards, and accounts payables owed to vendors and suppliers as noted above.

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

2016		\$ 79,300
2017		9,900
2018		10,600
2019		1,800
		\$ 101,600
		\$ 101,600

**Note I – Lease Commitments**

The Society leases office facilities and a postage machine under several non-cancelable operating leases. The leases have original terms that range from 12 to 63 months. The operating lease agreements expire at various times through the years ending December 31, 2020. The leases require total minimum monthly payments of approximately \$2,900 as of December 31, 2015, including the estimated monthly allocation property taxes, utilities, and other maintenance costs. Rent expense incurred by the Society on the operating leases totaled approximately \$19,500 and \$51,800, respectively, for the years ended December 31, 2015 and 2014. The approximate future minimum payments required under the non-cancelable operating lease agreements are as follows for the years ending December 31:

	<b>Office Leases</b>	<b>Equipment Lease</b>	<b>Total</b>
2016	\$ 24,900	\$ 2,100	\$ 27,000
2017	24,100	2,100	26,200
2018	24,800	2,100	26,900
2019	25,600	2,100	27,700
2020	21,900	-	21,900
	\$ 121,300	\$ 8,400	\$ 129,700



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**Note J – In-kind Donations and Contributed Services**

The Society recognized in-kind donations and contributed services totaling approximately \$200,400 and \$207,900, respectively, during the years ended December 31, 2015 and 2014. 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. For the years ended December 31, 2015 and 2014, in-kind donations and contributed services were allocated to the following program and supporting services:

	<u>2015</u>	<u>2014</u>
Program services:		
Outreach initiatives	\$ 117,500	\$ 105,000
Volunteer vacations	6,298	57,546
National trails day	17,739	26,455
Member services	51,017	995
Total program services	<u>192,554</u>	<u>189,996</u>
Supporting services:		
Fundraising and development	7,800	17,884
Total supporting services	<u>7,800</u>	<u>17,884</u>
	<u>\$ 200,354</u>	<u>\$ 207,880</u>

**Note K – 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, 2015 and 2014:

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

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**Note K – Restricted Net Assets – Continued**

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>December 31, 2014:</b>			
National trails endowment	\$ 134,703	\$ -	\$ 134,703
Life membership endowment	-	31,449	31,449
<i>Galen Rowell</i> national trails fund	-	10,600	10,600
	<u>\$ 134,703</u>	<u>\$ 42,049</u>	<u>\$ 176,752</u>

**Note L – 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.

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**YEAR ENDED DECEMBER 31, 2015**

**Note L – 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.

The Society's investment policy calls for a well-diversified investment portfolio, including cash and money market funds to provide adequate liquidity, and mutual bond and equity funds, government and corporate bonds, and corporate equity securities that is intended to manage risk and inflation and provide for an overall reasonable market return. The Society expects its endowment assets to produce an average rate of return commensurate with market returns over the long-term for similar type investments. Investment risk is managed in an attempt to also ensure preservation of capital under prudent investment policy, including economic, inflationary and other factors.

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

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

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, 2015 and 2014:

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**Note L – Endowment Funds – Continued**

Fund Balances - Continued:

	<b>Unrestricted Board Designated</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total Endowment Funds</b>
<b>December 31, 2015:</b>				
National trails endowment	\$ 22,424	\$ 133,463	\$ -	\$ 155,887
Life member endowment	-	-	31,449	31,449
<i>Galen Rowell</i> endowment	-	-	10,600	10,600
	<u>\$ 22,424</u>	<u>\$ 133,463</u>	<u>\$ 42,049</u>	<u>\$ 197,936</u>
Endowment fund balances as of December 31, 2014	\$ 21,799	\$ 134,703	\$ 42,049	\$ 198,551
Contributions and grants	-	70,000	-	70,000
Investment income	1,089	-	-	1,089
Expenditures and other	(464)	(71,240)	-	(71,704)
Endowment fund balances as of December 31, 2015	<u>\$ 22,424</u>	<u>\$ 133,463</u>	<u>\$ 42,049</u>	<u>\$ 197,936</u>
<b>December 31, 2014:</b>				
National trails endowment	\$ 21,799	\$ 134,703	\$ -	\$ 156,502
Life member endowment	-	-	31,449	31,449
<i>Galen Rowell</i> endowment	-	-	10,600	10,600
	<u>\$ 21,799</u>	<u>\$ 134,703</u>	<u>\$ 42,049</u>	<u>\$ 198,551</u>
Endowment fund balances as of December 31, 2013	\$ 21,110	\$ 134,703	\$ 42,049	\$ 197,862
Contributions and grants	-	20,000	-	20,000
Investment income	1,154	-	-	1,154
Expenditures and other	(465)	(20,000)	-	(20,465)
Endowment fund balances as of December 31, 2014	<u>\$ 21,799</u>	<u>\$ 134,703</u>	<u>\$ 42,049</u>	<u>\$ 198,551</u>

**AMERICAN HIKING SOCIETY**  
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**Note M – Retirement Plan**

The Society has a contributory tax-deferred annuity retirement plan under IRC Section 403(b). All employees meeting certain minimum requirements are eligible to participate in the retirement plan. The Society suspended discretionary matching contributions to the retirement plan in February 2009. Accordingly, no significant matching contributions were incurred by the Society during the years ended December 31, 2015 and 2014.

**Note N – 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, 2015 and 2014, the Society was unaware of any significant pending or threatened litigation, claims, or assessments. Accordingly, no liabilities were accrued for such contingencies in the accompanying financial statements.

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

**Note O – Income Tax Considerations**

The Society obtained a favorable tax determination letter setting forth its exemption under Section 501(c)(3) of the Internal Revenue Code. However, activities unrelated to the tax exemptions, such as publication advertising and non-qualified sponsorships, are subject to income taxation. During the years ended December 31, 2015 and 2014, the Society reported unrelated business income of approximately \$1,650 and \$-0-, respectively, from print and web advertisements and non-qualified sponsorships. However, the Society incurred net operating losses from its unrelated business activities of approximately \$600 for each of the years ended December 31, 2015 and 2014. Accordingly, the Society has accumulated a net operating loss deduction totaling approximately \$2,400 through the year ended December 2015. The net operating loss deduction may be carried forward to offset future taxable income through the years ending December 31, 2032 – 2035.

**AMERICAN HIKING SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Note O – Income Tax Considerations – Continued**

Management is currently unable to determine if or when the Society will benefit from the net operating loss deduction carryovers. As such, any potential deferred tax asset was reserved by a valuation allowance as of December 31, 2015 and 2014. Accordingly, no significant income tax expense or benefit was recognized in the accompanying financial statements for the years ended December 31, 2015 and 2014. 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, 2011 are no longer subject to examination. Additionally, management is also unaware of any significant uncertain tax positions that are more likely than not to be sustained should the Society's tax returns be subject to examination. As such, the Society did not incur or accrue any penalties and interest assessed by taxing authorities during the years ended December 31, 2015 and 2014.

**Note P – Prior Period Adjustments**

During the year ended December 31, 2015, management noted some timing differences with respect to the year-end cut-off for cash receipts. Accordingly, management reevaluated the year-end cut-off procedures used to record year-end receipts and also to record year-end accounts payable noting prior period adjustments to correct the original oversight. Management recorded prior period adjustments to correctly restate the summarized comparative financial information presented in the accompanying financial statements by correcting cash receipts and accounts payable for year ended December 31, 2014. As such, net assets and change in net assets was increased by approximately \$5,300 as of December 31, 2014 and the prior year summarized comparative information restated accordingly.

**Note Q – Subsequent Events Evaluation**

Management has evaluated subsequent events for the period January 1, 2016 through August 19, 2016, the date on which these financial statements were available to be issued and during this period, the only matter requiring additional disclosure in the accompanying financial statements pertain to the refinance of the unsecured line-of-credit to a secured term loan as noted above.