

ARIZONA TRAIL ASSOCIATION  
Audited Financial Statements  
For the year ended December 31, 2017

---

# ARIZONA TRAIL ASSOCIATION

---

## CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Statement of Assets, Liabilities and Net Assets – Modified Cash Basis	2
Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis	3
Statement of Functional Expenses – Modified Cash Basis	4
Statement of Cash Flows – Modified Cash Basis	5
Notes to Financial Statements	6 - 10

INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Arizona Trail Association

We have audited the accompanying financial statements of Arizona Trail Association (a nonprofit organization), which comprise the statement of assets, liabilities and net assets - modified cash basis as of December 31, 2017, and the related statements of revenues, expenses and changes in net assets, functional expenses and cash flows - modified cash basis 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 the modified cash basis of accounting described in Note 2; this includes the determining that the modified cash basis of accounting is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for 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.

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 assets, liabilities and net assets of Arizona Trail Association as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with the modified cash basis of accounting.

**Basis of Accounting**

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. These financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

*LUDWIG KLEWER & RUDNER PLLC*  
February 8, 2019



ARIZONA TRAIL ASSOCIATION

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS – MODIFIED CASH BASIS  
December 31, 2017

ASSETS

Current assets:	
Cash	\$ 206,088
Investments - other, current	21,070
Security deposit	1,215
Total current assets	<u>228,373</u>
Investments - other, non-current	39,056
Investments	1,112
Furniture and equipment, net	50,800
Total assets	<u>\$ 319,341</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Payroll liabilities	\$ 3,637
Note payable, current	5,449
Total current liabilities	<u>9,086</u>
Note payable, non-current	5,279
Total liabilities	<u>14,365</u>
Net assets:	
Unrestricted	297,010
Temporarily restricted	2,966
Permanently restricted	5,000
Total net assets	<u>304,976</u>
Total liabilities and net assets	<u>\$ 319,341</u>

See independent auditors' report and accompanying notes to financial statements.

ARIZONA TRAIL ASSOCIATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 – MODIFIED CASH BASIS

For the year ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
Cost share	\$ 248,822	\$ -	\$ -	\$ 248,822
Contributions	169,301	-	-	169,301
Grants	95,242	33,294	-	128,536
Membership dues	91,826	-	-	91,826
Registration fees	88,235	-	-	88,235
Other income	29,536	-	-	29,536
Merchandise sales, net	26,673	-	-	26,673
In-kind contributions	21,304	-	-	21,304
Investment income	2,536	-	-	2,536
Total revenues and support	773,475	33,294	-	806,769
Net assets released from restrictions	150,459	(150,459)	-	-
Total revenue and support	923,934	(117,165)	-	806,769
Expenses:				
Program services	821,272	-	-	821,272
General and administrative	140,259	-	-	140,259
Fund-raising	35,156	-	-	35,156
Total expenses	996,687	-	-	996,687
Change in net assets	(72,753)	(117,165)	-	(189,918)
Net assets, beginning of year	369,763	120,131	5,000	494,894
Net assets, end of year	\$ 297,010	\$ 2,966	\$ 5,000	\$ 304,976

See independent auditors' report and  
 accompanying notes to financial statements.

ARIZONA TRAIL ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES – MODIFIED CASH BASIS  
For the year ended December 31, 2017

	Program Services	General and Administrative	Fund- raising	Total Expenses
Trail building and maintenance	\$ 233,048	\$ 9,846	\$ -	\$ 242,894
Salaries and wages	173,792	43,448	17,615	234,855
Professional fees	196,302	7,526	2,940	206,768
Program expenses	118,853	-	-	118,853
Office expenses	5,125	31,840	3,536	40,501
Travel	17,236	6,962	5,675	29,873
Payroll taxes and benefits	17,514	7,151	1,608	26,273
Other expenses	7,795	13,488	742	22,025
In-kind	21,304	-	-	21,304
Depreciation	6,783	11,735	82	18,600
Insurance	10,798	4,629	-	15,427
Occupancy	9,846	416	-	10,262
Bank fees	-	2,421	2,958	5,379
Marketing and advertising	2,876	797	-	3,673
Total functional expenses	<u>\$ 821,272</u>	<u>\$ 140,259</u>	<u>\$ 35,156</u>	<u>\$ 996,687</u>

See independent auditors' report and accompanying notes to financial statements.

ARIZONA TRAIL ASSOCIATION

STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS  
For the year ended December 31, 2017

Cash flows from operating activities:	
Change in net assets	\$ (189,918)
Reconciliation of change in net assets to net cash used in operating activities:	
Depreciation	18,600
Unrealized loss on investment	451
Change in operating assets and liabilities:	
Receivables - other	653
Accrued expenses	(12,431)
Total adjustments	<u>7,273</u>
Net cash used in operating activities	(182,645)
Cash flows from investing activities:	
Proceeds from marketable securities	50,000
Purchases of furniture and equipment	(9,432)
Net cash provided by investing activities	40,568
Cash flows from financing activities:	
Payments on note payable	(4,663)
Net cash used in financing activities	<u>(4,663)</u>
Change in cash	(146,740)
Cash, beginning of year	<u>352,828</u>
Cash, end of year	<u><u>\$ 206,088</u></u>
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	<u>\$ 778</u>
Cash paid during the year for taxes	<u><u>\$ -</u></u>

See independent auditors' report and  
accompanying notes to financial statements.

# ARIZONA TRAIL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS For the year ended December 31, 2017

### 1. Organization

Arizona Trail Association (ATA) was incorporated as a nonprofit corporation in the state of Arizona on February 17, 1994. ATA's mission is to protect, maintain, enhance, promote, and sustain the Arizona Trail as a unique encounter with the land. ATA coordinates the planning, development, and promotion of the Arizona Trail for the recreational and educational experiences of nonmotorized trail users. ATA's primary sources of revenue are from both private and federal grants, membership dues, donations, and events.

### 2. Summary of Significant Accounting Policies

#### Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. That basis differs from generally accepted accounting principles in that certain revenues are recognized when received rather than when earned and payments to vendors are recognized when paid instead of when goods or services are received.

#### Financial Statement Presentation

ATA reports information regarding its financial position and activities according to three classes of net assets (unrestricted, temporarily restricted and permanently restricted) based upon the existence or absence of donor-imposed restrictions.

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of ATA and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of revenues, expenses and changes in net assets as net assets released from restrictions. There are \$2,966 in temporarily restricted net assets at December 31, 2017.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by ATA. Generally, the donors of these assets permit ATA to use all or part of the income earned on any related investments for general or specific purposes. There are \$5,000 in permanently restricted net assets at December 31, 2017.

#### Cash

For the purposes of the statement of cash flows, ATA considers all cash and highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of a money market account. Cash balances are maintained at a financial institution. The Federal Deposit Insurance Corporation (FDIC) insures cash accounts up to \$250,000 per institution. At December 31, 2017, ATA had no cash on deposit in excess of FDIC limitations.

#### Investments

Investments in marketable securities with readily determinable fair values are valued at their fair values in the statement of assets, liabilities and net assets – modified cash basis. Unrealized gains and losses are included in the statement of revenues, expenses and changes in net assets – modified cash basis.

See independent auditors' report.



ARIZONA TRAIL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS  
For the year ended December 31, 2017

2. Summary of Significant Accounting Policies, Continued

Investments - Other

Investments – other at December 31, 2017 consists of certificates of deposit held for investment. The certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as current, and certificates of deposit with remaining maturities greater than one year are classified as non-current. The certificates of deposit mature on dates ranging from October 2018 to July 2019 and with interest rates ranging from 2.05% to 2.2%.

Contributions

Contributions are recognized under the modified cash basis accounting when ATA receives the contribution. ATA reports gifts of cash and other assets as temporarily or permanently restricted support if such gifts are received with donor stipulations that limit the use of the donated assets as to either purpose or time period. When a donor restriction expires, either through the passage of time or use of the monies for the purpose intended by the donor, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Temporarily restricted contributions are reported as unrestricted net assets when the restriction is met in the same period as the contribution is received.

Property and Equipment

Purchases of property and equipment having a unit cost of \$1,000 or more and an estimated useful life of more than one year are capitalized at cost. Donated property and equipment meeting the same criteria is recorded at estimated fair market value on the date of the donation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets which range from five to seven years.

Income Taxes

ATA is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC) and from Arizona income tax under Arizona Revised Statute section 43-1201(4). Therefore, no provision has been made for income taxes in the accompanying financial statements. In addition, ATA qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). There were no taxes paid by ATA during the year ended December 31, 2017.

ATA's policy is to disclose or recognize income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax positions. As of December 31, 2017, there were no uncertain tax positions that are potentially material.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Functional Allocation of Expenses

ATA allocates its expenses on a functional basis among its programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated by other reasonable methods.

See independent auditors' report.

ARIZONA TRAIL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS  
For the year ended December 31, 2017

2. Summary of Significant Accounting Policies, Continued

Donated Services and Materials

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

3. Investments

Investments in the amount of \$1,112 at December 31, 2017 are carried at fair market value and consist of exchange traded funds. Investment income for the year ended December 31, 2017 is:

Interest and dividends	\$	2,987
Unrealized loss		(451)
Total investments	\$	<u>2,536</u>

4. Fair Value Measurements

The Financial Accounting Standards Board has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that ATA has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at December 31, 2017.

- *Exchange Traded Funds:* Valued at the net asset value of shares held at year end.

See independent auditors' report.

ARIZONA TRAIL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS  
For the year ended December 31, 2017

4. Fair Value Measurements, Continued

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while ATA believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The ATA investments are considered level 1 investments.

5. Furniture and Equipment

Furniture and equipment consists of the following at December 31, 2017:

Vehicles	\$ 126,418
Equipment	21,949
Total property and equipment	148,367
Less accumulated depreciation	(97,567)
Furniture and equipment, net	<u>\$ 50,800</u>

6. Note Payable

The note payable at December 31, 2017 consists of:

Vehicle loan from Ford Motor Credit Corporation, due in monthly installments of \$495, including interest at 5.9% through December 10, 2019; collateralized with a vehicle.	\$ 10,728
Less: current portion	(5,449)
Non-current portion	<u>\$ 5,279</u>

Principal maturities of the note payable are:

Year ended	
<u>December 31,:</u>	
2018	\$ 5,449
2019	5,279
	<u>\$ 10,728</u>

7. Endowment Funds

ATA's endowment consists of one fund established by the Board of Directors for both donor endowments and board designated endowments. Net assets associated with endowment funds (including funds designated by the Board of Directors to function as endowments) are classified and reported based on the existence or absence of donor-imposed restrictions. Net assets in the endowment fund at December 31, 2017 consist of a \$5,000 permanently restricted donor contribution.

The State of Arizona adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA)(the Act). The Board of Directors ATA has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ATA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

See independent auditors' report.

ARIZONA TRAIL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS  
For the year ended December 31, 2017

7. Endowment Funds, Continued

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the Act.

In accordance with the Act, ATA considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires ATA to retain as a fund of perpetual duration. There were no deficiencies of this nature to be reported as of December 31, 2017.

Investment Strategies

To satisfy its long-term rate-of-return objectives, ATA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The primary purpose of ATA's endowment funds is to provide additional funding for programs and operations while increasing the investment base.

Spending Policy

ATA adopted a distribution policy that allows for use of earnings from the endowment. Accumulated earnings on the endowment are released from temporarily restricted net assets when used by ATA for programs. All earnings are released and used annually.

8. Fiscal Sponsorship

ATA was party to a fiscal sponsorship agreement with Natural Restorations, an unincorporated organization whose mission is compatible with ATA's mission. In accordance with accounting principles related to fiscal sponsorship, ATA recognized revenue received for Natural Restorations as temporarily restricted income, and expenses were recorded as program activities. ATA received up to 10% of the income received as a management fee as per the agreement.

9. Subsequent Events

ATA was unaware of any subsequent events as of February 8, 2019, the date the financial statements were available to be issued.

See independent auditors' report.