

**FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

**MADDISON & CAISON, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS  
RALEIGH, NORTH CAROLINA

Independent Auditor's Report

To the Board of Directors  
Friends of the Mountains-to-Sea Trail  
Raleigh, North Carolina

We have audited the accompanying financial statements of Friends of the Mountains-to-Sea Trail ("Friends") which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 the 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 assessing 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 Friends of the Mountains-to-Sea Trail as of December 31, 2017 and 2016, and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

September 23, 2018

*Maddison + Carzan, LLP*

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
<b>ASSETS</b>		
Current assets		
Cash & cash equivalents	\$ 329,164	\$ 153,941
Grants receivable	84,528	257,235
Pledges and other contributions receivable	30,306	68,715
Sales tax and other receivables	3,810	1,090
Inventory	5,313	3,725
Prepaid expenses and deposits	7,222	3,810
Total current assets	460,343	488,516
Fixed assets		
Equipment and furniture	30,006	16,519
Less accumulated depreciation	(14,150)	(8,965)
Net fixed assets	15,856	7,554
Other assets		
Deposits	951	375
Long-term pledges	2,134	25,567
Beneficial interest in assets held by community foundation	63,739	17,709
Total other assets	66,824	43,651
<b>TOTAL ASSETS</b>	<b>\$ 543,023</b>	<b>\$ 539,721</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 11,151	\$ 944
Deferred revenue	65,676	53,806
Total current liabilities	76,827	54,750
Net assets		
Unrestricted, available for operations	251,235	205,963
Unrestricted, board designated	17,478	14,352
Temporarily restricted	133,744	246,947
Beneficial interest in assets held by community foundation	63,739	17,709
Total net assets	466,196	484,971
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 543,023</b>	<b>\$ 539,721</b>

See accompanying accountant's report.  
See accompanying notes to financial statements.

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Beneficial Interest in Assets Held by Community Foundation	Total
Support and revenues				
Contributions & grants	\$ 187,372	\$ 72,838	\$ 42,006	\$ 302,216
Grant contract income	17,157	-	-	17,157
Donated services	9,658	-	-	9,658
Other non-cash donations	11,305	-	-	11,305
Program income	33,751	-	-	33,751
Inventory sales, net	5,865	-	-	5,865
Royalty income	8,854	-	-	8,854
Interest income	143	-	-	143
Loss on donated securities	(136)	-	-	(136)
Gain on beneficial interest	-	-	4,024	4,024
Temporarily restricted net assets released from restriction	186,041	(186,041)	-	-
Total support and revenues	<u>460,010</u>	<u>(113,203)</u>	<u>46,030</u>	<u>392,837</u>
Expenses				
Program services				
Trail building & maintenance	65,960	-	-	65,960
Education	254,449	-	-	254,449
Corridor acquisition	34,683	-	-	34,683
Advocacy	3,108	-	-	3,108
Total program services	<u>358,200</u>	<u>-</u>	<u>-</u>	<u>358,200</u>
Supporting services				
Management and general	37,655	-	-	37,655
Fundraising	15,757	-	-	15,757
Total supporting services	<u>53,412</u>	<u>-</u>	<u>-</u>	<u>53,412</u>
Total expenses	<u>411,612</u>	<u>-</u>	<u>-</u>	<u>411,612</u>
Change in net assets	48,398	(113,203)	46,030	(18,775)
Net assets - beginning of year	<u>220,315</u>	<u>246,947</u>	<u>17,709</u>	<u>484,971</u>
Net assets - end of year	<u>\$ 268,713</u>	<u>\$ 133,744</u>	<u>\$ 63,739</u>	<u>\$ 466,196</u>

See accompanying accountant's report.  
See accompanying notes to financial statements.

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Beneficial Interest in Assets Held by Community Foundation	Total
Support and revenues				
Contributions & grants	\$ 403,117	\$ 200,006	\$ 3,687	\$ 606,810
Donated services	11,545	-	-	11,545
Donated rent	4,000	-	-	4,000
Other non-cash donations	14,738	-	-	14,738
Program income	5,739	-	-	5,739
Inventory sales, net	2,367	-	-	2,367
Royalty income	1,428	-	-	1,428
Raffle income	4,934	-	-	4,934
Advertising income	400	-	-	400
Interest income	111	-	-	111
Loss on donated securities	(94)	-	-	(94)
Gain on beneficial interest	-	-	621	621
Temporarily restricted net assets released from restriction	97,491	(97,491)	-	-
Total support and revenues	<u>545,776</u>	<u>102,515</u>	<u>4,308</u>	<u>652,599</u>
Expenses				
Program services				
Trail building & maintenance	271,633	-	-	271,633
Education	155,607	-	-	155,607
Corridor acquisition	33,458	-	-	33,458
Advocacy	1,786	-	-	1,786
Total program services	<u>462,484</u>	<u>-</u>	<u>-</u>	<u>462,484</u>
Supporting services				
Management and general	31,663	-	-	31,663
Fundraising	18,524	-	-	18,524
Total supporting services	<u>50,187</u>	<u>-</u>	<u>-</u>	<u>50,187</u>
Total expenses	<u>512,671</u>	<u>-</u>	<u>-</u>	<u>512,671</u>
Change in net assets	33,105	102,515	4,308	139,928
Net assets - beginning of year	<u>187,210</u>	<u>144,432</u>	<u>13,401</u>	<u>345,043</u>
Net assets - end of year	<u>\$ 220,315</u>	<u>\$ 246,947</u>	<u>\$ 17,709</u>	<u>\$ 484,971</u>

See accompanying accountant's report.  
See accompanying notes to financial statements.

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2017	2016
Cash flows from operating activities		
Change in net assets	\$ (18,775)	\$ 139,928
Depreciation	5,185	1,170
Donated securities	(3,582)	(37,423)
Loss on donated securities	136	94
Gain on beneficial interest	(4,024)	(621)
Changes in		
Donated securities	3,446	37,329
Receivables	231,829	(263,526)
Prepaid expenses and deposits	(3,988)	(1,518)
Inventory	(1,588)	(1,688)
Deposits		
Payables	10,207	(3,202)
Deferred revenue	11,870	53,001
	230,716	(76,456)
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Cash transferred to beneficial interest	(42,006)	(3,687)
Purchases of fixed assets	(13,487)	(4,140)
	(55,493)	(7,827)
Net cash used by investing activities		
Net increase (decrease) in cash and cash equivalents	175,223	(84,283)
Cash and cash equivalents - beginning of year	153,941	238,224
Cash and cash equivalents - end of year	\$ 329,164	\$ 153,941

See accompanying accountant's report.

See accompanying notes to financial statements.

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
SCHEDULE OF FUNCTIONAL EXPENSES  
Year Ended December 31, 2017

	Program Services				
	Trail Building & Maintenance	Education	Trail Routing	Advocacy	Total
Salaries & benefits	\$ 8,966	\$ 116,238	\$ 7,162	\$ 1,252	\$ 133,618
Payroll taxes & fees	601	7,788	477	85	8,951
Contract services	13,143	41,524	25,000	-	79,667
Professional fees	-	1,644	487	1,073	3,204
Depreciation	295	3,807	233	41	4,376
Equipment rental & maintenance	232	2,608	-	-	2,840
Fees	46	874	-	504	1,424
Insurance	151	1,978	122	22	2,273
Memberships & subscriptions	-	305	-	-	305
Postage & mailing	88	1,890	24	1	2,003
Printing & copying	1	3,648	29	1	3,679
Rent & utilities	767	14,717	612	107	16,203
Supplies & tools	38,130	40,730	23	4	78,887
Telephone	167	5,688	131	12	5,998
Travel & meetings	1,827	9,354	383	6	11,570
Awards & grants	1,546	1,656	-	-	3,202
	<u>\$ 65,960</u>	<u>\$ 254,449</u>	<u>\$ 34,683</u>	<u>\$ 3,108</u>	<u>\$ 358,200</u>

See accompanying accountant's report.  
See accompanying note to financial statements.



Supporting Services

<u>Management &amp; General</u>	<u>Fundraising</u>	<u>Total</u>
\$ 16,811	\$ 6,984	\$ 157,413
2,131	467	11,549
374	700	80,741
10,990	-	14,194
581	228	5,185
240	-	3,080
755	26	2,205
2,400	119	4,792
-	-	305
109	1,548	3,660
138	4,130	7,947
1,518	597	18,318
1,043	93	80,023
386	800	7,184
179	65	11,814
-	-	3,202
\$ 37,655	\$ 15,757	\$ 411,612
\$ 37,655	\$ 15,757	\$ 411,612

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
SCHEDULE OF FUNCTIONAL EXPENSES  
Year Ended December 31, 2016

	Program Services				
	Trail Building & Maintenance	Education	Trail Routing	Advocacy	Total
Salaries & benefits	\$ 5,111	\$ 81,993	\$ 8,540	\$ 882	\$ 96,526
Payroll taxes & fees	635	6,459	672	67	7,833
Contract services	154,959	30,318	20,000	-	205,277
Professional fees	1,698	1,601	1,248	128	4,675
Depreciation	624	354	76	4	1,058
Equipment rental & maintenance	1,243	-	-	-	1,243
Fees	237	-	-	504	741
Insurance	481	3,055	318	33	3,887
Memberships & subscriptions	-	270	-	-	270
Postage & mailing	72	2,686	-	1	2,759
Printing & copying	-	4,435	-	1	4,436
Rent & utilities	451	10,941	723	75	12,190
Supplies & tools	104,990	6,836	405	5	112,236
Telephone	70	2,760	120	10	2,960
Travel & meetings	144	2,771	1,356	76	4,347
Awards & grants	918	1,128	-	-	2,046
	<u>\$ 271,633</u>	<u>\$ 155,607</u>	<u>\$ 33,458</u>	<u>\$ 1,786</u>	<u>\$ 462,484</u>

See accompanying accountant's report.  
See accompanying note to financial statements.

Supporting Services

<u>Management &amp; General</u>	<u>Fundraising</u>	<u>Total</u>
\$ 14,723	\$ 8,531	\$ 119,780
1,160	672	9,665
-	-	205,277
12,315	-	16,990
70	42	1,170
-	-	1,243
666	200	1,607
549	318	4,754
-	-	270
137	644	3,540
40	2,920	7,396
1,246	722	14,158
96	3,244	115,576
300	966	4,226
361	265	4,973
-	-	2,046
\$ 31,663	\$ 18,524	\$ 512,671

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016

Note 1 - Organizational Purpose and Significant Accounting Policies

Friends of the Mountains-to-Sea Trail ("Friends") was incorporated in the State of North Carolina in 1997 and is a tax-exempt, nonprofit organization as defined under Section 501(c)(3) of the Internal Revenue Code. The mission of Friends is building, protecting and promoting a foot trail across the State of North Carolina for the enjoyment and education of people. Friends' four major programs are trail building and maintenance, education, trail routing, and advocacy. Friends' support consists primarily of contributions and grants.

The financial statements of Friends are prepared using the accrual basis of accounting. Consequently, grant and contribution income are recorded as awarded, per signed contract, or pledged and expenses are recorded as incurred.

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Fixed assets are stated at cost at date of acquisition or at fair market value at the date of gift. Depreciation is recorded on a straight-line basis over the estimated useful life of the asset, typically three to seven years. Friends expenses small tools and supplies used for trail maintenance.

Inventory consists of apparel bearing the Friends logo and trail guides. Inventory is stated at the lower of cost or net realizable value on an average cost basis. Inventory sales are presented net of cost of goods sold of \$9,697 and \$2,113 and net of shipping and handling of \$1,072 and \$457 for the years ended December 31, 2017 and 2016, respectively. Shipping and handling are expensed as incurred.

The costs of providing the various programs and other activities of Friends have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services.

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016

Note 1 - Organizational Purpose and Significant Accounting Policies (continued)

For purposes of the Statement of Cash Flows, Friends considers all money market accounts and highly liquid debt instruments with a maturity of less than three months to be cash equivalents.

Friends records as receivables any pledges that are unconditional promises to give and grants that have been awarded in writing. These pledges and grants receivable are classified as current or non-current based on the amount of time estimated to collect as indicated by the donor's stated intention. No allowance for uncollectible pledges or grants has been made, as Friends estimates all will be collected. All long-term pledges receivable are expected to be collected by December 31, 2019.

Friends receives a substantial amount of services donated by its members and other volunteers in carrying out the Friends' mission. No amounts have been recorded in the financial statements for those services since they do not meet the criteria for recognition under generally accepted accounting principles. Contributed services are recognized for those that require specialized skills. For the years ended December 31, 2017 and 2016, Friends recorded \$9,658 and \$11,545, respectively, in donated professional services with corresponding recognition of professional fees expense.

Note 2 - Concentration of Risk

Cash balances are deposited at a local financial institution in Friends' accounts, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2017, Friends had \$65,138 on deposit in excess of federally insured limits. Friends believes there is minimal risk regarding its cash and cash equivalents.

Note 3 – Board Designated Net Assets

Unrestricted, board designated net assets as of December 31, 2017 consist of net income derived from the sale of inventory. Unrestricted, board designated net assets as of December 31, 2016 consist of net income derived from the sale of inventory as well as a reserve for 40<sup>th</sup> Anniversary events.

Note 4 – Beneficial Interest in Assets Held by Community Foundation

On December 1, 2010, Friends made a gift to the NC Community Foundation (the "Foundation") and signed an agreement to establish an agency endowment fund with Friends as the named beneficiary. According to the agreement, the Foundation has legal and fiduciary control of the assets in the fund, investing and distributing principal and interest according to its policies and procedures for such agency endowments. The Foundation has agreed to retain the principal amount of the gift as a permanent endowment and to make Friends the recipient of annual planned disbursements of income.

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016

Note 4 – Beneficial Interest in Assets Held by Community Foundation (continued)

Because Friends is the named beneficiary of future distributions from the fund, it has recorded its beneficial interest in the assets held in these funds as a long-term asset at fair value in accordance with FASB ASC 958 with a corresponding segregation of net assets. As of December 31, 2017, the assets related to Friends' beneficial interest are invested in the Foundation's larger portfolio, which is comprised of Level 1 investments according to FASB ASC 820-10's fair value hierarchy. Level 1 investments are those with quoted prices in active markets that Friends has the ability to access as of a given measurement date. The recorded fair value of this beneficial interest to Friends as of December 31, 2017 and 2016 is \$63,739 and \$17,709, respectively.

Note 5 – Deferred Revenue

Deferred revenue as of December 31, 2017 and 2016 is comprised of reimbursement grants awarded to Friends by the North Carolina Department of Natural and Cultural Resources in advance of expenses for three trail maintenance projects. In addition, as of December 31, 2017, deferred revenue also includes a \$26,490 grant from Durham County awarded for the construction of bridges not yet earned as well as \$1,515 received in advance for a 2018 event.

Note 6 – Line of Credit

On April 19, 2016, Friends opened a \$150,000 revolving line of credit with a local financial institution for use in the event that project expenses deplete operating cash before reimbursements are made by granting agencies. Draws on the line of credit accrue interest at an annual rate of prime plus .5% and are due in full at maturity on April 20, 2018. The line of credit had a zero balance as of December 31, 2017 and 2016. Subsequently on April 13, 2018, Friends renewed the line of credit with the same terms but with a new maturity date of April 20, 2020.

Note 7 - Lease Commitments

On December 1, 2016, Friends signed a 12-month lease for office space that began on January 1, 2017 and ended on December 31, 2017. Rent was \$815 per month for 2017 under this lease for a total of \$9,780 in rent expense in 2017. On November 15, 2017, Friends signed a new lease for office space that begins January 1, 2018 and ends on December 31, 2020. Rent begins at \$951 per month for the first year and increases each year over the term of the lease. Friends' future rent obligations are \$11,412 for the year ended December 31, 2018, \$11,760 for the year ended December 31, 2019, and \$12,108 for the year ended December 31, 2020. Management has not recorded a deferred rent liability for this increase as of December 31, 2017 as it has been determined not to be material to the financial statements.

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2017 and 2016

Note 8 – Temporarily Restricted Net Assets

As of December 31, Friends had net assets temporarily restricted for the following purposes:

	<u>2017</u>	<u>2016</u>
Eno River Bridge gift	\$ 21,500	\$ 21,500
Falls Lake Bridge gifts	5,731	30,471
40th Anniversary gifts	51,221	134,085
Foundation grants	44,039	46,612
Corporate grants	4,734	10,257
Other grants	<u>6,519</u>	<u>4,022</u>
 Total	 <u>\$ 133,744</u>	 <u>\$ 246,947</u>

Note 9 – Retirement Plan

On July 1, 2008, Friends adopted a SIMPLE retirement plan for eligible employees. Employees may contribute up to the maximum allowed by law. Friends makes a contribution of up to 3% of salary for eligible employees. For the years ended December 31, 2017 and 2016, Friends recorded \$3,090 and \$3,146 in retirement expense, respectively.

Note 10 – Concentrations

Friends received approximately 23% of its support from three sources and approximately 37% of its support from six sources for the year ended December 31, 2017. Friends received approximately 55% of its support from three sources and approximately 68% of its support from six sources for the year ended December 31, 2016.

Note 11 – Income Taxes

Friends is a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been recorded on the financial statements.

Friends has evaluated its tax positions as of December 31, 2017 and believes they exceed the “more likely than not” standard set by FASB ASC 740-10. Consequently, it has not recorded a liability for any potentially imposed taxes or any potentially unrecognized tax benefits.

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016

Note 12 – Subsequent Events

Friends' management has evaluated subsequent events through September 23, 2018, the date on which the financial statements were available to be issued. No additional adjustments or disclosures were determined to be necessary.