

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

**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, 2018 and 2017, 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, 2018 and 2017, 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.

October 4, 2019

*Muddison + Carson, LLP*

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

	December 31	
	2018	2017
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 382,317	\$ 329,164
Grants receivable	81,187	84,528
Pledges and other contributions receivable	9,121	30,306
Sales tax and other receivables	4,991	3,810
Inventory	6,272	5,313
Prepaid expenses and deposits	5,308	7,222
Total current assets	489,196	460,343
Fixed assets		
Equipment and furniture	28,827	30,006
Less accumulated depreciation	(19,225)	(14,150)
Net fixed assets	9,602	15,856
Other assets		
Deposits	951	951
Long-term pledges	-	2,134
Beneficial interest in assets held by community foundation	63,389	63,739
Total other assets	64,340	66,824
<b>TOTAL ASSETS</b>	<b>\$ 563,138</b>	<b>\$ 543,023</b>

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

	December 31	
	2018	2017
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 1,025	\$ 11,151
Deferred revenue	33,146	65,676
<b>Total current liabilities</b>	<u>34,171</u>	<u>76,827</u>
<b>Net assets</b>		
<b>Without donor restrictions</b>		
Available for operations	182,929	212,379
Invested in fixed assets	9,602	15,856
Board designated for specific purposes	19,960	40,478
Board designated - beneficial interest in assets held by community foundation (endowment)	49,879	50,229
	<u>262,370</u>	<u>318,942</u>
<b>With donor restrictions</b>		
Restricted for specific purposes	253,087	133,744
Restricted in perpetuity - beneficial interest in assets held by community foundation (endowment)	13,510	13,510
	<u>266,597</u>	<u>147,254</u>
<b>Total net assets</b>	<u>528,967</u>	<u>466,196</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 563,138</u>	<u>\$ 543,023</u>

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenues			
Contributions and grants	\$ 182,748	\$ 172,328	\$ 355,076
Donated services	12,153	-	12,153
Other non-cash donations	2,922	-	2,922
Program income	14,795	-	14,795
Inventory sales, net	3,144	-	3,144
Royalty income	163	-	163
Interest income	92	-	92
Loss on donated securities	(265)	-	(265)
Loss on beneficial interest, net	(5,718)	-	(5,718)
Net assets with donor restrictions released from restriction	52,985	(52,985)	-
Total support and revenues	<u>263,019</u>	<u>119,343</u>	<u>382,362</u>
Expenses			
Program services			
Trail building & maintenance	65,513	-	65,513
Education	150,610	-	150,610
Corridor acquisition	29,585	-	29,585
Advocacy	1,875	-	1,875
Total program services	<u>247,583</u>	<u>-</u>	<u>247,583</u>
Supporting services			
Management and general	33,779	-	33,779
Fundraising	38,229	-	38,229
Total supporting services	<u>72,008</u>	<u>-</u>	<u>72,008</u>
Total expenses	<u>319,591</u>	<u>-</u>	<u>319,591</u>
Change in net assets	(56,572)	119,343	62,771
Net assets - beginning of year	<u>318,942</u>	<u>147,254</u>	<u>466,196</u>
Net assets - end of year	<u>\$ 262,370</u>	<u>\$ 266,597</u>	<u>\$ 528,967</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, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues			
Contributions and grants	\$ 229,368	\$ 72,848	\$ 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, net	4,024	-	4,024
Net assets with donor restrictions released from restriction	186,041	(186,041)	-
Total support and revenues	<u>506,030</u>	<u>(113,193)</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>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>53,412</u>
Total expenses	<u>411,612</u>	<u>-</u>	<u>411,612</u>
Change in net assets	94,418	(113,193)	(18,775)
Net assets - beginning of year	<u>224,524</u>	<u>260,447</u>	<u>484,971</u>
Net assets - end of year	<u>\$ 318,942</u>	<u>\$ 147,254</u>	<u>\$ 466,196</u>

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

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

	<u>Year Ended</u>	<u>December 31</u>
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 62,771	\$ (18,775)
Depreciation	6,253	5,185
Donated securities	(5,274)	(3,582)
Loss on donated securities	265	136
(Gain)/loss on beneficial interest	5,718	(4,024)
Changes in		
Donated securities	5,009	3,446
Receivables	25,479	231,829
Prepaid expenses and deposits	1,914	(3,988)
Inventory	(959)	(1,588)
Deposits		
Payables	(10,126)	10,207
Deferred revenue	(32,530)	11,870
	<u>58,520</u>	<u>230,716</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Cash transferred to beneficial interest	(5,367)	(42,006)
Purchases of fixed assets	-	(13,487)
	<u>(5,367)</u>	<u>(55,493)</u>
Net cash used by investing activities		
Net increase in cash and cash equivalents	53,153	175,223
Cash and cash equivalents - beginning of year	<u>329,164</u>	<u>153,941</u>
Cash and cash equivalents - end of year	<u>\$ 382,317</u>	<u>\$ 329,164</u>

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

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended December 31, 2018

	Program Services				Total
	Trail Building & Maintenance	Education	Trail Routing	Advocacy	
Salaries & benefits	\$ 8,404	\$ 85,917	\$ 8,862	\$ 1,518	\$ 104,701
Payroll taxes & fees	566	6,136	661	94	7,457
Contract services	1,660	5,883	10,300	-	17,843
Professional fees	2,099	138	5,532	-	7,769
Depreciation	375	4,064	438	63	4,940
Cost of goods sold	-	3,158	-	-	3,158
Equipment rental & maintenance	1,815	980	-	-	2,795
Fees	48	271	-	-	319
Insurance	114	1,171	121	21	1,427
Memberships & subscriptions	-	323	-	-	323
Postage & mailing	55	3,218	37	-	3,310
Printing & copying	10	10,139	1,458	-	11,607
Rent & utilities	719	11,408	764	129	13,020
Supplies & tools	49,019	10,410	96	7	59,532
Telephone	287	5,354	264	43	5,948
Travel & meetings	342	4,743	1,052	-	6,137
Awards & grants	-	455	-	-	455
<b>Total expenses</b>	<b>65,513</b>	<b>153,768</b>	<b>29,585</b>	<b>1,875</b>	<b>250,741</b>
Less expenses included with revenues on the statement of activities	-	(3,158)	-	-	(3,158)
<b>Total expenses included in the expense section of the statement of activities</b>	<b>\$ 65,513</b>	<b>\$ 150,610</b>	<b>\$ 29,585</b>	<b>\$ 1,875</b>	<b>\$ 247,583</b>

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

Supporting Services

<u>Management &amp; General</u>	<u>Fundraising</u>	<u>Total</u>
\$ 17,188	\$ 10,957	\$ 132,846
1,228	755	9,440
-	16,928	34,771
10,834	-	18,603
813	500	6,253
-	-	3,158
-	-	2,795
621	369	1,309
234	149	1,810
-	-	323
28	2,849	6,187
186	3,261	15,054
1,477	939	15,436
443	105	60,080
725	1,067	7,740
2	350	6,489
-	-	455
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33,779	38,229	322,749
<hr/>		
-	-	(3,158)
<hr/>		
<u>\$ 33,779</u>	<u>\$ 38,229</u>	<u>\$ 319,591</u>

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
STATEMENT 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
Cost of goods sold	-	10,769	-	-	10,769
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
<b>Total expenses</b>	<b>65,960</b>	<b>265,218</b>	<b>34,683</b>	<b>3,108</b>	<b>368,969</b>
Less expenses included with revenues on the statement of activities	-	(10,769)	-	-	(10,769)
<b>Total expenses included in the expense section of the statement of activities</b>	<b>\$ 65,960</b>	<b>\$ 254,449</b>	<b>\$ 34,683</b>	<b>\$ 3,108</b>	<b>\$ 358,200</b>

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
-	-	10,769
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
<hr/>		
37,655	15,757	422,381
<hr/>		
-	-	(10,769)
<hr/>		
<u>\$ 37,655</u>	<u>\$ 15,757</u>	<u>\$ 411,612</u>

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 and 2017

Note 1 - Organizational Purpose

Friends of the Mountains-to-Sea Trail ("Friends" or the "Organization") 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. The Organization's four major programs are trail building and maintenance, education, trail routing, and advocacy. The Organization's support consists primarily of contributions from the general public, as well as from corporate, foundation and government grants.

Note 2 – Significant Accounting Policies

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

**Basis of Presentation**

The Organization's financial statement presentation follows the recommendations of the Financial Accounting Standards Board ("FASB") in its Statement of Financial Accounting Standards ASC 958, *Not-for-Profit Entities*.

**Cash and Cash Equivalents**

The Organization considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

**Receivables**

The Organization 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 or by the terms of the grant award. No allowance for uncollectible pledges or grants has been recorded as of December 31, 2018 and 2017, as Friends' management estimates all will be collected. Pledges receivable have not been discounted to present value as management has determined that such a discount is not material to the financial statements.

**Inventory**

Inventory consists of apparel bearing the Friends' logo, trail guides, and other miscellaneous items. 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, including shipping and handling, of \$3,158 and \$10,769 for the years ended December 31, 2018 and 2017, respectively.

**Fixed Assets**

Fixed assets are stated at cost at date of acquisition or at fair market value at the date of donation. Depreciation is recorded on a straight-line basis over the estimated useful life of the asset, typically three to seven years. The Organization expenses small tools and supplies used for trail maintenance. Ownership of any constructed or purchased trail assets, such as bridges and signs, reverts to the associated land managing agency.

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 and 2017

Note 2 – Significant Accounting Policies (continued)

**Net Assets**

Net assets and revenues received are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net assets without donor restrictions* – net assets available for use in general operations and not subject to donor restrictions.

*Net assets with donor restrictions* – net assets subject to donor-imposed restrictions that are temporary or perpetual in nature. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed and/or when the stipulated purpose for which the resource was restricted has been fulfilled.

**Contributions**

Contributions that are restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the support is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

**Contributed Services**

The Organization 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, 2018 and 2017, Friends recorded \$12,153 and \$9,658, respectively, in donated professional services with corresponding recognition of professional fees expense.

**Functional Allocation of Expenses**

The costs of program and supporting services of the Organization have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and general and administrative services benefited.

**Use of Estimates**

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 the reported amounts of 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, 2018 and 2017

Note 3 - Changes in Accounting Principles

As of December 31, 2018, the Organization has adopted and implemented Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses net asset classification, liquidity, investment return, and presentation of expenses. The Organization has adjusted the presentation in these financial statements accordingly and has applied the ASU retrospectively to all periods presented.

As of December 31, 2018, the Organization has elected to early-adopt and implement ASU 2018-08 – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The Organization regularly receives grants which fit the definitions of conditional and unconditional grants with and without donor restrictions per ASU 2018-08. As such, conditional grants are recognized as revenue when the conditions have been substantially met and unconditional grants are recognized as revenue in the period awarded. Unconditional grants with donor restrictions are included in net assets with donor restrictions at year end to the extent the donor restrictions have not been satisfied. The Organization has applied the ASU on a modified prospective basis.

Note 4 – Liquidity and Availability

Financial assets without donor or other restrictions limiting their use that are available for general expenditure within one year of December 31, 2018 are as follows:

Cash and cash equivalents	\$199,578
Sales tax and other receivables	<u>4,991</u>
Total	<u><u>\$204,569</u></u>

Management believes these assets are sufficient to provide for operations in the coming year as the Organization has a stable history of significant contributions and grants to fund general operational activities. To manage liquidity, management regularly prioritizes expenditures and adheres to a detailed monthly budget plan.

Note 5 - Concentrations 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, 2018, Friends had \$65,138 on deposit in excess of federally insured limits. Friends believes there is minimal risk regarding its cash and cash equivalents.

Receivables consist of awarded grants and unconditional promises to give. The Organization does not believe it is exposed to any significant credit risk from these receivables.

The Organization received approximately 37% and 23% of its support from three sources for the year ended December 31, 2018 and 2017, respectively.

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 and 2017

Note 6 – Beneficial Interest in Assets Held by Community Foundation

On December 1, 2010, the Organization signed an agency endowment agreement to establish an endowment fund with the North Carolina Community Foundation (the "Foundation"). According to the agreement, the Foundation has legal ownership 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 agreement grants variance power to the Foundation, meaning the Foundation can re-designate the funds for a beneficiary other than the Organization in the unlikely event that its board of directors should deem the charitable purpose of the fund to be unnecessary, undesirable, impractical, incapable of fulfillment or inconsistent with the charitable needs of the community. As a policy of the Foundation, normally 5% of the endowment fund's average balance over a twelve quarter period is available for distribution to the Organization upon request. However, per the Foundation's policies related to agency endowment funds, there is a mechanism whereby the Organization could request in extenuating circumstances a distribution of all assets in the fund.

Because Friends is the named beneficiary of future distributions from the fund and because it intends to hold the beneficial interest long-term, it has recorded its beneficial interest in assets held by community foundation (the "beneficial interest") as a long-term asset at fair value with a corresponding segregation of net assets on the statements of financial position. Investment income from the beneficial interest is reported net in the statements of activities and consists of interest, dividends, and realized and unrealized gains and losses, less direct investment expenses of \$673 and \$466 for the years ended December 31, 2018 and 2017, respectively.

From inception through December 31, 2018, the Organization's board of directors has transferred \$49,112 of net assets without donor restrictions to the Foundation. In addition, the Organization has received and transferred to the Foundation \$13,510 in contributions restricted by donors for the endowment that are considered restricted in perpetuity. As a result, the Organization's net assets related to this beneficial interest are classified in part as net assets without donor restrictions – board designated and in part as net assets with donor restrictions. There are no donor restrictions to date placed on net investment income from the beneficial interest, and therefore, net investment income is accumulated and included with the unrestricted board designated portion of the beneficial interest on the statements of financial position.

With regard to the endowment nature of the beneficial interest, the Organization has entrusted the Foundation to achieve its return objectives for stable, long-term growth. Since inception, the Organization has not received any distributions from the Foundation and does not as yet have a formal spending plan or "underwater" policy associated with the endowment. The Organization follows North Carolina G.S. 116, Chapter 36E, *Uniform Prudent Management of Institutional Funds Act* ("UPMIFA") with regard to its beneficial interest. The board of directors interprets UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted funds absent explicit donor stipulations to the contrary. As a result of this interpretation and subject to the donor restrictions, the Organization classifies as net assets with donor restrictions related to this beneficial interest (a) the original value of permanent gifts to the permanent fund, (b) the original value of subsequent restricted gifts to the permanent fund, and (c) accumulations to the permanent fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2018 and 2017

Note 6 – Beneficial Interest in Assets Held by Community Foundation (continued)

ASU 2011-04, Fair Value Measurement (Topic 820) – *Fair Value Measurement and Disclosure* defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement establishes a fair value hierarchy regarding the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. FASB Accounting Standards Codification (“ASC”) 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The assets related to the Organization’s beneficial interest are invested in the Foundation’s larger portfolio. The Organization’s share of the Foundation’s assets constitutes a Level 2 investment; although the Organization has granted variance power to the Foundation, it has retained the ability to redeem its investment at net asset value per share or its equivalent at the measurement date.

The recorded fair value of this beneficial interest as of December 31, 2018 and 2017 was \$63,389 and \$63,739, respectively.

The following is a reconciliation of endowment fund activity as of and for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 63,739	\$ 17,709
Board designated contributions		
Memorial gifts	5,369	1,996
40th Anniversary funds	-	40,000
Donor restricted contributions	-	10
Investment return	(5,045)	4,490
Fees	<u>(673)</u>	<u>(466)</u>
Ending balance	<u>\$ 63,389</u>	<u>\$ 63,739</u>

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2018 and 2017

Note 6 – Beneficial Interest in Assets Held by Community Foundation (continued)

The following is a breakdown of endowment fund assets by net asset classification as of December 31:

	<u>2018</u>	<u>2017</u>
Board contributions	\$ 49,112	\$ 43,743
Cumulative investment return	<u>767</u>	<u>6,486</u>
Board designated funds	49,879	50,229
Donor restricted funds	<u>13,510</u>	<u>13,510</u>
Total endowment	<u>\$ 63,389</u>	<u>\$ 63,739</u>

The Organization has entrusted the Foundation to achieve its return objectives for stable, long-term growth. The Organization intends to follow a 5% spending policy whereby it will accept distributions from earnings of up to 5% of the corpus annually. Since inception, the Organization has not requested any distributions from the Foundation. The Organization does not intend to make appropriations from the fund if it is in an "underwater" position, that is if cumulative unrealized losses have been greater than earnings plus unrealized gains, net of fees.

Note 7 – Deferred Revenue

Deferred revenue as of December 31, 2018 and 2017 is comprised of program event deposits as well as conditional grant funds awarded to the Organization by the North Carolina Department of Natural and Cultural Resources in advance of expenses submitted for reimbursement for three trail maintenance projects. In addition, as of December 31, 2018 and 2017, deferred revenue also includes conditional grant funds from Durham County awarded for the construction of bridges that has not yet been earned.

Note 8 – 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, 2020. The line of credit had a zero balance as of December 31, 2018 and 2017.

Note 9 - 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 or \$9,780 per year for 2017 under this lease. 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 \$11,760 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, 2018 as it has been determined not to be material to the financial statements.

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Note 10 – Net Assets Without Donor Restrictions – Board Designated

The Organization reported net assets without donor restrictions designated by the board for the following purposes as of December 31:

	<u>2018</u>	<u>2017</u>
Fundraising plan	\$ 722	\$ 16,000
Operating reserve	-	7,000
Gathering of Friends	328	-
Burton Merchandise Fund	<u>18,910</u>	<u>17,478</u>
Total	<u>\$ 19,960</u>	<u>\$ 40,478</u>

Note 11 – Net Assets With Donor Restrictions

The Organization reported net assets restricted by donors for the following purposes as of December 31:

	<u>2018</u>	<u>2017</u>
Eno River Bridge	\$ 21,500	\$ 21,500
Falls Lake Bridge	-	5,731
40th Anniversary Fund	74,518	51,221
Duke Energy grants	100,000	14,039
REI grants	2,061	4,734
Atlantic Coast Pipeline grants	44,893	30,000
Other purposes	<u>10,115</u>	<u>6,519</u>
Total	<u>\$253,087</u>	<u>\$ 133,744</u>

Note 12 – Allocation of Functional Expenses

Certain expenses in these financial statements are attributable to more than one program or supporting function. Under ASU 2016-14, these expenses must be allocated over functional categories on a reasonable basis that is consistently applied. Accordingly, the Organization has allocated salaries and related benefits and taxes based on an analysis of staff time and efforts. Rent, depreciation, insurance and office supplies follow the salary allocation percentages. Other expenses such as contract services, professional fees, equipment rental and maintenance, postage, printing, trail tools and supplies, and travel are allocated on an individual invoice basis or on an analysis of direct consumption.

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Note 13 – 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, 2018 and 2017, Friends recorded \$2,640 and \$3,090 in retirement expense, respectively.

Note 14 – 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.

The Organization's management has evaluated its tax positions as of December 31, 2018 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.

Note 15 – Subsequent Events

The Organization's management has evaluated subsequent events through October 4, 2019, the date on which the financial statements were available to be issued. No additional adjustments or disclosures were determined to be necessary.

Note 16 - Reclassifications

Certain reclassifications were made to the December 31, 2017 financial statements in order to conform to the December 31, 2018 financial statement presentation.