

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

**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, 2019 and 2018, 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, 2019 and 2018, 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.

April 30, 2020

*Maddison + Carson, LLP*

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

	December 31	
	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash & cash equivalents	\$ 440,165	\$ 382,317
Grants receivable	22,435	81,187
Promises to give - 2020	3,100	9,121
Sales tax & other receivables	7,275	4,991
Inventory	7,620	6,272
Prepaid expenses & deposits	6,650	5,308
Total current assets	<u>487,245</u>	<u>489,196</u>
<b>Fixed assets</b>		
Equipment & furniture	30,814	28,827
Less accumulated depreciation	<u>(25,771)</u>	<u>(19,225)</u>
Net fixed assets	<u>5,043</u>	<u>9,602</u>
<b>Other assets</b>		
Promises to give - 2021	1,000	-
Deposits	951	951
Beneficial interest in assets held by community foundation	76,124	63,389
Total other assets	<u>78,075</u>	<u>64,340</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 570,363</u></u>	<u><u>\$ 563,138</u></u>

See accompanying accountant's report.

See accompanying notes to financial statements.

	December 31	
	<u>2019</u>	<u>2018</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 740	\$ 1,025
Deferred revenue & refundable advances	1,461	33,146
Total current liabilities	<u>2,201</u>	<u>34,171</u>
Net assets		
Without donor restrictions		
Available for operations	200,376	174,929
Invested in fixed assets	5,043	9,602
Board designated for specific purposes	25,073	27,960
Board designated - beneficial interest in assets held by community foundation (endowment)	62,614	49,879
	<u>293,106</u>	<u>262,370</u>
With donor restrictions		
Restricted for specific purposes	261,546	253,087
Restricted in perpetuity - beneficial interest in assets held by community foundation (endowment)	13,510	13,510
	<u>275,056</u>	<u>266,597</u>
Total net assets	<u>568,162</u>	<u>528,967</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 570,363</u></u>	<u><u>\$ 563,138</u></u>

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues			
Contributions & grants	\$ 225,693	\$ 122,206	\$ 347,899
Donated services	17,709	-	17,709
Other non-cash donations	10,421	-	10,421
Program income	14,604	-	14,604
Inventory sales, net	9,551	-	9,551
Royalty income	2,500	-	2,500
Interest income	220	-	220
Loss on donated securities	(257)	-	(257)
Gain on beneficial interest, net	10,234	-	10,234
Net assets with donor restrictions released from restriction	113,747	(113,747)	-
Total support and revenues	<u>404,422</u>	<u>8,459</u>	<u>412,881</u>
Expenses			
Program services			
Trail building & maintenance	37,473	-	37,473
Education	218,125	-	218,125
Corridor acquisition	53,609	-	53,609
Advocacy	2,531	-	2,531
Total program services	<u>311,738</u>	<u>-</u>	<u>311,738</u>
Supporting services			
Management & general	37,260	-	37,260
Fundraising	24,688	-	24,688
Total supporting services	<u>61,948</u>	<u>-</u>	<u>61,948</u>
Total expenses	<u>373,686</u>	<u>-</u>	<u>373,686</u>
Change in net assets	30,736	8,459	39,195
Net assets - beginning of year	<u>262,370</u>	<u>266,597</u>	<u>528,967</u>
Net assets - end of year	<u>\$ 293,106</u>	<u>\$ 275,056</u>	<u>\$ 568,162</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, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues			
Contributions & 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	263,019	119,343	382,362
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	247,583	-	247,583
Supporting services			
Management & general	33,779	-	33,779
Fundraising	38,229	-	38,229
Total supporting services	72,008	-	72,008
Total expenses	319,591	-	319,591
Change in net assets	(56,572)	119,343	62,771
Net assets - beginning of year	318,942	147,254	466,196
Net assets - end of year	\$ 262,370	\$ 266,597	\$ 528,967

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, 2019

	Program Services				
	Trail Building & Maintenance	Education	Trail Routing	Advocacy	Total
Salaries & benefits	\$ 10,003	\$ 127,571	\$ 40,693	\$ 1,221	\$ 179,488
Payroll taxes & fees	704	8,444	2,674	141	11,963
Contract services	8,324	14,128	-	-	22,452
Professional fees	1,168	8,697	694	-	10,559
Depreciation	309	3,926	1,252	39	5,526
Cost of goods sold	-	7,855	-	-	7,855
Equipment rental & maintenance	3,315	7,550	-	-	10,865
Fees	48	358	-	-	406
Insurance	188	2,394	770	24	3,376
Memberships & subscriptions	-	345	-	1,000	1,345
Postage & mailing	20	5,115	1	-	5,136
Printing & copying	304	9,021	1,177	-	10,502
Rent & utilities	555	8,101	2,275	70	11,001
Supplies & tools	11,564	13,438	677	4	25,683
Telephone	171	4,960	914	22	6,067
Travel & meetings	675	3,680	2,482	10	6,847
Awards & grants	125	397	-	-	522
	37,473	225,980	53,609	2,531	319,593
Total expenses					
Less expenses included with revenues on the statement of activities	-	(7,855)	-	-	(7,855)
	-	(7,855)	-	-	(7,855)
Total expenses included in the expense section of the statement of activities	\$ 37,473	\$ 218,125	\$ 53,609	\$ 2,531	\$ 311,738

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



Supporting Services

<u>Management &amp; General</u>	<u>Fundraising</u>	<u>Total</u>
\$ 21,989	\$ 10,381	\$ 211,858
2,264	704	14,931
300	3,808	26,560
9,016	-	19,575
700	320	6,546
-	-	7,855
-	-	10,865
199	2,825	3,430
412	193	3,981
-	-	1,345
121	1,798	7,055
79	2,559	13,140
1,217	572	12,790
201	154	26,038
762	1,044	7,873
-	305	7,152
-	25	547
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37,260	24,688	381,541
<hr/>		
-	-	(7,855)
<hr/>		
<u>\$ 37,260</u>	<u>\$ 24,688</u>	<u>\$ 373,686</u>

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

	Program Services				
	Trail Building & Maintenance	Education	Trail Routing	Advocacy	Total
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 notes 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  
STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 39,195	\$ 62,771
Depreciation	6,546	6,253
Donated securities	(5,363)	(5,274)
Loss on donated securities	257	265
(Gain)/loss on beneficial interest	(10,234)	5,718
Changes in:		
Donated securities	5,106	5,009
Receivables	62,489	25,479
Prepaid expenses and deposits	(1,342)	1,914
Inventory	(1,348)	(959)
Payables	(285)	(10,126)
Deferred revenue	(31,685)	(32,530)
	63,336	58,520
Net cash provided by operating activities		
Cash flows from investing activities		
Cash transferred to beneficial interest	(2,500)	(5,367)
Purchases of fixed assets	(1,988)	-
	(4,488)	(5,367)
Net cash used by investing activities		
Net increase in cash and cash equivalents	58,848	53,153
Cash and cash equivalents - beginning of year	382,317	329,164
Cash and cash equivalents - end of year	\$ 441,165	\$ 382,317

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

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018

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, 2019 and 2018, 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, publications, and other miscellaneous items. Publications include *Great Hikes of the Mountains-To-Sea Trail* and other titles authored by the Organization for which the Organization receives royalties. 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 third-party fees, shipping and handling, of \$7,855 and \$3,158 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018

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, 2019 and 2018, Friends recorded \$17,709 and \$12,153, 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, 2019 and 2018

Note 3 - Changes in Accounting Principles

As of December 31, 2018, the Organization 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.

As of December 31, 2019, the Organization has adopted 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, 2019 are as follows:

Cash and cash equivalents	\$ 153,546
Receivables	<u>32,810</u>
Total	<u>\$ 186,356</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. See Note 15 for an analysis of the effects of COVID-19 pandemic on the Organization's liquidity profile.

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, 2019, Friends had \$169,081 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 17% and 37% of its support from three sources for the year ended December 31, 2019 and 2018, respectively.

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018

Note 6 – Beneficial Interest in Assets Held by Community Foundation

On December 20, 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 the assets held by the 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 \$702 and \$673 for the years ended December 31, 2019 and 2018, respectively.

From inception through December 31, 2019, the Organization's board of directors has transferred \$51,612 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, 2019 and 2018

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 an organization’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, 2019 and 2018 was \$76,124 and \$63,389, respectively.

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

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 63,389	\$ 63,739
Board designated contributions		
Memorial gifts	2,500	5,369
Investment return	10,936	(5,045)
Fees	(701)	(674)
Ending balance	<u>\$ 76,124</u>	<u>\$ 63,389</u>

FRIENDS OF THE MOUNTAINS-TO-SEA TRAIL  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018

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>2019</u>	<u>2018</u>
Board contributions	\$ 51,612	\$ 49,112
Cumulative investment return	11,002	767
Board designated funds	<u>62,614</u>	<u>49,879</u>
Donor restricted funds	<u>13,510</u>	<u>13,510</u>
Total endowment	<u>\$ 76,124</u>	<u>\$ 63,389</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. See Note 15 for an analysis of the effects of COVID-19 pandemic on the Organization’s beneficial interest.

Note 7 – Deferred Revenue

Deferred revenue as of December 31, 2018 is comprised of program event deposits as well as conditional grant funds awarded to the Organization in advance of expenses submitted for reimbursement.

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, 2019 and 2018.

Note 9 - Lease Commitments

On November 15, 2018, Friends signed a lease for office space that began 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 for the year ended December 31, 2020 is \$12,108. Management has not recorded a deferred rent liability to record rent on a straight-line basis 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>2019</u>	<u>2018</u>
Fundraising plan	\$ -	\$ 722
Gathering of Friends	-	328
HRA Reserve	12,000	8,000
Burton Fund	<u>13,073</u>	<u>18,910</u>
 Total	 <u>\$ 25,073</u>	 <u>\$ 27,960</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>2019</u>	<u>2018</u>
Eno River Bridge	\$ -	\$ 21,500
40th Anniversary Fund	115,264	74,518
Coastal Crescent	102,697	145,034
Other purposes	<u>43,585</u>	<u>12,035</u>
 Total	 <u>\$261,546</u>	 <u>\$253,087</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.

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, 2019 and 2018, Friends recorded \$4,790 and \$2,640 in retirement matching expense, respectively.

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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, 2019 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 – Contingencies, Uncertainties and Subsequent Events

The Organization's management has evaluated subsequent events through April 30, 2020, the date on which the financial statements were available to be issued. No additional adjustments or disclosures were determined to be necessary. Consideration has been given to the actual as well as the uncertain effects of the COVID-19 pandemic on the Organization's financial position and the changes in its net assets and its cash flows after December 31, 2019, through April 30, 2020, and thereafter.

As of April 30, 2020, \$27,409 of the Organization's December 31, 2019 total open receivables of \$33,810 had been collected, leaving a remaining uncollected balance of \$6,404. This remaining balance is comprised primarily of state grant funds available for reimbursement for chainsaw education classes already held. These receivables are determined not to be in jeopardy, and therefore, there is no estimated contingent loss requiring accrual or disclosure and no expected effect from the COVID-19 pandemic on the Organization's liquidity profile related to receivables.

Unprecedented market declines in the first quarter of 2020 as a result of the COVID-19 pandemic have resulted in material changes in the fair value of the Organization's beneficial interest in the assets held by the North Carolina Community Foundation described in Note 6. As of March 31, 2020, the date of the most recent available data, the fair market value of the beneficial interest was \$64,253, below the principal amount of \$65,122. To date, the Organization has not requested any withdrawals from the fund, and at present, does not rely on the fund for operational support. Therefore, management does not estimate any impact to its financial position or operations as a result of this market decline.

In management's judgment, the COVID-19 pandemic does not present an existential threat to the Organization itself, and further, management has determined that conditions are not such that there is substantial doubt about the Organization's ability to operate for another twelve months from April 30, 2020. It is reasonably possible that estimates related to the contingencies and uncertainties surrounding the COVID-19 pandemic will change within one year of the date of the financial statements due to one or more confirming events and that the effect of the change would be material to the financial statements.

Note 16 - Reclassifications

Certain reclassifications were made to the December 31, 2018 financial statements in order to conform to the December 31, 2019 financial statement presentation.