

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

FINANCIAL STATEMENTS

For the years ended
December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

April 14, 2021

Board of Directors
North Country Trail Association, Incorporated
Lowell, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of North Country Trail Association, Incorporated (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019; 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 financial position of North Country Trail Association, Incorporated as of December 31, 2020 and 2019, and the 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2021, on our consideration of North Country Trail Association, Incorporated's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of North Country Trail Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Country Trail Association, Incorporated's internal control over financial reporting and compliance.



Certified Public Accountants
Grand Rapids, Michigan

FINANCIAL STATEMENTS

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STATEMENTS OF FINANCIAL POSITION

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

December 31, 2020 and 2019

ASSETS

	2020	2019
Current Assets		
Cash and cash equivalents	\$ 719,099	\$ 413,595
Investments:		
Operating	231,102	49,213
Endowment	116,582	101,084
Government receivable	35,191	143,128
Prepaid expenses	4,058	1,033
Inventory	6,166	7,184
Total Current Assets	1,112,198	715,237
Property and Equipment		
Land and building	-	20,000
Software and equipment	25,355	25,355
Trail equipment	12,559	12,559
	37,914	57,914
Less: accumulated depreciation	37,914	37,914
Net Property and Equipment	-	20,000
	\$ 1,112,198	\$ 735,237

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 20,108	\$ 17,008
Deferred revenue	121,120	48,000
Total Current Liabilities	141,228	65,008
Net Assets		
Without donor restrictions:		
Undesignated	389,915	364,179
Board designated:		
North Country Trail endowment fund	71,718	60,995
Operating reserve	231,102	49,213
Bruce E. Matthews Marketing and Outreach fund	32,181	29,096
Total without donor restrictions	724,916	503,483
With donor restrictions	246,054	166,746
Total Net Assets	970,970	670,229
	\$ 1,112,198	\$ 735,237

STATEMENT OF ACTIVITIES

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the year ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenues			
Contributions:			
Donations	\$ 454,584	\$ 373,805	\$ 828,389
Grants	531,628	-	531,628
Program revenue	9,766	-	9,766
Merchandise sales	26,115	-	26,115
Interest and dividend income	2,437	-	2,437
Unrealized gain on investments	11,322	1,690	13,012
Gain on the sale of land and building	15,292	-	15,292
Other income	24,638	-	24,638
Net assets released from restrictions	296,187	(296,187)	-
Total Public Support and Revenues	1,371,969	79,308	1,451,277
Expenses			
Program services			
Public service, education, and cartography	197,832	-	197,832
Trail work and planning	371,014	-	371,014
Networking and volunteer support	302,208	-	302,208
Supporting services			
Management and general	121,333	-	121,333
Fundraising	158,149	-	158,149
Total Expenses	1,150,536	-	1,150,536
Change in Net Assets	221,433	79,308	300,741
Net Assets - beginning of year	503,483	166,746	670,229
Net Assets - end of year	\$ 724,916	\$ 246,054	\$ 970,970

STATEMENT OF ACTIVITIES (Continued)

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the year ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenues			
Contributions:			
Donations	\$ 359,353	\$ 212,682	\$ 572,035
Grants	883,332	-	883,332
Program revenue	72,027	-	72,027
Merchandise sales	20,442	-	20,442
Interest and dividend income	3,002	-	3,002
Unrealized gain on investments	13,799	2,074	15,873
Other income	9,959	-	9,959
Net assets released from restrictions	151,779	(151,779)	-
Total Public Support and Revenues	1,513,693	62,977	1,576,670
Expenses			
Program services:			
Public service, education, and cartography	327,706	-	327,706
Trail work and planning	604,774	-	604,774
Networking and volunteer support	277,545	-	277,545
Supporting services:			
Management and general	133,991	-	133,991
Fundraising	141,019	-	141,019
Total Expenses	1,485,035	-	1,485,035
Change in Net Assets	28,658	62,977	91,635
Net Assets - beginning of year	474,825	103,769	578,594
Net Assets - end of year	\$ 503,483	\$ 166,746	\$ 670,229

STATEMENT OF FUNCTIONAL EXPENSES

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the year ended December 31, 2020

	Program Services			Total
	Public Service, Education and Cartography	Trail Work and Planning	Networking and Volunteer Support	
Salaries, wages and benefits	\$ 58,382	\$ 202,240	\$ 155,841	\$ 416,463
Payroll taxes	4,242	16,439	12,181	32,862
Advertising and promotion	271	275	-	546
Affiliate agreements	-	5,190	-	5,190
Bank/credit card fees	54	-	1,381	1,435
Computer equipment	21,486	5,858	2,589	29,933
Development expenses	-	-	-	-
Dues and subscriptions	963	154	5,080	6,197
Insurance	-	-	-	-
Intern stipend	-	-	12,590	12,590
Licenses and fees	-	-	60	60
Meeting expenses	94	105	69	268
Northstar expense	-	-	25,734	25,734
Office equipment	-	-	302	302
Office supplies	1,591	366	7,392	9,349
Outreach and hospitality	8,389	549	15,857	24,795
Postage	822	793	18,659	20,274
Printing and photographs	10,588	2,015	2,400	15,003
Professional fees	3,394	10,594	3,769	17,757
Program events	(1,108)	-	216	(892)
Recruiting	-	75	165	240
Rent	1,645	3,166	10,149	14,960
Repairs and maintenance	128	85	1,746	1,959
Telephone and internet	720	3,491	3,086	7,297
Trail equipment and supplies	27,854	4,778	-	32,632
Trail maintenance	50,510	81,257	-	131,767
Trail protection	-	22,500	-	22,500
Trail shop merchandise	-	-	13,028	13,028
Travel expenses	6,518	10,074	425	17,017
Utilities	211	140	1,952	2,303
Volunteer training/recognition	625	870	6,937	8,432
Website fees	453	-	600	1,053
Workers' compensation	-	-	-	-
	\$ 197,832	\$ 371,014	\$ 302,208	\$ 871,054

Supporting Services

Management and General	Fundraising	Total
\$ 73,494	\$ 114,207	\$ 604,164
4,639	9,094	46,595
-	300	846
-	-	5,190
287	7,505	9,227
13,748	-	43,681
-	16,038	16,038
2,726	-	8,923
8,606	-	8,606
-	-	12,590
200	-	260
1,587	99	1,954
500	-	26,234
-	-	302
2,406	526	12,281
40	788	25,623
100	-	20,374
250	-	15,253
2,006	2,365	22,128
-	54	(838)
69	1,241	1,550
1,379	957	17,296
-	106	2,065
3,620	720	11,637
-	-	32,632
-	-	131,767
70	-	22,570
-	-	13,028
3,612	19	20,648
462	176	2,941
-	3,954	12,386
-	-	1,053
1,532	-	1,532
\$ 121,333	\$ 158,149	\$ 1,150,536

STATEMENT OF FUNCTIONAL EXPENSES

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the year ended December 31, 2019

	Program Services			Total
	Public Service, Education and Cartography	Trail Work and Planning	Networking and Volunteer Support	
Salaries, wages and benefits	\$ 57,005	\$ 192,349	\$ 114,662	\$ 364,016
Payroll taxes	4,323	16,391	9,367	30,081
Advertising and promotion	1,918	-	118	2,036
Affiliate agreements	-	5,400	-	5,400
Bank/credit card fees	207	-	656	863
Computer equipment	9,287	648	4,583	14,518
Development expenses	-	-	-	-
Dues and subscriptions	1,912	300	9,072	11,284
Insurance	-	-	-	-
Intern stipend	2,025	-	10,948	12,973
Licenses and fees	594	-	60	654
Meeting expenses	199	-	-	199
Northstar expense	-	-	22,295	22,295
Office equipment	371	-	-	371
Office supplies	1,160	854	4,642	6,656
Outreach and hospitality	6,050	137	1,883	8,070
Postage	1,262	310	11,768	13,340
Printing and photographs	9,486	3,009	307	12,802
Professional fees	673	4,709	3,364	8,746
Program events	12,873	-	49,071	61,944
Recruiting	-	-	-	-
Rent	1,560	2,770	9,402	13,732
Repairs and maintenance	270	121	1,497	1,888
Telephone and internet	660	3,945	6,464	11,069
Trail equipment and supplies	44,471	7,399	1,100	52,970
Trail maintenance	155,007	319,246	355	474,608
Trail protection	-	19,548	-	19,548
Trail shop merchandise	-	-	9,238	9,238
Travel expenses	1,986	26,602	2,631	31,219
Utilities	2,239	249	1,643	4,131
Volunteer training/recognition	3,964	787	623	5,374
Website fees	8,204	-	1,796	10,000
Workers' compensation	-	-	-	-
	\$ 327,706	\$ 604,774	\$ 277,545	\$ 1,210,025

Supporting Services

Management and General	Fundraising	Total
\$ 63,526	\$ 85,742	\$ 513,284
5,159	6,673	41,913
-	78	2,114
-	-	5,400
32	6,292	7,187
15,207	-	29,725
100	16,603	16,703
894	-	12,178
10,300	-	10,300
-	-	12,973
236	250	1,140
2,380	-	2,579
-	-	22,295
-	-	371
-	205	6,861
100	2,798	10,968
40	900	14,280
-	-	12,802
2,038	16,424	27,208
-	490	62,434
831	-	831
2,337	887	16,956
-	152	2,040
2,309	-	13,378
384	-	53,354
1,444	-	476,052
-	752	20,300
-	-	9,238
25,089	2,612	58,920
325	161	4,617
395	-	5,769
-	-	10,000
865	-	865
\$ 133,991	\$ 141,019	\$ 1,485,035

STATEMENTS OF CASH FLOWS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the years ended December 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Cash received from donors and operations	\$ 1,601,593	\$ 1,485,835
Interest received	2,437	3,002
Cash paid to suppliers and for operating expenses	(1,149,443)	(1,485,963)
Net Cash Provided by Operating Activities	454,587	2,874
Cash Flows from Investing Activities		
Purchases of investments	(184,375)	(31,760)
Net proceeds from sale of land and building	35,292	-
Net Cash Used for Investing Activities	(149,083)	(31,760)
Net Increase (Decrease) in Cash	305,504	(28,886)
Beginning Cash	413,595	442,481
Ending Cash	\$ 719,099	\$ 413,595
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Change in net assets	\$ 300,741	\$ 91,635
Adjustments used for change in net assets to net cash provided by operating activities:		
Unrealized gain on investments	(13,012)	(15,873)
Gain on sale of land and building	(15,292)	-
(Increase) decrease in current assets:		
Government receivable	107,937	(87,660)
Prepaid expenses	(3,025)	(1,033)
Inventory	1,018	(1,510)
Increase (decrease) in current liabilities:		
Accounts payable	3,100	1,893
Accrued payroll and payroll liabilities	-	(278)
Deferred revenue	73,120	15,700
Net Cash Provided by Operating Activities	\$ 454,587	\$ 2,874

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the years ended December 31, 2020 and 2019

Note A – Nature of Organization and Significant Accounting Policies

Nature of Organization

The North Country Trail Association, Incorporated (Association) is a not-for-profit entity that develops, maintains, protects, and promotes the North Country National Scenic Trail as the premier hiking path across the northern tier of the United States. Support comes primarily from various government funding, contributions from charitable organizations, and membership dues and contributions.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from the estimates that were used.

Financial Statement Presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America (GAAP), which require the Association to report information regarding its financial position and activities according to the following net asset classifications:

- Net assets without donor restrictions – net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Association. These net assets may be used at the discretion of the Association’s management and the board of directors.
- Net assets with donor restrictions – net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Concentration of Support

The Association received grants from the National Park Service, a division of the United States Department of the Interior, of \$400,114 and \$376,049 in 2020 and 2019, respectively. These grants represented approximately 28% and 24% of the Association's total revenue in 2020 and 2019, respectively.

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the years ended December 31, 2020 and 2019

Note A – Nature of Organization and Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Association considers all demand bank deposits with an initial maturity of three months or less to be cash equivalents. The checking and savings accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per banking institution. From time to time during the year, the Association may have cash in a bank checking or savings account in excess of the federally insured limit.

Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the statement of financial position. Unrealized gains and losses are included as changes in net assets in the statements of activities.

The Association invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that change in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of financial position.

Government Receivables

Government receivables are stated at the amount management expects to collect from outstanding balances. Management has reviewed the balances that comprise the various categories of government receivables and determined such balances to be fully collectible. Accordingly, no provision for uncollectible accounts is included in the financial statements. If amounts become uncollectible, a provision for the potential loss will be charged to operations when that determination is made.

Pledges Receivable

Pledges receivable represent unconditional promises to give and are recognized as revenues in the period promised and as assets, decreases in liabilities, or expenses depending on the form of the benefits to be received. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met.

The Association evaluates pledges receivable for uncollectible pledges based upon historical loss experience and current economic conditions.

Inventory

Inventory is stated at lower of cost or market, with cost determined by the first-in, first-out (FIFO) method.

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the years ended December 31, 2020 and 2019

Note A – Nature of Organization and Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value on the date of acquisition. The Association capitalizes all expenditures for property and equipment in excess of \$5,000. Additions and improvements are capitalized; expenditures for routine maintenance are charged to operations. Management annually reviews these assets to determine whether carrying values have been impaired. Depreciation is computed using the Modified Accelerated Cost Recovery System (MACRS) for both financial reporting and tax purposes over the following estimated useful lives of the assets.

Software and equipment	3 - 5 years
Trail equipment	7 years

The building and related land, which is a historic schoolhouse located in White Cloud, Michigan, was stated at fair market value at the time of donation. During 2020, the Association sold the schoolhouse for net proceeds of \$35,292 and recognized a gain on the sale of \$15,292.

Revenue and Cost Recognition

The Association recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. The Association records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

A portion of the Association's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Association has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

Donated Services

Donated services are recognized as contributions in accordance with generally accepted accounting principles, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Association.

For the periods 10/01/19 through 09/30/20, and 10/01/18 through 09/30/19, management reports that volunteers contributed approximately 91,086 and 83,300 hours of service, respectively.

These contributions, although clearly substantial, are not recognized as contributions in the financial statements since the recognition criteria stated above was not met.

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the years ended December 31, 2020 and 2019

Note A – Nature of Organization and Significant Accounting Policies (Continued)

Income Tax Status

The Association is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Association evaluates tax positions taken on its federal Exempt Organization Business Income Tax Returns in accordance with generally accepted accounting principles, which require that tax positions taken be more-likely-than-not to be sustained. Management believes that the Association has no significant unrecognized tax benefits under that criteria. Penalties and interest, if any, assessed by income taxing authorities are included in operating expenses. The Association's federal Exempt Organization Business Income Tax Returns are generally subject to examination by taxing authorities for three years after they are filed.

Functional Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of allocation per square foot, specific invoices, or time and effort. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Association.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through April 14, 2021, which is the date the financial statements were available to be issued.

Note B – Liquidity and Availability

The Association regularly monitors liquidity required to meet its operating needs, while also striving to maximize the investment of its available funds. The Association's sources of liquidity at its disposal includes cash and cash equivalents, accounts receivable, and endowment fund assets. See Note C and Note G for information about the Association's investments and endowment fund assets, respectively.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Association considers all expenditures related to its ongoing programmatic activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the years ended December 31, 2020 and 2019

Note B – Liquidity and Availability (Continued)

In addition to financial assets available to meet general expenditures over the next 12 months, the Association anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows, which identifies the sources and uses of the Association's cash and positive cash generated by operations for the years ended December 31, 2020 and 2019.

As of December 31, 2020 and 2019, the following financial assets could readily be made available within one year to meet general expenditures:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 719,099	\$ 413,595
Investments - operating	231,102	49,213
Endowment funds	116,582	101,084
Government receivable	35,191	143,128
	<u>1,101,974</u>	<u>707,020</u>
Less amounts not available to be used within one year:		
Investments in non-liquid securities	12,683	10,993
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,089,291</u>	<u>\$ 696,027</u>

Note C – Investments

Investments are recorded at fair market value. Investments consist of the following:

	<u>2020</u>	<u>2019</u>
Money market	\$ 231,102	\$ 49,213
Mutual funds	116,582	101,084
	<u>\$ 347,684</u>	<u>\$ 150,297</u>

Investment income consists of the following amounts for the years ended December 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Unrealized gain on investments	\$ 13,012	\$ 15,873
Interest and dividend income	2,437	3,002
	<u>\$ 15,449</u>	<u>\$ 18,875</u>

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the years ended December 31, 2020 and 2019

Note D – Deferred Revenue

On May 5, 2020, the Association received loan proceeds in the amount of \$41,880 under the Paycheck Protection Program (PPP). The PPP was established as part of the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act) and provides loans to qualifying businesses for amounts up to 2.5 times the average amount of qualified payroll expenses. The loans are forgivable after 24 weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities, and the borrower maintains their employment levels. The Association used the proceeds consistent with the PPP requirements and subsequent to year end requested forgiveness of the PPP loan. Management expects that the PPP loan will be forgiven in 2021.

The balance of deferred revenue consists of grants received before the grant conditions have been met.

Note E – Leases

The Association leases office space in Lowell that requires monthly payments of \$1,200. The lease expires in March 2024. The Association leases a second office space in Detroit Lakes, Minnesota, that requires monthly payments of \$160. The lease expires in December 2021. Total lease expense for the years ended December 31, 2020 and 2019 was \$17,296, and \$16,956, respectively. Future minimum lease payments are as follows:

Year ending December 31, 2021	\$	16,320
2022		14,400
2023		14,400
2024		2,400

Note F – Fair Value Measurement

The Association's investments are reported at fair value in the accompanying financial statements. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are 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.

Accounting principles generally accepted in the United States of America establish 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 market prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The fair value hierarchy is categorized into three levels based on the inputs as follows:

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the years ended December 31, 2020 and 2019

Note F – Fair Value Measurement (Continued)

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – Quoted prices in markets that are not considered active or financial instruments for which significant inputs include quoted prices for similar assets or liabilities, interest rates, credit risk, etc.

Level 3 – Significant unobservable inputs, which may include the Association’s own assumptions in determining fair value.

The asset’s 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.

Money market and mutual funds are determined by the published net asset value per unit at the end of the last trading day of the fiscal year, which is the basis for transactions at that date.

Assets measured at fair value on a recurring basis comprise the following:

Description:	Level 1 Based	
	Fair Value December 31, 2020	on Quoted Prices in Active Markets
Money market	\$ 231,102	\$ 231,102
Mutual funds	116,582	116,582
Total	\$ 347,684	\$ 347,684

Description:	Level 1 Based	
	Fair Value December 31, 2019	on Quoted Prices in Active Markets
Money market	\$ 49,213	\$ 49,213
Mutual funds	101,084	101,084
Total	\$ 150,297	\$ 150,297

Management evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets. For the year ended December 31, 2020, there were no significant transfers into or out of levels 1, 2 or 3.

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the years ended December 31, 2020 and 2019

Note G – Retirement Plans

The Association has a tax-deferred 403(b) retirement plan for employees who meet certain qualifications. Under the plan, the Association has the discretion of matching 100% of the employees' contributions up to a maximum match of 5% for employees' gross pay. The Association's 403(b) contributions for the years ended December 31, 2020 and 2019 were \$17,511 and \$16,635, respectively.

Note H – Endowment Assets

During 2017, the Association adopted a new endowment policy. The Association's long-term investment endowment funds consist of funds held at an institution and were established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, the Association retains in perpetuity (a) the original value of gifts and (b) the original value of subsequent gifts. The remaining portion of the donor restricted endowment fund that is not retained in perpetuity is appropriated for expenditure by the Association in the manner consistent with the policies of the endowment fund. Net assets associated with endowment funds designated by the board of directors are classified and reported based on the existence or absence of donor-imposed restrictions. Board designated endowments are classified as net assets without donor restrictions. The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term.

The Association has adopted the accounting and disclosure guidance provided by UPMIFA. As such, the Association has adopted the required provisions of the act.

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 UPMIFA requires the Association to retain.

Investment Policy

The investment policy and spending rules for endowment assets are intended to provide a predictable stream of funding for endowment purposes while maintaining the purchasing power of the endowment assets over time. Accordingly, this investment policy seeks to achieve a real (after inflation and expenses) total rate of return (including investment income as well as capital appreciation) equal to or greater than the annual distribution rate specified in the spending policy below.

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the years ended December 31, 2020 and 2019

Note H – Endowment Assets (Continued)

Donor Restricted Endowment – Once the market value of Donor Restricted Endowment assets reaches \$1,000,000, the Donor Restricted Endowment assets shall be invested in a well-diversified (balanced) asset mix including both equity and debt securities. The intended result is to achieve a real (after inflation and expenses) total rate of return of 4%. Therefore, the Association expects its endowment assets, over time, to produce an average rate of return of approximately 6% to 8% annually and inflation to average 2% to 4% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total Endowment Fund. Although investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk, there is the possibility that the Endowment Fund could be subject to losses as a result of market declines in any given year.

Board Designated Endowment – The Board Designated Endowment assets may be invested according to the Donor Restricted Endowment investment rules stated in the paragraph above or in a manner consistent with the intended use of the funds.

Spending Policy

Donor Restricted Endowment – Once the market value of total Donor Restricted Endowment investments reaches \$1,000,000, four percent (4%) of the Donor Restricted Endowment Fund will be appropriated for distribution each year, calculated based on the average fair market value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. For endowments that were established within the last 12 quarters, quarters for which the balance was zero will not be included in the calculation of fair market value.

This should, considering the requirements specified in the “Investment Policy for Endowment Funds” presented above, allow the real purchasing power of the Donor Restricted Endowment to remain constant over time (excluding growth through the addition of new funds). The percentage appropriated for distribution will be reviewed at least every 3 years by the Finance Committee, or sooner if deemed necessary by the Finance Committee, subject to final approval by the Board of Directors.

The 4% annual distribution from the Donor Restricted Endowment does not carry forward to subsequent years if not taken in the current year. Annual distributions in excess of 4% must be deemed to be prudent under UPMIFA and approved by favorable vote of at least three-fourths of the then currently serving members of the Board of Directors.

Each year the Board of Directors will decide how much of the distribution will be used to fund general operations, the Board Designated Endowment and/or the Board Designated Cash Reserves.

Board Designated Endowment – The Board Designated Endowment is not subject to UPMIFA spending rules, however any distribution of Board Designated Endowment funds must be for purposes specified and approved by the Board of Directors.

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the years ended December 31, 2020 and 2019

Note H – Endowment Assets (Continued)

Endowment Net Asset Composition by Type or Fund as of December 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 103,899	\$ -	\$ 103,899
Donor restricted endowment funds	-	12,683	12,683
	<u>\$ 103,899</u>	<u>\$ 12,683</u>	<u>\$ 116,582</u>

Endowment Net Asset Composition by Type or Fund as of December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 90,091	\$ -	\$ 90,091
Donor restricted endowment funds	-	10,993	10,993
	<u>\$ 90,091</u>	<u>\$ 10,993</u>	<u>\$ 101,084</u>

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the years ended December 31, 2020 and 2019

Note H – Endowment Assets (Continued)

Changes in Endowment Net Assets for the years ended December 31, 2020 and 2019, respectively, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2019	\$ 73,208	\$ 8,918	\$ 82,126
Assets transferred into endowment	823	177	1,000
Contributions	-	-	-
Investment return:			
Investment income	5,237	-	5,237
Unrealized/realized loss on investment	10,823	1,898	12,721
Total investment loss	16,060	1,898	17,958
Endowment net assets, December 31, 2019	90,091	10,993	101,084
Assets transferred into endowment	429	71	500
Contributions	-	-	-
Investment return:			
Investment income	1,986	-	1,986
Unrealized/realized gain on investment	11,393	1,619	13,012
Total investment gain	13,379	1,619	14,998
Endowment net assets, December 31, 2020	<u>\$ 103,899</u>	<u>\$ 12,683</u>	<u>\$ 116,582</u>

Note I – Risks and Uncertainties

On January 30, 2020, the World Health Organization (WHO) declared the outbreak of COVID-19 a public health emergency. Due to the rapid spread of the COVID-19 coronavirus, a national shutdown was enforced. As a result, unemployment levels reached a high of 14.7% during the current year and slowly decreased to 6.7% as of December 31, 2020.

Continued efforts are being made to understand and manage the risks created by such economic events.



INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

April 14, 2021

Board of Directors
North Country Trail Association, Incorporated

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Country Trail Association, Incorporated (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020; and the related statements of activities, functional expenses, and cash flows for the year then ended; and the related notes to the financial statements, and have issued our report thereon dated April 14, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Country Trail Association, Incorporated’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Country Trail Association, Incorporated’s internal control. Accordingly, we do not express an opinion on the effectiveness of North Country Trail Association’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Country Trail Association, Incorporated's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants
Grand Rapids, Michigan