

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

FINANCIAL STATEMENTS

For the year ended
December 31, 2017

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position.....	5
Statements of Activities	6
Statements of Functional Expenses	8
Statements of Cash Flows	10
Notes to Financial Statements	11
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 <i>GOVERNMENT AUDITING STANDARDS</i>.....	21



INDEPENDENT AUDITORS' REPORT

February 14, 2018

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, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the year ended, December 31, 2017 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 audit. We conducted our audit 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the North Country Trail Association, Incorporated's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 2, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2018, 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 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 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

This Page Intentionally Left Blank

STATEMENTS OF FINANCIAL POSITION

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

December 31, 2017 and 2016

ASSETS

	2017	2016
Current Assets		
Cash and cash equivalents	\$ 322,007	\$ 309,035
Investments	102,209	70,886
Government receivable	16,676	22,206
Pledges receivable	35,000	-
Prepaid expenses	508	5,212
Inventory	5,086	4,702
Total Current Assets	481,486	412,041
Property and Equipment		
Land and building	20,000	20,000
Software and equipment	25,355	25,355
Trail equipment	12,559	12,559
	57,914	57,914
Less: accumulated depreciation	37,914	37,148
Net Property and Equipment	20,000	20,766
	\$ 501,486	\$ 432,807

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 14,312	\$ 13,736
Accrued payroll and payroll liabilities	1,765	8,403
Total Current Liabilities	16,077	22,139
Net Assets		
Unrestricted:		
Undesignated	280,470	329,898
Board designated:		
North Country Trail endowment fund	50,805	-
Operating reserve	20,159	-
Bruce E. Matthews Marketing and Outreach Fund	22,581	-
Total unrestricted	374,015	329,898
Temporarily restricted	105,810	80,770
Permanently restricted	5,584	-
Total Net Assets	485,409	410,668
	\$ 501,486	\$ 432,807

STATEMENTS OF ACTIVITIES

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the year ended December 31, 2017

With comparative totals for 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Support			
Contributions:			
Donations	\$ 402,953	\$ 109,037	\$ 521
Government contributions	544,688	-	-
Program revenue	50,812	-	-
Merchandise sales	32,594	-	-
Rental fees	7,783	-	-
Interest and dividend income	1,179	695	-
Unrealized gain on investments	4,189	2,384	-
Other income	14,957	-	-
Net assets transferred	(5,063)		5,063
Net assets released from restrictions	87,076	(87,076)	-
Total Support	1,141,168	25,040	5,584
Disbursements			
Program services:			
Public service, education and cartography	225,967	-	-
Trail work and planning	302,997	-	-
Networking and volunteer support	294,793	-	-
Supporting services:			
Management and general	101,322	-	-
Fundraising	171,972	-	-
Total Disbursements	1,097,051	-	-
Change in Net Assets	44,117	25,040	5,584
Net Assets - Beginning of year	329,898	80,770	-
Net Assets - End of year	\$ 374,015	\$ 105,810	\$ 5,584

2017	2016
\$ 512,511	\$ 493,600
544,688	511,756
50,812	28,970
32,594	37,060
7,783	7,460
1,874	2,153
6,573	7,354
14,957	11,138
-	-
-	-
1,171,792	1,099,491
225,967	225,181
302,997	263,372
294,793	310,933
101,322	115,826
171,972	164,442
1,097,051	1,079,754
74,741	19,737
410,668	390,931
\$ 485,409	\$ 410,668

STATEMENTS OF FUNCTIONAL EXPENSES

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the year ended December 31, 2017

With comparative totals for 2016

	Program Services			
	Public Service, Education and Cartography	Trail Work and Planning	Networking and Volunteer Support	Total
Salaries, wages and benefits	\$ 61,767	\$ 166,977	\$ 108,753	\$ 337,497
Payroll taxes	4,285	12,761	8,113	25,159
Advertising and promotion	2,059	-	100	2,159
Affiliate agreements	-	5,840	-	5,840
Bank/credit card charges	-	-	5,422	5,422
Computer equipment	9,726	1,104	16,103	26,933
Depreciation	-	-	766	766
Development expenses	-	-	-	-
Dues and subscriptions	2,288	174	9,853	12,315
Insurance	100	-	-	100
Intern stipend	2,160	-	2,309	4,469
Licenses and fees	702	-	225	927
Meeting expenses	120	2,601	560	3,281
Northstar expense	-	-	28,141	28,141
Office equipment	-	-	-	-
Office supplies	2,015	1,103	6,347	9,465
Outreach and hospitality	2,533	710	4,808	8,051
Postage	657	269	10,544	11,470
Printing and photographs	11,342	4,265	-	15,607
Professional fees	114	790	678	1,582
Recruiting	-	-	-	-
Rent	1,745	849	10,149	12,743
Repairs and maintenance	94	63	1,078	1,235
Program events	4,071	-	36,975	41,046
Telephone and internet	-	2,976	9,114	12,090
Trail equipment and supplies	54,573	6,491	-	61,064
Trail maintenance	56,445	76,147	-	132,592
Trail protection	-	-	-	-
Trail shop merchandise	4,059	-	13,622	17,681
Travel expenses	3,205	19,765	5,915	28,885
Utilities	1,850	112	1,489	3,451
Volunteer training/recognition	57	-	10,536	10,593
Website fees	-	-	3,193	3,193
Workers' compensation	-	-	-	-
	\$ 225,967	\$ 302,997	\$ 294,793	\$ 823,757

Supporting Services

Management and General	Fundraising	2017		2016	
\$ 57,052	\$ 118,280	\$ 512,829	\$ 537,615		
3,962	7,594	36,715	36,689		
-	-	2,159	3,229		
-	-	5,840	5,633		
444	668	6,534	4,887		
1	-	26,934	18,362		
-	-	766	875		
-	32,358	32,358	38,380		
204	576	13,095	10,715		
8,876	-	8,976	8,806		
-	-	4,469	11,860		
475	-	1,402	864		
1,552	138	4,971	2,564		
-	-	28,141	30,357		
-	-	-	3,980		
53	236	9,754	8,618		
-	3,945	11,996	15,798		
(23)	3,424	14,871	15,860		
-	-	15,607	19,662		
9,075	339	10,996	10,607		
1,230	-	1,230	372		
1,379	957	15,079	14,996		
113	78	1,426	1,173		
-	-	41,046	30,650		
-	660	12,750	11,150		
-	-	61,064	51,157		
-	-	132,592	56,200		
-	-	-	17,912		
-	-	17,681	17,028		
14,310	2,579	45,774	72,003		
202	140	3,793	3,807		
-	-	10,593	12,682		
-	-	3,193	3,224		
2,417	-	2,417	2,039		
\$ 101,322	\$ 171,972	\$ 1,097,051	\$ 1,079,754		

STATEMENTS OF CASH FLOWS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the years ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Cash received from donors and operations	\$ 1,133,875	\$ 1,110,139
Interest received	1,874	2,153
Cash paid to suppliers and for operating expenses	(1,098,027)	(1,083,183)
Net Cash Provided by Operating Activities	37,722	29,109
Cash Flows from Investing Activities		
Purchases of investments	(24,750)	(13,379)
Net Increase in Cash	12,972	15,730
Beginning Cash	309,035	293,305
Ending Cash	\$ 322,007	\$ 309,035
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Change in net assets	\$ 74,741	\$ 19,737
Adjustments used for change in net assets to net cash provided by operating activities:		
Depreciation	766	875
Unrealized gain on investments	(6,573)	(7,354)
(Increase) decrease in current assets:		
Government receivable	5,530	(10,228)
Pledges receivable	(35,000)	38,000
Prepaid expenses	4,704	478
Inventory	(384)	(485)
Increase (decrease) in current liabilities:		
Accounts payable	576	(5,552)
Accrued payroll and payroll liabilities	(6,638)	1,255
Deferred revenue	-	(7,617)
Net Cash Provided by Operating Activities	\$ 37,722	\$ 29,109

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the year ended December 31, 2017

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.

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements of the Association have been prepared on the accrual basis of accounting, recording revenue when earned rather than when received, and recording expenses when incurred rather than when paid. The Association reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Concentration of Support

The Association received grants from the National Park Service, a division of the United States Department of the Interior, of \$429,102 and \$459,713 in 2017 and 2016, respectively. These grants represented approximately 37% and 43% of the Association's total revenue in 2017 and 2016, respectively.

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.

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the year ended December 31, 2017

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

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. Management feels that the balance is fully collectible and accordingly no valuation allowance has been recorded.

Inventory

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

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, is stated at fair market value at the time of donation. The schoolhouse is not being depreciated.

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the year ended December 31, 2017

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

Net Assets

The Association reports information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Association to use or expend the assets as specified. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions when the restrictions are satisfied either by the passage of time or by actions of the Association. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Association reports the support as unrestricted.
- Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Association to use or expend part or all of the income derived from the donated assets for specific purposes. Investment earnings available for distribution are recorded in unrestricted net assets.

Contributions

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions with donor imposed stipulations that are met in the same year as received or earned are reported as unrestricted revenue.

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the year ended December 31, 2017

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

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 fiscal years ended December 31, 2017 and 2016, management reports that volunteers contributed approximately 79,031 and 69,708 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.

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 Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Fundraising costs include both direct and indirect costs related to the solicitation of contributions from the general public.

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.

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the year ended December 31, 2017

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

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 February 14, 2018 which is the date the financial statements were available to be issued.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Note B – Investments

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

	<u>2017</u>	<u>2016</u>
Money Market	\$ 42,740	\$ -
Index Funds	59,469	70,886
	<u>\$ 102,209</u>	<u>\$ 70,886</u>

Investment income consists of the following amounts for the years ended December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Unrealized gain on investments	\$ 6,573	\$ 7,354
Interest and dividend income	1,874	2,153
	<u>\$ 8,447</u>	<u>\$ 9,507</u>

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the year ended December 31, 2017

Note C – Pledges Receivables

Pledges receivables consist of amounts due from donors:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 35,000	\$ -

Note D – Leases

The Association leases office space in Lowell under a five year lease that requires monthly payments of \$1,200. The lease expires in March 2019. During the year, the Association entered into a second lease for a small office space in Detroit Lakes, Minnesota, that requires monthly payments of \$160. The lease expires in December 2018. The total lease expense for the years ended December 31, 2017 and 2016 was \$15,079, and \$14,996, respectively. Future minimum lease payments are as follows:

Year ending December 31, 2018	\$	16,320
2019		2,400

Note E – 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:

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.

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the year ended December 31, 2017

Note E – Fair Value Measurement (Continued)

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.

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

Description:	Fair Value December 31, 2017	Level 1 Based on Quoted Prices in Active Markets
Money Market	\$ 42,740	\$ 42,740
Index Funds	59,469	59,469
Total	\$ 102,209	\$ 102,209

Description	Fair Value December 31, 2016	Level 1 Based on Quoted Prices in Active Markets
Index funds	\$ 70,886	\$ 70,886

We 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, 2017, there were no significant transfers into or out of levels 1, 2 or 3.

Note F – Restrictions on Net Assets

Temporarily restricted net assets at December 31, 2017 relate to funds donated that were designated for a specific future use. Temporarily restricted net assets consist of funds related to trail protection, grant funds, and other land and trail projects.

Permanently restricted net assets at December 31, 2017 relate to donor contributions to a perpetual endowment fund.

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, 2017 and 2016 were \$14,173 and \$14,327, respectively.

NOTES TO FINANCIAL STATEMENTS

NORTH COUNTRY TRAIL ASSOCIATION, INCORPORATED

For the year ended December 31, 2017

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 was 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 current law 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 classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are 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. The board restrictions are reported in unrestricted net assets. 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 the Uniform Prudent Management of Institutional Funds Act (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 the Uniform Prudent Management of Institutional Funds Act 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 year ended December 31, 2017

Note H – Endowment Assets (Continued)

Investment Policy (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 NCTA 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 Endowment Committee, or sooner if deemed necessary by the Endowment 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 year ended December 31, 2017

Note H – Endowment Assets (Continued)

Endowment Net Asset Composition by Type or Fund as of December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board Designated Endowment funds	\$ 73,386	\$ -	\$ -	\$ 73,386
Donor Restricted Endowment funds	-	3,079	5,584	8,663
	<u>\$ 73,386</u>	<u>\$ 3,079</u>	<u>\$ 5,584</u>	<u>\$ 82,049</u>

Changes in Endowment Net Assets for the year ended December 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets , January 1, 2017	\$ -	\$ -	\$ -	\$ -
Assets transferred into endowment	43,894		5,063	48,957
Contributions	22,581	-	521	23,102
Investment return:				
Investment income	1,269	695	-	1,964
Unrealized/realized gain on investment	5,642	2,384	-	8,026
Total investment return	<u>6,911</u>	<u>3,079</u>	<u>-</u>	<u>9,990</u>
Endowment net assets, December 31, 2017	<u>\$ 73,386</u>	<u>\$ 3,079</u>	<u>\$ 5,584</u>	<u>\$ 82,049</u>



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

February 14, 2018

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, 2017, 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 February 14, 2018.

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.

A handwritten signature in cursive script that reads "Hungerford Nichols".

Certified Public Accountants
Grand Rapids, Michigan