# THE APPALACHIAN TRAIL CONSERVANCY

**Harpers Ferry, West Virginia**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

C O N T E N T S

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Appalachian Trail Conservancy
Harpers Ferry, West Virginia

## Report on the Financial Statements

We have audited the accompanying financial statements of The Appalachian Trail Conservancy (the "Conservancy"), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities 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 the 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 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 Conservancy'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 Conservancy'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 The Appalachian Trail Conservancy as of December 31, 2018 and 2017, 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 Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purpose of additional analysis and is not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2019, on our consideration of The Appalachian Trail Conservancy's internal control over financial reporting and 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 The Appalachian Trail Conservancy's internal control over financial reporting and compliance.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
June 7, 2019

**THE APPALACHIAN TRAIL CONSERVANCY**

**Statement of Financial Position**
December 31, 2018

| Assets | General Fund | Land Acquisition Fund | Life Membership Fund | Monitoring Fund | David N. Startzell Stewardship Fund | Annuity Fund | Total All Funds |
|---|---|---|---|---|---|---|---|
| **Current Assets** | | | | | | | |
| Cash and cash equivalents | $ 24,651 | $ 1,267,876 | $ - - | $ - - | $ 1,284,017 | $ - - | $ 2,576,544 |
| Accounts receivable, net | 4,159,860 | - - | - - | - - | - - | - - | 4,159,860 |
| Pledges receivables, net | 150,095 | - - | - - | - - | - - | - - | 150,095 |
| Other interfund receivables | 500,000 | 637,271 | 91,514 | 32,619 | 549,999 | 122,084 | 1,933,487 |
| Construction loan interfund receivable | - - | - - | - - | - - | 13,219 | - - | 13,219 |
| Inventory | 373,358 | - - | - - | - - | - - | - - | 373,358 |
| Property held for sale | - - | 79,417 | - - | - - | - - | - - | 79,417 |
| Prepaid expenses | 103,834 | - - | - - | - - | - - | - - | 103,834 |
| Total current assets | $ 5,311,798 | $ 1,984,564 | $ 91,514 | $ 32,619 | $ 1,847,235 | $ 122,084 | $ 9,389,814 |
| **Non-Current Assets** | | | | | | | |
| Long-term investments | $ - - | $ 860,955 | $ 2,360,137 | $ 203,817 | $ 6,681,613 | $ 722,279 | $ 10,828,801 |
| Construction loan interfund receivable | - - | - - | - - | - - | 89,414 | - - | 89,414 |
| Property and equipment, net | 928,855 | 3,300 | - - | - - | - - | - - | 932,155 |
| Other assets, deposits | 6,864 | - - | - - | - - | - - | - - | 6,864 |
| Land held in conservancy | - - | 1,644,157 | - - | - - | - - | - - | 1,644,157 |
| Total non-current assets | $ 935,719 | $ 2,508,412 | $ 2,360,137 | $ 203,817 | $ 6,771,027 | $ 722,279 | $ 13,501,391 |
| Total assets | $ 6,247,517 | $ 4,492,976 | $ 2,451,651 | $ 236,436 | $ 8,618,262 | $ 844,363 | $ 22,891,205 |
| **Liabilities and Net Assets** | | | | | | | |
| **Current Liabilities** | | | | | | | |
| Accounts payable and accrued expenses | $ 578,384 | $ 196,262 | $ - - | $ - - | $ - - | $ - - | $ 774,646 |
| Deferred revenue | 3,445,743 | - - | - - | - - | - - | - - | 3,445,743 |
| Other interfund payables | 754,302 | 6 | - - | - - | 1,179,179 | - - | 1,933,487 |
| Construction loan interfund payable | 13,219 | - - | - - | - - | - - | - - | 13,219 |
| Current maturities of annuities payable | - - | - - | - - | - - | - - | 39,921 | 39,921 |
| Total current liabilities | $ 4,791,648 | $ 196,268 | $ - - | $ - - | $ 1,179,179 | $ 39,921 | $ 6,207,016 |
| **Non-Current Liabilities** | | | | | | | |
| Construction loan interfund payable | $ 89,414 | $ - - | $ - - | $ - - | $ - - | $ - - | $ 89,414 |
| Annuities payable, less current maturities | - - | - - | - - | - - | - - | 213,928 | 213,928 |
| Total non-current liabilities | $ 89,414 | $ - - | $ - - | $ - - | $ - - | $ 213,928 | $ 303,342 |
| **Net Assets** | | | | | | | |
| Net assets without donor restrictions | $ 484,178 | $ 8,642 | $ - - | $ - - | $ 5,497,394 | $ 359,298 | $ 6,349,512 |
| Net assets with donor restrictions | 882,277 | 4,288,066 | 2,451,651 | 236,436 | 1,941,689 | 231,216 | 10,031,335 |
| Total net assets | $ 1,366,455 | $ 4,296,708 | $ 2,451,651 | $ 236,436 | $ 7,439,083 | $ 590,514 | $ 16,380,847 |
| Total liabilities and net assets | $ 6,247,517 | $ 4,492,976 | $ 2,451,651 | $ 236,436 | $ 8,618,262 | $ 844,363 | $ 22,891,205 |

See Notes to Financial Statements.

**THE APPALACHIAN TRAIL CONSERVANCY**

**Statement of Financial Position**
December 31, 2017

| Assets | General Fund | Land Acquisition Fund | Life Membership Fund | Monitoring Fund | David N. Startzell Stewardship Fund | Annuity Fund | Total All Funds |
|---|---|---|---|---|---|---|---|
| **Current Assets** | | | | | | | |
| Cash and cash equivalents | $ 1,874,901 | $ 238,776 | $ - - | $ - - | $ 284,017 | $ - - | $ 2,397,694 |
| Accounts receivable, net | 2,058,334 | 2,046 | 1,745 | - - | 432,988 | - - | 2,495,113 |
| Pledges receivables, net | 59,955 | - - | - - | - - | - - | - - | 59,955 |
| Other interfund receivables | - - | 1,159,640 | 204,493 | 44,380 | 246,047 | 124,068 | 1,778,628 |
| Construction loan interfund receivable | - - | - - | - - | - - | 13,219 | - - | 13,219 |
| Inventory | 357,268 | - - | - - | - - | - - | - - | 357,268 |
| Property held for sale | - - | 655,350 | - - | - - | - - | - - | 655,350 |
| Prepaid expenses | 156,936 | - - | - - | - - | - - | - - | 156,936 |
| Total current assets | $ 4,507,394 | $ 2,055,812 | $ 206,238 | $ 44,380 | $ 976,271 | $ 124,068 | $ 7,914,163 |
| **Non-Current Assets** | | | | | | | |
| Long-term investments | $ 39,204 | $ 691,200 | $ 2,451,811 | $ 214,891 | $ 6,430,062 | $ 814,180 | $ 10,641,348 |
| Construction loan interfund receivable | - - | - - | - - | - - | 102,633 | - - | 102,633 |
| Property and equipment, net | 1,030,379 | 3,300 | - - | - - | - - | - - | 1,033,679 |
| Other assets, deposits | 7,224 | - - | - - | - - | - - | - - | 7,224 |
| Land held in conservancy | - - | 1,644,157 | - - | - - | - - | - - | 1,644,157 |
| Total non-current assets | $ 1,076,807 | $ 2,338,657 | $ 2,451,811 | $ 214,891 | $ 6,532,695 | $ 814,180 | $ 13,429,041 |
| Total assets | $ 5,584,201 | $ 4,394,469 | $ 2,658,049 | $ 259,271 | $ 7,508,966 | $ 938,248 | $ 21,343,204 |
| **Liabilities and Net Assets** | | | | | | | |
| **Current Liabilities** | | | | | | | |
| Accounts payable and accrued expenses | $ 527,470 | $ - - | $ - - | $ - - | $ 2,000 | $ 1,750 | $ 531,220 |
| Deferred revenue | 1,828,537 | - - | - - | - - | - - | - - | 1,828,537 |
| Other interfund payables | 1,778,628 | - - | - - | - - | - - | - - | 1,778,628 |
| Construction loan interfund payable | 13,219 | - - | - - | - - | - - | - - | 13,219 |
| Current maturities of long term debt | 3,932 | - - | - - | - - | - - | - - | 3,932 |
| Current maturities of annuities payable | - - | - - | - - | - - | - - | 39,921 | 39,921 |
| Total current liabilities | $ 4,151,786 | $ - - | $ - - | $ - - | $ 2,000 | $ 41,671 | $ 4,195,457 |
| **Non-Current Liabilities** | | | | | | | |
| Construction loan interfund payable | $ 102,633 | $ - - | $ - - | $ - - | $ - - | $ - - | $ 102,633 |
| Annuities payable, less current maturities | - - | - - | - - | - - | - - | 225,487 | 225,487 |
| Total non-current liabilities | $ 102,633 | $ - - | $ - - | $ - - | $ - - | $ 225,487 | $ 328,120 |
| **Net Assets** | | | | | | | |
| Net assets without donor restrictions | $ 573,602 | $ 8,648 | $ - - | $ - - | $ 6,066,277 | $ 439,874 | $ 7,088,401 |
| Net assets with donor restrictions | 756,180 | 4,385,821 | 2,658,049 | 259,271 | 1,440,689 | 231,216 | 9,731,226 |
| Total net assets | $ 1,329,782 | $ 4,394,469 | $ 2,658,049 | $ 259,271 | $ 7,506,966 | $ 671,090 | $ 16,819,627 |
| Total liabilities and net assets | $ 5,584,201 | $ 4,394,469 | $ 2,658,049 | $ 259,271 | $ 7,508,966 | $ 938,248 | $ 21,343,204 |

See Notes to Financial Statements.

**THE APPALACHIAN TRAIL CONSERVANCY**

**Statement of Activities**
For the Year Ended December 31, 2018

| | General Fund | Land Acquisition Fund | Life Membership Fund | Monitoring Fund | David N. Startzell Stewardship Fund | Annuity Fund | Total All Funds |
|---|---|---|---|---|---|---|---|
| **Changes in net assets without donor restrictions:** | | | | | | | |
| **Revenue, gains, (losses) and other support** | | | | | | | |
| Public support, contributions | $ 2,320,800 | $ - - | $ - - | $ - - | $ 532,371 | $ - - | $ 2,853,171 |
| In-kind contributions | 35,570 | - - | - - | - - | - - | - - | 35,570 |
| Membership | 1,177,531 | - - | - - | - - | - - | - - | 1,177,531 |
| Contractual services | 2,412,349 | - - | - - | - - | - - | - - | 2,412,349 |
| Sales, less cost of good sold of $488,888 | 560,803 | - - | - - | - - | - - | - - | 560,803 |
| Other income | 300,320 | - - | - - | - - | - - | - - | 300,320 |
| Investment return, net of expenses of $66,184 | (7,673) | - - | - - | - - | (334,942) | (49,743) | (392,358) |
| Total revenue, gains, (losses) and other support, before net asset releases | $ 6,799,700 | $ - - | $ - - | $ - - | $ 197,429 | $ (49,743) | $ 6,947,386 |
| **Net assets released from restrictions:** | | | | | | | |
| Release of investment return, net | $ - - | $ 33,115 | $ 98,021 | $ 8,385 | $ - - | $ - - | $ 139,521 |
| Satisfaction of program restrictions | 322,529 | 500,544 | - - | 3,367 | - - | - - | 826,440 |
| Total net assets released from restrictions | $ 322,529 | $ 533,659 | $ 98,021 | $ 11,752 | $ - - | $ - - | $ 965,961 |
| Total revenue, gains, (losses) and other support without donor restrictions | $ 7,122,229 | $ 533,659 | $ 98,021 | $ 11,752 | $ 197,429 | $ (49,743) | $ 7,913,347 |
| **Expenses** | | | | | | | |
| Program Services: | | | | | | | |
| Conservation and Land Trust | $ 4,767,172 | $ 500,544 | $ - - | $ 3,367 | $ - - | $ - - | $ 5,271,083 |
| Membership services | 555,251 | - - | - - | - - | - - | - - | 555,251 |
| Publications | 546,172 | - - | - - | - - | - - | - - | 546,172 |
| Communications | 704,662 | - - | - - | - - | - - | - - | 704,662 |
| Total program services | $ 6,573,257 | $ 500,544 | $ - - | $ 3,367 | $ - - | $ - - | $ 7,077,168 |
| Supporting Services: | | | | | | | |
| Fundraising | $ 786,445 | $ - - | $ - - | $ - - | $ - - | $ - - | $ 786,445 |
| Management and general | 1,257,779 | - - | - - | - - | - - | - - | 1,257,779 |
| Total supporting services | $ 2,044,224 | $ - - | $ - - | $ - - | $ - - | $ - - | $ 2,044,224 |
| Total expenses | $ 8,617,481 | $ 500,544 | $ - - | $ 3,367 | $ - - | $ - - | $ 9,121,392 |
| **Other Changes in Net Assets without Donor Restrictions** | | | | | | | |
| Transfer of investment return, net to general fund | $ 905,833 | $ (33,115) | $ (98,021) | $ (8,385) | $ (766,312) | $ - - | $ - - |
| Other transfer to general fund | 500,000 | - - | - - | - - | - - | - - | 500,000 |
| Annuity actuarial adjustment | - - | - - | - - | - - | - - | (30,833) | (30,833) |
| Total other changes in net assets without donor restrictions | $ 1,405,833 | $ (33,115) | $ (98,021) | $ (8,385) | $ (766,312) | $ (30,833) | $ 469,167 |
| Total changes in net assets without donor restrictions | $ (89,419) | $ - - | $ - - | $ - - | $ (568,883) | $ (80,576) | $ (738,878) |

See Notes to Financial Statements.

THE APPALACHIAN TRAIL CONSERVANCY

**Statement of Activities (continued)**
For the Year Ended December 31, 2018

| | General Fund | Land Acquisition Fund | Life Membership Fund | Monitoring Fund | David N. Startzell Stewardship Fund | Annuity Fund | Total All Funds |
|---|---|---|---|---|---|---|---|
| **Changes in net assets with donor restrictions:** | | | | | | | |
| Public support, contributions | $ 448,621 | $ 1,012,152 | $ - - | $ - - | $ 1,001,000 | $ - - | $ 2,461,773 |
| Membership | - - | - - | 22,501 | - - | - - | - - | 22,501 |
| Investment return, net of expenses of $25,579 | - - | (606,378) | (130,878) | (11,083) | - - | - - | (748,339) |
| Other income | - - | 30,124 | - - | - - | - - | - - | 30,124 |
| Release of investment return, net to general fund | - - | (33,115) | (98,021) | (8,385) | - - | - - | (139,521) |
| Other transfer to general fund | - - | - - | - - | - - | (500,000) | - - | (500,000) |
| Net assets released from restrictions | (322,529) | (500,544) | - - | (3,367) | - - | - - | (826,440) |
| Total changes in net assets with donor restrictions | $ 126,092 | $ (97,761) | $ (206,398) | $ (22,835) | $ 501,000 | $ - - | $ 300,098 |
| Changes in net assets | $ 36,673 | $ (97,761) | $ (206,398) | $ (22,835) | $ (67,883) | $ (80,576) | $ (438,780) |
| Net assets, beginning of year | 1,329,782 | 4,394,469 | 2,658,049 | 259,271 | 7,506,966 | 671,090 | 16,819,627 |
| Net assets, end of year | $ 1,366,455 | $ 4,296,708 | $ 2,451,651 | $ 236,436 | $ 7,439,083 | $ 590,514 | $ 16,380,847 |

See Notes to Financial Statements.

**THE APPALACHIAN TRAIL CONSERVANCY**

**Statement of Activities**
For the Year Ended December 31, 2017

| | General Fund | Land Acquisition Fund | Life Membership Fund | Monitoring Fund | David N. Startzell Stewardship Fund | Annuity Fund | Total All Funds |
|---|---|---|---|---|---|---|---|
| **Changes in net assets without donor restrictions:** | | | | | | | |
| **Revenue, gains, (losses) and other support** | | | | | | | |
| Public support, contributions | $ 2,609,690 | $ - - | $ - - | $ - - | $ 1,031,915 | $ 10,486 | $ 3,652,091 |
| In-kind contributions | 87,130 | - - | - - | - - | - - | - - | 87,130 |
| Membership | 1,318,507 | - - | - - | - - | - - | - - | 1,318,507 |
| Contractual services | 2,229,175 | - - | - - | - - | - - | - - | 2,229,175 |
| Sales, less cost of goods sold of $519,335 | 455,751 | - - | - - | - - | - - | - - | 455,751 |
| Investment return, net of expenses of $46,660 | (6,096) | - - | - - | - - | 1,062,775 | 17,110 | 1,073,789 |
| Other income | 883,875 | - - | - - | - - | - - | - - | 883,875 |
| Total revenue, gains, (losses) and other support, before net asset releases | $ 7,578,032 | $ - - | $ - - | $ - - | $ 2,094,690 | $ 27,596 | $ 9,700,318 |
| **Net assets released from restrictions:** | | | | | | | |
| Release of investment return, net | $ - - | $ 26,492 | $ 93,924 | $ - - | $ - - | $ - - | $ 120,416 |
| Satisfaction of program restrictions | 317,338 | 60,445 | - - | - - | 7,612 | - - | 385,395 |
| Total net assets released from restrictions | $ 317,338 | $ 86,937 | $ 93,924 | $ - - | $ 7,612 | $ - - | $ 505,811 |
| Total revenue, gains, (losses) and other support without donor restrictions | $ 7,895,370 | $ 86,937 | $ 93,924 | $ - - | $ 2,102,302 | $ 27,596 | $ 10,206,129 |
| **Expenses** | | | | | | | |
| Program Services: | | | | | | | |
| Conservation and Land Trust | $ 4,539,413 | $ 60,445 | $ - - | $ - - | $ - - | $ - - | $ 4,599,858 |
| Membership services | 855,778 | - - | - - | - - | - - | - - | 855,778 |
| Publications | 630,888 | - - | - - | - - | - - | - - | 630,888 |
| Communications | 863,407 | - - | - - | - - | - - | - - | 863,407 |
| Total program services | $ 6,889,486 | $ 60,445 | $ - - | $ - - | $ - - | $ - - | $ 6,949,931 |
| Supporting Services: | | | | | | | |
| Fundraising | $ 741,714 | $ - - | $ - - | $ - - | $ - - | $ - - | $ 741,714 |
| Management and general | 1,394,000 | - - | - - | - - | - - | - - | 1,394,000 |
| Total supporting services | $ 2,135,714 | $ - - | $ - - | $ - - | $ - - | $ - - | $ 2,135,714 |
| Total expenses | $ 9,025,200 | $ 60,445 | $ - - | $ - - | $ - - | $ - - | $ 9,085,645 |
| **Other Changes in Net Assets without Donor Restrictions** | | | | | | | |
| Transfer of investment return, net to general fund | $ 831,110 | $ (26,492) | $ (93,924) | $ - - | $ (710,694) | $ - - | $ - - |
| Annuity actuarial adjustment | - - | - - | - - | - - | - - | (9,226) | (9,226) |
| Total other changes in net assets without donor restrictions | $ 831,110 | $ (26,492) | $ (93,924) | $ - - | $ (710,694) | $ (9,226) | $ (9,226) |
| Total changes in net assets without donor restrictions | $ (298,720) | $ - - | $ - - | $ - - | $ 1,391,608 | $ 18,370 | $ 1,111,258 |

See Notes to Financial Statements.

**THE APPALACHIAN TRAIL CONSERVANCY**

**Statement of Activities (continued)**
For the Year Ended December 31, 2017

| | General Fund | Land Acquisition Fund | Life Membership Fund | Monitoring Fund | David N. Startzell Stewardship Fund | Annuity Fund | Total All Funds |
|---|---|---|---|---|---|---|---|
| **Changes in net assets with donor restrictions:** | | | | | | | |
| Public support, contributions | $ 74,940 | $ 500,701 | $ - - | $ - - | $ 500,000 | $ - - | $ 1,075,641 |
| Membership | - - | - - | 15,135 | - - | - - | - - | 15,135 |
| Investment return, net of expenses of $30,600 | - - | (185,470) | 334,263 | 27,825 | - - | (6,545) | 170,073 |
| Other income | - - | 28,537 | - - | - - | - - | - - | 28,537 |
| Release of investment return, net to general fund | - - | (26,492) | (93,924) | - - | - - | - - | (120,416) |
| Net assets released from restrictions | (317,338) | (60,445) | - - | - - | (7,612) | - - | (385,395) |
| Total changes in net assets with donor restrictions | $ (242,398) | $ 256,831 | $ 255,474 | $ 27,825 | $ 492,388 | $ (6,545) | $ 783,575 |
| Changes in net assets | $ (541,118) | $ 256,831 | $ 255,474 | $ 27,825 | $ 1,883,996 | $ 11,825 | $ 1,894,833 |
| Net assets, beginning of year | 1,870,900 | 4,137,638 | 2,402,575 | 231,446 | 5,622,970 | 659,265 | 14,924,794 |
| Net assets, end of year | $ 1,329,782 | $ 4,394,469 | $ 2,658,049 | $ 259,271 | $ 7,506,966 | $ 671,090 | $ 16,819,627 |

See Notes to Financial Statements.

## THE APPALACHIAN TRAIL CONSERVANCY

**Statements of Cash Flows**
For the Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Changes in net assets | $ (438,780) | $ 1,894,833 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 183,630 | 187,269 |
| Net realized and unrealized losses (gains) on investments | 718,564 | (1,364,216) |
| Unrealized loss on property held for sale | 575,933 | 267,109 |
| (Gain) on sale of land held in conservancy | - - | (25,928) |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts and pledges receivable, net | (1,700,698) | 86,820 |
| (Increase) decrease in inventory | (16,090) | 97,974 |
| Decrease (increase) in prepaid expenses | 53,102 | (69,016) |
| Decrease (increase) in other assets, deposits | 360 | (1,707) |
| Increase (decrease) in accounts payable and accrued expenses | 243,426 | (21,866) |
| (Decrease) in annuities payable | (11,559) | (24,367) |
| Increase (decrease) in deferred revenues | 1,563,017 | (255,981) |
| Net cash provided by operating activities | $ 1,170,905 | $ 770,924 |
| **Cash Flows from Investing Activities** | | |
| Purchases of property and equipment | $ (82,106) | $ (319,828) |
| Purchases of long-term investments | (6,076,445) | (4,739,518) |
| Proceeds from sale of land held in conservancy | - - | 56,121 |
| Proceeds from sale of long-term investments | 5,170,428 | 4,487,272 |
| Net cash (used in) investing activities | $ (988,123) | $ (515,953) |
| **Cash Flows from Financing Activities,** | | |
| payments on long-term debt | $ (3,932) | $ (3,931) |
| Net cash (used in) financing activities | $ (3,932) | $ (3,931) |
| Change in cash and cash equivalents | $ 178,850 | $ 251,040 |
| **Cash and Cash Equivalents** | | |
| Beginning | 2,397,694 | 2,146,654 |
| Ending | $ 2,576,544 | $ 2,397,694 |
| **Supplemental Schedule of Noncash Investing and Financing Activities** | | |
| Stock donations | $ 84,406 | $ 68,865 |
| Various equipment and donated services | $ 35,570 | $ 87,130 |

See Notes to Financial Statements.

## Note 1. Nature of Activities and Significant Accounting Policies

### Nature of Activities

The Appalachian Trail Conservancy (the Conservancy) is a nonprofit, volunteer-centered corporation organized in 1925 and incorporated in 1936 under the laws of the District of Columbia. The Conservancy was organized to promote, construct and manage the Appalachian Trail and its associated lands in the public interest for hiking and other recreation on foot and for the study of nature along the ridgecrests of the Appalachian Mountains through 14 states from northern Georgia to central Maine. Beginning in the 1920s, Conservancy volunteers conceived, blazed and maintained the Appalachian Trail, which is approximately 2,200 miles long.

The Conservancy works closely with 31 autonomous local member clubs along the Appalachian Trail in a coordinated effort to carry out the Conservancy's missions. Under a series of agreements, dating back to the 1930s, with the U.S. Department of the Interior, the U.S. Department of Agriculture Forest Service, and various state agencies, these clubs, in coordination with the Conservancy, help to maintain the footpath and its facilities (shelters, bridges, signs, etc.) and manage approximately 108,841 acres of National Park Service land that has been acquired specifically to protect the footpath from incompatible uses and development.

Additionally, the work of the Conservancy extends beyond resource management and into the realm of public information and education. The Conservancy has an extensive publications program that includes guidebooks, maps, newsletters, and other books about the Appalachian Trail and its resources. The Conservancy's communications extend to our visitor's center, which plays host to almost 30,000 people annually. The Conservancy's information staff addresses almost 10,000 mail and e-mail inquiries each year, and the Conservancy's website averages 107,000 visits each month.

The Conservancy is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar sections of state statutes.

A summary of the significant accounting policies is as follows:

#### Financial Reporting

The Conservancy's financial statements are presented on the accrual basis of accounting, in accordance with generally accepted accounting principles (U.S. GAAP).

The Conservancy reports information regarding its financial position and activities according to the "net asset" concept. Net assets are segregated among two categories: net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions consists of net assets not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Conservancy. These net assets may be used at the discretion of the Conservancy's management and Board of Directors. Net assets with donor restrictions consist of net assets subject to donor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Conservancy or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

**Fund Accounting**

In order to ensure the observance of limitations and restrictions placed on the use of resources available to the Conservancy, its accounts are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund. Fund balances are classified on the statement of financial position as net assets without donor restrictions and net assets with donor restrictions based on the absence or existence of donor-imposed restrictions.

**Net Assets without Donor Restrictions**

The General Fund represents funds that are derived primarily from support and revenues in the form of contributions, governmental contracts, membership dues, and sales of publications. Resources are used to help meet the costs of providing the Conservancy's programs and supporting services, and plant and equipment, both purchased and donated.

**Net Assets with Donor Restrictions**

Restricted funds are used to record the Conservancy's activities that are supported by resources whose use is limited by external parties to specific purposes. The principal sources of restricted funds are contributions from donors; contracts and grants; and other sources where resource providers have stipulated the specific purposes for which the resources are to be used.

The Monitoring Fund is a restricted fund representing contributions received that have been restricted for use in the maintenance and protection of specified lands on or near various portions of the Appalachian Trail.

The Annuity Fund is used by the Conservancy to account for resources provided by donors under various kinds of agreements in which the Conservancy has a beneficial interest in the resources but may not be the sole beneficiary. As described in more detail in Note 13, the Conservancy participates in various charitable trusts and offers charitable gift annuities.

There are two types of endowment funds: board designated endowment funds and donor-restricted endowment funds. The Conservancy's endowment funds contain a combination of the two described above. The investment return received on the Land Acquisition, Life Membership, Monitoring and David N. Startzell Stewardship Funds is transferred in accordance with the Conservancy's investment and spending policy which establishes a spending limit of up to 4.5 percent of the portfolio's market value as measured on the last day of the past twelve (12) quarters.

The Land Acquisition Fund consists of assets restricted for the purposes of acquiring land and interests in land along the Appalachian Trail. Proceeds from the sale of such lands to various Federal and state agencies, as well as individual conservation buyers, are deposited in this fund for future acquisitions. The principal of the Land Acquisition Fund is restricted; however, investment return held by the Land Acquisition Fund is transferred to the General Fund in accordance with the Conservancy's investment and spending policy.

The Life Membership Fund consists of receipts from full Conservancy Life Members or time payments on Conservancy Life Memberships. The principal of the Life Membership Fund is restricted; however, investment return held by the Life Membership Fund is transferred to the General Fund in accordance with the Conservancy's investment and spending policy.

The David N. Startzell Stewardship Fund, formerly reported as the Stewardship Fund, consists of endowment funds intended to offset the costs associated with trail construction, maintenance, and land management activities. Part of the principal of the David N. Startzell Stewardship Fund is restricted; however, investment return held by the David N. Startzell Stewardship Fund is transferred to the General Fund in accordance with the Conservancy's investment and spending policy.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Conservancy considers all highly liquid investments with a maturity of three months or less to be cash and cash equivalents.

### Inventories

Inventories consist of materials held for sale by the Conservancy and are stated at the lower of cost (first-in, first-out method) or market.

### Investments

The Conservancy records investments at fair market value in the statement of financial position. Investment return is reflected in the statement of activities, net of any fees. Investments that are received as gifts are recorded at their market value at the date of the gift, which then becomes the cost basis.

### Land Held in Conservancy

Lands held in conservancy are recorded at cost or, if donated, at the estimated fair market value of the land on the date of the donation. Because the Conservancy intends to hold the lands held in conservancy indefinitely, write-downs for permanent impairments in the value of the lands are not recorded.

The Conservancy, at times, sells assets at less than fair market value to individual landowners in exchange for conservation restrictions placed upon the landowner's lands. The Conservancy records such transactions as expenditures in the period incurred.

### Property and Equipment

Expenditures for the acquisition of property and equipment are capitalized at cost. The fair value of donated assets at the date of the gift is similarly capitalized. Depreciation and amortization is computed by the straight-line method over the estimated useful lives of the assets ranging from three to thirty years. Depreciation and amortization expense was $183,630 and $187,269 for the years ended December 31, 2018 and 2017, respectively.

Resources restricted by donors for plant replacement and expansion are added to net assets without donor restrictions to the extent expended within the period.

### Donated Goods, Services and Facilities

Donated materials, equipment and other assets are reflected as contributions in the accompanying financial statements at their estimated fair market values at the date of the gift. The Conservancy recognizes contribution revenue for services requiring specialized skills received at the fair value of those services. During the years ended December 31, 2018 and 2017, the Conservancy received donated services of $5,600 and $69,990 and donated goods of $29,970 and $17,140, respectively. In addition, 5,832 and 5,939 volunteers donated 199,290 hours and 239,798 hours, for the years ended December 31, 2018 and 2017, respectively, to the Conservancy's programs, fund-raising campaigns and management for which no amounts have been recognized in the financial statements since no objective basis is available to measure the value of such services.

### Contributions

The Conservancy's management has adopted the standard that requires revenues to be recognized for all unconditional promises to give, including those with donor imposed restrictions, at the time of receipt of the promise. The standard also requires certain disclosures for receipts of contributed services and promises to give.

Gifts of cash and other assets are presented 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, 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.

Gifts of land, buildings and equipment are presented as net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Conservancy reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used in the Conservancy's activities).

## Revenue Recognition

Grant revenue is recognized when the related costs are incurred. Deferred revenue is recorded for grant funds that the Conservancy has been awarded but for which it has not incurred related expenses.

Government support is recognized when the services have been provided and the related expenses have been incurred for which the Government support has been restricted.

Membership dues are recognized as revenue on a pro-rata basis over the period to which the dues relate, for only the portion of the dues for which the member receives goods or services. The remaining contribution portion of the dues is recognized as revenue in the year the dues are received.

Donations are recognized as income in the period in which they are received and are considered to be available for unrestricted use unless specifically restricted by the donor. However, if a restriction is fulfilled in the same period in which the contribution is received, the Conservancy reports the support as net assets without donor restrictions.

## Allocation Methodology for the Schedule of Functional Expenses

The costs of providing program and other activities are summarized on a functional basis in the schedule of functional expenses. Certain costs have been allocated among program, management and general and fundraising. Such allocations have been made by management on an equitable basis. The expenses that are allocated including the following:

| Expense | Method of Allocation |
|---|---|
| Salaries, wages and payroll taxes | Direct Allocation and Time and Effort |
| Employee benefits | Direct Allocation |
| Contract services | Direct Allocation |
| Supplies | Direct Allocation |
| Postage | Direct Allocation |
| Printing | Direct Allocation |
| Personnel development | Direct Allocation |
| Promotional | Direct Allocation |
| Travel, meetings and conferences | Direct Allocation |
| Licenses and fees | Direct Allocation |
| Grants | Direct Allocation |
| Organization infrastructure | Direct Allocation |
| Other expenses | Direct Allocation |

## Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may 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.

## New Accounting Pronouncement

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statement for Not-for-Profit Entities*. The Conservancy adopted the provisions of this new standard in the current year. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and availability of resources (Note 3) as well as the allocation methodology for the schedule of functional expenses (Note 1). Adoption of this standard had no effect on the change in net assets or in total.

## Fair Value Measurements

Accounting standards establish a framework for measuring fair value. That framework provides 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 prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under the standards are described as follows:

Level 1 – Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities or other inputs observable for the asset or liability, either directly or indirectly through corroboration with observable market data. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option-pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The asset 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.

For the year ended December 31, 2018 and 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

*Investments*

The fair value of assets restricted for long-term purposes is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers (Level 1).

*Property Held for Sale*

Property held for sale is valued at estimated fair market value (Level 3).

The carrying amounts of the Conservancy's financial instruments not described above arise in the ordinary course of business and approximate fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Conservancy 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.

## Note 2. Cash Concentrations

The Conservancy may from time to time have deposits with commercial financial institutions in excess of the federally insured limit during the year. The Conservancy has not experienced any losses on its accounts.

## Note 3. Liquidity and Availability of Resources

The Conservancy has the following financial assets available for general expenditure within one year of the statement of financial position date to meet cash needs for general expenditure. The Conservancy has a goal to maintain financial assets on hand to meet 90 days of normal operating expenses, which are, on average approximately $1,600,000. The Conservancy has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Conservancy has a board-designated endowment of $5,497,394 as of December 31, 2018. Although the Conservancy does not intend to spend from its board designated endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary.

| | |
|---|---|
| Financial assets, at year-end: | |
| Cash and cash equivalents | $ 2,576,544 |
| Accounts receivable, net | 4,159,860 |
| Pledges receivable, net | 150,095 |
| Long-term investments | 10,828,801 |
| Total financial assets | $ 17,715,300 |
| Less those unavailable for general expenditure within one year, due to: | |
| Board designations | $ 5,497,394 |
| Donor- restricted | 10,031,335 |
| (Less) amounts available for spending within one year, in accordance with spending policy | (459,845) |
| (Less) amounts available for spending within one year, as approved by the Board | (506,155) |
| (Less) amounts available for spending within one year, release of time restrictions | (150,095) |
| Financial assets not available to be used within one year | $ 14,412,634 |
| Financial assets available to meet cash needs for general expenditures within one year | $ 3,302,666 |

## Note 4. Investments

The Conservancy carries investments at fair market value based on quoted prices in active markets. Investments consisted of the following as of December 31, 2018 and 2017:

| | 2018 | | |
|---|---|---|---|
| | Cost | Fair Market Value | Unrealized Gain (Loss) |
| Cash or cash equivalents | $ 467,910 | $ 467,910 | $ - - |
| Stocks | 5,479,540 | 6,431,892 | 952,352 |
| Fixed income securities | 4,002,204 | 3,928,999 | (73,205) |
| Total | $ 9,949,654 | $ 10,828,801 | $ 879,147 |

| | 2017 | | |
|---|---|---|---|
| | Cost | Fair Market Value | Unrealized Gain |
| Cash or cash equivalents | $ 375,018 | $ 375,018 | $ - - |
| Stocks | 4,909,421 | 6,526,411 | 1,616,990 |
| Fixed income securities | 3,738,675 | 3,739,919 | 1,244 |
| Total | $ 9,023,114 | $ 10,641,348 | $ 1,618,234 |

The Conservancy uses a spending-rate formula to determine how much of its investment return, net of fees is available to support current operations. Investment return, net of fees was released to support general operations in accordance with Conservancy's spending policy as follows:

| | 2018 | 2017 |
|---|---|---|
| Land Acquisition Fund | $ 33,115 | $ 26,492 |
| Monitoring Fund | 8,385 | - - |
| Life Membership Fund | 98,021 | 93,924 |
| | $ 139,521 | $ 120,416 |

## Note 5. Accounts Receivable

Accounts receivable at December 31, 2018 and 2017, consisted primarily of amounts due from the National Park Service. Net accounts receivable consist of the following:

| | 2018 | 2017 |
|---|---|---|
| Federal | $ 3,915,903 | $ 2,194,449 |
| State | 16,170 | 44,094 |
| Trade | 79,516 | 73,053 |
| Other | 166,849 | 204,368 |
| Allowance for doubtful accounts | (18,578) | (20,851) |
| | $ 4,159,860 | $ 2,495,113 |

## Note 6. Pledges Receivable

As of December 31, 2018 and 2017, contributors to the Conservancy have unconditionally promised to give $150,095 and $59,955, respectively. The unconditionally promised contributions are due within one year.

## Note 7. Property and Equipment

A summary of property and equipment as of December 31, 2018 and 2017, is as follows:

| | 2018 | 2017 |
|---|---|---|
| Land | $ 20,000 | $ 20,000 |
| Building and improvements | 1,041,369 | 1,021,013 |
| Furniture and equipment | 564,299 | 977,808 |
| Computer software | 937,522 | 898,991 |
| | $ 2,563,190 | $ 2,917,812 |
| Less accumulated depreciation and amortization | (1,631,035) | (1,884,133) |
| | $ 932,155 | $ 1,033,679 |

## Note 8. Land Held in Conservancy

The Conservancy holds title to various parcels of real estate located along the Appalachian Trail. Such lands are classified by the Conservancy as land held in conservancy. The Conservancy is not in the development or real estate business but a guardian of the lands adjacent to the trail. Land held in conservancy at December 31, 2018 and 2017 amounted to $1,644,157 for both years and represents real estate held by the Conservancy that it intends to hold indefinitely or sell to a Federal or State agency that governs the portion of the Appalachian Trail in which the real estate lies, or to conservation-minded individuals interested in acquiring land with significant restrictions designed to protect the trail.

## Note 9. Contractual Services and Revenue Concentration

The Conservancy receives a significant amount of its support and revenue from cooperative agreements and cost-share agreements with the National Park Service, the United States Forest Service and various state agencies. Support received from these agencies was $2,412,349 and $2,229,175 during the years ended December 31, 2018 and 2017, respectively. A significant reduction in the level of this support, if this were to occur, may have a significant impact on the Conservancy's programs and activities.

## Note 10. Pension Plan

The Conservancy has an IRC 403(b) Employer Contributory Tax Deferral Annuity Plan (a defined contribution plan). Employees can contribute to the plan effective immediately upon date of hire. To be eligible for employer contributions, the employee must have worked a minimum of 1,000 hours within a twelve-month consecutive period.

The pension plan covers all of the Conservancy's employees who meet the requirements stated above. Members' rights to contributions vest immediately. Contributions to the pension plan by the Conservancy are based on 2% of eligible employees' compensation. In addition, in 2001, the Conservancy approved a matching contribution up to 3% to encourage participation. Total contributions to the pension plan by the Conservancy were $131,174 and $137,593 for the years ended December 31, 2018 and 2017, respectively.

## Note 11. Lease Commitments and Total Rental Expense

The Conservancy leases facilities to house its regional offices and various equipment under arrangements that are classified as operating leases. The leases generally require the Conservancy to pay for all normal maintenance, utilities and liability insurance costs. Rental expense for the years ended December 31, 2018 and 2017, was $162,968 and $160,759, respectively.

The future minimum lease payments under non-cancellable operating leases are as follows for the years ended December 31:

| | |
|---|---|
| 2019 | $ 162,012 |
| 2020 | 131,859 |
| 2021 | 47,219 |
| 2022 | 18,909 |
| | $ 359,999 |

## Note 12. Related-Party Transactions

Among the Conservancy's Board members and officers are volunteers from the financial, legal and environmental community who provide valuable assistance to the Conservancy in the development of policies and programs and in the evaluation of awards and grants. Under the Conservancy's conflict of interest disclosure policy, the Executive Director reviews all transactions with related parties. Based on their review, significant transactions are submitted to the Board of Directors for approval. For the years ended December 31, 2018 and 2017, substantially all awards and grants, which amounted to $64,484 and $3,200, respectively, were disbursed to groups with which one or more Board members were associated as volunteers. These groups maintain the Appalachian Trail in their local areas.

## Note 13. Annuities Payable

The Conservancy administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Conservancy's use. The portion of the trust attributable to the present value of the future benefits to be received by the Conservancy is recorded in the Statement of Activities as net assets with donor restrictions in the period the trust is established. When necessary, the Conservancy revalues the liability to the designated beneficiaries.

Assets held in charitable remainder trusts and in fulfillment of charitable gift annuity contracts totaled $722,279 and $814,180 at December 31, 2018 and 2017, respectively, and are reported at fair market value in the Conservancy's Statement of Financial Position. The present value of the estimated future payments for remainder trusts is calculated using discount rates determined at the inception of the trust and applicable mortality tables.

A charitable gift annuity is an arrangement between a donor and the Conservancy in which the donor contributes assets to the organization in exchange for a promise by the organization to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. The assets received are held as general assets of the Conservancy, and the annuity liability is a general obligation of the Conservancy; however, they are maintained in the Annuity Fund.

Adjustments to the annuity liability were made to reflect amortization of the discount and changes in life expectancies. For the years ended December 31, 2018 and 2017, the annuity actuarial adjustment amounted to $30,833 and $9,226, respectively. Total liability under split-interest agreements totaled $253,849 and $265,408 at December 31, 2018 and 2017, respectively.

## Note 14. Board Designated Net Assets

Net assets without donor restrictions are often designated by the Board of Directors for particular purposes and programs. Board designations in effect at December 31, 2018 and 2017 were as follows:

| | **2018** | **2017** |
|---|---|---|
| David N. Startzell Stewardship Fund – amounts designated in accordance with contributions policy | $ 5,497,394 | $ 6,066,277 |

## Note 15. Deferred Revenues

Deferred revenues consisted of the following at December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Deferred memberships | $ 49,842 | $ 63,610 |
| Deferred - National Park Service (NPS) | 3,345,901 | 1,648,885 |
| Deferred - other | 50,000 | 116,042 |
| | $ 3,445,743 | $ 1,828,537 |

## Note 16. Net Assets Released from Restrictions

The sources of net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by the donors were as follows for the years ended December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| General Fund: | | |
| Pledges, time restriction | $ 59,860 | $ 186,517 |
| Conservation projects | 262,669 | 130,821 |
| | $ 322,529 | $ 317,338 |
| Land Acquisition Fund: | | |
| Acquisition expenditures | $ 500,544 | $ 60,445 |
| Monitoring Fund: | | |
| Monitoring expenses | $ 3,367 | $ - - |
| Stewardship Fund: | | |
| Pledges, time restriction | $ - - | $ 7,612 |
| Total net assets released from restrictions | $ 826,440 | $ 385,395 |

If a restriction is fulfilled in the same period in which the contribution is received, the Conservancy reports the support as net assets without donor restrictions. The Conservancy received $373,128 and $445,919 in contributions during 2018 and 2017, respectively, where the restrictions were fulfilled by year-end.

## Note 17. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

| | 2018 | 2017 |
|---|---|---|
| General Fund, conservation projects | $ 732,182 | $ 696,225 |
| Pledges, time restriction | 150,095 | 59,955 |
| Land Acquisition Fund | | |
| Acquisition of land/interests along the Appalachian Trail | 3,731,765 | 3,829,520 |
| Amounts in perpetuity | 556,301 | 556,301 |
| Monitoring Fund, monitoring of Appalachian Trail Conference Lands | 236,436 | 259,271 |
| Annuity Fund, annuity trust agreements | 231,216 | 231,216 |
| Life Membership Fund | | |
| Investments in perpetuity, the income of which may be expended to support ATC general and program expenditures | 2,451,651 | 2,658,049 |
| David N. Startzell Stewardship Fund | | |
| Purpose restrictions | 1,011,782 | 510,782 |
| Investments in perpetuity, the income from which may be expended for trail construction and maintenance and trail-land management activities | 187,728 | 191,621 |
| Sperling Memorial Shelter - Improvement Fund | 6,372 | 6,236 |
| Michael Bequaert - Andrew Kingery Shelter Memorial Fund | 70,925 | 69,473 |
| Smart Family Foundation | 12,775 | 12,503 |
| The George Ebenstein and Ernest Wallach Fund | 14,939 | 14,621 |
| The Ilus and Dr. Bernard Grünstein Fund | 14,939 | 14,621 |
| The William T. Foot Memorial Endowment Bridge Fund | 15,937 | 15,597 |
| The Ingram Fund | 12,668 | 12,399 |
| The Janelle C. Maurer Fund | 24,631 | 23,843 |
| The Michael L. Howell Memorial Fund | 568,993 | 568,993 |
| Total David N. Startzell Stewardship Fund | $ 1,941,689 | $ 1,440,689 |
| Total net assets with donor restrictions | $ 10,031,335 | $ 9,731,226 |

## Note 18. Fair Value Measurements and Subsequent Event

The following table presents the balance of financial assets measured at fair value on a recurring basis as of December 31, 2018 and 2017:

| | 2018 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| Cash or cash equivalents | $ 467,910 | $ - - | $ - - |
| Stocks | 6,431,892 | - - | - - |
| Fixed income securities | 3,928,999 | - - | - - |
| Property held for sale | - - | - - | 79,417 |
| | $ 10,828,801 | $ - - | $ 79,417 |

| | 2017 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| Cash or cash equivalents | $ 375,018 | $ - - | $ - - |
| Stocks | 6,526,411 | - - | - - |
| Fixed income securities | 3,739,919 | - - | - - |
| Property held for sale | - - | - - | 655,350 |
| | $ 10,641,348 | $ - - | $ 655,350 |

Subsequent to year end, the Conservancy sold the property held for sale for $220,000 plus other costs. In addition to the property, equipment was also sold for $30,500.

## Note 19. Endowment Funds

The Conservancy's endowment consists of three funds established for land acquisition, life membership and stewardship. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Conservancy has adopted an investment policy to provide current income to support programs of the Conservancy and to achieve such growth of principal and income over time that purchasing power will be preserved or increased. The Conservancy will invest in index mutual funds or exchange-traded funds using historical data to achieve target returns (inflation adjusted) while minimizing risk as measured by expected volatility. The investment committee will review the portfolio periodically and make modifications as it deems appropriate to reflect market history and changing long-term market conditions.

### Underwater Endowment Funds

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Conservancy to retain as a fund of perpetual duration. There were no deficiencies as of December 31, 2018 in the Conservancy's funds.

### Spending Policy

The Conservancy has adopted a spending policy for distribution each year which allows distribution up to 4.5 percent of the portfolio's market value as measured on the last day of the past twelve (12) quarters. If the Conservancy's endowment were to fall below the level that the donor or UPMIFA requires the Conservancy to retain, the Conservancy would elect not to continue spending from their funds.

Changes in endowment net assets for the years ending December 31, 2018 and 2017, were as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets, January 1, 2017 | $ 4,674,669 | $ 3,888,783 | $ 8,563,452 |
| Investment return, net | 1,062,775 | 334,263 | 1,397,038 |
| Contributions | 1,031,915 | 15,135 | 1,047,050 |
| Satisfaction of pledges, time restriction | 7,612 | - - | 7,612 |
| Appropriation of endowment assets for expenditure | (710,694) | (93,924) | (804,618) |
| Endowment net assets, December 31, 2017 | $ 6,066,277 | $ 4,144,257 | $ 10,210,534 |
| Investment return, net | (334,942) | (130,878) | (465,820) |
| Contributions | 532,371 | 22,501 | 554,872 |
| Appropriation of endowment assets for expenditure | (766,312) | (98,021) | (864,333) |
| Endowment net assets, December 31, 2018 | $ 5,497,394 | $ 3,937,859 | $ 9,435,253 |

## Note 20. Subsequent Events

The Conservancy has evaluated all subsequent events through June 7, 2019, the date the financial statements were available to be issued. The Conservancy has determined there are no additional subsequent events that require recognition or disclosure.

## Note 21. Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for the Conservancy in calendar year 2020. Early adoption is permitted. The Conservancy is currently evaluating the impact that the adoption of Topic 842 will have on its financial statements.

In June 2018, the FASB issued Accounting Standards Update No. 2018-08, Not-for-Profit Entities (Topic 958), which clarifies the scope and the accounting guidance for contributions received and contributions made. Specifically, the update assists entities in determining whether a transaction should be accounted for as a contribution or an exchange transaction. If a transaction is accounted for as an exchange transaction, other accounting guidance, for example, in Topic 606, Revenue from Contracts with Customers, should be followed. If, however, a transaction is accounted for as a contribution, guidance in Subtopic 958-605 should be followed. Additionally, the update assists entities in determining whether a contribution is conditional. ASU 2018-08 is effective for contributions received by the Conservancy in calendar year 2019. ASU 2018-08 is effective for contributions made, if applicable, by the Conservancy in calendar year 2020. Early adoption is permitted. The Conservancy is currently evaluating the impact that the adoption of Topic 958 will have on its financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued No. 2015-14 which defers the effective date of ASU No. 2014-09 one year making it effective for the Conservancy in calendar year 2019. Early adoption is permitted. The Conservancy is currently evaluating the impact that the adoption of Topic 606 will have on its financial statements.

## Note 22. Schedules of Functional Expenses

The schedules of functional expenses are as follows for the years ended December 31, 2018 and 2017:

| 2018 | Trail Management and Protection: Conservation and Land Trust | User and Supporter Services: Membership Services | User and Supporter Services: Publications | User and Supporter Services: Communications | Program Services Total | Management and General | Fundraising | Total Expenses |
|---|---|---|---|---|---|---|---|---|
| Salaries, wages and payroll taxes | $ 2,479,369 | $ 98,785 | $ 231,930 | $ 345,735 | $ 3,155,819 | $ 481,231 | $ 401,632 | $ 4,038,682 |
| Employee benefits | 289,904 | 11,080 | 22,928 | 37,763 | 361,675 | 76,016 | 35,819 | 473,510 |
| Contract services | 1,171,835 | 155,646 | 7,171 | 142,062 | 1,476,714 | 305,814 | 189,281 | 1,971,809 |
| Supplies | 156,514 | 1,175 | 26,236 | 13,804 | 197,729 | 22,425 | 3,902 | 224,056 |
| Postage | 10,682 | 180,435 | 98,279 | 38,087 | 327,483 | 553 | 19,585 | 347,621 |
| Printing | 5,510 | 103,535 | 3,439 | 97,915 | 210,399 | 1,185 | 27,914 | 239,498 |
| Personnel development | 12,313 | - - | 500 | 6,201 | 19,014 | 18,573 | 446 | 38,033 |
| Promotional | 1,050 | 400 | 5,663 | 12,638 | 19,751 | - - | 550 | 20,301 |
| Travel, meetings and conferences | 240,602 | 286 | 3,032 | 7,137 | 251,057 | 38,711 | 15,276 | 305,044 |
| Licenses and fees | 4,973 | 3,960 | 38,780 | 1 | 47,714 | - - | 50,242 | 97,956 |
| Grants | 721,112 | - - | - - | - - | 721,112 | - - | - - | 721,112 |
| Organization infrastructure | 166,570 | - - | 99,627 | 1,732 | 267,929 | 106,951 | 1,522 | 376,402 |
| Other expenses | 10,649 | (51) | 8,587 | 1,587 | 20,772 | 206,320 | 40,276 | 267,368 |
| Total expenses | $ 5,271,083 | $ 555,251 | $ 546,172 | $ 704,662 | $ 7,077,168 | $ 1,257,779 | $ 786,445 | $ 9,121,392 |

| 2017 | Trail Management and Protection: Conservation and Land Trust | User and Supporter Services: Membership Services | User and Supporter Services: Publications | User and Supporter Services: Communications | Program Services Total | Management and General | Fundraising | Total Expenses |
|---|---|---|---|---|---|---|---|---|
| Salaries, wages and payroll taxes | $ 2,463,264 | $ 245,242 | $ 277,302 | $ 383,997 | $ 3,369,805 | $ 504,539 | $ 294,007 | $ 4,168,351 |
| Employee benefits | 248,216 | 18,560 | 32,377 | 34,650 | 333,803 | 91,414 | 43,787 | 469,004 |
| Contract services | 669,548 | 373,763 | 19,106 | 195,862 | 1,258,279 | 360,738 | 122,349 | 1,741,366 |
| Supplies | 167,759 | 1,925 | 21,936 | 7,392 | 199,012 | 25,206 | 6,551 | 230,769 |
| Postage | 6,888 | 145,453 | 105,126 | 49,230 | 306,697 | 106 | 73,803 | 380,606 |
| Printing | 3,128 | 64,166 | 15,729 | 115,630 | 198,653 | 359 | 50,057 | 249,069 |
| Personnel development | 12,324 | 1,130 | 750 | 2,532 | 16,736 | 14,390 | 1,400 | 32,526 |
| Promotional | 1,561 | - - | 8,213 | 22,956 | 32,730 | - - | 5,055 | 37,785 |
| Travel, meetings and conferences | 285,799 | 1,061 | 11,137 | 5,357 | 303,354 | 66,388 | 31,556 | 401,298 |
| Licenses and fees | 3,343 | 2,000 | 36,649 | 4,076 | 46,068 | - - | 61,520 | 107,588 |
| Grants | 485,342 | - - | 320 | - - | 485,662 | 5,000 | - - | 490,662 |
| Organization infrastructure | 193,271 | - - | 96,188 | 805 | 290,264 | 89,117 | - - | 379,381 |
| Other expenses | 59,415 | 2,478 | 6,055 | 40,920 | 108,868 | 236,743 | 51,629 | 397,240 |
| Total expenses | $ 4,599,858 | $ 855,778 | $ 630,888 | $ 863,407 | $ 6,949,931 | $ 1,394,000 | $ 741,714 | $ 9,085,645 |

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# 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*

To the Board of Directors
The Appalachian Trail Conservancy
Harpers Ferry, West Virginia

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 statement of The Appalachian Trail Conservancy (the "Conservancy"), which comprise the statement of financial position as of December 31, 2018, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 7, 2019.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Conservancy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of the expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Conservancy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Conservancy'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Conservancy'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. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, in which we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Appalachian Trail Conservancy'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*.

**Conservancy's Response to Finding**

The Conservancy's response to the internal control over financial reporting finding identified in our audit is described in the accompanying corrective action plan. The Conservancy's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

**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 Conservancy'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 Conservancy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
June 7, 2019

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# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

To the Board of Directors
The Appalachian Trail Conservancy
Harpers Ferry, West Virginia

## Report on Compliance for Each Major Federal Program

We have audited The Appalachian Trail Conservancy's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of The Appalachian Trail Conservancy's major federal programs for the year ended December 31, 2018. The Appalachian Trail Conservancy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

## Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

## Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of The Appalachian Trail Conservancy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Appalachian Trail Conservancy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of The Appalachian Trail Conservancy's compliance.

**Basis for Qualified Opinion on the Conservancy's U.S. Department of Interior Program**

As described in finding 2018-002 and 2018-003 in the accompanying schedule of findings and questioned costs, the Conservancy did not comply with the requirements of cash management and procurement and suspension and debarment. Compliance with such requirements is necessary, in our opinion, for the Conservancy to comply with the requirements applicable to this program.

**Qualified Opinion on the Conservancy's U.S Department of Interior Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Conservancy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Conservancy's U.S Department of Interior Program for the year ended December 31, 2018.

The Conservancy's responses to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The Conservancy's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

**Report on Internal Control Over Compliance**

Management of The Appalachian Trail Conservancy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Appalachian Trail Conservancy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the single audit guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Appalachian Trail Conservancy's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2018-002 and 2018-003, which we consider to be significant deficiencies.

The Conservancy's responses to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. The Conservancy's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
June 7, 2019

**APPALACHIAN TRAIL CONSERVANCY**

**Schedule of Expenditures of Federal Awards**
For the Year Ended December 31, 2018

| **Federal Grantor / Pass-Through Grantor / Program or Cluster Title** | **Federal CFDA Number** | **Pass-Through Entity Identifying Number** | **Passed Through to Subrecipients** | **Total Federal Expenditures** |
|---|---|---|---|---|
| **U.S. Department of Interior** | | | | |
| **Passed through the National Park Service** | | | | |
| **(Contract Number H0500000002)** | | | | |
| Base | 15.935 | P14AC00659 | $ - - | $ 215,642 |
| Repair Rehab | 15.935 | P14AC00659 | - - | 579,255 |
| Cyclic | 15.935 | P14AC00659 | - - | 500,802 |
| SUP | 15.935 | P14AC00659 | - - | 13,921 |
| Other NPS accounts | 15.935 | P14AC00659 | - - | 449,187 |
| **Total U.S. Department of the Interior** | | | $ - - | $ 1,758,807 |
| **U.S. Department of Agriculture** | | | | |
| Passed through National Resources Conservation Service | 10.U00 | 16-CS-11083150-005; 15-PA-11080822-008 Mod 3; 15-CS-11080300-020 | $ - - | $ 57,027 |
| **Total U.S. Department of Agriculture** | | | | |
| **Total Expenditures of Federal Awards** | | | $ - - | $ 1,815,834 |

See notes to the schedule of expenditures of federal awards.

## Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

### Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of The Appalachian Trail Conservancy under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule represents only a selected portion of the operations of the Conservancy, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Conservancy.

### Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

### Note 3. Indirect Cost Rate

The Conservancy has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

### Note 4. Reconciliation of Schedule of Expenditures of Federal Awards to the Financial Statements

| | |
|---|---|
| Federal program revenue per Schedule of Expenditures of Federal Awards | $ 1,815,834 |
| Nonfederal program revenue | 596,515 |
| Total contractual services revenue | $ 2,412,349 |

**THE APPALACHIAN TRAIL CONSERVANCY**

**Schedule of Findings and Questioned Costs**
Year Ended December 31, 2018

## I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

*Financial Statements*

| | | | | |
|---|---|---|---|---|
| Type of auditor's report issued: | Unmodified | | | |
| Internal control over financial reporting: | | | | |
| • Material weakness(es) identified? | ____ | Yes | X | No |
| • Significant deficiency(ies) identified? | X | Yes | ____ | None Reported |
| Noncompliance material to financial statements noted? | ____ | Yes | X | No |

*Federal Awards*

| | | | | |
|---|---|---|---|---|
| Internal control over major programs: | | | | |
| • Material weakness(es) identified? | ____ | Yes | X | No |
| • Significant deficiency(ies) identified? | X | Yes | ____ | None Reported |
| Type of auditor's report issued on compliance for major federal programs: | Qualified | | | |
| • Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) | X | Yes | ____ | No |

Identification of major programs: CFDA Number: 15.935; U.S. Department of Interior Passed through the National Park Service under contract Number H0500000002

| | | | | |
|---|---|---|---|---|
| Dollar threshold used to distinguish between type A and type B programs | | | $750,000 | |
| Auditee qualified as low-risk auditee? | X | Yes | ____ | No |

## II. FINANCIAL STATEMENT FINDINGS

*Finding 2018-001*

*Criteria:* Per 2 CFR 200.61, the Conservancy is responsible for implementing internal controls that are designed to provide reasonable assurance regarding the achievement of the following objectives: 1) effectiveness and efficiency of operations, 2) reliability of reporting for internal and external use; and 3) compliance with applicable laws and regulations.

*Condition:* Daily transactions are being posted via a manual journal entry. The Conservancy lacked a proper review process over manual journal entries during the year.

*Cause:* The Conservancy implemented a new financial accounting software in late 2017. The implementation of such software was not completed during the year.

*Effect:* The manual entries and lack of review process limited the Conservancy's ability to design and implement the necessary internal control over financial reporting environment.

*Context:* This finding represents a systematic deficiency in the Conservancy's process. This finding cannot be quantified in terms of dollar value.

*Identification as a repeat finding:* This finding is not a repeat finding for the Conservancy.

*Recommendation:* We recommend increased training of the new software, analyze efficient use of transactions versus manual journal entry processes, and implement a formal review process over all manual journal entries.

*View of responsible individuals and planned corrective action:* On further review management has determined that in order to take full advantage of the new system ATC needs to develop a comprehensive plan to address both the training of staff on modules that have been implemented and the implementation of new modules (e.g. Project Management and Project Budgeting and Costing) (Phase 2) that can be used to improve the effectiveness of the accounting processes. It will likely take eighteen months to fully implement the training and the new modules. To address immediate needs (Phase 1) Vice President of Finance and Vice President of Conservation & Trail Management are implementing manual and new system processes to improve the linkages between and reconciliations related to transactions, project work, the capturing of project status, project billing and cash receipts. In addition, the VP of Finance will review all finance team job descriptions and change or hire where necessary to implement a formal review process over all manual journal entries.

## III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

*Finding 2018-002*

*Information on the Federal Program:* U.S Department of Interior, Passed through the National Park Service, Contract #: H0500000002, CFDA #: 15.935, Period of Performance: July 17, 2014 through December 31, 2024

*Criteria:* Per 2 CFR 200.305(b), non-federal entities must minimize the time elapsing between the transfer of funds from the pass-through entity and the disbursement by the non-federal entity.

*Condition:* The Conservancy did not minimize the time elapsing between the withdrawal of funds from ASAP.gov and payment of expense by the Conservancy.

*Questioned Costs:* No questioned costs were identified.

*Cause:* The Conservancy relied on an excel spreadsheet to track billings. The process in place to calculate available funds did not allow for the prevention of overdrawn funds. Reimbursement requests are not reviewed by an individual independent of the preparer before submission.

*Effect:* The Conservancy withdrew funds in excess of costs.

*Context:* Funds withdrawn in excess of costs totaled $216,806 over 8 task agreements.

*Identification as a repeat finding:* This finding is not a repeat finding for the Conservancy.

*Recommendation:* We recommend the accounting software be utilized to track the Conservancy's project costs and federal billings. We recommend reimbursement requests to be reviewed before submission and to document the review performed.

*View of responsible individuals and planned corrective action:* In February 2019 the VP of Finance and VP of Conservation & Trail Management began to introduce new processes and roles to ensure the invoicing for Task Agreements is consistent with the project status and funds approved by Federal authorities. Specific role and process steps include the following:

1. Creation of the role of Grants Compliance and Administration Manager (GCM) to ensure projects are meeting the timing, financial and reporting requirements of the Task Agreements (TA).
2. Monthly expenditure reports are generated by GCM and distributed to Project Managers who approve the expenditures (time and expenses) captured by GCM.
3. GCM and Project Managers hold a call to verify expenditure reports.
4. Monthly reconciliations of the Compliance & Trail Management Project Manager approved TA records with the Finance Department records.
5. Monthly ASAP drawn down is agreed and approved by VP of Finance and VP Conservation and Trail Management.
6. ASAP draw-down is approved by CEO.
7. ASAP draw-down occurs with deposit in Bank of Charles Town Account.

In addition to the above and consistent with the response to Finding 2018-001, ATC will be looking to implement additional modules of NetSuite over the next 18 months to enhance and streamline the processes and role changes referenced in response to Finding 2018-002.

*Finding 2018-003*

*Information on the Federal Program:* U.S Department of Interior, Passed through the National Park Service, Contract #: H0500000002, CFDA #: 15.935, Period of Performance: July 17, 2014 through December 31, 2024

*Criteria:* 2 CFR 200.317 indicates that all non-federal entities will follow 2 CFR 200.318 through 200.326. The implementation date for the procurement standards was effective for fiscal years beginning on or after December 26, 2017.

*Condition:* The Conservancy adopted its procurement policy in November 2018.

*Questioned Costs:* No questioned costs were identified.

*Cause:* The Conservancy drafted a compliant document during the year; however, it was not implemented until November 2018.

*Effect:* The Conservancy did not comply with the procurement standards required by the Uniform Guidance due to the date of policy implementation.

*Context:* This finding cannot be quantified in terms of dollar value.

*Identification as a repeat finding:* This finding is not a repeat finding for the Conservancy.

*Recommendation:* We recommend training to staff who are involved in procuring goods and services for the Conservancy to ensure compliance with the Uniform Guidance procurement standards.

*View of responsible individuals and planned corrective action:* The VP of Finance will provide multiple training dates to educate the staff involved in procuring goods and services to ensure compliance with the Uniform Guidance procurement standards.

## IV. SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

None.

**Corrective Action Plan**
Year Ended December 31, 2018

Identifying Number: 2018-001

Finding: The manual entries and lack of review process limited the Conservancy's ability to design and implement the necessary internal control over financial reporting environment.

Corrective Actions Taken or Planned: On further review management has determined that in order to take full advantage of the new system ATC needs to develop a comprehensive plan to address both the training of staff on modules that have been implemented and the implementation of new modules (e.g. Project Management and Project Budgeting and Costing) (Phase 2) that can be used to improve the effectiveness of the accounting processes. It will likely take eighteen months to fully implement the training and the new modules. To address immediate needs (Phase 1) Vice President of Finance and Vice President of Conservation & Trail Management are implementing manual and new system processes to improve the linkages between and reconciliations related to transactions, project work, the capturing of project status, project billing and cash receipts. In addition, the VP of Finance will review all finance team job descriptions and change or hire where necessary to implement a formal review process over all manual journal entries. The responsible individual for the corrective plan is the VP of Finance. The expected completion date for the plan will occur in two phases. Phase 1 will be completed by July 15, 2019. Phase 2 will be completed by September 30, 2020.

Identifying Number: 2018-002

Finding: The Conservancy withdrew funds in excess of costs.

Corrective Actions Taken or Planned: In February 2019, the VP of Finance and VP of Conservation & Trail Management began to introduce new processes and roles to ensure the invoicing for Task Agreements is consistent with the project status and funds approved by Federal authorities. Specific role and process steps include the following:

1. Creation of the role of Grants Compliance and Administration Manager (GCM) to ensure projects are meeting the timing, financial and reporting requirements of the Task Agreements (TA).
2. Monthly expenditure reports are generated by GCM and distributed to Project Managers who approve the expenditures (time and expenses) captured by GCM.
3. GCM and Project Managers hold a call to verify expenditure reports.
4. Monthly reconciliations of the Compliance & Trail Management Project Manager approved TA records with the Finance Department records.
5. Monthly ASAP drawn down is agreed and approved by VP of Finance and VP Conservation and Trail Management.
6. ASAP draw-down is approved by CEO.
7. ASAP draw-down occurs with deposit in Bank of Charles Town Account.

In addition to the above and consistent with the response to Finding 2018-001, ATC will be looking to implement additional modules of NetSuite over the next 18 months to enhance and streamline the processes and role changes referenced in response to Finding 2018-002.

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**Corrective Action Plan (continued)**
Year Ended December 31, 2018

The responsible individuals for the corrective action plan are the VP of Finance and the VP of Conservation & Trial Management and Grants Compliance and Administration Manager. The expected completion date for the plan is June 30, 2019.

Identifying Number: 2018-003

Finding: The Conservancy did not comply with the procurement standards required by the Uniform Guidance due to the date of policy implementation.

Corrective Actions Taken or Planned: The VP of Finance will provide multiple training dates to educate the staff involved in procuring goods and services to ensure compliance with the Uniform Guidance procurement standards. The responsible individual for the corrective action plan is the VP of Finance. The expected completion date for the plan is July 31, 2019.