# THE MOUNTAINEERS

## FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

## SEPTEMBER 30, 2012 AND 2011

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Mountaineers
Seattle, Washington

We have audited the accompanying statements of financial position of The Mountaineers (the Organization) as of September 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Mountaineers as of September 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Jones & Associates LLC, CPAs

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January 21, 2013

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# THE MOUNTAINEERS
## STATEMENTS OF FINANCIAL POSITION
## SEPTEMBER 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 222,270 | $ 336,548 |
| Investments | 653,149 | 349,183 |
| Accounts receivable, less allowance for doutful accounts of $22,550 and $18,785 for 2012 and 2011, respectively | 602,930 | 557,736 |
| Pledges receivable | 251,111 | 1,144,611 |
| Author advances, current portion, less allowance for doubtful advances of $16,193 for 2012 | 252,505 | 219,907 |
| Book inventories | 2,576,049 | 2,387,131 |
| Other current assets | 157,105 | 147,962 |
| | 4,715,119 | 5,143,078 |
| OTHER ASSETS | | |
| Investments, long term | 1,712,201 | 1,854,566 |
| Author advances, less allowance for doubtful advances of $207,754 and $198,634 for 2012 and 2011, respectively | - | - |
| Property and equipment, net | 5,672,592 | 4,505,147 |
| | 7,384,793 | 6,359,713 |
| | $ 12,099,912 | $ 11,502,791 |
| **LIABILITIES AND NET ASSETS** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 378,665 | $ 213,720 |
| Royalties payable | 66,325 | 46,247 |
| Deferred revenue | 96,301 | 126,612 |
| Accrued liabilities | 182,359 | 142,985 |
| Total current liabilities | 723,650 | 529,564 |
| NET ASSETS | | |
| Unrestricted | | |
| Undesignated | 3,491,099 | 3,359,049 |
| Board designated | 2,079,545 | 1,854,566 |
| Net assets invested in property and equipment | 5,672,592 | 4,505,147 |
| | 11,243,236 | 9,718,762 |
| Temporarily restricted | 133,026 | 1,254,465 |
| | 11,376,262 | 10,973,227 |
| | $ 12,099,912 | $ 11,502,791 |

*See accompanying notes to financial statements.*

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **SUPPORT AND REVENUE** | | | |
| Book sales | $ 3,177,689 | $ - | $ 3,177,689 |
| Course fees | 866,800 | - | 866,800 |
| Membership dues and fees | 566,318 | - | 566,318 |
| Grants and contributions | 426,901 | 182,246 | 609,147 |
| Unrealized gain on investments | 227,759 | - | 227,759 |
| Lodge sales | 150,557 | - | 150,557 |
| Room rentals | 128,248 | - | 128,248 |
| Miscellaneous revenue | 126,350 | - | 126,350 |
| Ticket sales | 117,639 | - | 117,639 |
| Book royalties | 47,768 | - | 47,768 |
| Investment income | 46,344 | - | 46,344 |
| Food and sundry sales | 20,771 | - | 20,771 |
| | 5,903,144 | 182,246 | 6,085,390 |
| Net assets releases | | | |
| Satisfaction of program restrictions | 1,303,685 | (1,303,685) | - |
| Total support and revenues | 7,206,829 | (1,121,439) | 6,085,390 |
| **EXPENSES** | | | |
| Cost of books sold | 1,849,441 | - | 1,849,441 |
| Personnel | 1,443,805 | - | 1,443,805 |
| Selling and shipping | 604,739 | - | 604,739 |
| General and administrative | 499,723 | - | 499,723 |
| Occupancy | 342,977 | - | 342,977 |
| Depreciation and amortization | 255,963 | - | 255,963 |
| Travel | 242,075 | - | 242,075 |
| Contract services | 184,958 | - | 184,958 |
| Professional services | 109,187 | - | 109,187 |
| Printing | 78,425 | - | 78,425 |
| Cost of food and sundry sold | 66,409 | - | 66,409 |
| Contributions | 4,653 | - | 4,653 |
| Total expenses | 5,682,355 | - | 5,682,355 |
| CHANGE IN NET ASSETS | 1,524,474 | (1,121,439) | 403,035 |
| **NET ASSETS** | | | |
| Beginning of the year | 9,718,762 | 1,254,465 | 10,973,227 |
| End of the year | $ 11,243,236 | $ 133,026 | $ 11,376,262 |

## THE MOUNTAINEERS
## STATEMENT OF ACTIVITIES
## YEAR ENDED SEPTEMBER 30, 2011

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **SUPPORT AND REVENUE** | | | |
| Book sales | $ 3,035,615 | $ - | $ 3,035,615 |
| Course fees | 670,381 | - | 670,381 |
| Membership dues and fees | 571,398 | - | 571,398 |
| Grants and contributions | 418,283 | 1,165,372 | 1,583,655 |
| Unrealized loss on investments | (20,959) | - | (20,959) |
| Lodge sales | 143,053 | - | 143,053 |
| Room rentals | 131,068 | - | 131,068 |
| Miscellaneous revenue | 99,103 | - | 99,103 |
| Ticket sales | 110,703 | - | 110,703 |
| Book royalties | 65,434 | - | 65,434 |
| Investment income | 39,287 | - | 39,287 |
| Food and sundry sales | 33,816 | - | 33,816 |
| | 5,297,182 | 1,165,372 | 6,462,554 |
| Net assets releases | | | |
| Satisfaction of program restrictions | 256,019 | (256,019) | - |
| Total support and revenues | 5,553,201 | 909,353 | 6,462,554 |
| **EXPENSES** | | | |
| Cost of books sold | 1,600,510 | - | 1,600,510 |
| Personnel | 1,414,090 | - | 1,414,090 |
| Selling and shipping | 611,676 | - | 611,676 |
| General and administrative | 418,627 | - | 418,627 |
| Occupancy | 336,309 | - | 336,309 |
| Depreciation and amortization | 199,221 | - | 199,221 |
| Travel | 152,403 | - | 152,403 |
| Contract services | 267,789 | - | 267,789 |
| Professional services | 81,706 | - | 81,706 |
| Printing | 82,079 | - | 82,079 |
| Cost of food and sundry sold | 98,436 | - | 98,436 |
| Contributions | 47,282 | - | 47,282 |
| Total expenses | 5,310,128 | - | 5,310,128 |
| CHANGE IN NET ASSETS | 243,073 | 909,353 | 1,152,426 |
| **NET ASSETS** | | | |
| Beginning of the year | 9,475,689 | 345,112 | 9,820,801 |
| End of the year | $ 9,718,762 | $ 1,254,465 | $ 10,973,227 |

## THE MOUNTAINEERS
## STATEMENTS OF CASH FLOWS
## YEARS ENDED SEPTEMBER 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from book sales and related | $ 2,976,251 | $ 2,892,075 |
| Cash received from membership, events, grants and contributions | 3,277,475 | 2,317,939 |
| Cash received from investment income | 46,344 | 39,287 |
| Cash received from other sources | 174,118 | 186,663 |
| Cash paid to employees and suppliers | (5,225,266) | (5,194,723) |
| | 1,248,922 | 241,241 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (1,429,358) | (262,549) |
| Proceeds from investments | 66,158 | - |
| Purchase of investments | - | (59,347) |
| | (1,363,200) | (321,896) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (114,278) | (80,655) |
| **CASH AND CASH EQUIVALENTS** | | |
| Beginning of the year | 336,548 | 417,203 |
| End of the year | $ 222,270 | $ 336,548 |

## Note 1 – Nature of Activities and Summary of Significant Accounting Policies

**Nature of Activities** – The Mountaineers (the Organization) is a Washington State nonprofit corporation formed to promote conservation and wilderness activities in the Northwest and beyond. The Organization's mission is to enrich the community by helping people explore, conserve, learn about and enjoy the lands and waters of the Pacific Northwest. The Organization publishes books consistent with its philosophies and mission.

The Organization is related to Braided River, is a Washington State nonprofit corporation formed to inspire support for critical conservation efforts through books, media campaigns, multimedia presentations, and museum exhibits. The Organization has control of Braided River through its responsibility to appoint the Board of Directors of Braided River. The Organization however has no economic interest in Braided River. Therefore, the financial position and activity of Braided River are not consolidated with the Organization.

From 2007 through August 2012, the Organization was supported by a fiscal sponsorship agreement with the Mountaineers Foundation (the Foundation). The Foundation is a Washington State nonprofit corporation formed to protect and enjoy the outdoors. The fiscal sponsorship agreement called for the Foundation to provide support to the Organization's charitable activities. Independent of the fiscal sponsorship agreement, the Organization provides accounting services to the Foundation at market rates. The Organization has no other affiliation with the Mountaineers Foundation.

**Basis of Accounting and Presentation** – The financial statements of the Organization have been prepared on the accrual basis of accounting and report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted, undesignated – Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets.

Unrestricted, Board designated – The board designated net assets are outlined in Note 5. These amounts represent funds the Board of the Organization has elected to hold for various purposes.

Unrestricted, net assets invested in property and equipment –This amount represents the net asset value invested in the Organization's property and equipment. The detail of this amount is outlined in Note 4.

Temporarily restricted – Net assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled by actions of the Organization pursuant to those stipulations. Temporarily restricted net assets consist of cash and cash equivalents. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. The detail of this amount is outlined in Note 5.

## Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Accounting principles allow the Organization to treat as unrestricted any restricted revenue where the restrictions are met in the same year. The Organization has elected to follow that reporting method. As a result, all activities in which the restrictions have been fully met in the same year as the contribution are recorded in the unrestricted net asset class. Activities in which all restrictions have not been met by the end of the year are included in the temporarily restricted net asset class.

<u>Permanently restricted</u> – Net assets whose use by the Organization is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Organization. There were no permanently restricted net assets at September 30, 2012 and 2011.

**Cash and Cash Equivalents** – For purposes of the statements of cash flows, the Organization considers all checking and savings accounts and unrestricted highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. At September 30, 2012 and 2011, cash and cash equivalents consist of checking, savings and money market accounts.

**Investments** – Investments in equity securities with readily determinable fair values and all debt securities are recorded at fair value. Realized and unrealized gains and losses are included in the change in net assets in the statement of activities.

**Fair Value Measurements** – The Organization has adopted Statement of Financial Accounting Standards Board Codification 820-10, Fair Value Measurements (FASB ASC 820-10). FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value and expands disclosures about financial instruments. In addition, FASB ASC 820-10 establishes a hierarchy that classifies the inputs used to calculate fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not considered to be active for identical assets or liabilities, quoted prices in active markets for similar assets or liabilities, and inputs other than quoted prices that are directly observable or indirectly through corroboration with observable market data;

Level 3 Inputs that are both significant to the fair value measurement and unobservable, including investment specific inputs that are not derived from market data and inputs that cannot be corroborated by market data. The determination of fair value for investments included in the level 3 category requires considerable subjectivity and estimation.

Fair value measurements apply to the Organization’s fixed income and equity mutual funds, which are classified within level 1 of the fair value hierarchy.

## Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

**Pledges Receivable** – Pledges receivable are unconditional promises to give that are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of benefits received. No allowance for uncollectible balances has been established by management based on the Organization's historical experience in the collection of balances due. All pledges are due within one year.

**Author Advances** – Author advances are amounts that have been prepaid to authors for books that are in progress. Author advances are deducted from royalty payments as related books are sold.

**Allowance for Doubtful Accounts and Doubtful Advances –** The Organization extends credit to a substantial number of its customers and authors. Accounts receivable are recorded at the invoice amount and do not bear interest. Allowances for doubtful accounts and doubtful advances are maintained for estimated losses resulting from the inability of its customers to pay or the lack of sufficient proceeds from the sale of author's publications. The Organization determines the allowances based on review of past due balances, historical write-off experience and economic data. Account receivable balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Organization has established credit policies and historically the losses related to customer and author nonpayment have been low as a percentage of net sales.

**Book Inventories** – Inventories consist primarily of finished books and prepaid book production expenses and are stated at the lower of cost or market. Cost is determined using an average cost basis.

**Property and Equipment** – Purchased property and equipment are stated at cost. Donated property is recognized as revenue and capitalized at its estimated fair value at the date of receipt. The Organization capitalizes assets that have a useful life greater than one year and a value greater than $1,500. Depreciation is computed using the straight-line method based on estimated useful lives of 20 to 40 years for buildings and improvements, and 3 to 7 years for equipment, furniture and fixtures and library books.

**Deferred Revenue** – Receipts from events registration and book sales received in advance is deferred and recognized over the periods to which the revenue relates.

**Revenue Recognition** – Contributions and grants are recorded as increases in unrestricted or temporarily restricted net assets, depending on the existence and/or nature of donor or grantor restrictions. When a restriction expires, that is when a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

## Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

**Donated Services** – Donated services are recognized as revenue and corresponding expense when (a) the services received create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. A number of volunteers provide valuable services throughout the years that are not recognized as contributions in the financial statements since the recognition criteria were not met.

**Expense Allocation** – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Estimates** – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**Income Tax Status** – The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

The Organization files information and tax returns in the U.S. federal jurisdiction, and state and local jurisdictions. The Organization is subject to U.S. federal, state and local examinations by tax authorities for the current year and certain prior years based on applicable laws and regulations.

**Reclassifications** – Certain amounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements. These reclassifications did not affect the change in net assets for the current or prior year.

**Subsequent Events** – Subsequent events were evaluated through the independent auditors’ report date, which is the date the financial statements were available to be issued.

## Note 2 – Cash Flow Information

The following reconciles the change in net assets to net cash provided (used) by operating activities for the years ended September 30:

| | 2012 | 2011 |
|---|---|---|
| Change in net assets | $ 403,035 | $ 1,152,426 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 255,963 | 199,221 |
| Net unrealized loss (gain) on investments | (227,759) | 20,959 |
| Amortization included in cost of books sold | - | 1,995 |
| Loss on disposition of property | 5,950 | 2,357 |
| Change in: | | |
| Accounts receivable | (45,194) | 152,377 |
| Pledges receivable | 893,500 | (1,144,611) |
| Author advances | (32,598) | (3,204) |
| Book inventories | (188,918) | (109,634) |
| Other current assets | (9,143) | (18,334) |
| Accounts payable | 164,945 | (82,189) |
| Royalties payable | 20,078 | (32,697) |
| Deferred revenue | (30,311) | 66,099 |
| Accrued liabilities | 39,374 | 36,476 |
| | $ 1,248,922 | $ 241,241 |

## Note 3 – Investments

Investments consist of the following at September 30:

| | 2012 | 2011 |
|---|---|---|
| Equity mutual funds | $ 1,098,236 | $ 893,597 |
| Savings and money market accounts | 653,149 | 763,582 |
| Fixed income mutual funds | 613,965 | 546,570 |
| | $ 2,365,350 | $ 2,203,749 |

## Note 4 – Property and Equipment

Property and equipment consists of the following at September 30:

| | 2012 | 2011 |
|---|---|---|
| Buildings and improvements | $ 6,240,561 | $ 4,951,673 |
| Equipment | 1,038,143 | 946,507 |
| Furniture and fixtures | 109,851 | 83,143 |
| Library books | 21,423 | 21,923 |
| | 7,409,978 | 6,003,246 |
| Less accumulated depreciation | (1,809,136) | (1,568,137) |
| | 5,600,842 | 4,435,109 |
| Land | 71,750 | 70,038 |
| | $ 5,672,592 | $ 4,505,147 |

## Note 5 – Net Assets

Board designated net assets consist of the following at September 30:

| | 2012 | 2011 |
|---|---|---|
| Long-term building fund | $ 1,712,201 | $ 1,440,166 |
| Program development | 165,775 | 210,837 |
| Outdoor Centers | 165,234 | 203,563 |
| Tacoma Program Center Climing Wall | 36,335 | - |
| | $ 2,079,545 | $ 1,854,566 |

Temporarily restricted net assets consist of the following restrictions at September 30:

| | 2012 | 2011 |
|---|---|---|
| Recreational properties | $ 46,205 | $ 20,033 |
| Education program | 40,861 | - |
| Tacoma Program Center | 16,605 | 1,164,871 |
| Conservation program | 10,527 | 50,064 |
| Other purposes | 18,828 | 19,497 |
| | $ 133,026 | $ 1,254,465 |

## Note 6 – Operating Leases

The Organization leases a building for its headquarters under an agreement with the City of Seattle that is classified as an operating lease. In February 2008, the Organization began renovations on the building per terms of the agreement. In return, the City of Seattle provides to the Organization an offset against the market value of the rental payments for the improvements made to the building. In addition, the Organization leases a facility for its Books and other divisions and leases lodging facilities that are classified as operating leases.

Minimum rental payments on the headquarters property are subject to review every five years and are adjusted based on an appraisal of the land. The office space leases require the Organization to pay a percentage of common operating costs in addition to the minimum rent.

The Organization has three separate subleases at its headquarters facility. These leases expire at various dates through November 2015. Total rent income under these leases totaled $25,332 and $40,136 for the years ended September 30, 2012 and 2011, respectively.

Future minimum lease payments and related sublease commitments under these operating leases are as follows for the years ending September 30:

| | Gross Lease Expense | Sublease Revenue | Net |
|---|---|---|---|
| 2013 | $ 162,067 | $ (16,800) | $ 145,267 |
| 2014 | 2,400 | (6,216) | (3,816) |
| 2015 | 2,400 | (6,216) | (3,816) |
| 2016 | 2,400 | (1,036) | 1,364 |
| 2017 | 2,400 | - | 2,400 |
| Thereafter | 49,000 | - | 49,000 |
| | $ 220,667 | $ (30,268) | $ 190,399 |

Total rental expenses for all branches are $200,284 and $204,398 for the years ended September 30, 2012 and 2011, respectively.

## Note 7 – Functional Expense Allocation

Expenses are allocated into functional categories as follows at September 30:

| | 2012 | 2011 |
|---|---|---|
| Program expenses | | |
| Publishing programs | $ 3,175,120 | $ 2,888,466 |
| Volunteer led and youth education programs | 1,497,520 | 1,345,662 |
| Conservation activities | 91,090 | 75,660 |
| | 4,763,730 | 4,309,788 |
| Management and general expenses | 753,308 | 865,377 |
| Fundraising expenses | 165,317 | 134,963 |
| | $ 5,682,355 | $ 5,310,128 |

## Note 8 – Concentrations of Credit Risk

Financial instruments that subject the Organization to concentrations of credit risk consist of cash and cash equivalents, investments and accounts and pledges receivable. The Organization places cash and cash equivalents and investments with major financial institutions. At times, deposits may exceed federally insured limits. Accounts and pledges receivable are subject to concentration of credit risk because of the nature of collectability.

At September 30, 2012, 97% or $244,611 of pledges receivable is from one foundation. There was no significant concentration of support and revenue for the year ended September 30, 2012. For the year ended September 30, 2011, 21% of total support and revenue was received from one foundation with related pledges receivable of $1,144,611.

## Note 9 – Benefit Plan

The Organization sponsors a 401(k) retirement plan covering substantially all full-time employees upon completion of one year of service and working at least 1,000 hours during that period. Employees may elect to defer up to 15% of the eligible compensation subject to certain limitations established by the Internal Revenue Code. The Organization matches 50% of employees' contributions not to exceed 3% of the employees' gross wages. The Organization contributions fully vest after five years of service. For the years ended September 30, 2012 and 2011, the Organization contributed $13,630 and $15,954, respectively.

## Note 10 – Change in Entity

The Mountaineers and the Mountaineers of the Pacific Northwest merger was approved by the Boards of Directors on March 31, 2011 resulting in The Mountaineers. On April 1, 2011, the Organization's membership approved the merger. On January 13, 2011, the IRS issued a determination letter assigning exempt status, as a public charity, under Section 501(c)(3) of the Internal Revenue Code effective June 25, 2010. The Board of Directors and management remain the same. For accounting purposes, the merger is treated as a change in entity on the accompanying financial statements.

## Note 11 – Related Party Transactions

For the years ended September 30, 2012 and 2011, the Organization provided publishing, development, and accounting services as well as office space and equipment usage to Braided River. As a partial reimbursement, Braided River provided contributions restricted for publishing costs of $115,000 and fees for development staff of $35,000 for the year ended September 30, 2012. There were no related party transactions for the year ended September 30, 2011.