

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

WITH INDEPENDENT AUDITORS' REPORT

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BOY SCOUTS OF AMERICA
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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Orange County Council, Inc.,
Boy Scouts of America
Santa Ana, California

We have audited the accompanying financial statements of Orange County Council, Inc., Boy Scouts of America (a nonprofit organization) (the "Council"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Council'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 Council'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 Orange County Council, Inc., Boy Scouts of America 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.

White Nelson Nick Evans LLP

Irvine, California

April 30, 2019

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017**

ASSETS

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2018	2017	2018	2017	2018	2017	2018	2017
Current Assets:								
Cash and cash equivalents	\$ 1,052,458	\$ 1,234,718	\$ 415,158	\$ 440,219	\$ 343,106	\$ 179,264	\$ 1,810,722	\$ 1,854,201
Restricted cash	500,000	500,000	-	-	-	-	500,000	500,000
Accounts receivable, net	121,525	140,096	-	-	-	-	121,525	140,096
Insurance claim receivable	127,119	276,172	-	132,014	-	-	127,119	408,186
Pledges receivable, net	164,281	210,822	823,963	4,969,832	147,146	1,000	1,135,390	5,181,654
Inventories	23,722	45,253	-	-	-	-	23,722	45,253
Interfund loans	265,372	182,092	(987,921)	(216,773)	722,549	34,681	-	-
Prepaid expenses	118,056	177,435	-	5,772	-	-	118,056	183,207
Total Current Assets	2,372,533	2,766,588	251,200	5,331,064	1,212,801	214,945	3,836,534	8,312,597
Property, Plant, and Equipment:								
Land and land improvements	-	-	20,381,216	20,381,216	-	-	20,381,216	20,381,216
Buildings	-	-	29,820,392	30,670,859	-	-	29,820,392	30,670,859
Improvements	-	-	1,234,366	1,214,002	-	-	1,234,366	1,214,002
Furniture and equipment	-	-	4,346,442	4,284,370	-	-	4,346,442	4,284,370
Construction in progress	-	-	1,836,594	112,201	-	-	1,836,594	112,201
Total Property, Plant, and Equipment	-	-	57,619,010	56,662,648	-	-	57,619,010	56,662,648
Less: Accumulated depreciation	-	-	(17,956,258)	(16,882,401)	-	-	(17,956,258)	(16,882,401)
Property, Plant, and Equipment, at Net Book Value	-	-	39,662,752	39,780,247	-	-	39,662,752	39,780,247
Other Assets:								
Pledges receivable, net	48,077	94,721	77,691	114,521	-	-	125,768	209,242
Note receivable - related party	-	-	-	-	40,947	60,948	40,947	60,948
Investments	-	-	-	-	10,203,371	11,653,508	10,203,371	11,653,508
Interfund loans	-	-	-	-	-	-	-	-
Other noncurrent assets	13,859	20,248	-	-	41,450	47,733	55,309	67,981
Total Other Assets	61,936	114,969	77,691	114,521	10,285,768	11,762,189	10,425,395	11,991,679
Total Assets	\$ 2,434,469	\$ 2,881,557	\$ 39,991,643	\$ 45,225,832	\$ 11,498,569	\$ 11,977,134	\$ 53,924,681	\$ 60,084,523

The accompanying notes are an integral part of these financial statements.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2018 AND 2017**

LIABILITIES AND NET ASSETS

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2018	2017	2018	2017	2018	2017	2018	2017
Current Liabilities:								
Accounts payable	\$ 164,974	\$ 230,096	\$ 76,930	\$ 382,595	\$ -	\$ -	\$ 241,904	\$ 612,691
Accrued employee compensation	146,780	224,538	-	-	-	-	146,780	224,538
Custodian accounts	832,574	1,004,663	5,000	32,190	-	-	837,574	1,036,853
Line of credit	-	22,300	-	-	-	-	-	22,300
Current portion - long-term debt, net of deferred finance costs	-	-	941,527	4,944,057	-	-	941,527	4,944,057
Deferred income	528,625	308,920	-	-	-	-	528,625	308,920
Other current liabilities	135	137	10,000	-	-	-	10,135	137
Total Current Liabilities	1,673,088	1,790,654	1,033,457	5,358,842	-	-	2,706,545	7,149,496
Long-Term Liabilities:								
Long-term debt - net of current portion	-	-	3,314,797	3,403,240	-	-	3,314,797	3,403,240
Total Long-Term Liabilities	-	-	3,314,797	3,403,240	-	-	3,314,797	3,403,240
Total Liabilities	1,673,088	1,790,654	4,348,254	8,762,082	-	-	6,021,342	10,552,736
Net Assets:								
Without donor restrictions	274,372	500,581	30,901,292	32,130,479	9,965,711	10,809,693	41,141,375	43,440,753
With donor restrictions	487,009	590,322	4,742,097	4,333,271	1,532,858	1,167,441	6,761,964	6,091,034
Total Net Assets	761,381	1,090,903	35,643,389	36,463,750	11,498,569	11,977,134	47,903,339	49,531,787
Total Liabilities and Net Assets	\$ 2,434,469	\$ 2,881,557	\$ 39,991,643	\$ 45,225,832	\$ 11,498,569	\$ 11,977,134	\$ 53,924,681	\$ 60,084,523

The accompanying notes are an integral part of these financial statements.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	Operating Fund			Capital Fund			Endowment Fund			Total All Funds		
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<u>Changes in Net Assets without Donor Restrictions</u>												
Support and Revenue:												
Direct Support:												
Friends of Scouting	\$ 16,161	\$ 13,788	\$ 18,743	\$ 33,555	-	-	-	-	\$ 34,904	\$ 47,343	\$ 957,658	\$ 1,043,917
Noncash contributions	727,005	983,696	-	-	-	-	-	-	727,005	983,696	-	-
Special fundraising events - gross	(132,840)	(127,246)	-	-	-	-	-	-	(132,840)	(127,246)	-	-
Less: Costs of direct benefit to participants	594,165	856,450	-	-	-	-	-	-	594,165	856,450	-	-
Net Special Events	-	-	-	5,500	-	-	-	-	-	-	-	5,500
Capital campaigns	-	-	3,427	168,064	-	-	-	-	3,427	168,064	-	-
Pledge receivables discount	1,350,000	275,000	-	25,000	-	-	-	-	1,350,000	300,000	-	-
Bequests	45,450	99,060	-	-	-	-	-	-	45,450	99,060	-	-
Foundations and trusts	103,071	120,409	45,675	565,948	-	-	-	-	148,746	686,357	-	-
Other direct support	3,066,505	2,408,624	67,845	798,067	-	-	-	-	3,134,350	3,206,691	-	-
Total Direct Support	55,813	49,753	-	-	-	-	-	-	55,813	49,753	-	-
Indirect Support:	55,813	49,750	-	-	-	-	-	-	55,813	49,750	-	-
Grants and foundations												
Total Indirect Support	1,528,139	1,399,208	-	-	-	-	-	-	1,528,139	1,399,208	-	-
Revenues:	(352,923)	(365,023)	-	-	-	-	-	-	(352,923)	(365,023)	-	-
Product sales - gross	(576,862)	(539,576)	-	-	-	-	-	-	(576,862)	(539,576)	-	-
Less: Cost of product sold	598,354	494,609	-	-	-	-	-	-	598,354	494,609	-	-
Less: Commissions earned and retained by units	4,577,003	3,723,795	27,191	-	-	-	-	-	4,604,194	3,723,795	-	-
Net Product Sales	83,610	471,312	-	-	-	-	-	-	83,610	471,312	-	-
Camping - gross	(72,098)	(57,690)	-	-	-	-	-	-	(72,098)	(57,690)	-	-
Camping - insurance reimbursement	4,588,515	4,137,417	27,191	-	-	-	-	-	4,615,706	4,137,417	-	-
Less: Cost of resale items	762,558	1,772,700	-	-	-	-	-	-	762,558	1,772,700	-	-
Net Camping	(162,353)	(164,939)	-	-	-	-	-	-	(162,353)	(164,939)	-	-
Activities	600,205	1,607,761	-	-	-	-	-	-	600,205	1,607,761	-	-
Less: Cost of product and commissions	217,484	235,463	-	-	-	-	-	-	217,484	235,463	-	-
Net Activities	340,661	425,722	2	-	(548,560)	-	-	588,056	(207,897)	1,013,778	-	-
Income from rents	346,805	309,327	18,555	5	-	-	-	-	365,360	309,332	-	-
Investment return (loss) - net	6,692,024	7,210,299	45,748	5	(548,560)	-	-	588,056	6,189,212	7,798,360	-	-
Miscellaneous												
Total Revenues	189,533	251,336	18,919	61,760	-	-	-	-	208,452	313,096	-	-
Net Assets Released from Restrictions:	158,477	91,334	-	-	-	-	-	-	158,477	91,334	-	-
Satisfaction of program restrictions	348,010	342,670	18,919	61,760	-	-	-	-	366,929	404,430	-	-
Expiration of time restrictions	10,162,352	10,011,343	132,512	859,832	(548,560)	-	-	588,056	9,746,304	11,459,231	-	-
Total Net Assets Released from Restrictions												
Total Support and Revenue												

The accompanying notes are an integral part of these financial statements.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2018	2017	2018	2017	2018	2017	2018	2017
<u>Changes in Net Assets without Donor Restrictions (Continued)</u>								
Expenses:								
Program services	\$ 8,096,419	\$ 8,468,530	\$ 1,754,441	\$ 1,555,525	\$ 237,211	\$ 66,223	\$ 10,088,071	\$ 10,090,278
Support services:								
Management and general	833,992	764,547	108,231	71,658	29,043	16,231	971,266	852,436
Fundraising	582,801	554,917	79,507	32,596	29,168	7,724	691,476	595,237
Total Support Services	1,416,793	1,319,464	187,738	104,254	58,211	23,955	1,662,742	1,447,673
Total Functional Expenses	9,513,212	9,787,994	1,942,179	1,659,779	295,422	90,178	11,750,813	11,537,951
Loss on disposal of assets	-	-	199,520	42,254	-	-	199,520	42,254
Payments to National Office	95,349	95,349	-	-	-	-	95,349	95,349
Total Expenses	9,608,561	9,883,343	2,141,699	1,702,033	295,422	90,178	12,045,682	11,675,554
Increase (Decrease) in Net Assets without Donor Restrictions	553,791	128,000	(2,009,187)	(842,201)	(843,982)	497,878	(2,299,378)	(216,323)
<u>Changes in Net Assets with Donor Restrictions</u>								
Support and Revenue:								
Direct Support:								
Friends of Scouting	166,195	127,240	-	-	-	-	166,195	127,240
Investment return - net	-	-	-	-	-	9,397	-	9,397
Foundations and trusts	58,550	193,450	-	-	-	-	58,550	193,450
Other contributions	19,952	19,001	427,745	123,180	-	33,104	447,697	175,285
Other direct support	-	-	-	-	365,417	36,912	365,417	36,912
Total Direct Support	244,697	339,691	427,745	123,180	365,417	79,413	1,037,859	542,284
Total Support and Revenue	244,697	339,691	427,745	123,180	365,417	79,413	1,037,859	542,284
Net Assets Released from Restrictions	(348,010)	(342,670)	(18,919)	(61,760)	-	-	(366,929)	(404,430)
Increase (Decrease) in Net Assets with Donor Restrictions	(103,313)	(2,979)	408,826	61,420	365,417	79,413	670,930	137,854
Increase (Decrease) in Total Net Assets	450,478	125,021	(1,600,361)	(780,781)	(478,565)	577,291	(1,628,448)	(78,469)
Net Assets, Beginning of Year:								
Without donor restrictions	500,581	372,581	32,130,479	32,972,680	10,809,693	10,311,815	43,440,753	43,657,076
With donor restrictions	590,322	593,301	4,333,271	4,271,851	1,167,441	1,088,028	6,091,034	5,953,180
Total Net Assets, Beginning of Year	1,090,903	965,882	36,463,750	37,244,531	11,977,134	11,399,843	49,531,787	49,610,256
Board authorized transfers	(780,000)	-	780,000	-	-	-	-	-
Net Assets, End of Year:								
Without donor restrictions	274,372	500,581	30,901,292	32,130,479	9,965,711	10,809,693	41,141,375	43,440,753
With donor restrictions	487,009	590,322	4,742,097	4,333,271	1,532,858	1,167,441	6,761,964	6,091,034
Total Net Assets, End of Year	\$ 761,381	\$ 1,090,903	\$ 35,643,389	\$ 36,463,750	\$ 11,498,569	\$ 11,977,134	\$ 47,903,339	\$ 49,531,787

The accompanying notes are an integral part of these financial statements.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2018	2017	2018	2017	2018	2017	2018	2017
Cash Flows from Operating Activities:								
Increase (Decrease) in Total Net Assets	\$ 450,478	\$ 125,021	\$ (1,600,361)	\$ (780,781)	\$ (478,565)	\$ 577,291	\$ (1,628,448)	\$ (78,469)
Noncash Items Included in Increase (Decrease) in Total Net Assets:								
Allowance for uncollectible promises/discount on pledges	(28,568)	(1,391)	(3,427)	(168,063)	-	-	(31,995)	(169,454)
Depreciation	-	-	1,122,479	1,166,578	-	-	1,122,479	1,166,578
Loss on disposal of fixed asset	-	-	199,520	42,254	-	-	199,520	42,254
Realized and unrealized gains (losses) on investments	-	-	-	-	496,842	(638,539)	496,842	(638,539)
Unrealized gains on interest rate swap	-	-	-	-	-	-	-	-
Forgiveness of note receivable - related party	-	-	-	-	20,001	20,000	20,001	20,000
Changes in:								
Accounts and pledges receivable	140,324	(15,215)	4,186,126	599,225	(146,146)	6,000	4,180,304	590,010
Insurance claim receivable	149,053	(276,172)	132,014	(132,014)	-	-	281,067	(408,186)
Inventories	21,531	21,055	-	-	-	-	21,531	21,055
Interfund loans	(83,280)	212,933	771,148	(45,106)	(687,868)	(167,827)	-	-
Prepaid expenses	59,379	(61,827)	5,772	(5,772)	-	-	65,151	(67,599)
Other noncurrent assets	6,389	5,856	-	-	6,283	(9,389)	12,672	(3,533)
Accounts payable, accrued expenses, and other current liabilities	(142,882)	11,324	(295,665)	373,079	-	-	(438,547)	384,403
Custodian accounts	(172,089)	28,907	(27,190)	-	-	(33,104)	(199,279)	(4,197)
Deferred income	219,705	50,445	-	-	-	-	219,705	50,445
Net Cash, Restricted Cash, and Cash Equivalents Provided by (Used in) Operating Activities	620,040	100,936	4,490,416	1,049,400	(789,453)	(245,568)	4,321,003	904,768
Cash Flows from Investing Activities:								
Proceeds from investments	-	-	-	-	2,716,904	2,624,888	2,716,904	2,624,888
Payments for purchases of investments	-	-	-	-	(1,763,609)	(2,369,511)	(1,763,609)	(2,369,511)
Insurance settlement received for property and equipment destroyed	-	-	842,095	-	-	-	842,095	-
Purchase of property and equipment	-	-	(2,046,599)	(258,630)	-	-	(2,046,599)	(258,630)
Net Cash, Restricted Cash and Cash Equivalents Provided by (Used in) Investing Activities	-	-	(1,204,504)	(258,630)	953,295	255,377	(251,209)	(3,253)
Cash Flows from Financing Activities:								
(Payments) advances on line of credit, net	(22,300)	22,300	-	-	-	-	(22,300)	22,300
Borrowings on long-term debt	-	-	-	8,358,476	-	-	-	8,358,476
Payments on long-term debt	-	-	(4,090,973)	(8,709,027)	-	-	(4,090,973)	(8,709,027)
Transfers	(780,000)	-	780,000	-	-	-	-	-
Net Cash, Restricted Cash, and Cash Equivalents Provided by (Used in) Financing Activities	(802,300)	22,300	(3,310,973)	(350,551)	-	-	(4,113,273)	(328,251)
Net Increase (Decrease) in Cash, Restricted Cash, and Cash Equivalents	(182,260)	123,236	(25,061)	440,219	163,842	9,809	(43,479)	573,264
Cash, Restricted Cash, and Cash Equivalents, Beginning of Year	1,734,718	1,611,482	440,219	-	179,264	169,455	2,354,201	1,780,937
Cash, Restricted Cash, and Cash Equivalents, End of Year	\$ 1,552,458	\$ 1,734,718	\$ 415,158	\$ 440,219	\$ 343,106	\$ 179,264	\$ 2,310,722	\$ 2,354,201
Supplemental Disclosure:								
Interest paid	\$ 144	\$ 1,078	\$ 260,951	\$ 195,024	\$ -	\$ -	\$ 261,095	\$ 196,102

The accompanying notes are an integral part of these financial statements.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018**

	Program Services	Supporting Services			Total Functional Expenses
		Management and General	Fundraising	Total	
Salaries and Related Expenses:					
Salaries	\$ 4,093,735	\$ 449,276	\$ 258,208	\$ 707,484	\$ 4,801,219
Employee benefits	493,980	78,769	45,270	124,039	618,019
Payroll taxes and compensation insurance	395,802	44,733	25,709	70,442	466,244
Employee-related expenses	11,438	888	511	1,399	12,837
Total Salaries and Related Expenses	4,994,955	573,666	329,698	903,364	5,898,319
Other Expenses:					
Professional fees	183,000	120,931	53,816	174,747	357,747
Supplies	869,943	1,899	7,219	9,118	879,061
Telephone	89,253	9,238	5,310	14,548	103,801
Postage and shipping	4,938	650	11,183	11,833	16,771
Occupancy	1,112,692	42,643	24,798	67,441	1,180,133
Rental and maintenance of equipment	501,164	26,946	15,997	42,943	544,107
Publications and media	57,926	2,239	46,480	48,719	106,645
Travel	256,269	26,652	15,749	42,401	298,670
Local conferences and meetings	60,760	7,366	4,411	11,777	72,537
Specific assistance to individuals	11,108	448	257	705	11,813
Recognition and awards	144,861	1,683	32,833	34,516	179,377
Insurance	204,931	42,828	24,614	67,442	272,373
Interest expense	197,984	45,703	26,267	71,970	269,954
Other expenses	314,658	43,703	78,665	122,368	437,026
Total Other Expenses	4,009,487	372,929	347,599	720,528	4,730,015
Expenses Before Depreciation	9,004,442	946,595	677,297	1,623,892	10,628,334
Depreciation of Property, Plant, and Equipment	1,083,629	24,671	14,179	38,850	1,122,479
Total Functional Expenses	\$ 10,088,071	\$ 971,266	\$ 691,476	\$ 1,662,742	\$ 11,750,813

The accompanying notes are an integral part of these financial statements.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017**

	Supporting Services			Total Functional Expenses	
	Program Services	Management and General	Fundraising		Total
Salaries and Related Expenses:					
Salaries	\$ 3,648,951	\$ 434,977	\$ 206,856	\$ 641,833	\$ 4,290,784
Employee benefits	485,877	80,150	38,116	118,266	604,143
Payroll taxes and compensation insurance	497,630	66,518	31,633	98,151	595,781
Employee-related expenses	5,965	1,263	600	1,863	7,828
 Total Salaries and Related Expenses	 4,638,423	 582,908	 277,205	 860,113	 5,498,536
Other Expenses:					
Professional fees	162,230	12,140	74,717	86,857	249,087
Supplies	893,555	5,329	14,667	19,996	913,551
Telephone	74,072	9,361	4,451	13,812	87,884
Postage and shipping	5,952	1,028	19,154	20,182	26,134
Occupancy	1,084,482	38,715	18,854	57,569	1,142,051
Rental and maintenance of equipment	407,936	36,924	17,559	54,483	462,419
Publications and media	54,266	212	54,786	54,998	109,264
Travel	707,310	27,424	13,042	40,466	747,776
Local conferences and meetings	293,455	7,624	3,626	11,250	304,705
Specific assistance to individuals	16,545	78	37	115	16,660
Recognition and awards	137,944	3,676	23,456	27,132	165,076
Insurance	161,300	32,238	15,331	47,569	208,869
Interest expense	144,018	35,298	16,786	52,084	196,102
Other expenses	183,764	31,321	28,174	59,495	243,259
 Total Other Expenses	 4,326,829	 241,368	 304,640	 546,008	 4,872,837
Expenses Before Depreciation	8,965,252	824,276	581,845	1,406,121	10,371,373
Depreciation of Property, Plant, and Equipment	1,125,026	28,160	13,392	41,552	1,166,578
 Total Functional Expenses	 <u>\$ 10,090,278</u>	 <u>\$ 852,436</u>	 <u>\$ 595,237</u>	 <u>\$ 1,447,673</u>	 <u>\$ 11,537,951</u>

The accompanying notes are an integral part of these financial statements.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

Note 1: Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

Orange County Council, Inc., Boy Scouts of America (the “Council”) operates in Orange County, California. The Council is a not-for-profit organization devoted to promoting, within the territory covered by the charter from the Boy Scouts of America and in accordance with the Congressional Charter, Bylaws, and Rules and Regulations of the Boy Scouts of America, the Scouting program of promoting the ability of boys and young men and women to do things for themselves and others, training them in Scoutcraft, and teaching them patriotism, courage, self-reliance, and kindred virtues, using the methods which are now in common use by the Boy Scouts of America.

The Council holds a charter to do business with the Boy Scouts of America, a national corporation, but the Orange County Council is separately incorporated in California and its operations are separately held and locally governed.

The Council’s programs are classified as follows:

Cub Scouts - The Cub Scout programs comprise the following: Lion Cubs: kindergarten youth, Tiger Cubs: first grade youth, Cub Scouts: second through third grade youth, and Webelos Scouts: fourth and fifth grade youth. Cub Scouting is a family and community-oriented approach to learning citizenship, compassion, and courage through service projects, games, and other activities promoting character development and fitness. The Boy Scouts of America expanded its entire Cub Scout program to include girls in 2018.

Boy Scouts - This signature program is designed for boys 11-18. With the Scout Oath and Law as guides, and the support of parents and religious and neighborhood organizations, Scouts develop an awareness and appreciation of their role in the community and become well-rounded young men through the advancement of the program. Scouts progress in rank through achievement, gain additional knowledge and responsibilities, and earn merit badges that introduce a lifelong hobby or a rewarding career. The Boy Scouts of America will be expanding its Boy Scout program to include girls in 2019.

Varsity Scouts - A program for young men ages 14-17 that provides options for those who are looking for rugged high adventure or challenging sporting activities and still want to be a part of a Scouting program that offers the advancement opportunities and values of the Boy Scouts of America. There are five fields of emphasis: advancement, high-adventure sports, personal development, service, and special programs and events. This program was discontinued in 2018.

Venturing - This program provides experiences to help young men and women, ages 14 (or 13 with the completion of eighth grade) through 20, become mature, responsible, and caring adults. Young people learn leadership skills and participate in challenging outdoor activities, including having access to Boy Scout camping properties, a recognition program, and Youth Protection training. Sea Scouting is a specialty Venturing program, organized to address a youth members’ boating skills and promote knowledge of maritime heritage.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

**Note 1: Nature of Organization and Summary of Significant Accounting Policies
(Continued)**

Nature of Organization (Continued)

Exploring - A work-experience-based program, Exploring gives young men and women, ages 14-20, an opportunity to visit community organizations and explore the dynamics of various careers. Local community organizations initiate an Explorer Post by matching their people and program resources to the interests of young people in the community. The result is a program of activities that helps youth pursue their special interests. Exploring is a type of participation in the Learning of Life program.

The Council's website address is www.ocbsa.org.

In addition, the Council owns or leases the following Scout facilities in California:

- A. Schoepe Scout Reservation at Lost Valley ("Lost Valley") - The Council closed escrow on this 1,400-acre property located in San Diego County in 1959. The first summer camp was in 1964. This property is operated year-round and serves as the Council's Boy Scout Resident Camp. In addition to traditional Boy Scout summer camp programs, Lost Valley also hosts programs for Cub Scout-age youth and their families. Youth and adults who attend Lost Valley can camp in the outdoors and experience a wide variety of program elements, including shooting sports, rock climbing, challenge courses, swimming, horseback riding, nature studies, Scout skills, and mountain biking.
- B. Newport Sea Base - The Newport Sea Base is constructed on approximately 1.15 acres of land, which is located in Newport Beach. The property has been leased from the County of Orange since 1937, and the current lease goes through 2039 at no cost to the Council. A remodel of the facilities was completed in 2005. The Newport Sea Base is operated year-round and serves all youth (boys and girls ages six and up) directly and through numerous community partnerships. Youth experience learning opportunities on the water and in the classroom, including sailing, environmental studies, rowing, paddle sports, and various merit badge classes. In addition, three Sea Scout ships and their members are based there.
- C. Oso Lake Scout Camp - In June 2007, the Council entered a 25-year lease with an option for a 15-year extension with the Rancho Santa Margarita Water District. This property, located on the Oso Reservoir in South Orange County, serves as an outdoor educational and recreational facility. The property consists of 15 acres of land and 100 acres of lake. Youth and adults who attend can participate in camping, shooting sports, nature programs, boating, and fishing.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

**Note 1: Nature of Organization and Summary of Significant Accounting Policies
(Continued)**

Nature of Organization (Continued)

- D. Irvine Ranch Outdoor Education Center (“IROEC”) - The Council received a special-use deeded land gift of 210 acres from the Irvine Company in August 2005, which is located in Orange, California. The Council substantially completed construction of buildings and facilities on a 52-acre portion of the property and began year-round operations in August 2009. This property includes themed camps that focus on mining, ranching, and astronomy. The IROEC provides educational and recreational programs for all youth (boys and girls) of the community. Facilities include overnight outdoor camping areas, bunkhouse residential halls, shooting sports, swimming, challenge courses, zip lines, full-service dining hall, training center, conference facilities, and hiking into the surrounding wilderness areas.
- E. William Lyon Homes Center for Scouting - The Council’s office headquarters is owned and operated by the Council and is located in Santa Ana, California. This facility was opened in November 2004. This 40,000-square-foot facility is available for use by all community organizations and serves as the location for primary program delivery management and support of the Council’s Scouting units and youth. This facility is also used for volunteer, professional, and community organization meetings. A portion of the building is subleased.
- F. Trading Posts - The Council leases Trading Posts in Santa Ana, Anaheim, and Laguna Hills, California, which supply Scouts with items needed for participation in daily activities, including uniforms, outdoor gear, and handbooks.

Basis of Accounting

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). References to the “ASC” hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board (“FASB”) as the source of authoritative US GAAP. Accordingly, the accounts of the Council are reported in the following net asset categories:

Net Assets with Donor Restrictions - The part of net assets of the Council that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

Net Assets without Donor Restrictions - The part of net assets of the Council that is not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

**Note 1: Nature of Organization and Summary of Significant Accounting Policies
(Continued)**

Basis of Accounting (Continued)

Board-Designated Net Assets - Net assets without donor restrictions subject to self-imposed limits by action of the Council's Board of Directors. Board-designated net assets may be earmarked for future programs, investment, contingencies, purchase or construction of fixed assets, or other uses.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of available resources, the accounts of the Council are maintained in accordance with the principles of fund accounting. Under such principles, resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. The accounts of the Council are maintained in three self-balancing fund groups according to their nature and purposes as follows:

General Operating Fund - The general operating fund is used to account for the Council's operating activities.

Capital Fund - The capital fund is used to account for property, buildings, equipment, and legally restricted cash that is to be expended for property, buildings, and equipment and related debt payments. Also included in this fund are investments either restricted or designated for capital repair and improvements where the income is either designated or restricted for those particular items. Revenues and expenses related to the capital fundraising campaign are also included in this fund.

Endowment Fund - The endowment fund is normally used to account for amounts of gifts and bequests accepted with legal restrictions based on donor stipulations that the principal be maintained intact in perpetuity, or until the occurrence of a specified event or for a specified period, and that only income from the investment thereof be expended either for general purposes or for purposes specified by the donor. Investment funds with and without donor restrictions are also included in the endowment fund.

Certain donor-restricted net assets have been restricted by donors to be maintained by the Council in perpetuity.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

**Note 1: Nature of Organization and Summary of Significant Accounting Policies
(Continued)**

Cash, Restricted Cash, and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include petty cash funds, bank checking accounts used for operating purposes, and investments with maturities of three months or less from the original purchase dates. Cash and cash equivalents held in the endowment investment fund are excluded from cash and cash equivalents and are included in the total for investments in the accompanying statements of financial position. Restricted cash consists of a cash reserve requirement required by the Council's lending institution.

Accounts Receivable

Accounts receivable are recorded primarily for product sales and facility rentals and are stated at estimated net realizable value if the amounts are due within one year. An allowance for doubtful accounts is based on an analysis of expected collection rates determined from experience. As of December 31, 2018 and 2017, the allowance for doubtful accounts was \$5,067 and \$10,652, respectively.

Contributions

Pledges receivable are recognized upon notification of a donor's unconditional promise to give to the Council. Unconditional promises to give that are expected to be collected in less than one year are measured at net realizable value because that amount results in a reasonable estimate of fair value in accordance with the contributions received section of the FASB ASC. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, assets with donor restrictions are reclassified to assets without donor restrictions and are reported in the statements of activities and changes in net assets as net assets released from restrictions.

Donor Restricted Contributions

Although donor restricted contributions typically are reported as support that increases net assets with donor restrictions, per FASB ASC 958-605-45-4A, they may be reported as increases in net assets without donor restrictions if the restrictions are met in the same reporting period. This policy has been consistently applied by the Council.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

**Note 1: Nature of Organization and Summary of Significant Accounting Policies
(Continued)**

Donated Materials and Services

Donated land, buildings, equipment, investments, and other noncash donations are recorded as contributions at their fair market value at their date of donation. The Council reports the donations as support 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 must be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as donor restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Council reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated services that do not either require specialized skills or enhance nonfinancial assets are not recorded in the accompanying financial statements because no objective basis is available to measure the value of such services. A substantial number of volunteers have donated significant amounts of their time to the Council's program services and its fundraising campaigns, the value of which is not reasonably determinable and, as such, is not recorded in the accompanying financial statements.

For the years ended December 31, 2018 and 2017, the Council recognized \$16,161 and \$13,788, respectively, in the operating fund, and for the years ended December 31, 2018 and 2017, the Council recognized \$18,743 and \$33,555, respectively, in the capital fund as noncash contributions revenue and corresponding expenses for donated materials and services.

Inventories

Inventories consist of Scouting and other items available for resale and are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Property, Plant, and Equipment

Property, plant, and equipment acquired prior to January 1, 1973, are stated at appraised values as established by officials of the Council. Property, plant, and equipment purchased subsequent to January 1, 1973, are recorded at cost. Donated property, plant, and equipment are recorded at the approximate fair market value of the asset on the date of donation. Improvements or betterments of a permanent nature are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The costs of assets retired or otherwise disposed of, and the related accumulated depreciation, are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are credited or charged to current operations.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

**Note 1: Nature of Organization and Summary of Significant Accounting Policies
(Continued)**

Property, Plant, and Equipment (Continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 10 to 30 years for buildings and improvements and 3 to 10 years for furniture and equipment. Depreciation expense for the years ended December 31, 2018 and 2017, totaled \$1,122,479 and \$1,166,578, respectively.

Long-Lived Assets and Asset Impairment

The Council reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use and ultimate disposition of the asset and its fair value are less than the carrying amount of that asset. During 2017, there was a fire at the IROEC. Management performed an assessment of the losses and believed that the majority of assets would be restored through insurance proceeds. As such, any impairment on these long-lived assets would have been recovered through insurance proceeds. However, the Council has identified \$43,758 of fixed assets destroyed in the fire that were disposed of during 2017 and a loss of \$33,548 was recognized. Additionally, in 2018 the Council found that estimated costs to restore fire damaged assets exceeded insurance proceeds by \$199,520 and recorded a loss on disposal of these assets in 2018.

Investments

Investments consist primarily of assets invested in marketable equity and debt securities, commodities, and money market accounts. The Council accounts for investments in accordance with the FASB standard for investments held by not-for-profit organizations. This standard requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the statements of financial position. Fair value of marketable equity and debt securities is based on quoted market prices. Alternative investments are stated at the fair value of their underlying assets and allocated to the investors in proportion to each investor's ownership percentage. The realized and unrealized gain or loss on investments is reflected in the statements of activities and changes in net assets.

Investments are exposed to various risks, such as significant world events, interest rates, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

**Note 1: Nature of Organization and Summary of Significant Accounting Policies
(Continued)**

Custodian Accounts

Custodial accounts represent amounts held by the Council as custodian for registration fees for member units, amounts on deposit for affiliated Scouting associations for their future use, and amounts on deposit by member units.

Advertising

Advertising costs are charged to operations in the period in which the advertisement is placed. Advertising costs for 2018 and 2017 amounted to approximately \$71,000 and \$40,000, respectively.

Income Taxes

The Council is a not-for-profit organization that is exempt from income taxes under Section 501(a) as described under Section 501(c)(3) of the Internal Revenue Code (the "Code") and comparable state law as a charitable organization whereby only unrelated business income, as defined by Section 509(a)(1) of the Code, is subject to federal income tax. The Council currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded. The Council has adopted the provisions of the FASB ASC 740-10-25, *Accounting for Uncertainty in Income Taxes*. The Council does not believe that there are any material uncertain tax positions, and accordingly, it has not recognized any liability for unrecognized tax benefits. For the years ended December 31, 2018 and 2017, there were no interest or penalties recorded or included in the accompanying financial statements. The Council's tax years from 2015 to 2018 are open to review for federal tax purposes, and tax years from 2014 to 2018 are open to review for state income tax purposes.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the consolidated statement of functional expenses. Certain categories of expenses that are attributable to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits and travel costs, which are allocated on the basis of estimates of time and effort. In accordance with the policy of the National Council of the Boy Scouts of America (the "National Council"), the payments of the charter and national service fees to the National Council are not allocated as functional expenses.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

**Note 1: Nature of Organization and Summary of Significant Accounting Policies
(Continued)**

Estimates

The preparation of the financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Spending Policy

The Council has a board-approved total return spending policy that allows the operating fund to receive and recognize investment earnings originating from the endowment fund.

Investment Policy

The Council's investment policy intends for the Council to invest in assets that would produce results exceeding the investment's purchase price and realize a reasonable yield of return while assuming a moderate level of investment risk. The Council expects its endowment fund, over time, to provide a reasonable rate of return. To satisfy the long-term rate-of-return objective, the Council relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Council targets a diversified asset allocation that places a greater emphasis on marketable equity and debt securities and money market accounts to achieve its long-term return objectives within prudent risk constraints.

Interfund Loans

The interfund loans at December 31, 2018 and 2017, resulted from the operating and endowment funds making advances of surplus cash funds to the capital fund for operating purposes.

Recent Accounting Pronouncements - Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, with subsequent improvements and corrections issued in ASU 2018-01, ASU 2018-10, and ASU 2018-20. The ASUs amend a number of aspects of lease accounting, including requiring lessees to recognize on their balance sheet a right-of-use asset and a lease liability for all operating leases with a term of more than 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize the right-of-use asset and lease liability. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019; however, early adoption is permitted. The Council is currently evaluating the impact of the provisions of ASU 2016-02 on the presentation of its financial statements.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

**Note 1: Nature of Organization and Summary of Significant Accounting Policies
(Continued)**

Recent Accounting Pronouncements - Not Yet Adopted (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, with subsequent improvements issued in ASU 2018-19. ASU 2016-13 requires that credit losses on most financial assets measured at amortized cost and certain other instruments, including trade receivables, be measured using an expected credit loss model. The ASU also replaces the current accounting model for purchased credit-impaired loans and debt securities. Further, the ASU makes certain targeted amendments to the existing impairment model for available-for-sale debt securities. For nonpublic entities, including not-for-profit entities, the amendments are effective for fiscal years beginning after December 15, 2021. The Council is currently evaluating the impact of the provisions of ASU 2016-13 on the presentation of its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities - Revenue Recognition (Topic 958-605)*. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. This update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted. The Council is currently evaluating the impact of the provisions of ASU 2018-08 on the presentation of its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU establishes new revenue recognition guidance ("ASC 606"), which replaces the current revenue recognition guidance. ASC 606 and is a comprehensive revenue recognition standard for virtually all industries, including those that previously followed industry-specific guidance, such as the real estate, construction, and software industries. The core principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 is effective for nonpublic companies for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Council is currently evaluating the impact of the provisions of ASC 606 on the presentation of its financial statements.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

**Note 1: Nature of Organization and Summary of Significant Accounting Policies
(Continued)**

Recent Accounting Pronouncements Adopted

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, which changes the current guidance for assets classification, governing board designations, investment return, underwater endowment funds, expenses, liquidity and presentation of operating cash flows. ASU 2016-14 reduces the required number of classes of net assets from three to two: *net assets with donor restrictions* and *net assets without donor restrictions*. ASU 2016-14 also requires not-for-profit entities to provide enhanced disclosures about the amounts and purposes of governing board designations and appropriations. ASU 2016-14 requires not-for-profit entities to report investment return net of external and direct internal investment expenses. The requirement to disclose netted expenses is eliminated. In addition to the current required disclosure of the aggregate amount by which endowment funds are underwater, ASU 2016-14 requires not-for-profit entities to disclose the aggregate fair value of such funds as well as the aggregate original gift amounts to be maintained. ASU 2016-14 also requires a not-for-profit entity to disclose its interpretation of the ability to spend from underwater endowment funds including its policy, and any actions taken during the period, concerning appropriation from underwater endowment funds. All underwater endowment funds will be classified as part of net assets with donor restrictions rather than as a charge to unrestricted net assets as per the current rules. In the absence of explicit donor restrictions, ASU 2016-14 requires not-for-profit entities to use the placed-in-service approach to account for capital gifts. The current option to use the over-time approach has been eliminated. ASU 2016-14 requires expenses to be reported by nature in addition to function and include an analysis of expenses by both nature and function. The methods used by not-for-profit entities to allocate costs among program and support functions will also need to be disclosed. ASU 2016-14 requires not-for-profit entities to provide both qualitative and quantitative information on management of liquid available resources and the ability to cover short-term cash needs within one year of the balance sheet date. Finally, current standards allow not-for-profit entities to decide whether to present operating cash flows using either the direct method or the indirect method. ASU 2016-14 eliminates the requirement to present or disclose the indirect method of reconciliation if the entity decides to use the direct method. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted with retrospective application required for all prior periods presented. The Council has adopted the provisions of ASU 2016-14 and has retrospectively applied this standard to the financial statements as of and for the years ended December 31, 2018 and 2017.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

**Note 1: Nature of Organization and Summary of Significant Accounting Policies
(Continued)**

Recent Accounting Pronouncements Adopted (Continued)

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017, is as follows:

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Endowment Fund</u>	<u>Total</u>
As originally stated:				
Net assets, beginning of year				
Unrestricted	\$ 372,581	\$ 32,972,680	\$ 10,311,815	\$ 43,657,076
Temporarily restricted - for time	463,208	-	68,829	532,037
Temporarily restricted - for use	130,093	71,851	-	201,944
Permanently restricted	-	4,200,000	1,019,199	5,219,199
Total net assets, beginning of year	965,882	37,244,531	11,399,843	49,610,256
Net assets, end of year				
Unrestricted	500,581	32,130,479	10,809,693	43,440,753
Temporarily restricted - for time	275,890	-	111,330	387,220
Temporarily restricted - for use	314,432	133,271	-	447,703
Permanently restricted	-	4,200,000	1,056,111	5,256,111
Total net assets, end of year	1,090,903	36,463,750	11,977,134	49,531,787
As restated:				
Net assets, beginning of year				
Without donor restrictions	372,581	32,972,680	10,311,815	43,657,076
With donor restrictions	593,301	4,271,851	1,088,028	5,953,180
Total net assets, beginning of year	965,882	37,244,531	11,399,843	49,610,256
Net assets, end of year				
Without donor restrictions	500,581	32,130,479	10,809,693	43,440,753
With donor restrictions	590,322	4,333,271	1,167,441	6,091,034
Total Net Assets, End of Year	<u>\$ 1,090,903</u>	<u>\$ 36,463,750</u>	<u>\$ 11,977,134</u>	<u>\$ 49,531,787</u>

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

Note 2: Liquidity and Available

The Council's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are as follows as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash and equivalents - operating fund	\$ 1,052,458	\$ 1,234,718
Accounts receivable - operating fund	121,525	140,096
Insurance claim receivable - operating fund	127,119	276,172
Pledges receivable - operating fund	<u>164,281</u>	<u>210,822</u>
 Total Financial Assets Available to Meet General Expenditures within One Year	 \$ <u>1,465,383</u>	 \$ <u>1,861,808</u>

Included in cash and equivalents - operating fund at December 31, 2018 and 2017 are amounts on deposit by member units totaling \$199,381 and \$195,047, respectively. These amounts may not be available for general expenditures by the Council if drawn upon by the member units.

The Council's endowment funds consist of donor-restricted endowments and a quasi-endowment. Income from donor-restricted endowments may be designated by the board of directors for general expenditure. Quasi-endowment funds of \$9,965,711 and 10,809,693 as of December 31, 2018 and 2017, respectively, may be made available for general expenditures within the next 12 months if designated by the board of directors (also see Note 12).

Note 3: Risks and Uncertainties

The Council maintains cash balances at multiple financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation for up to \$250,000. At times, the Council maintains cash balances at certain financial institutions in excess of federally insured amounts. This risk is managed by maintaining deposits in high-quality financial institutions.

Note 4: Prepaid Expenses and Deferred Income

Prepaid expenses and deferred income in the operating fund consist principally of amounts collected from participants and related travel and other expenses paid in advance for various activities sponsored by the Council.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

Note 5: Insurance Claim Receivable

As previously discussed in Note 1, there was a fire at the IROEC. The Council was insured for property loss and business interruption. The Council is in negotiations with its insurance company to identify the full extent of income and property losses. During the years ended December 31, 2018 and 2017, business interruption insurance reimbursement income recorded by the Council was \$83,610 and \$471,312, respectively. These amounts have been recorded as camping insurance reimbursement income in the accompanying statements of activities and changes in net assets. During the years ended December 31, 2018 and 2017, the Council recorded insurance proceeds for reimbursement of property loss, restoration, and other related expenses totaling \$ 710,082 and \$536,874, respectively. For the years ended December 31, 2018 and 2017, insurance reimbursements received or confirmed totaled \$793,692 and \$1,008,186, respectively. Total cumulative insurance reimbursements recorded not yet received at December 31, 2018 and 2017 was \$127,119 and \$408,186, respectively, and are recorded as insurance claim receivable in the accompanying statements of financial position.

Note 6: Pledges Receivable

The unconditional promises to give at December 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Friends of Scouting	\$ 305,021	\$ 348,054
Restricted to capital fund	1,023,962	5,089,228
Restricted to endowment fund	<u>147,146</u>	<u>1,000</u>
Subtotal	1,476,129	5,438,282
Less: Discount for present value of pledges receivable	(4,231)	(10,154)
Less: Allowance for uncollectible pledges receivable	<u>(210,740)</u>	<u>(37,232)</u>
Subtotal unconditional promises to give	1,261,158	5,390,896
Less: Current portion of pledges receivable, net	<u>(1,135,390)</u>	<u>(5,181,654)</u>
Long-Term Portion of Pledges Receivable, Net	<u>\$ 125,768</u>	<u>\$ 209,242</u>
Pledges receivable, due in:		
Less than one year	\$ 1,346,130	\$ 5,178,282
One to five years	<u>129,999</u>	<u>260,000</u>
Total	<u>\$ 1,476,129</u>	<u>\$ 5,438,282</u>

The discount risk-adjusted interest rate used to calculate the present value ranged from 1.98 percent to 1.93 percent for the years ended December 31, 2018 and 2017.

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Note 7: Note Receivable - Related Party

The Council has a secured loan of \$100,000 to an officer of the Council. The loan bears interest at a rate of 5 percent and is secured by real property. During 2015, the Council accepted a motion to forgive the loan incrementally over a period of four years, beginning in December 2015, in the amount of \$25,000. All accrued interest will be forgiven in the fifth year. All such amounts are to be reported as compensation and are contingent on the tenure of the officer. The balance due for principal and interest to the Council at December 31, 2018 and 2017, is \$40,947 and \$60,948, respectively, and is included in note receivable - related party in the accompanying statements of financial position.

Note 8: Charitable Gift Annuities Receivable

The Council is the beneficiary of a number of split-interest agreements with donors, whereby the National Council controls and invests the donated assets and shares with the donor or the donor's designee income generated from these assets until such time as stated in the agreement (usually upon the death of the donor or the donor's designee). At December 31, 2018 and 2017, values of the Council's split-interest agreements were \$41,450 and \$47,733, respectively.

Note 9: Commitments and Contingencies

Line of Credit

The Council has an unsecured revolving line of credit agreement with a commercial bank for \$750,000, which matures October 2019, and bears an interest rate 0.5 below the prime rate at (5 and 4.25 percent at December 31, 2018 and 2017, respectively). At December 31, 2017, the outstanding balance on the revolving line of credit was \$22,300. There was no outstanding balance at December 31, 2018.

Long-Term Debt

In October 2017, the Council entered into a loan agreement with First Bank, a commercial lender, whereby it refinanced its then-outstanding borrowings under promissory notes of \$4,900,000 and \$3,500,000 maturing June 30, 2019 and October 10, 2027, respectively. The notes accrue interest at 3.75 percent through maturity. The \$3,500,000 note includes a prepayment penalty unless repaid from internally generated funds.

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DECEMBER 31, 2018 AND 2017**

Note 9: Commitments and Contingencies (Continued)

Long-Term Debt (Continued)

At December 31, 2018 and 2017, long-term debt obligations consist of the following:

	2018	2017
Note payable to a bank, payable in monthly interest payments of 3.75% until the loan maturity date, secured by property as collateral, maturing June 30, 2019.	\$ 853,476	\$ 4,858,476
Note payable to a bank, payable in monthly principal and interest payments of \$18,094, accruing interest at 3.75%, secured by property as collateral, maturing October 10, 2027.	<u>3,402,848</u>	<u>3,488,821</u>
Total long-term debt	4,256,324	8,347,297
Less: Current portion	<u>(941,527)</u>	<u>(4,944,057)</u>
Long-Term Debt, Net of Current Portion	<u>\$ 3,314,797</u>	<u>\$ 3,403,240</u>

The following table represents the maturities of long-term debt and the estimated amortization of deferred financing costs for the next five succeeding years and in the aggregate:

2019	\$ 941,527
2020	92,004
2021	95,922
2022	99,643
2023	103,510
Thereafter	<u>2,923,718</u>
Total	<u>\$ 4,256,324</u>

The loan agreement also contains certain financial and nonfinancial covenants. At December 31, 2018, the Council was in compliance with or had obtained a waiver for these financial covenants.

**ORANGE COUNTY COUNCIL, INC.,
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DECEMBER 31, 2018 AND 2017**

Note 9: Commitments and Contingencies (Continued)

Donations

The Council is named from time to time as a beneficiary to certain estates that could be in various states of probate. The Council does not record income from future anticipated distributions until received.

Operating Leases

The Council has entered into several leases for offices, equipment, and vehicles, which expire through December 2032. Total rent expense related to such operating leases amounted to approximately \$151,000 and \$159,000, respectively, for the years ended December 31, 2018 and 2017.

The Council subleases a portion of six facilities to unrelated parties under noncancelable lease agreements. The lease agreements expire through January 2021 and provide for monthly rental income ranging from approximately \$7,000 to \$12,000. Total rental income for the years ended December 31, 2018 and 2017, under these agreements was approximately \$136,000 and \$156,000, respectively.

Minimum future net rental payments under noncancelable operating leases having remaining terms in excess of one year as of December 31, 2018, and in aggregate are as follows:

	<u>Gross Lease Expense</u>	<u>Sublease Income</u>	<u>Net Lease Expense (Revenue)</u>
2019	\$ 147,495	\$ (139,964)	\$ 7,531
2020	152,517	(143,756)	8,761
2021	150,408	(24,012)	126,396
2022	132,781	-	132,781
2023	91,811	-	91,811
Thereafter	<u>175,500</u>	<u>-</u>	<u>175,500</u>
Total	<u>\$ 850,512</u>	<u>\$ (307,732)</u>	<u>\$ 542,780</u>

Consulting Agreement

The Council has entered into a consulting agreement for a period of two years, after which the agreement will be automatically renewed for successive one-year periods unless terminated by either party with written notice. The consultants are entitled to a minimum fee of \$141,000 annually, under this agreement.

**ORANGE COUNTY COUNCIL, INC.,
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DECEMBER 31, 2018 AND 2017**

Note 9: Commitments and Contingencies (Continued)

Service Agreement

The Council has entered into a telecommunications service agreement for a period of five years expiring in June 2023. The agreement includes a minimum fee of approximately \$83,000 annually.

Litigation

The Council is subject to certain legal actions and claims arising in the ordinary course of operations. Based upon the nature, and management's understanding, of the facts and circumstances that give rise to such actions and claims, management believes that such litigation and claims will be resolved without material effect on the Council's financial position or results of operations.

Note 10: Employee Benefit Plans

Retirement Plan

The National Council has a qualified defined benefit pension plan (the "Retirement Plan") administered at the national office that covers employees of the National Council and local councils, including the Orange County Council. The Retirement Plan name is the Boy Scouts of America Master Pension Trust - Boy Scouts of America Retirement Plan for Employees, and it covers all employees who have completed one year of service and who have agreed to make contributions. Eligible employees contribute 2 percent of compensation, and the Council contributes an additional 7 percent to the Plan. Pension expense (excluding the contributions made by employees) was approximately \$170,000 and \$181,000 for the years ended December 31, 2018 and 2017, respectively, and covered current service costs. The actuarial information for the Retirement Plan as of February 1, 2018, indicates that it is in compliance with Employee Retirement Income Security Act of 1974 regulations regarding funding.

Thrift Plan

The Council has established a thrift plan covering substantially all the employees of the Council. Participants in the thrift plan may elect to make voluntary before-tax contributions based on a percentage of their pay, subject to certain limitations set forth in the Code, as amended. The Council has elected to match employee contributions to the thrift plan up to 25 percent of contributions from each participant and, limited to 6 percent of each employee's gross pay. The Council contributed approximately \$28,000 and \$33,000, respectively, to the thrift plan in 2018 and 2017, respectively.

**ORANGE COUNTY COUNCIL, INC.,
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DECEMBER 31, 2018 AND 2017**

Note 10: Employee Benefit Plans (Continued)

Health-Care Plan

The Council's employees participate in a health-care plan provided by the National Council. The Council pays a portion of the cost for the employees, and the employees pay the remaining portion and the cost for any of their dependents participating in the plan. During the years ended December 31, 2018 and 2017, the Council remitted approximately \$382,000 and \$353,000, respectively, on behalf of its employees to the National Council related to the health-care plan.

Note 11: Scout Shop

The National Council operates three Scout shops within the Orange County area. The National Council manages the Scout shops and pays the Council an 8 percent commission on gross sales of up to \$750,000 and 13 percent on sales in excess of \$750,000. The commissions earned (before expenses) by the Council during the years ended 2018 and 2017, amounted to approximately \$217,000 and \$235,000, respectively, which are included in income from rents in the statements of activities and changes in net assets.

Note 12: Endowment Funds

The Council's Endowment Fund includes donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by US GAAP, 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 Council has interpreted the State of California Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the original gift amount of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Council classifies as donor-restricted endowment funds (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions is classified as net assets without donor restrictions until those amounts are appropriated for expenditure by the Council in a manner consistent with the standard of prudence prescribed by SPMIFA.

**ORANGE COUNTY COUNCIL, INC.,
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

Note 12: Endowment Funds (Continued)

In accordance with SPMIFA, the Council considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Council and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Council
- (7) The investment policies of the Council

The Council's investments are governed by a written investment policy, the principal objective of which is to make investments in a thoughtful and prudent manner so as to preserve and enhance the Council's ability to provide for the benefits of Scouting. The oversight of the investment portfolio is the responsibility of the Investment Committee whose members are appointed by the Executive Committee of the Board of Directors, and which shall administer the investment portfolio in compliance with all written policies approved by the Board of Directors.

The Investment Committee has contracted with an independent trust company for the purpose of managing the investment and reinvestment of fund assets in a manner consistent with the overall investment policy as approved by the Board of Directors.

The following are the investment objectives of the Council:

- Preserve the investment portfolio's corpus over the long term
- Ensure the investment portfolio's long-term ability to distribute income
- Ensure that donor restricted donations are protected so that they are available for the target use

In achieving its objectives, the Council's primary investment mission is to preserve principal and purchasing power in real dollar terms over time while supporting current income requirements.

**ORANGE COUNTY COUNCIL, INC.,
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NOTES TO FINANCIAL STATEMENTS
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Note 12: Endowment Funds (Continued)

The following is the endowment net asset composition by type of fund as of December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds, perpetual in duration - original gift amount	\$ -	\$ 1,056,111	\$ 1,056,111
Donor-restricted endowment funds	-	476,747	476,747
Board-designated endowment funds	<u>9,965,711</u>	<u>-</u>	<u>9,965,711</u>
Total Funds	<u>\$ 9,965,711</u>	<u>\$ 1,532,858</u>	<u>\$ 11,498,569</u>

The following is the endowment net asset composition by type of fund as of December 31, 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds, perpetual in duration - original gift amount	\$ -	\$ 1,056,111	\$ 1,056,111
Donor-restricted endowment funds	-	111,330	111,330
Board-designated endowment funds	<u>10,809,693</u>	<u>-</u>	<u>10,809,693</u>
Total Funds	<u>\$ 10,809,693</u>	<u>\$ 1,167,441</u>	<u>\$ 11,977,134</u>

**ORANGE COUNTY COUNCIL, INC.,
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DECEMBER 31, 2018 AND 2017**

Note 12: Endowment Funds (Continued)

Changes in the endowment fund net assets for the years ended December 31, 2018 and 2017, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment fund net assets, December 31, 2016	\$ 10,311,815	\$ 1,088,028	\$ 11,399,843
Investment return	588,056	9,397	597,453
Contributions	-	70,016	70,016
Appropriation of endowment assets for expenditure	<u>(90,178)</u>	<u>-</u>	<u>(90,178)</u>
Endowment fund net assets, December 31, 2017	10,809,693	1,167,441	11,977,134
Investment loss	(548,560)	-	(548,560)
Contributions	-	365,417	365,417
Appropriation of endowment assets for expenditure	<u>(295,422)</u>	<u>-</u>	<u>(295,422)</u>
Endowment Fund Net Assets, December 31, 2018	<u>\$ 9,965,711</u>	<u>\$ 1,532,858</u>	<u>\$ 11,498,569</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or applicable state law requires the Council to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of December 31, 2018 and 2017. The Council has interpreted the SPMIFA and applicable state trust law to permit spending from underwater endowments in accordance with prudent measures required under law.

Note 13: Board-Designated Net Assets

The Council's Board of Directors has designated, from net assets without donor restrictions of \$9,965,711 and 10,809,693 as of December 31, 2018 and 2017, respectively, for the purpose of a quasi-endowment (see Note 2).

**ORANGE COUNTY COUNCIL, INC.,
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NOTES TO FINANCIAL STATEMENTS
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Note 14: Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31, 2018 and 2017:

	2018			Total
	General Operating Fund	Capital Fund	Endowment Fund	
Subject to expenditure for specific purpose:				
Scouting activities	\$ 83,913	\$ -	\$ -	\$ 83,913
Grants/foundation	220,524	-	-	220,524
Building, equipment and maintenance				
Newport Sea Base	2,487	-	-	2,487
Lost Valley	17,545	-	-	17,545
Oso Lake Scout Camp	840	-	-	840
Capital campaign projects:				
Outdoor Education Center	-	457,025	-	457,025
Lost Valley Scout Reservation	-	15,000	-	15,000
Oso Lake	-	70,072	-	70,072
Total purpose restrictions	<u>325,309</u>	<u>542,097</u>	<u>-</u>	<u>867,406</u>
Perpetual in nature:				
Capital improvement	<u>-</u>	<u>4,200,000</u>	<u>-</u>	<u>4,200,000</u>
Subject to the passage of time:				
Community campaign donations	<u>161,700</u>	<u>-</u>	<u>111,330</u>	<u>273,030</u>
Endowment:				
Subject to endowment spending policy and appropriation:				
General use				
Program activities	<u>-</u>	<u>-</u>	<u>1,421,528</u>	<u>1,421,528</u>
Total subject to endowment spending policy and appropriation	<u>-</u>	<u>-</u>	<u>1,421,528</u>	<u>1,421,528</u>
Total net assets with donor restrictions	<u>\$ 487,009</u>	<u>\$ 4,742,097</u>	<u>\$ 1,532,858</u>	<u>\$ 6,761,964</u>

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

Note 14: Net Assets with Donor Restrictions (Continued)

	2017			Total
	General Operating Fund	Capital Fund	Endowment Fund	
Subject to expenditure for specific purpose:				
Scouting activities	\$ 61,985	\$ -	\$ -	\$ 61,985
Grants/foundation	237,790	-	-	237,790
Building, equipment and maintenance				
Newport Sea Base	6,972	-	-	6,972
Lost Valley	7,685	-	-	7,685
Capital campaign projects:				
Newport Sea Base	-	18,919	-	18,919
Outdoor Education Center	-	96,280	-	96,280
Oso Lake	-	18,072	-	18,072
Total purpose restrictions	<u>314,432</u>	<u>133,271</u>	<u>-</u>	<u>447,703</u>
Perpetual in nature:				
Capital improvement	<u>-</u>	<u>4,200,000</u>	<u>-</u>	<u>4,200,000</u>
Subject to the passage of time:				
Community campaign donations	<u>275,890</u>	<u>-</u>	<u>111,330</u>	<u>387,220</u>
Endowment:				
Subject to endowment spending policy and appropriation:				
General use				
Program activities	<u>-</u>	<u>-</u>	<u>1,056,111</u>	<u>1,056,111</u>
Total subject to endowment spending policy and appropriation	<u>-</u>	<u>-</u>	<u>1,056,111</u>	<u>1,056,111</u>
Total net assets with donor restrictions	<u>\$ 590,322</u>	<u>\$ 4,333,271</u>	<u>\$ 1,167,441</u>	<u>\$ 6,091,034</u>

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
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Note 15: Investments

Investments at December 31, 2018 and 2017, are composed of the following:

	<u>2018</u>	<u>2017</u>
Fixed-income bonds	\$ 5,421,603	\$ 5,274,856
Common stock	2,934,660	3,604,420
International stock	577,798	737,468
Money market	401,186	1,238,327
Mutual funds	285,624	340,577
Preferred stock	<u>582,500</u>	<u>457,860</u>
Total	<u>\$ 10,203,371</u>	<u>\$ 11,653,508</u>

The following summarizes the investment return (loss) in the statements of activities and changes in net assets for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 355,057	\$ 449,808
Net realized and unrealized gain (loss)	(496,842)	638,539
Investment expenses	<u>(66,112)</u>	<u>(65,172)</u>
Total	<u>\$ (207,897)</u>	<u>\$ 1,023,175</u>

The investments above are classified in the December 31, 2018 and 2017 statements of financial position as follows:

	<u>2018</u>	<u>2017</u>
Without donor restriction	\$ 8,670,513	\$ 10,486,067
With donor restriction	<u>1,532,858</u>	<u>1,167,441</u>
Total	<u>\$ 10,203,371</u>	<u>\$ 11,653,508</u>

Income from interest and dividends on investments and realized and unrealized gains and losses on the sales of investments is recorded initially in the endowment fund. Distributions of investment income, gains, and losses from the endowment fund are recorded as income by the operating and capital funds in the period in which the distributions are made in accordance with the Council's spending policy. For the years ended December 31, 2018 and 2017, investment expenses were \$66,112 and \$65,172, respectively, and are netted against return on investments in the statements of activities and changes in net assets.

**ORANGE COUNTY COUNCIL, INC.,
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Note 16: Summary of Fair Value Exposure

US GAAP establishes 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Fair value measurement defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants (i.e., an exit price).

To estimate an exit price, a three-tier hierarchy is used to prioritize the inputs as follows:

Level 1: Quoted market prices in active markets for identical securities.

Corporate Common and Preferred Stocks and Fixed-Income Securities - Valued at the closing market price on the stock exchange where they are traded (primarily the New York Stock Exchange).

Money Market Accounts - Composed of funds invested in savings accounts at various financial institutions and a money market mutual fund. Funds invested in savings accounts are valued based on the value of deposited funds and net investment earnings less withdrawals and fees. The money market mutual fund consists primarily of domestic commercial paper and other cash management instruments, such as repurchase agreements and master notes, US government and corporate obligations, and other securities of foreign issuers. The fund seeks to maintain a stable net asset value of \$1.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Corporate Bonds - Valued at prices obtained from independent pricing services, without adjustment.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair value is a market-based measurement considered from the perspective of a market participant rather than an entity-specific measurement. Therefore, even when market assumptions are not readily available, the Council's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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Note 16: Summary of Fair Value Exposure (Continued)

The following table provides fair value measurement information for financial assets measured at fair value on a recurring basis as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed-income bonds	\$ 1,951,758	\$ 3,469,845	\$ -	\$ 5,421,603
Common stock	2,934,660	-	-	2,934,660
International stock	577,798	-	-	577,798
Money market	401,186	-	-	401,186
Mutual funds	285,624	-	-	285,624
Preferred stock	<u>582,500</u>	<u>-</u>	<u>-</u>	<u>582,500</u>
Total Investments	<u>\$ 6,733,526</u>	<u>\$ 3,469,845</u>	<u>\$ -</u>	<u>\$ 10,203,371</u>

The following table provides fair value measurement information for financial assets measured at fair value on a recurring basis as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed-income bonds	\$ 1,692,699	\$ 3,582,157	\$ -	\$ 5,274,856
Common stock	3,604,420	-	-	3,604,420
International stock	737,468	-	-	737,468
Money market	1,238,327	-	-	1,238,327
Mutual funds	340,577	-	-	340,577
Preferred stock	<u>457,860</u>	<u>-</u>	<u>-</u>	<u>457,860</u>
Total Investments	<u>\$ 8,071,351</u>	<u>\$ 3,582,157</u>	<u>\$ -</u>	<u>\$ 11,653,508</u>

Generally, the fair value of such securities is determined by reference to quoted market prices and other relevant information generated by market transactions.

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Note 17: Subsequent Events

Effective January 1, 2019 the National Council elected to form a 403(b) defined contribution benefit plan (“Match Savings Plan”) covering substantially all employees. As a part of the formation of the 403(b) plan, all employees who are not grandfathered into the National Council’s Retirement Plan (see Note 10) will no longer participate in the Retirement Plan. Employees qualifying for grandfathering will have achieved 15+ years of vested services and the employees’ age plus vesting service as of January 1, 2019 is greater than 60 years. On January 1, 2019 employee contributions to the Retirement Plan for grandfathered employees increased from 2 percent to 4.25 percent. Grandfathered employees are also allowed to participate in the Match Savings Plan with a 50 percent employer match on employee contributions up to 6 percent of a grandfathered employees’ pay.

Employees who are not grandfathered into the Retirement Plan, will be automatically enrolled in the Match Savings Plan unless they elect to opt out. Each participant will receive an automatic employer contribution of 1.75 percent of their pay per pay period and will also be automatically enrolled with an employee contribution set at 3.25 percent with automatic annual increases of 1 percent each enrollment anniversary up to a maximum of 7.25 percent of pay. In addition, the Council will make an employer match of 100 percent of employee contributions, up to 6.0 percent of employees’ pay. Participants are allowed to increase, decrease or opt out of contributions at any time.

Events occurring after December 31, 2018, have been evaluated for possible adjustments to or disclosure in the financial statements through April 30, 2019, the date the financial statements were available to be issued.