

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

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

WITH INDEPENDENT AUDITORS' REPORT

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
TABLE OF CONTENTS
DECEMBER 31, 2017 AND 2016**

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets	5
Statements of Cash Flows.....	7
Statements of Functional Expenses	8
Notes to Financial Statements.....	10

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, 2017 and 2016, 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, 2017 and 2016, 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 Dick Evans LLP

Irvine, California

June 26, 2018

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016**

ASSETS

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2017	2016	2017	2016	2017	2016	2017	2016
Current Assets:								
Cash and cash equivalents	\$ 1,234,718	\$ 1,611,482	\$ 440,219	\$ -	\$ 179,264	\$ 169,455	\$ 1,854,201	\$ 1,780,937
Restricted cash	500,000	-	-	-	-	-	500,000	-
Accounts receivable, net	140,096	181,232	-	-	-	-	140,096	181,232
Insurance claim receivable	276,172	-	132,014	-	-	-	408,186	-
Pledges receivable, net	210,822	105,185	4,969,832	485,312	1,000	7,000	5,181,654	597,497
Inventories	45,253	66,308	-	-	-	-	45,253	66,308
Interfund loans	182,092	395,025	(216,773)	(261,879)	34,681	(133,146)	-	-
Prepaid expenses	177,435	115,608	5,772	-	-	-	183,207	115,608
Total Current Assets	2,766,588	2,474,840	5,331,064	223,433	214,945	43,309	8,312,597	2,741,582
Property, Plant, and Equipment:								
Land and land improvements	-	-	20,381,216	20,381,215	-	-	20,381,216	20,381,215
Buildings	-	-	30,670,859	30,670,859	-	-	30,670,859	30,670,859
Improvements	-	-	1,214,002	1,214,002	-	-	1,214,002	1,214,002
Furniture and equipment	-	-	4,284,370	4,125,052	-	-	4,284,370	4,125,052
Construction in progress	-	-	112,201	65,354	-	-	112,201	65,354
Total Property, Plant, and Equipment	-	-	56,662,648	56,456,482	-	-	56,662,648	56,456,482
Less: Accumulated depreciation	-	-	(16,882,401)	(15,726,033)	-	-	(16,882,401)	(15,726,033)
Property, Plant, and Equipment, at Net Book Value	-	-	39,780,247	40,730,449	-	-	39,780,247	40,730,449
Other Assets:								
Pledges receivable, net	94,721	142,616	114,521	5,030,203	-	-	209,242	5,172,819
Note receivable - related party	-	-	-	-	60,948	80,948	60,948	80,948
Investments	-	-	-	-	11,653,508	11,270,346	11,653,508	11,270,346
Other noncurrent assets	20,248	26,104	-	-	47,733	38,344	67,981	64,448
Total Other Assets	114,969	168,720	114,521	5,030,203	11,762,189	11,389,638	11,991,679	16,588,561
Total Assets	\$ 2,881,557	\$ 2,643,560	\$ 45,225,832	\$ 45,984,085	\$ 11,977,134	\$ 11,432,947	\$ 60,084,523	\$ 60,060,592

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, 2017 AND 2016**

LIABILITIES AND NET ASSETS

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2017	2016	2017	2016	2017	2016	2017	2016
Current Liabilities:								
Accounts payable	\$ 230,096	\$ 247,284	\$ 382,595	\$ 9,516	\$ -	\$ -	\$ 612,691	\$ 256,800
Accrued employee compensation	224,538	195,933	-	-	-	-	224,538	195,933
Custodian accounts	1,004,663	975,756	32,190	32,190	-	33,104	1,036,853	1,041,050
Line of credit	22,300	-	-	-	-	-	22,300	-
Current portion - long-term debt, net of deferred finance costs	-	-	4,944,057	473,752	-	-	4,944,057	473,752
Deferred income	308,920	258,475	-	-	-	-	308,920	258,475
Other current liabilities	137	230	-	-	-	-	137	230
Total Current Liabilities	1,790,654	1,677,678	5,358,842	515,458	-	33,104	7,149,496	2,226,240
Long-Term Liabilities:								
Long-term debt - net of current portion	-	-	3,403,240	8,224,096	-	-	3,403,240	8,224,096
Total Long-Term Liabilities	-	-	3,403,240	8,224,096	-	-	3,403,240	8,224,096
Total Liabilities	1,790,654	1,677,678	8,762,082	8,739,554	-	33,104	10,552,736	10,450,336
Net Assets:								
Unrestricted	500,581	372,581	32,130,479	32,972,680	10,809,693	10,311,815	43,440,753	43,657,076
Temporarily restricted - for time	275,890	463,208	-	-	111,330	68,829	387,220	532,037
Temporarily restricted - for use	314,432	130,093	133,271	71,851	-	-	447,703	201,944
Permanently restricted	-	-	4,200,000	4,200,000	1,056,111	1,019,199	5,256,111	5,219,199
Total Net Assets	1,090,903	965,882	36,463,750	37,244,531	11,977,134	11,399,843	49,531,787	49,610,256
Total Liabilities and Net Assets	\$ 2,881,557	\$ 2,643,560	\$ 45,225,832	\$ 45,984,085	\$ 11,977,134	\$ 11,432,947	\$ 60,084,523	\$ 60,060,592

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, 2017 AND 2016**

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2017	2016	2017	2016	2017	2016	2017	2016
<u>Changes in Unrestricted Net Assets</u>								
Support and Revenue:								
Direct Support:								
Friends of Scouting	\$ 1,043,917	\$ 982,250	\$ -	\$ -	\$ -	\$ -	\$ 1,043,917	\$ 982,250
Noncash contributions	-	-	33,555	-	-	-	33,555	-
Special fundraising events - gross	983,696	885,297	-	-	-	-	983,696	885,297
Less: Costs of direct benefit to participants	(127,246)	(157,331)	-	-	-	-	(127,246)	(157,331)
Net Special Events	856,450	727,966	-	-	-	-	856,450	727,966
Capital campaigns	-	-	5,500	20,297	-	-	5,500	20,297
Pledge receivables discount	-	-	168,064	104,671	-	-	168,064	104,671
Bequests	275,000	250,000	25,000	25,000	-	-	300,000	275,000
Foundations and trusts	99,060	67,300	-	-	-	-	99,060	67,300
Other direct support	134,197	184,861	565,948	2,367	-	-	700,145	187,228
Total Direct Support	2,408,624	2,212,377	798,067	152,335	-	-	3,206,691	2,364,712
Indirect Support:								
Grants and foundations	49,750	30,221	-	-	-	-	49,750	30,221
Total Indirect Support	49,750	30,221	-	-	-	-	49,750	30,221
Revenues:								
Product sales - gross	1,399,208	1,211,457	-	-	-	-	1,399,208	1,211,457
Less: Cost of product sold	(365,023)	(306,570)	-	-	-	-	(365,023)	(306,570)
Less: Commissions earned and retained by units	(539,576)	(428,073)	-	-	-	-	(539,576)	(428,073)
Net Product Sales	494,609	476,814	-	-	-	-	494,609	476,814
Camping - gross	3,723,795	3,949,270	-	-	-	-	3,723,795	3,949,270
Camping - insurance reimbursement	471,312	-	-	-	-	-	471,312	-
Less: Cost of resale items	(57,690)	(39,658)	-	-	-	-	(57,690)	(39,658)
Net Camping	4,137,417	3,909,612	-	-	-	-	4,137,417	3,909,612
Activities	1,772,700	1,038,341	-	-	-	-	1,772,700	1,038,341
Less: Cost of product and commissions	(164,939)	(169,640)	-	-	-	-	(164,939)	(169,640)
Net Activities	1,607,761	868,701	-	-	-	-	1,607,761	868,701
Income from rents	235,463	242,711	-	-	-	-	235,463	242,711
Return (loss) on investments	425,722	435,162	5	-	588,056	233,420	1,013,783	668,582
Miscellaneous	309,327	477,926	-	9	-	-	309,327	477,935
Total Revenues	7,210,299	6,410,926	5	9	588,056	233,420	7,798,360	6,644,355
Net Assets Released from Restrictions	342,670	290,364	61,760	44,125	-	2	404,430	334,491
Total Unrestricted Support and Revenue	10,011,343	8,943,888	859,832	196,469	588,056	233,422	11,459,231	9,373,779

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, 2017 AND 2016**

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2017	2016	2017	2016	2017	2016	2017	2016
<u>Changes in Unrestricted Net Assets (Continued)</u>								
Expenses:								
Program services	\$ 8,468,530	\$ 7,223,827	\$ 1,555,525	\$ 1,354,040	\$ 66,223	\$ 58,369	\$ 10,090,278	\$ 8,636,236
Support services:								
Management and general	764,547	801,405	71,658	62,362	16,231	8,616	852,436	872,383
Fundraising	554,917	518,205	32,596	36,043	7,724	17,516	595,237	571,764
Total Support Services	1,319,464	1,319,610	104,254	98,405	23,955	26,132	1,447,673	1,444,147
Total Functional Expenses	9,787,994	8,543,437	1,659,779	1,452,445	90,178	84,501	11,537,951	10,080,383
Loss on Disposal of Assets	-	-	42,254	-	-	-	42,254	-
Payments to National Office	95,349	91,304	-	-	-	-	95,349	91,304
Total Expenses	9,883,343	8,634,741	1,702,033	1,452,445	90,178	84,501	11,675,554	10,171,687
Increase (Decrease) in Unrestricted Net Assets	128,000	309,147	(842,201)	(1,255,976)	497,878	148,921	(216,323)	(797,908)
<u>Changes in Temporarily Restricted Support</u>								
Support and Revenue:								
Direct Support:								
Friends of Scouting	127,240	213,208	-	-	-	-	127,240	213,208
Return (loss) on investments	-	-	-	-	9,397	(3,990)	9,397	(3,990)
Foundations and trusts	193,450	124,084	-	-	-	-	193,450	124,084
Other contributions	19,001	390	123,180	35,020	33,104	-	175,285	35,410
Total Direct Support	339,691	337,682	123,180	35,020	42,501	(3,990)	505,372	368,712
Total Support and Revenue	339,691	337,682	123,180	35,020	42,501	(3,990)	505,372	368,712
Net Assets Released from Restrictions	(342,670)	(290,364)	(61,760)	(44,125)	-	(2)	(404,430)	(334,491)
Increase (Decrease) in Temporarily Restricted Net Assets	(2,979)	47,318	61,420	(9,105)	42,501	(3,992)	100,942	34,221
<u>Changes in Permanently Restricted Support</u>								
Support and Revenue:								
Direct Support:								
Other direct support	-	-	-	-	36,912	34,217	36,912	34,217
Increase in Permanently Restricted Net Assets	-	-	-	-	36,912	34,217	36,912	34,217
Increase (Decrease) in Total Net Assets	125,021	356,465	(780,781)	(1,265,081)	577,291	179,146	(78,469)	(729,470)
Total Net Assets, Beginning of Year	965,882	609,417	37,244,531	37,951,530	11,399,843	11,778,779	49,610,256	50,339,726
Transfers	-	-	-	558,082	-	(558,082)	-	-
Total Net Assets, End 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

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, 2017 AND 2016**

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2017	2016	2017	2016	2017	2016	2017	2016
Cash Flows from Operating Activities:								
Increase (Decrease) in Total Net Assets	\$ 125,021	\$ 356,465	\$ (780,781)	\$ (1,265,081)	\$ 577,291	\$ 179,146	\$ (78,469)	\$ (729,470)
Noncash Items Included in Increase (Decrease) in Total Net Assets:								
Allowance for uncollectible promises/discount on pledges	(1,391)	1,214	(168,063)	(184,796)	-	-	(169,454)	(183,582)
Depreciation and amortization	-	-	1,166,578	1,179,513	-	-	1,166,578	1,179,513
Loss on disposal of fixed asset	-	-	42,254	-	-	-	42,254	-
Realized and unrealized gains on investments	-	-	-	-	(638,539)	(222,054)	(638,539)	(222,054)
Unrealized gains on interest rate swap	-	-	-	(16,030)	-	-	-	(16,030)
Forgiveness of note receivable - related party	-	-	-	-	20,000	20,000	20,000	20,000
Changes in:								
Accounts and pledges receivable	(15,215)	(45,075)	599,225	500,417	6,000	2,544	590,010	457,886
Insurance claim receivable	(276,172)	-	(132,014)	-	-	-	(408,186)	-
Inventories	21,055	(6,448)	-	-	-	-	21,055	(6,448)
Interfund loans	212,933	145,892	(45,106)	(296,203)	(167,827)	150,311	-	-
Prepaid expenses	(61,827)	439	(5,772)	-	-	-	(67,599)	439
Other noncurrent assets	5,856	(26,104)	-	-	(9,389)	3,986	(3,533)	(22,118)
Accounts payable, accrued expenses, and other current liabilities	11,324	124,532	373,079	2,706	-	(353)	384,403	126,885
Custodian accounts	28,907	89,362	-	-	(33,104)	-	(4,197)	89,362
Deferred income	50,445	(18,917)	-	-	-	-	50,445	(18,917)
Net Cash, Restricted Cash and Cash Equivalents Provided by (Used in) Operating Activities	100,936	621,360	1,049,400	(79,474)	(245,568)	133,580	904,768	675,466
Cash Flows from Investing Activities:								
Proceeds from investments	-	-	-	-	2,624,888	2,045,850	2,624,888	2,045,850
Payments for purchases of investments	-	-	-	-	(2,369,511)	(1,598,956)	(2,369,511)	(1,598,956)
Purchase of property and equipment	-	-	(258,630)	(4,216)	-	-	(258,630)	(4,216)
Net Cash, Restricted Cash and Cash Equivalents Provided by (Used in) Investing Activities	-	-	(258,630)	(4,216)	255,377	446,894	(3,253)	442,678
Cash Flows from Financing Activities:								
Advances on line of credit	22,300	-	-	-	-	-	22,300	-
Borrowings on long-term debt	-	-	8,358,476	-	-	-	8,358,476	-
Payments on long-term debt	-	-	(8,709,027)	(474,392)	-	-	(8,709,027)	(474,392)
Transfers	-	-	-	558,082	-	(558,082)	-	-
Net Cash and Cash Equivalents Provided by (Used in) Financing Activities	22,300	-	(350,551)	83,690	-	(558,082)	(328,251)	(474,392)
Net Increase in Cash, Restricted Cash and Cash Equivalents	123,236	621,360	440,219	-	9,809	22,392	573,264	643,752
Cash, Restricted Cash and Cash Equivalents, Beginning of Year	1,611,482	990,122	-	-	169,455	147,063	1,780,937	1,137,185
Cash, Restricted Cash and Cash Equivalents, End of Year	\$ 1,734,718	\$ 1,611,482	\$ 440,219	\$ -	\$ 179,264	\$ 169,455	\$ 2,354,201	\$ 1,780,937
Supplemental Disclosure:								
Interest paid	\$ 1,078	\$ 5,855	\$ 195,024	\$ 171,969	\$ -	\$ -	\$ 196,102	\$ 177,824

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**

	Program Services	Supporting Services			Total Functional Expenses
		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	\$ 10,090,278	\$ 852,436	\$ 595,237	\$ 1,447,673	\$ 11,537,951

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, 2016**

	Program Services	Supporting Services			Total Functional Expenses
		Management and General	Fundraising	Total	
Salaries and Related Expenses:					
Salaries	\$ 3,327,640	\$ 483,551	\$ 191,911	\$ 675,462	\$ 4,003,102
Employee benefits	426,810	86,636	35,494	122,130	548,940
Payroll taxes and compensation insurance	398,005	73,352	30,372	103,724	501,729
Employee related expenses	6,723	253	120	373	7,096
Total Salaries and Related Expenses	4,159,178	643,792	257,897	901,689	5,060,867
Other Expenses:					
Professional fees	136,149	9,449	77,015	86,464	222,613
Supplies	853,329	4,128	4,224	8,352	861,681
Telephone	66,119	6,967	4,990	11,957	78,076
Postage and shipping	7,636	894	16,442	17,336	24,972
Occupancy	1,013,676	40,291	26,584	66,875	1,080,551
Rental and maintenance of equipment	311,712	33,273	15,790	49,063	360,775
Publications and media	65,306	1,297	41,773	43,070	108,376
Travel	196,548	26,615	12,717	39,332	235,880
Local conferences and meetings	79,260	7,687	3,656	11,343	90,603
Specific assistance to individuals	9,259	-	-	-	9,259
Recognition and awards	131,071	1,139	23,100	24,239	155,310
Insurance	184,550	11,968	5,691	17,659	202,209
Interest expense	113,948	27,928	13,282	41,210	155,158
Other expenses	182,004	27,007	54,361	81,368	263,372
Total Other Expenses	3,350,567	198,643	299,625	498,268	3,848,835
Expenses Before Depreciation	7,509,745	842,435	557,522	1,399,957	8,909,702
Depreciation of Property, Plant, and Equipment	1,126,491	29,948	14,242	44,190	1,170,681
Total Functional Expenses	\$ 8,636,236	\$ 872,383	\$ 571,764	\$ 1,444,147	\$ 10,080,383

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, 2017 AND 2016**

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’s programs are classified as follows:

Cub Scouts - The Cub Scout programs comprise the following: Lion Cubs: Kindergarten boys, Tiger Cubs: First Grade boys, Cub Scouts: Second through third Grade boys, Webelos Scouts: Fourth and Fifth-Grade Boys. 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 will be expanding 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 early 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 our maritime heritage.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

**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, 2017 AND 2016**

**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:

Unrestricted Net Assets - Unrestricted net assets represent available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Directors.

Temporarily Restricted Net Assets - Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure and also include accumulated investment income and gains on donor-restricted endowment assets that have not been appropriated for expenditure.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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

Basis of Accounting (Continued)

Permanently Restricted Net Assets - Permanently restricted net assets represent resources that have donor-imposed restrictions requiring that the principal be maintained in perpetuity, but permit the nonprofit organization to expend the income earned thereon.

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 Council also prepares financial statements in accordance with the FASB standards for not-for-profit organizations (ASC 958-205 and subsections). Under these standards, the Council is required to 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. In addition, the Council is required to present a statement of cash flows.

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, 2017 and 2016, the allowance for doubtful accounts was \$10,652 and \$30,124, respectively.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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

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 unrestricted net assets 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, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities and changes in net assets as assets released from restrictions.

Temporarily Restricted Contributions

Although temporarily restricted contributions typically are reported as support that increases temporarily restricted net assets, per FASB ASC 958-605-45-4, they may be reported as unrestricted support if the restrictions are met in the same reporting period. This policy has been consistently applied by the Council.

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 unrestricted support, 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 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.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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

Donated Materials and Services (Continued)

For the years ended December 31, 2017 and 2016, the Council recognized \$13,788 and \$11,141, respectively, in the operating fund, and for the year ended December 31, 2017, the Council recognized \$33,555 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.

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, 2017 and 2016, totaled \$1,166,578 and \$1,170,681, 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 has performed an assessment of the losses and believes that the majority of assets will be restored through insurance proceeds. As such, any impairment on these long-lived assets will be recovered through these 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.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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

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.

Custodian Accounts

The custodian accounts represent amounts held for others.

Advertising

Advertising costs are charged to operations in the period in which the advertisement is placed. Advertising costs for 2017 and 2016 amounted to approximately \$40,000 and \$30,000, 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 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, 2017 and 2016, there were no interest or penalties recorded or included in the accompanying financial statements. The Council's tax years from 2014 to 2017 are open to review for federal tax purposes, and tax years from 2013 to 2017 are open to review for state income tax purposes.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of functional expenses. Costs that are not directly associated with providing specific services have been allocated based upon the relative time spent by employees of the Council providing those services. 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.

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, 2017 and 2016, resulted from the operating and endowment funds making advances of surplus cash funds to the capital fund for operating purposes.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued Accounting Standards Update (“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 in US GAAP, 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, but no earlier than periods beginning after December 15, 2016. The Council is currently evaluating the impact of the provisions of ASC 606 on the presentation of its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous standards. 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 lease assets and lease liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, and early application is permitted. The Council is currently evaluating the impact of the provisions of ASU 2016-02 on the presentation of its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. ASU 2016-13 requires that credit losses on most financial assets measured at amortized cost, and certain other instruments, 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 and employee benefit plans within the scope of Topics 960-965 on plan accounting, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within 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.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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

Recent Accounting Pronouncements Not Yet Adopted (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*. ASU 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The ASU requires an amended presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and early application is permitted. The Council is currently evaluating the impact of the provisions of ASU 2016-14 on the presentation of its financial statements.

Recent Accounting Pronouncements Adopted

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statements of cash flows. The amendments in ASU 2016-18 do not provide a definition of restricted cash or restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, and early application is permitted. The Council has adopted ASU 2016-18 on the presentation of its current year financial statements.

Note 2: 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.

Note 3: 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, 2017 AND 2016**

Note 4: 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. Currently, the Council is in negotiations with the insurance company to identify the full extent of income and property losses. At December 31, 2017, the insurance company substantiated \$471,312 of business interruption income due to the Council from the time of the fire through December 31, 2017. This amount has been recorded as camping insurance reimbursement income in the accompanying statement of activities and changes in net assets. At December 31, 2017, the insurance company substantiated reimbursement for property loss, restoration, and other related expenses totaling \$536,874. At December 31, 2017, the substantiated reimbursement totaled \$1,008,186. The Council has been reimbursed through December 31, 2017, in the amount of \$600,000, thereby leaving the remaining amount of \$408,186 recorded as insurance claim receivable in the accompanying statement of financial position.

Note 5: Pledges Receivable

The unconditional promises to give at December 31, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Friends of Scouting	\$ 348,054	\$ 480,348
Restricted to capital fund	5,089,228	5,689,312
Restricted to endowment fund	<u>1,000</u>	<u>7,000</u>
Subtotal	5,438,282	6,176,660
Less: Discount for present value of pledges receivable	(10,154)	(181,182)
Less: Allowance for uncollectible pledges receivable	<u>(37,232)</u>	<u>(225,162)</u>
Subtotal unconditional promises to give	5,390,896	5,770,316
Less: Current portion of pledges receivable	<u>(5,181,654)</u>	<u>(597,497)</u>
Long-Term Portion of Pledges Receivable	<u>\$ 209,242</u>	<u>\$ 5,172,819</u>
Pledges receivable, due in:		
Less than one year	\$ 5,178,282	\$ 822,660
One to five years	<u>260,000</u>	<u>5,354,000</u>
Total	<u>\$ 5,438,282</u>	<u>\$ 6,176,660</u>

The discount risk-adjusted interest rate used to calculate the present value ranged from 1.93 percent to 1.98 percent for the years ended December 31, 2017 and 2016.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 6: 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, 2017 and 2016, is \$60,948 and \$80,948, respectively, and is included in note receivable - related party in the accompanying statements of financial position.

Note 7: 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, 2017 and 2016, values of the Council's split-interest agreements were \$47,734 and \$38,344, respectively.

Note 8: Commitments and Contingencies

Line of Credit

During 2017, the Council opened an unsecured revolving line of credit agreement with a commercial bank for \$750,000, which matures on December 31, 2018, and bears an interest rate of 4.25 percent. At December 31, 2017, the outstanding balance on the revolving line of credit was \$22,300.

Long-Term Debt

On December 24, 2009, the Council entered into a loan agreement (the "Loan") with California Municipal Financing Authority (the "Authority"), a municipal corporation of the State of California, whereby it refinanced its then-outstanding borrowings under a \$15 million construction financing agreement with proceeds from a \$15 million revenue bond (the "Bond") issued by the Authority and purchased by a commercial bank. The Council is required to pay to the Authority principal, interest, and any other payments due on the Bond when due under terms of the Bond. Principal and interest payments are made monthly based on an interest rate of 62.5 percent of the 30-day London InterBank Offered Rate ("LIBOR"), plus 1.3 percent (1.68 percent at December 31, 2016), and an 18-year amortization schedule. At December 31, 2016, the Loan balance was \$8,706,678. The Loan was refinanced in October of 2017.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 8: Commitments and Contingencies (Continued)

Long-Term Debt (Continued)

In October of 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 December 31, 2018 and October 10, 2027, respectively. The \$4,900,000 note accrues interest at 3.75 percent through maturity. The \$3,500,000 note includes a prepayment penalty unless repaid from internally generated funds.

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

Note payable to a bank, payable in monthly interest payments of 3.75% until the loan maturity date, secured by property as collateral, maturing December 31, 2018.	\$ 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>3,488,821</u>
Total long-term debt	8,347,297
Less: Current portion	<u>(4,944,057)</u>
Long-Term Debt, Net of Current Portion	<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:

2018	\$ 4,944,057
2019	88,902
2020	92,004
2021	95,922
2022	99,643
Thereafter	<u>3,026,769</u>
Total	<u>\$ 8,347,297</u>

The agreement also contains certain financial and nonfinancial covenants. At December 31, 2017, the Council was in compliance with or had obtained a waiver for these financial covenants.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 8: 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 \$159,000 and \$146,000, respectively, for the years ended December 31, 2017 and 2016.

The Council subleases a portion of two facilities to unrelated parties under noncancelable lease agreements. The lease agreements expire through January 2021 and provide for monthly rental income ranging from approximately \$5,000 to \$12,000. Total rental income for the years ended December 31, 2017 and 2016, under these agreements was approximately \$156,000 and \$187,000, respectively.

Minimum future net rental payments under noncancelable operating leases having remaining terms in excess of one year as of December 31, 2017, and in aggregate are as follows:

	<u>Gross Lease Expense</u>	<u>Sublease Income</u>	<u>Net Lease Expense (Revenue)</u>
2018	\$ 119,220	\$ (136,172)	\$ (16,952)
2019	60,700	(139,964)	(79,264)
2020	19,500	(143,756)	(124,256)
2021	19,500	(24,012)	(4,512)
2022	19,500	-	19,500
Thereafter	<u>195,500</u>	<u>-</u>	<u>195,500</u>
Total	<u>\$ 433,920</u>	<u>\$ (443,904)</u>	<u>\$ (9,984)</u>

Litigation

The Council is subject to certain legal actions and claims arising in the ordinary course of operations. Based upon the nature of 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.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 9: Employee Benefit Plans

Retirement Plans

The National Council has a qualified defined benefit pension plan (the “Plan”) administered at the national office that covers employees of the National Council and local councils, including the Orange County Council. The 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 \$181,000 and \$169,000 for the years ended December 31, 2017 and 2016, respectively, and covered current service costs. The actuarial information for the Plan as of February 1, 2017, indicates that it is in compliance with the Employee Retirement Income Security Act of 1974 regulations regarding funding.

Thrift Plan

The Council has established a thrift plan covering substantially all of 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, limited to 6 percent of each employee’s gross pay. The Council contributed approximately \$33,000 and \$30,000, respectively, to the thrift plan in 2017 and 2016, respectively.

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, 2017 and 2016, the Council remitted approximately \$353,000 and \$317,000, respectively, on behalf of its employees to the National Council related to the health-care plan.

Note 10: 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 2017 and 2016 amounted to approximately \$235,000 and \$243,000, respectively, which are included in income from rents in the statements of activities and changes in net assets.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 11: Endowment Funds

The Council's endowment fund includes donor-restricted endowment funds. As required by US GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Unrestricted net assets, identified by the Council's Board of Directors to be used for future investment and growth, are included in unrestricted net assets - board designated.

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 permanently restricted net assets (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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Council in a manner consistent with the standard of prudence prescribed by SPMIFA.

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.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 11: Endowment Funds (Continued)

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 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.

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

	<u>Unrestricted Nonboard- Designated</u>	<u>Unrestricted Board- Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 111,330	\$ 1,056,111	\$ 1,167,441
Board-designated endowment funds	<u>-</u>	<u>10,809,693</u>	<u>-</u>	<u>-</u>	<u>10,809,693</u>
Total Funds	<u>\$ -</u>	<u>\$ 10,809,693</u>	<u>\$ 111,330</u>	<u>\$ 1,056,111</u>	<u>\$ 11,977,134</u>

The following is the endowment net asset composition by type of fund as of December 31, 2016:

	<u>Unrestricted Nonboard- Designated</u>	<u>Unrestricted Board- Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 68,829	\$ 1,019,199	\$ 1,088,028
Board-designated endowment funds	<u>-</u>	<u>10,311,815</u>	<u>-</u>	<u>-</u>	<u>10,311,815</u>
Total Funds	<u>\$ -</u>	<u>\$ 10,311,815</u>	<u>\$ 68,829</u>	<u>\$ 1,019,199</u>	<u>\$ 11,399,843</u>

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 11: Endowment Funds (Continued)

Changes in the endowment fund net assets for the years ended December 31, 2017 and 2016, are as follows:

	<u>Unrestricted Nonboard- Designated</u>	<u>Unrestricted Board- Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment fund net assets, December 31, 2015	\$ -	\$ 10,720,976	\$ 72,821	\$ 984,982	\$ 11,778,779
Investment return (loss)	-	233,420	(3,990)	-	229,430
Contributions	-	-	-	34,217	34,217
Appropriation of endowment assets for expenditure	-	(84,499)	(2)	-	(84,501)
Interfund transfer	<u>-</u>	<u>(558,082)</u>	<u>-</u>	<u>-</u>	<u>(558,082)</u>
Endowment fund net assets, December 31, 2016	-	10,311,815	68,829	1,019,199	11,399,843
Investment return (loss)	-	588,056	9,397	-	597,453
Contributions	-	-	33,104	36,912	70,016
Appropriation of endowment assets for expenditure	-	(90,178)	-	-	(90,178)
Interfund transfer	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment Fund Net Assets, December 31, 2017	<u>\$ -</u>	<u>\$ 10,809,693</u>	<u>\$ 111,330</u>	<u>\$ 1,056,111</u>	<u>\$ 11,977,134</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or SPMIFA requires the Council to retain as permanently restricted. Deficiencies of this nature result from unfavorable market fluctuations and would be included in unrestricted net assets. There were no deficiencies as of December 31, 2017 and 2016.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 12: Net Assets and Restrictions

Net assets consist of cash, pledges receivable, and various capital assets. The restricted cash and pledges receivable are for future Scouting needs and charitable trusts, of which the Council is a beneficiary. The restricted various capital assets consist of capital assets purchased with capital campaign funds in relation to the IROEC. The restricted cash and capital assets are considered permanently restricted due to the donors' stipulations.

Temporarily restricted net assets as of December 31, 2017 and 2016, consist of the following:

	<u>2017</u>	<u>2016</u>
Cash restricted for time	\$ 275,890	\$ 389,421
Cash restricted for use	447,703	201,944
Net pledges receivable restricted for time	<u>111,330</u>	<u>142,616</u>
Total Temporarily Restricted Net Assets	<u>\$ 834,923</u>	<u>\$ 733,981</u>

Permanently restricted net assets as of December 31, 2017 and 2016, consist of the following:

	<u>2017</u>	<u>2016</u>
Various capital assets	\$ 4,200,000	\$ 4,200,000
Cash and investments restricted	<u>1,056,111</u>	<u>1,019,199</u>
Total Permanently Restricted Net Assets	<u>\$ 5,256,111</u>	<u>\$ 5,219,199</u>

Note 13: Investments

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

	<u>Cost</u>	<u>Fair Value</u>
Fixed-income bonds	\$ 5,347,308	\$ 5,274,856
Common stock	3,011,511	3,604,420
International stock	661,507	737,468
Money market	1,238,327	1,238,327
Mutual funds	342,538	340,577
Preferred stock	<u>477,517</u>	<u>457,860</u>
Total	<u>\$ 11,078,708</u>	<u>\$ 11,653,508</u>

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 13: Investments (Continued)

Investments at December 31, 2016, are composed of the following:

	<u>Cost</u>	<u>Fair Value</u>
Fixed-income bonds	\$ 6,094,096	\$ 6,005,069
Common stock	3,253,658	3,608,429
International stock	729,356	680,267
Money market	100,761	100,761
Mutual funds	361,300	350,370
Preferred stock	<u>545,392</u>	<u>525,450</u>
Total	<u>\$ 11,084,563</u>	<u>\$ 11,270,346</u>

The following summarizes the investment return in the statements of activities and changes in net assets for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 449,813	\$ 499,647
Net realized and unrealized gain	638,539	222,054
Investment expenses	<u>(65,172)</u>	<u>(57,109)</u>
Total	<u>\$ 1,023,180</u>	<u>\$ 664,592</u>

The investments above are classified in the 2017 and 2016 statements of financial position as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted	\$ 10,486,067	\$ 10,182,318
Temporarily restricted - for time	111,330	68,829
Permanently restricted	<u>1,056,111</u>	<u>1,019,199</u>
Total	<u>\$ 11,653,508</u>	<u>\$ 11,270,346</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 2017 and 2016, investment expenses were \$65,172 and \$57,109, respectively, and are netted against return on investments in the statements of activities and changes in net assets.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 14: 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). The three levels of the fair value hierarchy are described below:

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.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 14: 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, 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>

The following table provides fair value measurement information for financial assets measured at fair value on a recurring basis as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed-income bonds	\$ 1,348,326	\$ 4,656,743	\$ -	\$ 6,005,069
Common stock	3,608,429	-	-	3,608,429
International stock	680,267	-	-	680,267
Money market	100,761	-	-	100,761
Mutual funds	350,370	-	-	350,370
Preferred stock	<u>525,450</u>	<u>-</u>	<u>-</u>	<u>525,450</u>
Total Investments	<u>\$ 6,613,603</u>	<u>\$ 4,656,743</u>	<u>\$ -</u>	<u>\$ 11,270,346</u>

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

Note 15: Subsequent Events

During April 2018, the Council received \$2,000,000 in capital campaign pledges receivable and used these funds to pay down a portion of the long-term debt.

Events occurring after December 31, 2017, have been evaluated for possible adjustments to or disclosure in the financial statements through June 26, 2018, the date the financial statements were available to be issued.