

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

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

WITH INDEPENDENT AUDITORS' REPORT

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
FINANCIAL STATEMENTS
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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, 2016 and 2015, 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, 2016 and 2015, 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

April 10, 2017

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015**

ASSETS

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2016	2015	2016	2015	2016	2015	2016	2015
Current Assets:								
Cash and cash equivalents	\$ 1,611,482	\$ 990,122	\$ -	\$ -	\$ 169,455	\$ 147,063	\$ 1,780,937	\$ 1,137,185
Accounts receivable, net	181,232	56,434	-	-	-	-	181,232	56,434
Pledges receivable, net	105,185	140,550	485,312	568,135	7,000	5,800	597,497	714,485
Inventories	66,308	59,860	-	-	-	-	66,308	59,860
Interfund loans	395,025	245,673	(261,879)	(262,838)	(133,146)	17,165	-	-
Prepaid expenses	115,608	116,047	-	-	-	-	115,608	116,047
Total Current Assets	2,474,840	1,608,686	223,433	305,297	43,309	170,028	2,741,582	2,084,011
Property, Plant, and Equipment:								
Land and land improvements	-	-	20,381,215	20,376,128	-	-	20,381,215	20,376,128
Buildings	-	-	30,670,859	30,670,859	-	-	30,670,859	30,670,859
Improvements	-	-	1,214,002	1,211,928	-	-	1,214,002	1,211,928
Furniture and equipment	-	-	4,125,052	4,068,900	-	-	4,125,052	4,068,900
Construction in progress	-	-	65,354	124,452	-	-	65,354	124,452
Total Property, Plant, and Equipment, at Cost	-	-	56,456,482	56,452,267	-	-	56,456,482	56,452,267
Less: Accumulated depreciation	-	-	(15,726,033)	(14,555,353)	-	-	(15,726,033)	(14,555,353)
Property, Plant, and Equipment, at Net Book Value	-	-	40,730,449	41,896,914	-	-	40,730,449	41,896,914
Other Assets:								
Pledges receivable, net	142,616	188,188	5,030,203	5,263,001	-	3,744	5,172,819	5,454,933
Note receivable - related party	-	-	-	-	80,948	100,948	80,948	100,948
Investments	-	-	-	-	11,270,346	11,495,186	11,270,346	11,495,186
Interfund loans	-	295,244	-	(295,244)	-	-	-	-
Other noncurrent assets	26,104	-	-	-	38,344	42,330	64,448	42,330
Total Other Assets	168,720	483,432	5,030,203	4,967,757	11,389,638	11,642,208	16,588,561	17,093,397
Total Assets	\$ 2,643,560	\$ 2,092,118	\$ 45,984,085	\$ 47,169,968	\$ 11,432,947	\$ 11,812,236	\$ 60,060,592	\$ 61,074,322

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, 2016 AND 2015**

LIABILITIES AND NET ASSETS

	<u>Operating Fund</u>		<u>Capital Fund</u>		<u>Endowment Fund</u>		<u>Total All Funds</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current Liabilities:								
Accounts payable	\$ 247,284	\$ 156,351	\$ 9,516	\$ 6,810	\$ -	\$ 353	\$ 256,800	\$ 163,514
Accrued employee compensation	195,933	162,208	-	-	-	-	195,933	162,208
Custodian accounts	975,756	886,394	32,190	32,190	33,104	33,104	1,041,050	951,688
Current portion - long-term debt, net of deferred finance costs	-	-	473,752	428,212	-	-	473,752	428,212
Deferred income	258,475	277,392	-	-	-	-	258,475	277,392
Other current liabilities	230	356	-	-	-	-	230	356
Total Current Liabilities	<u>1,677,678</u>	<u>1,482,701</u>	<u>515,458</u>	<u>467,212</u>	<u>33,104</u>	<u>33,457</u>	<u>2,226,240</u>	<u>1,983,370</u>
Long-Term Liabilities:								
Long-term debt - net of current portion and deferred finance costs	-	-	8,224,096	8,735,196	-	-	8,224,096	8,735,196
Other long-term liability	-	-	-	16,030	-	-	-	16,030
Total Long-Term Liabilities	<u>-</u>	<u>-</u>	<u>8,224,096</u>	<u>8,751,226</u>	<u>-</u>	<u>-</u>	<u>8,224,096</u>	<u>8,751,226</u>
Total Liabilities	<u>1,677,678</u>	<u>1,482,701</u>	<u>8,739,554</u>	<u>9,218,438</u>	<u>33,104</u>	<u>33,457</u>	<u>10,450,336</u>	<u>10,734,596</u>
Net Assets:								
Unrestricted	372,581	63,434	32,972,680	33,670,574	10,311,815	10,720,976	43,657,076	44,454,984
Temporarily restricted - for time	463,208	467,893	-	-	68,829	72,821	532,037	540,714
Temporarily restricted - for use	130,093	78,090	71,851	80,956	-	-	201,944	159,046
Permanently restricted	-	-	4,200,000	4,200,000	1,019,199	984,982	5,219,199	5,184,982
Total Net Assets	<u>965,882</u>	<u>609,417</u>	<u>37,244,531</u>	<u>37,951,530</u>	<u>11,399,843</u>	<u>11,778,779</u>	<u>49,610,256</u>	<u>50,339,726</u>
Total Liabilities and Net Assets	<u>\$ 2,643,560</u>	<u>\$ 2,092,118</u>	<u>\$ 45,984,085</u>	<u>\$ 47,169,968</u>	<u>\$ 11,432,947</u>	<u>\$ 11,812,236</u>	<u>\$ 60,060,592</u>	<u>\$ 61,074,322</u>

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, 2016 AND 2015**

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2016	2015	2016	2015	2016	2015	2016	2015
Changes in Unrestricted Net Assets								
Support and Revenue:								
Direct Support:								
Friends of Scouting	\$ 982,250	\$ 980,160	\$ -	\$ -	\$ -	\$ -	\$ 982,250	\$ 980,160
Noncash contributions	-	-	-	112,000	-	-	-	112,000
Special fundraising events - gross	885,297	818,280	-	-	-	-	885,297	818,280
Less: Costs of direct benefit to participants	(157,331)	(180,073)	-	-	-	-	(157,331)	(180,073)
Net Special Events	727,966	638,207	-	-	-	-	727,966	638,207
Capital campaigns	-	-	20,297	1,128,480	-	-	20,297	1,128,480
Pledge receivables discount	-	-	104,671	80,123	-	-	104,671	80,123
Bequests	250,000	492,797	25,000	-	-	-	275,000	492,797
Foundations and trusts	67,300	78,289	-	-	-	-	67,300	78,289
Government fees grant	-	-	-	34,239	-	-	-	34,239
Other direct support	184,861	196,232	2,367	5,675	-	-	187,228	201,907
Total Direct Support	2,212,377	2,385,685	152,335	1,360,517	-	-	2,364,712	3,746,202
Indirect Support:								
United Way	-	64	-	-	-	-	-	64
Grants and foundations	30,221	-	-	-	-	-	30,221	-
Total Indirect Support	30,221	64	-	-	-	-	30,221	64
Revenues:								
Product sales - gross	1,211,457	1,279,361	-	-	-	-	1,211,457	1,279,361
Less: Cost of product sold	(306,570)	(337,207)	-	-	-	-	(306,570)	(337,207)
Less: Commissions earned and retained by units	(428,073)	(442,155)	-	-	-	-	(428,073)	(442,155)
Net Product Sales	476,814	499,999	-	-	-	-	476,814	499,999
Camping - gross	3,949,270	3,396,140	-	-	-	-	3,949,270	3,396,140
Less: cost of resale items	(39,658)	(48,321)	-	-	-	-	(39,658)	(48,321)
Net Camping	3,909,612	3,347,819	-	-	-	-	3,909,612	3,347,819
Activities	1,038,341	985,099	-	-	-	-	1,038,341	985,099
Less: Cost of product and commissions	(169,640)	(163,433)	-	-	-	-	(169,640)	(163,433)
Net Activities	868,701	821,666	-	-	-	-	868,701	821,666
Income from rents	242,711	266,135	-	-	-	-	242,711	266,135
Return (loss) on investments	435,162	485,156	-	-	233,420	(364,904)	668,582	120,252
Miscellaneous	477,926	510,407	9	925	-	-	477,935	511,332
Total Revenues	6,410,926	5,931,182	9	925	233,420	(364,904)	6,644,355	5,567,203
Net Assets Released from Restrictions	290,364	411,057	44,125	43,018	2	-	334,491	454,075
Total Unrestricted Support and Revenue	8,943,888	8,727,988	196,469	1,404,460	233,422	(364,904)	9,373,779	9,767,544

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, 2016 AND 2015**

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2016	2015	2016	2015	2016	2015	2016	2015
<u>Changes in Unrestricted Net Assets (Continued)</u>								
Expenses:								
Program services	\$ 7,223,827	\$ 7,228,256	\$ 1,354,040	\$ 1,292,599	\$ 58,369	\$ 63,380	\$ 8,636,236	\$ 8,584,235
Support Services:								
Management and general	801,405	893,592	62,362	81,813	8,616	13,830	872,383	989,235
Fundraising	518,205	527,953	36,043	31,828	17,516	11,742	571,764	571,523
Total Support Services	1,319,610	1,421,545	98,405	113,641	26,132	25,572	1,444,147	1,560,758
Total Functional Expenses	8,543,437	8,649,801	1,452,445	1,406,240	84,501	88,952	10,080,383	10,144,993
Payments to National Office	91,304	73,136	-	-	-	-	91,304	73,136
Total Expenses	8,634,741	8,722,937	1,452,445	1,406,240	84,501	88,952	10,171,687	10,218,129
Increase (Decrease) in Unrestricted Net Assets	309,147	5,051	(1,255,976)	(1,780)	148,921	(453,856)	(797,908)	(450,585)
<u>Changes in Temporarily Restricted Support</u>								
Support and Revenue:								
Direct Support:								
Friends of Scouting	213,208	217,894	-	-	-	-	213,208	217,894
Capital campaigns	-	-	-	-	-	-	-	-
Realized loss on investments	-	-	-	-	(3,990)	(2,433)	(3,990)	(2,433)
Foundations and trusts	124,084	39,389	-	-	-	-	124,084	39,389
Other contributions	390	10,161	35,020	58,050	-	-	35,410	68,211
Total Direct Support	337,682	267,444	35,020	58,050	(3,990)	(2,433)	368,712	323,061
Total Support and Revenue	337,682	267,444	35,020	58,050	(3,990)	(2,433)	368,712	323,061
Net Assets Released from Restrictions	(290,364)	(411,057)	(44,125)	(43,018)	(2)	-	(334,491)	(454,075)
Increase (Decrease) In Temporarily Restricted Net Assets	47,318	(143,613)	(9,105)	15,032	(3,992)	(2,433)	34,221	(131,014)
<u>Changes In Permanently Restricted Support</u>								
Support and Revenue:								
Direct Support:								
Other direct support	-	-	-	-	34,217	27,971	34,217	27,971
Increase In Permanently Restricted Net Assets	-	-	-	-	34,217	27,971	34,217	27,971
Increase (Decrease) In Total Net Assets	356,465	(138,562)	(1,265,081)	13,252	179,146	(428,318)	(729,470)	(553,628)
Total Net Assets at Beginning of Year	609,417	747,979	37,951,530	37,938,278	11,778,779	12,207,097	50,339,726	50,893,354
Transfers	-	-	558,082	-	(558,082)	-	-	-
Total Net Assets at End of Year	\$ 965,882	\$ 609,417	\$ 37,244,531	\$ 37,951,530	\$ 11,399,843	\$ 11,778,779	\$ 49,610,256	\$ 50,339,726

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, 2016 AND 2015**

	<u>Operating Fund</u>		<u>Capital Fund</u>		<u>Endowment Fund</u>		<u>Total All Funds</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:								
Increase (Decrease) in Total Net Assets	\$ 356,465	\$ (138,562)	\$ (1,265,081)	\$ 13,252	\$ 179,146	\$ (428,318)	\$ (729,470)	\$ (553,628)
Noncash Items Included in Increase (Decrease) in Total Net Assets:								
Allowance for uncollectible promises/discount on pledges	1,214	5,642	(184,796)	(80,124)	-	-	(183,582)	(74,482)
Depreciation and amortization	-	-	1,179,513	1,185,811	-	-	1,179,513	1,185,811
Donated property and equipment	-	-	-	(107,000)	-	-	-	(107,000)
Realized gains on investments	-	-	-	-	(9,460)	(289,633)	(9,460)	(289,633)
Unrealized (gains) losses on investments	-	-	-	-	(212,594)	683,170	(212,594)	683,170
Unrealized gains on interest rate swap	-	-	(16,030)	(189,181)	-	-	(16,030)	(189,181)
Forgiveness of note receivable - related party	-	-	-	-	20,000	20,000	20,000	20,000
Changes in:								
Accounts and pledges receivable	(45,075)	130,659	500,417	3,026,568	2,544	4,790	457,886	3,162,017
Inventories	(6,448)	(8,789)	-	-	-	-	(6,448)	(8,789)
Interfund loans	145,892	(105,843)	(296,203)	266,996	150,311	(161,153)	-	-
Prepaid expenses	439	(2,593)	-	-	-	-	439	(2,593)
Other noncurrent assets	(26,104)	-	-	-	3,986	2,433	(22,118)	2,433
Accounts payable, accrued expenses, and other current liabilities	124,532	(63,882)	2,706	6,810	(353)	(98)	126,885	(57,170)
Custodian accounts	89,362	(38,855)	-	-	-	-	89,362	(38,855)
Deferred income	(18,917)	23,394	-	(22,500)	-	-	(18,917)	894
Net Cash Provided by (Used in) Operating Activities	621,360	(198,829)	(79,474)	4,100,632	133,580	(168,809)	675,466	3,732,994
Cash Flows from Investing Activities:								
Proceeds from investments	-	-	-	-	2,045,850	2,481,663	2,045,850	2,481,663
Payments for purchases of investments	-	-	-	-	(1,598,956)	(2,301,183)	(1,598,956)	(2,301,183)
Purchase of property and equipment	-	-	(4,216)	(468,550)	-	-	(4,216)	(468,550)
Net Cash Provided by (Used in) Investing Activities	-	-	(4,216)	(468,550)	446,894	180,480	442,678	(288,070)
Cash Flows from Financing Activities:								
Payments on long-term debt	-	-	(474,392)	(3,788,612)	-	-	(474,392)	(3,788,612)
Transfers	-	-	558,082	-	(558,082)	-	-	-
Net Cash Provided by (Used in) Financing Activities	-	-	83,690	(3,788,612)	(558,082)	-	(474,392)	(3,788,612)
Net Increase (Decrease) in Cash and Cash Equivalents	621,360	(198,829)	-	(156,530)	22,392	11,671	643,752	(343,688)
Cash and Cash Equivalents at Beginning of Year	990,122	1,188,951	-	156,530	147,063	135,392	1,137,185	1,480,873
Cash and Cash Equivalents at End of Year	\$ 1,611,482	\$ 990,122	\$ -	\$ -	\$ 169,455	\$ 147,063	\$ 1,780,937	\$ 1,137,185
Supplemental Disclosure:								
Interest paid	\$ 2,348	\$ 5,855	\$ 152,810	\$ 171,969	\$ -	\$ -	\$ 155,158	\$ 177,824

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

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016, WITH 2015 TOTALS**

	Program Services	Supporting Services			Total Functional Expenses	
		Management and General	Fundraising	Total	2016	2015
Salaries and Related Expenses:						
Salaries	\$ 3,327,640	\$ 483,551	\$ 191,911	\$ 675,462	\$ 4,003,102	\$ 4,085,583
Employee benefits	426,810	86,636	35,494	122,130	548,940	517,643
Payroll taxes and compensation insurance	398,005	73,352	30,372	103,724	501,729	455,185
Employee related expenses	6,723	253	120	373	7,096	10,422
Total Salaries and Related Expenses	4,159,178	643,792	257,897	901,689	5,060,867	5,068,833
Other Expenses:						
Professional fees	136,149	9,449	77,015	86,464	222,613	224,578
Supplies	853,329	4,128	4,224	8,352	861,681	893,078
Telephone	66,119	6,967	4,990	11,957	78,076	74,169
Postage and shipping	7,636	894	16,442	17,336	24,972	21,580
Occupancy	1,013,676	40,291	26,584	66,875	1,080,551	1,013,720
Rental and maintenance of equipment	311,712	33,273	15,790	49,063	360,775	395,255
Publications and media	65,306	1,297	41,773	43,070	108,376	95,821
Travel	196,548	26,615	12,717	39,332	235,880	274,225
Local conferences and meetings	79,260	7,687	3,656	11,343	90,603	66,344
Specific assistance to individuals	9,259	-	-	-	9,259	34,593
Recognition and awards	131,071	1,139	23,100	24,239	155,310	178,075
Insurance	184,550	11,968	5,691	17,659	202,209	216,325
Interest expense	113,948	27,928	13,282	41,210	155,158	177,825
Other expenses	182,004	27,007	54,361	81,368	263,372	233,589
Total Other Expenses	3,350,567	198,643	299,625	498,268	3,848,835	3,899,177
Expenses Before Depreciation	7,509,745	842,435	557,522	1,399,957	8,909,702	8,968,010
Depreciation of Property, Plant and Equipment	1,126,491	29,948	14,242	44,190	1,170,681	1,176,983
Total Functional Expenses	\$ 8,636,236	\$ 872,383	\$ 571,764	\$ 1,444,147	\$ 10,080,383	\$ 10,144,993

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, 2016 AND 2015**

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 time to time granted it by 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:

Tiger Cubs – A one year, family-oriented program for a group of teams, each consisting of a first-grader (or seven-year-old) and an adult partner (usually a parent). A Tiger Cub den is part of the Cub Scout pack.

Cub Scouts – A family and community-centered approach to learning citizenship, compassion, and courage through service projects, ceremonies, games, and other activities promoting character development and physical fitness.

Boy Scouting - With the Scout Oath and Scout Law as guides, and the support of parents and religious and neighborhood organizations, Scouts develop an awareness and appreciation of their role in their community and become well-rounded young men through the advancement of the program. Scouts progress in rank through achievements, gain additional knowledge and responsibilities, and earn merit badges that introduce a lifelong hobby or a rewarding career.

Varsity Scouting - 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.

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, 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.

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.

**ORANGE COUNTY COUNCIL, INC.,
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**Note 1: Nature of Organization and Summary of Significant Accounting Policies
(Continued)**

Nature of Organization (Continued)

Learning for Life – This program enables young people to become responsible individuals by teaching positive character traits, career development, leadership, and life skills so they can make ethical choices and achieve their full potential.

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 - 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, 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, 6 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 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.

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**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, 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 headquarters office 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. The Council maintains 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 (“U.S. 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 U.S. 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.,
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**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 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.

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, 2016 and 2015, the allowance for doubtful accounts was \$30,124 and \$16,928, respectively.

**ORANGE COUNTY COUNCIL, INC.,
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**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.,
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**Note 1: Nature of Organization and Summary of Significant Accounting Policies
(Continued)**

Donated Materials and Services (Continued)

For the years ended December 31, 2016 and 2015, the Council recognized \$11,141 and \$11,361, respectively, in the operating fund, and for the year ended December 31, 2015, the Council recognized \$112,000 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 is 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 operations currently.

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 for improvements, and 3 to 10 years for furniture and equipment. Depreciation expense for the years ended December 31, 2016 and 2015, totaled \$1,170,681 and \$1,176,983, 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. The Council has not recognized any impairment of long-lived assets during 2016 and 2015.

**ORANGE COUNTY COUNCIL, INC.,
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**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 for 2016 and 2015 amounted to approximately \$30,000 and \$23,000, 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, 2016 and 2015, there were no interest or penalties recorded or included in the accompanying financial statements. The Council's tax years from 2013 to 2016 are open to review for federal tax purposes and tax years from 2012 to 2016 are open to review for state income tax purposes.

**ORANGE COUNTY COUNCIL, INC.,
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**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 payment 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 U.S. 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, 2016 and 2015 resulted from the operating and endowment funds making advances of surplus cash funds to the capital fund for operating purposes.

**ORANGE COUNTY COUNCIL, INC.,
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**Note 1: Nature of Organization and Summary of Significant Accounting Policies
(Continued)**

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance, such as the real estate, construction, and software industries. The ASU core principle 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. ASU 2014-09 was effective for nonpublic entities for years beginning after December 15, 2017, and interim periods within years beginning after December 15, 2018. Early adoption was permitted for years beginning after December 15, 2016.

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year. As such, nonpublic entities would apply the standards to years beginning after December 15, 2018, and to interim periods within years beginning after December 15, 2019. The FASB also tentatively decided to allow entities to adopt the ASU early, but no earlier than years beginning after December 15, 2016. The Council is currently evaluating the impact of the provisions of ASU 2014-09 and ASU 2015-14, 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 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.

**ORANGE COUNTY COUNCIL, INC.,
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**Note 1: Nature of Organization and Summary of Significant Accounting Policies
(Continued)**

Recent Accounting Pronouncements (Continued)

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 this ASU 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 is currently evaluating the impact of the provisions of ASU 2016-18 on the presentation of its financial statements.

New Pronouncements - Implemented

In April 2015, the FASB issued ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30)*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. The Council has implemented ASU 2015-03.

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 (FDIC) up to \$250,000. At December 31, 2016 and 2015, the Council's cash balances on deposit at the institutions in excess of federally insured limits totaled \$1,228,511 and \$1,082,953, respectively.

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.,
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Note 4: Pledges Receivable

The unconditional promises to give at December 31, 2016 and 2015, are as follows:

	2016	2015
Friends of Scouting	\$ 480,348	\$ 457,107
Restricted to capital fund	5,689,312	6,109,501
Restricted to endowment fund	7,000	9,800
Subtotal	6,176,660	6,576,408
Less: Discount for present value of pledge receivables	(181,182)	(290,538)
Less: Allowance for uncollectible pledge receivables	(225,162)	(116,452)
Subtotal unconditional promises to give	5,770,316	6,169,418
Less: Current portion of pledge receivables	(597,497)	(714,485)
Long-Term Portion of Pledge Receivables	\$ 5,172,819	\$ 5,454,933
Pledges receivable, due in:		
Less than one year	\$ 822,660	\$ 1,031,042
One to five years	5,354,000	5,545,366
	\$ 6,176,660	\$ 6,576,408

The discount risk-adjusted interest rate used to calculate the present value ranged from 1.93 percent to 1.76 percent for the years ended December 31, 2016 and 2015.

The Council received \$3.6 million from the sale of the second property in January 2015 whereby the remaining \$2.7 million pledge receivable was fulfilled with the additional proceeds being credited to a new capital campaign in 2015. The proceeds were used by the Council to pay down long-term debt described in Note 7.

Note 5: 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, 2016 and 2015, is \$80,948 and \$100,948, respectively, and is included in note receivable - related party in the accompanying statements of financial position.

**ORANGE COUNTY COUNCIL, INC.,
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Note 6: 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, 2016 and 2015, values of the Council's split-interest agreements were \$38,344 and \$42,330, respectively.

Note 7: Commitments and Contingencies

Line of Credit

At December 31, 2015, the Council had an unsecured revolving line of credit agreement with a commercial bank of \$500,000 that matured November 2016 and has not been renewed.

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 30-day London Inter Bank Offered Rate ("LIBOR"), plus 1.3 percent (1.68 percent and 1.56 percent at December 31, 2016 and 2015, respectively), and an 18-year amortization schedule. The Bond mandatory repayment dates are on January 1, 2018 and January 1, 2026, unless the bank notifies the Council otherwise. If not called on those dates, then the final maturity date is January 1, 2040. At December 31, 2016 and 2015, the Loan balance was \$8,706,678, and \$9,181,070, respectively.

The Council has the right to prepay the Loan at any time without substantial penalty. In the event that Bond interest was to become taxable, the interest rate will be equal to 154 percent of the rate otherwise payable. Although no assurance can be given, management does not believe events that could result in taxability, such as use of the facility for purposes that do not involve youth, are likely to occur.

**ORANGE COUNTY COUNCIL, INC.,
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Note 7: Commitments and Contingencies (Continued)

Long-Term Debt (Continued)

At December 31, 2016, long-term debt obligations consist of the following:

Note payable to a bank, payable in monthly principal and interest payments of \$51,531, accruing interest at 62.5% of 30-day LIBOR, plus 1.3% (1.68% as of December 31, 2016), secured by property as collateral, maturing January 1, 2018.	\$ 8,706,678
Deferred finance costs	<u>(8,830)</u>
Total long-term debt	8,697,848
Less: Current portion	<u>(473,752)</u>
Long-Term Debt, Net of Current Portion	<u>\$ 8,224,096</u>

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

	Principal Payments	Deferred Finance Costs	Total
2017	\$ 482,582	\$ (8,830)	\$ 473,752
2018	<u>8,224,096</u>	<u>-</u>	<u>8,224,096</u>
Total	<u>\$ 8,706,678</u>	<u>\$ (8,830)</u>	<u>\$ 8,697,848</u>

The agreement also contains certain financial covenants, including a requirement that the Council maintains a minimum interest coverage ratio and minimum liquidity ratios. At December 31, 2016, the Council was in compliance with these financial covenants.

Donations

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

**ORANGE COUNTY COUNCIL, INC.,
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NOTES TO FINANCIAL STATEMENTS
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Note 7: Commitments and Contingencies (Continued)

Operating Leases

The Council has entered into several leases for offices, equipment, and vehicles, expiring through December 2032. Total rent expense related to such operating leases amounted to approximately \$146,000 and \$141,000, respectively, for the years ended December 31, 2016 and 2015.

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, 2016 and 2015, under these agreements was approximately \$187,000 and \$143,000, respectively.

Minimum future net rental payments under noncancelable operating leases having remaining terms in excess of one year as of December 31, 2016, in aggregate are as follows:

	<u>Gross Lease Expense</u>	<u>Sublease Income</u>	<u>Net Lease Expense (Revenue)</u>
2017	\$ 136,936	\$ (151,638)	\$ (14,702)
2018	112,980	(125,114)	(12,134)
2019	60,700	(139,964)	(79,264)
2020	19,500	(143,756)	(124,256)
2021	19,500	(12,006)	7,494
Thereafter	<u>214,500</u>	<u>-</u>	<u>214,500</u>
	<u>\$ 564,116</u>	<u>\$ (572,478)</u>	<u>\$ (8,362)</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.,
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Note 8: 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 \$169,000 and \$164,000 for the years ended December 31, 2016 and 2015, respectively, and covered current service costs. The actuarial information for the Plan as of February 1, 2016, indicates that it is in compliance with the Employee Retirement Income Security Act of 1974 (ERISA) 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 Internal Revenue Code of 1986, 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 \$30,000 and \$27,000, respectively to the Thrift Plan in 2016 and 2015, 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, 2016 and 2015, the Council remitted approximately \$317,000 and \$327,000, respectively, on behalf of its employees to the National Council related to the health care plan.

Note 9: 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 up to \$750,000 and 13 percent on sales in excess of \$750,000. The commissions earned (before expenses) by the Council during 2016 and 2015 amounted to approximately \$243,000 and \$266,000, respectively, which are included in income from rents in the statements of activities and changes in net assets.

**ORANGE COUNTY COUNCIL, INC.,
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Note 10: Endowment Funds

The Council's endowment fund includes donor-restricted endowment funds. As required by U.S. 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.

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DECEMBER 31, 2016 AND 2015**

Note 10: Endowment Funds (Continued)

The Council's investment objectives are to:

- 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, 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>

The following is the endowment net asset composition by type of fund as of December 31, 2015.

	<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	\$ -	\$ -	\$ 72,821	\$ 984,982	\$ 1,057,803
Board-designated endowment funds	<u>-</u>	<u>10,720,976</u>	<u>-</u>	<u>-</u>	<u>10,720,976</u>
Total Funds	<u>\$ -</u>	<u>\$ 10,720,976</u>	<u>\$ 72,821</u>	<u>\$ 984,982</u>	<u>\$ 11,778,779</u>

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Note 10: Endowment Funds (Continued)

Changes in the endowment fund net assets for the years ended December 31, 2016 and 2015 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, 2014	\$ -	\$ 11,174,832	\$ 75,254	\$ 957,011	\$ 12,207,097
Loss on investments	-	(364,904)	(2,433)	-	(367,337)
Contributions	-	-	-	27,971	27,971
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(88,952)</u>	<u>-</u>	<u>-</u>	<u>(88,952)</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	<u>\$ -</u>	<u>\$ 10,311,815</u>	<u>\$ 68,829</u>	<u>\$ 1,019,199</u>	<u>\$ 11,399,843</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, 2016 and 2015.

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Note 11: Net Assets and Restrictions

Net assets consist of cash, pledge receivables, and various capital assets. The restricted cash and pledge receivables 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 Irvine Ranch Outdoor Education Center. The restricted cash and capital assets are considered permanently restricted due to the donors' stipulations.

Temporarily restricted net assets as of December 31, 2016 and 2015, consist of the following:

	2016	2015
Cash restricted for time	\$ 389,421	\$ 352,526
Cash restricted for use	201,944	159,046
Net pledge receivables restricted for time	142,616	188,188
Total Temporarily Restricted Net Assets	\$ 733,981	\$ 699,760

Permanently restricted net assets as of December 31, 2016 and 2015, consist of the following:

	2016	2015
Various capital assets	\$ 4,200,000	\$ 4,200,000
Cash and investments restricted	1,019,199	984,982
Total Permanently Restricted Net Assets	\$ 5,219,199	\$ 5,184,982

**ORANGE COUNTY COUNCIL, INC.,
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Note 12: Investments

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>

Investments at December 31, 2015, are composed of the following:

	<u>Cost</u>	<u>Fair Value</u>
Fixed-income bonds	\$ 6,098,057	\$ 6,009,467
Common stock	3,314,028	3,391,116
International stock	769,930	697,911
Money market	515,232	515,232
Mutual funds	349,986	335,965
Preferred stock	<u>548,815</u>	<u>545,495</u>
Total	<u>\$ 11,596,048</u>	<u>\$ 11,495,186</u>

The following summarizes the investment return in the statements of activities and changes in net assets for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 499,647	\$ 572,087
Net realized and unrealized gain (loss)	222,054	(395,970)
Investment expenses	<u>(57,109)</u>	<u>(58,298)</u>
Total	<u>\$ 664,592</u>	<u>\$ 117,819</u>

**ORANGE COUNTY COUNCIL, INC.,
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DECEMBER 31, 2016 AND 2015**

Note 12: Investments (Continued)

The above investments are classified in the 2016 and 2015 statements of financial position as follows:

	2016	2015
Unrestricted	\$ 10,182,318	\$ 10,437,383
Temporarily restricted - for time	68,829	72,821
Permanently restricted	1,019,199	984,982
 Total	 \$ 11,270,346	 \$ 11,495,186

Income from interest and dividends on investments and realized and unrealized gains and losses on the sales of investments are 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 2016 and 2015, investment expenses were \$57,109 and \$58,298, respectively, and are netted against return on investments in the statements of activities and changes in net assets (see table on previous page).

Note 13: Summary of Fair Value Exposure

U.S. 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:

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).

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Note 13: Summary of Fair Value Exposure (Continued)

Level 1: (Continued)

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, U.S. 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.

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>

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Note 13: 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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed-income bonds	\$ 875,630	\$ 5,133,837	-	\$ 6,009,467
Common stock	3,391,116	-	-	3,391,116
International stock	697,911	-	-	697,911
Money market	515,232	-	-	515,232
Mutual funds	335,965	-	-	335,965
Preferred stock	545,495	-	-	545,495
 Total Investments	 <u>\$ 6,361,349</u>	 <u>\$ 5,133,837</u>	 <u>\$ -</u>	 <u>\$ 11,495,186</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 14: Interest Rate Risk Management

The Council entered into interest rate swap agreements to help mitigate the risks of increasing interest payments on its variable-rate long-term borrowings that would result from increases in the benchmark LIBOR. Interest rate swaps are stated at fair value, determined based upon quoted market prices, with changes in fair value reported in the statements of activities and changes in net assets.

Investments in derivative contracts are subject to additional risks that can result in a loss of all or part of an investment. The Council's derivative activities and exposure to derivative contracts relate to interest rates. In addition to this primary underlying risk, the Council is also subject to additional counterparty risk due to potential inability of its counterparties to meet the terms of their contracts.

On February 6, 2009, the Council entered into an interest rate swap agreement with a bank that was amended February 4, 2011. The amended swap agreement provides for the Council to pay interest based on a fixed rate of 3.34 percent (including the margin of 1.3 percent) in exchange for receipt of interest payments based on 62.5 percent of the 30-day LIBOR (1.44 percent including the margin of 1.3 percent using rates in effect at December 31, 2009) on the notional amount of \$12 million reducing in amounts approximating the amortization on the term bank loan described in Note 7. The swap agreement terminated on January 1, 2016.

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Note 14: Interest Rate Risk Management (Continued)

Net interest paid under the swap agreements was \$16,030 and \$171,969 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the fair value of the interest rate swap was a liability of \$0 and \$16,030, respectively, which was reported in other long-term liability in the accompanying statements of financial position. This represents a Level 2 fair value measurement as described in Note 13.

Note 15: Prior Period Information

The statements of functional expenses, included on page 8 of the financial statements, include prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in accordance with U.S. GAAP. Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Note 16: Subsequent Events

Events occurring after December 31, 2016, have been evaluated for possible adjustments to or disclosure in the financial statements through April 10, 2017, the date the financial statements were available to be issued.