

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

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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, 2015 and 2014, 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, 2015 and 2014 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 26, 2016

**ORANGE COUNTY COUNCIL, INC.
BOY SCOUTS OF AMERICA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014**

ASSETS

	<u>Operating Fund</u>		<u>Capital Fund</u>		<u>Endowment Fund</u>		<u>Total All Funds</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current Assets:								
Cash and cash equivalents	\$ 990,122	\$ 1,188,951	\$ -	\$ 156,530	\$ 147,063	\$ 135,392	\$ 1,137,185	\$ 1,480,873
Accounts receivable, net	56,434	105,933	-	1,200	-	-	56,434	107,133
Pledges receivable, net	140,550	182,165	568,135	3,244,569	5,800	6,550	714,485	3,433,284
Inventories	59,860	51,071	-	-	-	-	59,860	51,071
Interfund loans	245,673	143,988	(262,838)	-	17,165	(143,988)	-	-
Prepaid expenses	116,047	113,454	-	-	-	-	116,047	113,454
Total Current Assets	<u>1,608,686</u>	<u>1,785,562</u>	<u>305,297</u>	<u>3,402,299</u>	<u>170,028</u>	<u>(2,046)</u>	<u>2,084,011</u>	<u>5,185,815</u>
Property, Plant, and Equipment:								
Land and land improvements	-	-	20,376,128	20,258,452	-	-	20,376,128	20,258,452
Buildings	-	-	30,670,859	30,635,401	-	-	30,670,859	30,635,401
Improvements	-	-	1,211,928	1,210,305	-	-	1,211,928	1,210,305
Furniture and equipment	-	-	4,068,900	3,772,557	-	-	4,068,900	3,772,557
Construction in progress	-	-	124,452	-	-	-	124,452	-
Total Property, Plant and Equipment, at Cost	<u>-</u>	<u>-</u>	<u>56,452,267</u>	<u>55,876,715</u>	<u>-</u>	<u>-</u>	<u>56,452,267</u>	<u>55,876,715</u>
Less: Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>(14,555,353)</u>	<u>(13,378,368)</u>	<u>-</u>	<u>-</u>	<u>(14,555,353)</u>	<u>(13,378,368)</u>
Property, Plant, and Equipment, at Net Book Value	<u>-</u>	<u>-</u>	<u>41,896,914</u>	<u>42,498,347</u>	<u>-</u>	<u>-</u>	<u>41,896,914</u>	<u>42,498,347</u>
Other Assets:								
Pledges receivable, net	188,188	233,375	5,263,001	5,531,811	3,744	7,784	5,454,933	5,772,970
Note receivable - related party	-	-	-	-	100,948	120,948	100,948	120,948
Investments	-	-	-	-	11,495,186	12,069,203	11,495,186	12,069,203
Interfund loans	295,244	291,086	(295,244)	(291,086)	-	-	-	-
Other non-current assets	-	-	-	-	42,330	44,763	42,330	44,763
Intangible assets, net	-	-	17,662	26,490	-	-	17,662	26,490
Total Other Assets	<u>483,432</u>	<u>524,461</u>	<u>4,985,419</u>	<u>5,267,215</u>	<u>11,642,208</u>	<u>12,242,698</u>	<u>17,111,059</u>	<u>18,034,374</u>
Total Assets	<u>\$ 2,092,118</u>	<u>\$ 2,310,023</u>	<u>\$ 47,187,630</u>	<u>\$ 51,167,861</u>	<u>\$ 11,812,236</u>	<u>\$ 12,240,652</u>	<u>\$ 61,091,984</u>	<u>\$ 65,718,536</u>

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, 2015 AND 2014

LIABILITIES AND NET ASSETS

	<u>Operating Fund</u>		<u>Capital Fund</u>		<u>Endowment Fund</u>		<u>Total All Funds</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current Liabilities:								
Accounts payable	\$ 156,351	\$ 191,168	\$ 6,810	\$ -	\$ 353	\$ 451	\$ 163,514	\$ 191,619
Accrued employee compensation	162,208	191,455	-	-	-	-	162,208	191,455
Custodian accounts	886,394	925,249	32,190	32,190	33,104	33,104	951,688	990,543
Current portion - long-term debt	-	-	437,044	431,190	-	-	437,044	431,190
Deferred income	277,392	253,998	-	22,500	-	-	277,392	276,498
Other current liabilities	356	174	-	-	-	-	356	174
Total Current Liabilities	<u>1,482,701</u>	<u>1,562,044</u>	<u>476,044</u>	<u>485,880</u>	<u>33,457</u>	<u>33,555</u>	<u>1,992,202</u>	<u>2,081,479</u>
Long-Term Liabilities:								
Long-term debt - net of current portion	-	-	8,744,026	12,538,492	-	-	8,744,026	12,538,492
Other long-term liability	-	-	16,030	205,211	-	-	16,030	205,211
Total Long-Term Liabilities	<u>-</u>	<u>-</u>	<u>8,760,056</u>	<u>12,743,703</u>	<u>-</u>	<u>-</u>	<u>8,760,056</u>	<u>12,743,703</u>
Total Liabilities	<u>1,482,701</u>	<u>1,562,044</u>	<u>9,236,100</u>	<u>13,229,583</u>	<u>33,457</u>	<u>33,555</u>	<u>10,752,258</u>	<u>14,825,182</u>
Net Assets:								
Unrestricted	63,434	58,383	33,670,574	33,672,354	10,720,976	11,174,832	44,454,984	44,905,569
Temporarily restricted-for time	467,893	689,596	-	-	72,821	75,254	540,714	764,850
Temporarily restricted-for use	78,090	-	80,956	65,924	-	-	159,046	65,924
Permanently restricted	-	-	4,200,000	4,200,000	984,982	957,011	5,184,982	5,157,011
Total Net Assets	<u>609,417</u>	<u>747,979</u>	<u>37,951,530</u>	<u>37,938,278</u>	<u>11,778,779</u>	<u>12,207,097</u>	<u>50,339,726</u>	<u>50,893,354</u>
Total Liabilities and Net Assets	<u>\$ 2,092,118</u>	<u>\$ 2,310,023</u>	<u>\$ 47,187,630</u>	<u>\$ 51,167,861</u>	<u>\$ 11,812,236</u>	<u>\$ 12,240,652</u>	<u>\$ 61,091,984</u>	<u>\$ 65,718,536</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, 2015 AND 2014

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2015	2014	2015	2014	2015	2014	2015	2014
Changes In Unrestricted Net Assets								
Support and Revenue:								
Direct Support:								
Friends of Scouting	\$ 980,160	\$ 1,014,635	\$ -	\$ -	\$ -	\$ -	\$ 980,160	\$ 1,014,635
Noncash contributions	11,361	28,150	112,000	70,290	-	-	123,361	98,440
Special fundraising events - gross	818,280	1,024,853	-	-	-	-	818,280	1,024,853
Less: costs of direct benefit to participants	(180,073)	(284,624)	-	-	-	-	(180,073)	(284,624)
Net Special Events	638,207	740,229	-	-	-	-	638,207	740,229
Capital campaigns	-	-	1,128,480	1,360,856	-	-	1,128,480	1,360,856
Pledge receivables discount	-	-	80,123	180,469	-	-	80,123	180,469
Bequests	492,797	268,400	-	-	-	-	492,797	268,400
Foundations and trusts	78,289	88,807	-	-	-	-	78,289	88,807
Government fees grant	-	-	34,239	19,289	-	-	34,239	19,289
Other direct support	184,871	227,571	5,675	3,000	-	-	190,546	230,571
Total Direct Support	2,385,685	2,367,792	1,360,517	1,633,904	-	-	3,746,202	4,001,696
Indirect Support:								
United Way	64	159	-	-	-	-	64	159
Grants and foundations	-	74,277	-	-	-	-	-	74,277
Total Indirect Support	64	74,436	-	-	-	-	64	74,436
Revenues:								
Product sales - gross	1,279,361	1,301,984	-	-	-	-	1,279,361	1,301,984
Less: cost of product sold	(337,207)	(366,344)	-	-	-	-	(337,207)	(366,344)
Less: commissions earned and retained by units	(442,155)	(417,725)	-	-	-	-	(442,155)	(417,725)
Net Product Sales	499,999	517,915	-	-	-	-	499,999	517,915
Camping - gross	3,396,140	3,191,369	-	-	-	-	3,396,140	3,191,369
Less: cost of resale items	(48,321)	(68,027)	-	-	-	-	(48,321)	(68,027)
Net Camping	3,347,819	3,123,342	-	-	-	-	3,347,819	3,123,342
Activities	985,099	1,139,602	-	-	-	-	985,099	1,139,602
Less: cost of product and commissions	(163,433)	(189,906)	-	-	-	-	(163,433)	(189,906)
Net Activities	821,666	949,696	-	-	-	-	821,666	949,696
Income from rents	266,135	265,440	-	-	-	-	266,135	265,440
Return (loss) on investments	485,156	400,039	-	-	(364,904)	158,844	120,252	558,883
Miscellaneous	510,407	293,562	925	14	-	-	511,332	293,576
Total Revenues	5,931,182	5,549,994	925	14	(364,904)	158,844	5,567,203	5,708,852
Net Assets Released From Restrictions	411,057	311,397	43,018	-	-	-	454,075	311,397
Total Unrestricted Support and Revenue	8,727,988	8,303,619	1,404,460	1,633,918	(364,904)	158,844	9,767,544	10,096,381

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, 2015 AND 2014

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2015	2014	2015	2014	2015	2014	2015	2014
<u>Changes In Unrestricted Net Assets (Continued)</u>								
Expenses:								
Program services	\$ 7,228,256	\$ 6,741,536	\$ 1,292,599	\$ 1,500,174	\$ 63,380	\$ 39,031	\$ 8,584,235	\$ 8,280,741
Support Services:								
Management and general	893,592	768,065	81,813	111,295	13,830	10,926	989,235	890,286
Fundraising	527,953	563,508	31,828	49,377	11,742	8,812	571,523	621,697
Total Supporting Expenses	1,421,545	1,331,573	113,641	160,672	25,572	19,738	1,560,758	1,511,983
Total Functional Expenses	8,649,801	8,073,109	1,406,240	1,660,846	88,952	58,769	10,144,993	9,792,724
Payments To National Office	73,136	109,654	-	-	-	-	73,136	109,654
Total Expenses	8,722,937	8,182,763	1,406,240	1,660,846	88,952	58,769	10,218,129	9,902,378
Increase (Decrease) In Unrestricted Net Assets	5,051	120,856	(1,780)	(26,928)	(453,856)	100,075	(450,585)	194,003
<u>Changes In Temporarily Restricted Support</u>								
Support and Revenue:								
Direct Support:								
Friends of Scouting	217,894	291,125	-	-	-	-	217,894	291,125
Capital campaigns	-	-	-	45,937	-	-	-	45,937
Realized loss on investments	-	-	-	-	(2,433)	-	(2,433)	-
Foundations and trusts	39,389	91,458	-	-	-	44,763	39,389	136,221
Other contributions	10,161	3,996	58,050	1,887	-	-	68,211	5,883
Total Direct Contributions	267,444	386,579	58,050	47,824	(2,433)	44,763	323,061	479,166
Total Support and Revenue	267,444	386,579	58,050	47,824	(2,433)	44,763	323,061	479,166
Net Assets Released From Restrictions	(411,057)	(311,397)	(43,018)	-	-	-	(454,075)	(311,397)
Increase (Decrease) In Temporarily Restricted Net Assets	(143,613)	75,182	15,032	47,824	(2,433)	44,763	(131,014)	167,769
<u>Changes In Permanently Restricted Support</u>								
Support and Revenue:								
Direct Support:								
Other direct support	-	-	-	-	27,971	82,860	27,971	82,860
Increase In Permanently Restricted Net Assets	-	-	-	-	27,971	82,860	27,971	82,860
Increase (Decrease) In Total Net Assets	(138,562)	196,038	13,252	20,896	(428,318)	227,698	(553,628)	444,632
Total Net Assets at Beginning of Year	747,979	551,941	37,938,278	37,917,382	12,207,097	11,979,399	50,893,354	50,448,722
Total Net Assets at End of Year	\$ 609,417	\$ 747,979	\$ 37,951,530	\$ 37,938,278	\$ 11,778,779	\$ 12,207,097	\$ 50,339,726	\$ 50,893,354

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, 2015 AND 2014**

	<u>Operating Fund</u>		<u>Capital Fund</u>		<u>Endowment Fund</u>		<u>Total All Funds</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Cash flows From Operating Activities:								
Increase (Decrease) in Total Net Assets	\$ (138,562)	\$ 196,038	\$ 13,252	\$ 20,896	\$ (428,318)	\$ 227,698	\$ (553,628)	\$ 444,632
Non-Cash Items Included in Increase (Decrease) in Total Net Assets:								
Allowance for uncollectible promises/discount on pledges	5,642	35,046	(80,124)	(180,469)	-	-	(74,482)	(145,423)
Depreciation and amortization	-	-	1,185,811	1,292,211	-	-	1,185,811	1,292,211
Donated property and equipment	-	-	(107,000)	-	-	-	(107,000)	-
Loss on disposal of fixed asset	-	-	-	19,552	-	-	-	19,552
Realized (gains) losses on investments	-	-	-	-	(289,633)	95,082	(289,633)	95,082
Unrealized (gains) losses on investments	-	-	-	-	683,170	(99,878)	683,170	(99,878)
Unrealized gains on interest rate swap	-	-	(189,181)	(190,501)	-	-	(189,181)	(190,501)
Changes In:								
Accounts and pledges receivable	130,659	(14,178)	3,026,568	(657,069)	4,790	3,316	3,162,017	(667,931)
Legacies and bequests receivable	-	40,000	-	25,000	-	115,705	-	180,705
Inventories	(8,789)	18,782	-	-	-	-	(8,789)	18,782
Interfund loans	(105,843)	10,616	266,996	-	(161,153)	(10,616)	-	-
Prepaid expenses	(2,593)	2,317	-	-	-	-	(2,593)	2,317
Notes receivable - related party	-	-	-	-	20,000	(5,000)	20,000	(5,000)
Other non-current assets	-	-	-	-	2,433	(44,763)	2,433	(44,763)
Accounts payable, accrued expenses and other current liabilities	(63,882)	57,290	6,810	(102)	(98)	451	(57,170)	57,639
Custodian accounts	(38,855)	198,210	-	-	-	-	(38,855)	198,210
Deferred income	23,394	77,890	(22,500)	22,500	-	-	894	100,390
Net Cash Provided by (Used In) Operating Activities	(198,829)	622,011	4,100,632	352,018	(168,809)	281,995	3,732,994	1,256,024
Cash Flows From Investing Activities:								
Proceeds from investments	-	-	-	-	2,481,663	3,743,278	2,481,663	3,743,278
Payments for purchases of investments	-	-	-	-	(2,301,183)	(3,995,066)	(2,301,183)	(3,995,066)
Purchase of property and equipment	-	-	(468,550)	(219,246)	-	-	(468,550)	(219,246)
Net Cash Provided by (Used In) Investing Activities	-	-	(468,550)	(219,246)	180,480	(251,788)	(288,070)	(471,034)
Cash Flows From Financing Activities:								
Payments on long-term debt	-	-	(3,788,612)	(431,225)	-	-	(3,788,612)	(431,225)
Net Cash Used In Financing Activities	-	-	(3,788,612)	(431,225)	-	-	(3,788,612)	(431,225)
Net Increase (Decrease) In Cash and Cash Equivalents	(198,829)	622,011	(156,530)	(298,453)	11,671	30,207	(343,688)	353,765
Cash and Cash Equivalents at Beginning of Year	1,188,951	566,940	156,530	454,983	135,392	105,185	1,480,873	1,127,108
Cash and Cash Equivalents at End of Year	\$ 990,122	\$ 1,188,951	\$ -	\$ 156,530	\$ 147,063	\$ 135,392	\$ 1,137,185	\$ 1,480,873
Supplemental Disclosure:								
Interest paid	\$ 5,855	\$ 1,294	\$ 171,969	\$ 216,525	\$ -	\$ -	\$ 177,824	\$ 217,819

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, 2015, WITH 2014 TOTALS

	Program Services	Supporting Services			Total Functional Expenses	
		Management and General	Fundraising	Total	2015	2014
Salaries and Related Expenses:						
Salaries	\$ 3,417,847	\$ 503,195	\$ 164,541	\$ 667,736	\$ 4,085,583	\$ 3,770,493
Employee benefits	387,830	97,825	31,988	129,813	517,643	492,656
Payroll taxes and compensation insurance	347,033	81,502	26,650	108,152	455,185	421,503
Employee related expenses	7,582	2,140	700	2,840	10,422	13,399
Total Salaries and Related Expenses	4,160,292	684,662	223,879	908,541	5,068,833	4,698,051
Other Expenses:						
Professional fees	129,716	21,154	73,708	94,862	224,578	204,532
Supplies	877,233	5,504	10,341	15,845	893,078	817,460
Telephone	63,268	7,310	3,591	10,901	74,169	75,744
Postage and shipping	5,284	1,060	15,236	16,296	21,580	36,186
Occupancy	891,033	40,564	82,123	122,687	1,013,720	975,710
Rental and maintenance of equipment	334,489	45,674	15,092	60,766	395,255	346,444
Publications and media	53,837	465	41,519	41,984	95,821	115,980
Travel	227,604	35,133	11,488	46,621	274,225	272,747
Local conferences and meetings	53,854	9,303	3,187	12,490	66,344	50,994
Specific assistance to individuals	31,935	2,003	655	2,658	34,593	61,285
Recognition and awards	147,492	2,998	27,585	30,583	178,075	201,990
Insurance	193,195	17,430	5,700	23,130	216,325	184,560
Interest expense	125,722	39,264	12,839	52,103	177,825	217,819
Other expenses	162,869	38,602	32,118	70,720	233,589	230,295
Loss on disposal of fixed asset	-	-	-	-	-	19,552
Total Other Expenses	3,297,531	266,464	335,182	601,646	3,899,177	3,811,298
Expenses Before Depreciation	7,457,823	951,126	559,061	1,510,187	8,968,010	8,509,349
Depreciation of Property, Plant and Equipment	1,126,412	38,109	12,462	50,571	1,176,983	1,283,375
Total Functional Expenses	\$ 8,584,235	\$ 989,235	\$ 571,523	\$ 1,560,758	\$ 10,144,993	\$ 9,792,724

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, 2015 AND 2014**

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 - One year, family-oriented program for a group of teams, each consisting of a first-grade (or 7-year-old) and an adult partner (usually a parent). A tiger cub den is part of the Cub Scout pack.

Cub Scouts - 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 - 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 - 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 teens 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 interest of young people in the community. The result is a program of activities that helps youth pursue their special interest.

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

Nature of Organization (Continued)

Learning for Life - Program that 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. Additionally, youth and adults from many community organizations have the opportunity to camp in the outdoors and experience different program elements including shooting sports, rock climbing, COPE course, swimming, horseback riding, nature studies, and Scout skills.
- B. Newport Sea Base - The Newport Sea Base is constructed on approximately 1.15 acres of land, originally leased in 1937, located in Newport Beach. The Newport Sea Base land is currently leased from the County of Orange until 2039 at no cost to the Council. A remodel of the facilities was completed in 2005. This property is operated year-round and serves all youth (boys and girls) directly and through numerous community partnerships. Youth experience learning opportunities on the water and in the classroom including sailing, environmental studies, canoeing, and various merit badge classes. Three Sea Scout ships and their members are based there. The Council leases a portion of the facility to Chapman University until May 2024.
- C. Oso Reservoir - In June 2007, the Council entered into a 25-year lease with an option for a 15-year extension with the Rancho Santa Margarita Water District. This property located in South Orange County serves to operate as an outdoor educational and recreational facility on the upper Oso Reservoir consisting of 15 acres of land and 100 acres of lake. Youth and adult experience camping, shooting sports, boating, and fishing.

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

Nature of Organization (Continued)

- D. The 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 site and began operations in August 2009. This property includes themed camps that focus on ranching, mining and astronomy. The IROEC provides educational and recreational experiences for all youth (boys and girls) of the community. Facilities include overnight outdoor camping, bunk house residence camping, shooting sports, swimming, COPE course, 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 was subleased to Adopt-A-Highway on a monthly basis through November 2015.
- 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.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

**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 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, 2015 and 2014, the allowance for doubtful accounts was \$16,928 and \$26,810, respectively.

**ORANGE COUNTY COUNCIL, INC.,
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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

Contributions

Contributions 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 Statement 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.

For the years ended December 31, 2015 and 2014, the Council recognized \$11,361 and \$28,150, respectively, in the operating fund, and \$112,000 and \$70,290, respectively, in the capital fund, as noncash contributions revenue and corresponding expenses for donated materials and services.

**ORANGE COUNTY COUNCIL, INC.,
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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

Inventory

Inventory consists 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, 10 to 30 years for improvements, and 3 to 10 years for furniture and equipment. Depreciation expense for the years ended December 31, 2015 and 2014, totaled \$1,176,983 and \$1,283,375, 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 2015 and 2014.

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 Statement 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 Statement of Activities and Changes in Net Assets.

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

Investments (Continued)

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 represents amounts held for others.

Advertising

Advertising costs are charged to operations in the period in which the advertisement is placed. Advertising for 2015 and 2014 amounted to approximately \$23,000 and \$46,000, respectively.

Income Taxes

The Council is a not-for-profit organization that is exempt from income taxes under Section 501(a) as described under 501(c)(3) of the Internal Revenue Code Section 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, 2015 and 2014, there were no interest or penalties recorded or included in the accompanying financial statements. The Council's 2012 to 2015 tax years are open to review for federal tax purposes and 2011 to 2015 tax years are open to review for state income tax purposes.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the 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.

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

Estimates

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States 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, 2015 and 2014 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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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

**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.

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 2015-14, on the presentation of its financial statements.

In May 2015, the FASB issued ASU 2015-07, “*Fair Value Measurement (Topic 820)*”, amending disclosures for investments in certain entities that calculate net asset value per share (or its equivalent). The amendments in this ASU remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendments in this ASU are effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Council is currently evaluating the impact of the provisions of ASU 2015-07 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, 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.

**ORANGE COUNTY COUNCIL, INC.,
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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, 2015 and 2014, the Council’s cash balances on deposit at the institutions in excess of federally insured limits totaled \$1,082,953 and \$1,104,471, 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.

Note 4: Pledges Receivable

The unconditional promises to give at December 31, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Friends of Scouting	\$ 457,107	\$ 538,142
Restricted to Capital Fund	6,109,501	9,134,974
Restricted to Endowment Fund	<u>9,800</u>	<u>14,550</u>
Subtotal	6,576,408	9,687,666
Less: Discount for present value of pledge receivables	(290,538)	(375,435)
Less: Allowance for uncollectible pledge receivables	<u>(116,452)</u>	<u>(105,977)</u>
Subtotal Unconditional Promises to Give	6,169,418	9,206,254
Less: Current portion of pledge receivables	<u>(714,485)</u>	<u>(3,433,284)</u>
Long-Term Portion of Pledge Receivables	<u>\$ 5,454,933</u>	<u>\$ 5,772,970</u>
Pledges Receivable, Due in:		
Less than one year	\$ 1,031,042	\$ 3,539,366
One to five years	5,545,366	6,048,300
Thereafter	<u>-</u>	<u>100,000</u>
	<u>\$ 6,576,408</u>	<u>\$ 9,687,666</u>

The discount risk-adjusted interest rate used to calculate the present value ranged from 1.65 percent to 1.97 percent for the years ended December 31, 2015 and 2014.

During 2011, the Council accepted title to a commercial real estate property and agreed to accept a second such property in full satisfaction of a pledge receivable totaling \$4.7 million. The first property was recorded at estimated fair value as of December 31, 2011 and sold in January 2012 at no significant gain or loss. As of December 31, 2014, the remaining pledge receivable of \$2.7 million was reported at the lower of carrying value or the estimated fair value of the second property to be received.

**ORANGE COUNTY COUNCIL, INC.,
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 4: Pledges Receivable (Continued)

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 five 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, 2015 and 2014, is \$100,948 and \$120,948, respectively, and is included in notes receivable-related party in the accompanying statements of financial position.

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, 2015 and 2014, values of the Council's split-interest agreements were \$42,330 and \$44,763, respectively.

Note 7: Commitments and Contingencies

Line of Credit

At December 31, 2015 and 2014, the Council had a unsecured revolving line of credit agreement with a commercial bank of \$500,000 maturing November 2016. Borrowings under this agreement bear interest at the bank's prime rate (3.50 percent at December 31, 2015 and 2014) At December 31, 2015 and 2014, there were no outstanding borrowings.

Long-Term Debt

On December 24, 2009, the Council entered into a loan agreement (the "Loan") with California Municipal Financing 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 California Municipal Financing 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 LIBOR, plus 1.3 percent (1.56% and 1.41% at December 31, 2015 and 2014, 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 final maturity date is January 1, 2040. At December 31, 2015 and 2014, the Loan balance was \$9,181,070, and \$12,969,682, respectively.

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

Long-Term Debt (Continued)

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.

The Council incurred debt issuance costs in 2009 of approximately \$70,700, which are included in intangible assets and amortized over the life of the Loan.

The following are scheduled maturities of the Loan for years ending December 31:

2016		\$ 437,044
2017		443,995
2018		<u>8,300,031</u>
Subtotal		9,181,070
Less: Current portion		<u>(437,044)</u>
Total Long-Term Debt		<u>\$ 8,744,026</u>

The agreement also contains certain financial covenants, including a requirement that the Council maintain a minimum interest coverage ratio and minimum liquidity ratios. At December 31, 2015, 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.

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 \$141,000 and \$145,000, respectively, for the years ended December 31, 2015 and 2014.

The Council subleases a portion of two facilities to unrelated parties under non-cancelable lease agreements. The lease agreements expire through May 2024 and provide for monthly rental income ranging from \$1,000 to \$5,000. Total rental income for the years ended December 31, 2015 and 2014, under these agreements was approximately \$143,000 and \$120,000, respectively.

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

Operating Leases (Continued)

Minimum future net rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2015, in aggregate are as follows:

	Gross Lease Expense	Sublease Income	Net Lease Expense (Revenue)
2016	\$ 118,874	\$ (60,000)	\$ 58,874
2017	100,126	(60,000)	40,126
2018	97,380	(60,000)	37,380
2019	60,700	(60,000)	700
2020	19,500	(60,000)	(40,500)
Thereafter	<u>234,000</u>	<u>(205,000)</u>	<u>29,000</u>
	<u>\$ 630,580</u>	<u>\$ (505,000)</u>	<u>\$ 125,580</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 which give rise to such actions and claims, management believes that such litigation and claims will be resolved without material effect on the Council's financial position or results of operations.

Note 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 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 \$164,000 and \$153,000, for years ended December 31, 2015 and 2014, respectively, and covered current service costs. The actuarial information for the plan as of February 1, 2015, indicates that it is in compliance with the Employee Retirement Income Security Act of 1974 (ERISA) regulations regarding funding.

**ORANGE COUNTY COUNCIL, INC.,
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DECEMBER 31, 2015 AND 2014**

Note 8: Employee Benefit Plans (Continued)

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 \$27,000 and \$24,000, respectively to the Thrift Plan in 2015 and 2014, respectively.

Healthcare Plan

The Council's employees participate in a healthcare 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, 2015 and 2014, the Council remitted approximately \$327,000 and \$316,000, respectively, on behalf of its employees to the National Council related to the healthcare 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 eight percent commission on gross sales up to \$750,000 and thirteen percent on sales in excess of \$750,000. The commissions earned (before expenses) by the Council during 2015 and 2014 amounted to approximately \$266,000 and \$265,000, respectively, which are included in income from rents in the statements of activities and changes in net assets.

Note 10: Endowment Funds

The Council's Endowment Fund includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, 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.

**ORANGE COUNTY COUNCIL, INC.,
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DECEMBER 31, 2015 AND 2014**

Note 10: Endowment Funds (Continued)

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.

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.

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.

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Note 10: Endowment Funds (Continued)

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

	<u>Unrestricted- Non-Board- 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	\$ 1,087,803
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>

The following is the endowment net asset composition by type of fund as of December 31, 2014.

	<u>Unrestricted- Non-Board- Designated</u>	<u>Unrestricted- Board- Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 75,254	\$ 957,011	\$ 1,032,265
Board-Designated Endowment Funds	<u>-</u>	<u>11,174,832</u>	<u>-</u>	<u>-</u>	<u>11,174,832</u>
Total Funds	<u>\$ -</u>	<u>\$ 11,174,832</u>	<u>\$ 75,254</u>	<u>\$ 957,011</u>	<u>\$ 12,207,097</u>

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

Changes in the endowment fund net assets for the years ended December 31, 2015 and 2014 are as follows:

	<u>Unrestricted- Non-Board- Designated</u>	<u>Unrestricted- Board- Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Fund Net Assets, December 31, 2013	\$ -	\$ 11,074,757	\$ 30,491	\$ 874,151	\$ 11,979,399
Investment Return	-	158,844	-	-	158,844
Contributions	-	-	44,763	82,860	127,623
Appropriation of Endowment Assets For Expenditure	<u>-</u>	<u>(58,769)</u>	<u>-</u>	<u>-</u>	<u>(58,769)</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	<u>\$ -</u>	<u>\$ 10,720,976</u>	<u>\$ 72,821</u>	<u>\$ 984,982</u>	<u>\$ 11,778,779</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, 2015 and 2014.

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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, 2015 and 2014, consist of the following:

	2015	2014
Cash restricted for time	\$ 352,526	\$ 531,475
Cash restricted for use	159,046	65,924
Net pledge receivables restricted for time	188,188	233,375
Total Temporarily Restricted Net Assets	\$ 699,760	\$ 830,744

Permanently restricted net assets as of December 31, 2015 and 2014, consist of the following:

	2015	2014
Various capital assets	\$ 4,200,000	\$ 4,200,000
Cash and investments restricted	984,982	957,011
Total Permanently Restricted Net Assets	\$ 5,184,982	\$ 5,157,011

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Note 12: Investments

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>

Investments at December 31, 2014 are composed of the following:

	<u>Cost</u>	<u>Fair Value</u>
Fixed Income Bonds	\$ 6,677,135	\$ 6,636,038
Common Stock	3,050,981	3,631,016
International Stock	756,317	719,271
Money Market	415,901	415,901
Mutual Funds	347,450	347,430
Preferred Stock	<u>317,132</u>	<u>319,547</u>
Total	<u>\$ 11,564,916</u>	<u>\$ 12,069,203</u>

The following summarizes the investment return in the statements of activities and changes in net assets for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 572,087	\$ 616,976
Net realized and unrealized gain (loss)	(395,970)	(5,533)
Investment expenses	<u>(58,298)</u>	<u>(52,560)</u>
Total	<u>\$ 117,819</u>	<u>\$ 558,883</u>

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Note 12: Investments (Continued)

The above investments are classified in the 2015 and 2014 statements of financial position as follows:

	2015	2014
Unrestricted	\$ 10,437,383	\$ 11,036,938
Temporarily restricted - for time	72,821	75,254
Permanently restricted	984,982	957,011
 Total	 \$ 11,495,186	 \$ 12,069,203

Income from interest and dividends on investments and realized and unrealized gains and losses on the sales of investments (“Investment Income, Gains, and Losses”) 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 2015 and 2014, investment expenses were \$58,298 and \$52,560, respectively and are netted against return on investments in the statements of activities and changes in net assets (see schedule on previous page).

Note 13: Summary of Fair Value Exposure

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 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 (“NAV”) 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 measure considered from the perspective of a market participant rather than an entity-specific measure. 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, 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	<u>545,495</u>	<u>-</u>	<u>-</u>	<u>545,495</u>
Total Investments	<u>\$ 6,361,349</u>	<u>\$ 5,133,837</u>	<u>\$ -</u>	<u>\$ 11,495,186</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, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed Income Bonds	\$ 2,224,765	\$ 4,411,273	\$ -	\$ 6,636,038
Common Stock	3,631,016	-	-	3,631,016
International Stock	719,271	-	-	719,271
Money Market	415,901	-	-	415,901
Mutual Funds	347,430	-	-	347,430
Preferred Stock	319,547	-	-	319,547
Total Investments	<u>\$ 7,657,930</u>	<u>\$ 4,411,273</u>	<u>\$ -</u>	<u>\$ 12,069,203</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 has 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 rate. 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 which was amended February 4, 2011. The amended swap 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 terminates on January 1, 2016.

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Note 14: Interest Rate Risk Management (Continued)

Net interest paid under the swaps were \$171,969 and \$211,051 for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, the fair value of the interest rate swap was a liability of \$16,030 and \$205,211, 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Note 16: Subsequent Events

Events occurring after December 31, 2015 have been evaluated for possible adjustments to or disclosure in the financial statements through April 26, 2016, the date the financial statements were available to be issued.