

**GIRL SCOUTS OF
SAN GORGONIO COUNCIL**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT**

SEPTEMBER 30, 2016



GIRL SCOUTS OF SAN GORGONIO COUNCIL

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SEPTEMBER 30, 2016

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**CERTIFIED
PUBLIC
ACCOUNTANTS
& BUSINESS
ADVISORS**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Girl Scouts of San Geronio Council
Redlands, California

We have audited the accompanying financial statements of Girl Scouts of San Geronio Council (a nonprofit organization), which consist of the statement of financial position as of September 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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 auditor considers internal control relevant to the entity'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 entity'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 Girl Scouts of San Geronimo Council as of September 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Eadie and Payne, LLP

February 6, 2017
Redlands, California

GIRL SCOUTS OF SAN GORGONIO COUNCIL
STATEMENT OF FINANCIAL POSITION
 SEPTEMBER 30, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 2,593,681	\$ 527,173	-	\$ 3,120,854
Contributions receivable	4,860	12,500	-	17,360
Accounts receivable	671	-	-	671
Inventory	240,330	-	-	240,330
Prepaid expenses	43,669	-	-	43,669
Total Current Assets	<u>2,883,211</u>	<u>539,673</u>	-	<u>3,422,884</u>
Long-term investments	2,955,935	63,208	\$ 128,386	3,147,529
Property and equipment, net	3,782,028	-	105,335	3,887,363
Deposits	20,614	-	-	20,614
TOTAL ASSETS	<u>\$ 9,641,788</u>	<u>\$ 602,881</u>	<u>\$ 233,721</u>	<u>\$ 10,478,390</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 301,569	-	-	\$ 301,569
Accrued liabilities	603,426	-	-	603,426
Custodial funds	171,698	-	-	171,698
Current portion of note payable	27,341	-	-	27,341
Deferred revenue	7,382	-	-	7,382
Total Current Liabilities	<u>1,111,416</u>	-	-	<u>1,111,416</u>
Long-term Debt				
Note payable	1,359,334	-	-	1,359,334
Total Liabilities	<u>2,470,750</u>	-	-	<u>2,470,750</u>
Net Assets				
Unrestricted				
Undesignated	4,215,103	-	-	4,215,103
Board designated	2,955,935	-	-	2,955,935
Total Unrestricted	<u>7,171,038</u>	-	-	<u>7,171,038</u>
Temporarily restricted	-	\$ 602,881	-	602,881
Permanently restricted	-	-	\$ 233,721	233,721
Total Net Assets	<u>7,171,038</u>	<u>602,881</u>	<u>233,721</u>	<u>8,007,640</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,641,788</u>	<u>\$ 602,881</u>	<u>\$ 233,721</u>	<u>\$ 10,478,390</u>

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

GIRL SCOUTS OF SAN GORGONIO COUNCIL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT				
Public support	\$ 1,126,375	\$ 220,017	-	\$ 1,346,392
United Way	<u>6,692</u>	<u>-</u>	<u>-</u>	<u>6,692</u>
Total Support	<u>1,133,067</u>	<u>220,017</u>	<u>-</u>	<u>1,353,084</u>
REVENUE				
Product sales	11,916,568			11,916,568
Cost of sales	<u>6,398,058</u>	<u>-</u>	<u>-</u>	<u>6,398,058</u>
Net Product Sales	5,518,510	-	-	5,518,510
Merchandise sales, net of \$396,592 merchandise cost of sales	194,912	-	-	194,912
Investment income	170,027	8,127	-	178,154
Program fees	424,160	-	-	424,160
Gain on sale of assets	98,744	-	-	98,744
Rental revenue	9,565	-	-	9,565
Other revenue	<u>63,299</u>	<u>-</u>	<u>-</u>	<u>63,299</u>
Total Revenue	<u>6,479,217</u>	<u>8,127</u>	<u>-</u>	<u>6,487,344</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>66,007</u>	<u>(66,007)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>7,678,291</u>	<u>162,137</u>	<u>-</u>	<u>7,840,428</u>
OPERATING EXPENSES				
Program Services				
Program for girls	1,838,835			1,838,835
Membership development	1,970,733			1,970,733
Resident camp	1,201,199			1,201,199
Adult education	328,099			328,099
Supporting Services				
Management and general	310,414			310,414
Fundraising	<u>696,947</u>	<u>-</u>	<u>-</u>	<u>696,947</u>
Total Operating Expenses	<u>6,346,227</u>	<u>-</u>	<u>-</u>	<u>6,346,227</u>
CHANGE IN NET ASSETS	1,332,064	162,137	-	1,494,201
BEGINNING NET ASSETS	<u>5,838,974</u>	<u>440,744</u>	<u>\$ 233,721</u>	<u>6,513,439</u>
ENDING NET ASSETS	<u>\$ 7,171,038</u>	<u>\$ 602,881</u>	<u>\$ 233,721</u>	<u>\$ 8,007,640</u>

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

GIRL SCOUTS OF SAN GORGONIO COUNCIL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	PROGRAM SERVICES					SUPPORTING SERVICES			
	PROGRAM FOR GIRLS	MEMBERSHIP DEVELOPMENT	RESIDENT CAMP	ADULT EDUCATION	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUND-RAISING	TOTAL SUPPORTING SERVICES	TOTAL
COST OF REVENUES									
Cost of goods sold - products	\$6,398,058	-	-	-	\$6,398,058	-	-	-	\$6,398,058
Cost of goods sold - merchandise	396,592	-	-	-	396,592	-	-	-	396,592
Total Cost of Revenues	<u>6,794,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,794,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,794,650</u>
OPERATING EXPENSES									
Salaries and contract labor	933,568	\$1,121,671	\$423,374	\$139,275	2,617,888	\$139,108	\$339,594	\$478,702	3,096,590
Employee benefits	115,434	190,124	40,370	17,139	363,067	17,119	38,317	55,436	418,503
Payroll taxes	83,857	131,746	59,449	25,283	300,335	25,252	38,953	64,205	364,540
Professional fees	41,364	23,514	23,514	23,514	111,906	23,486	41,362	64,848	176,754
Materials and supplies	248,192	45,863	164,220	11,339	469,614	11,320	35,425	46,745	516,359
Telephone	36,536	46,484	17,467	20,115	120,602	19,200	23,931	43,131	163,733
Postage and shipping	5,091	2,541	2,541	2,541	12,714	2,538	2,543	5,081	17,795
Occupancy	148,077	202,666	234,645	23,028	608,416	6,594	79,487	86,081	694,497
Equipment and maintenance	14,456	8,614	45,786	8,614	77,470	8,604	14,286	22,890	100,360
Printing and publications	16,815	7,964	7,964	7,964	40,707	7,954	13,104	21,058	61,765
Travel and transportation	67,729	19,106	58,510	2,558	147,903	2,555	9,324	11,879	159,782
Conferences and meetings	8,799	15,961	11,078	5,224	41,062	5,218	7,733	12,951	54,013
Special assistance/camperships	6,429	42,615	10,527	-	59,571	-	580	580	60,151
Interest expense	2,864	2,864	2,864	2,864	11,456	2,859	2,864	5,723	17,179
Insurance	20,945	20,945	20,945	20,945	83,780	20,922	20,945	41,867	125,647
Miscellaneous	35,876	31,979	41,499	4,151	113,505	4,146	5,139	9,285	122,790
Bad debts	5,366	5,366	5,366	5,366	21,464	5,360	5,366	10,726	32,190
Depreciation and amortization	47,437	50,710	31,080	8,179	137,406	8,179	17,994	26,173	163,579
Total Operating Expenses	<u>1,838,835</u>	<u>1,970,733</u>	<u>1,201,199</u>	<u>328,099</u>	<u>5,338,866</u>	<u>310,414</u>	<u>696,947</u>	<u>1,007,361</u>	<u>6,346,227</u>
Total Expenses	8,633,485	1,970,733	1,201,199	328,099	12,133,516	310,414	696,947	1,007,361	13,140,877
Less: Expenses included in the revenue section on the statement of activities	<u>6,794,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,794,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,794,650</u>
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF THE STATEMENT OF ACTIVITIES	<u>\$1,838,835</u>	<u>\$1,970,733</u>	<u>\$1,201,199</u>	<u>\$328,099</u>	<u>\$5,338,866</u>	<u>\$310,414</u>	<u>\$696,947</u>	<u>\$1,007,361</u>	<u>\$6,346,227</u>

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

GIRL SCOUTS OF SAN GORGONIO COUNCIL
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,494,201
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided By Operating Activities	
Depreciation and amortization	163,579
Realized gain on investments	(28,105)
Unrealized gains on investments	(107,244)
Realized gain on sale of assets	(98,744)
(Increase) Decrease in Operating Assets	
Contributions receivable	640
Accounts receivable	27
Inventory	7,056
Prepaid expenses	(13,735)
Deposits	57,000
Increase (Decrease) in Operating Liabilities	
Accounts payable	92,085
Accrued liabilities	(1,813)
Custodial funds	(15,568)
Deferred revenue	3,145

Net Cash Provided By Operating Activities

1,552,524

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(2,172,923)
Proceeds from sale of equipment	103,679
Purchase of investments	(1,677,678)
Proceeds from sale of investments	1,146,849

Net Cash Provided By (Used In) Investing Activities

(2,600,073)

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on capital lease obligation	(14,874)
Proceeds from note payable	1,400,000
Principal payments on note payable	(13,325)

Net Cash Provided By Financing Activities

1,371,801

NET INCREASE IN CASH AND CASH EQUIVALENTS

324,252

BEGINNING CASH AND CASH EQUIVALENTS

2,796,602

ENDING CASH AND CASH EQUIVALENTS

\$ 3,120,854

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	<u>\$ 41,574</u>
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The accompanying notes are an integral part of the financial statements.

GIRL SCOUTS OF SAN GORGONIO COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Council and Nature of Activities

The Girl Scouts of San Gorgonio Council (Council) is a nonprofit organization and was organized on October 28, 1957 under the laws of the State of California. The Council serves more than 12,300 girls ages 5 to 17, in partnership with more than 5,700 committed adults and volunteers, in the Riverside and San Bernardino counties. The Council has four service centers located in Redlands, Temecula, Victorville, and Palm Desert. The Council provides a variety of value-based educational and social programs and activities for girls, which assist with acquiring various life skills, socialization skills, installing integrity, as well as educational opportunities.

Funding for the Council is provided by product sales, including the cookie program, individual donors, and grants from foundations, corporations, and the United Way.

B. Basis of Accounting

The financial statements of the Council have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) and follow the guidance found in the Accounting Standards Codification (ASC) 958-205, *Financial Statements of Not-for-Profit Organizations*.

C. Accounting for Contributions

Generally accepted accounting principles require that the Council report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Contributions are recognized when the donor makes a promise to give to the Council that is unconditional. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Description of Net Asset Classes

The net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Council pursuant to those stipulations or that expire by the passage of time.

Permanently restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Council. Generally, the donors of such assets permit the Council to use all or part of the income earned on assets.

E. Cash and Cash Equivalents

For purposes of the statement of financial position and the statement of cash flows, cash and cash equivalents consist of cash and other highly liquid resources, such as investments in certificates of deposit and money market funds, with an original maturity of three months or less when purchased.

Cash does not include bank accounts held by troops under the federal identification number of the Council. The bank accounts are not under the Council's control. The Council has signature authority on the accounts, but will not access the funds as long as troops are functioning according to Girl Scout policies and procedures. The troops have the responsibility to use the funds in their control according to Girl Scout policies and procedures. If a troop disbands, leaving funds available, the funds will revert to the Council for a 12-month holding period in case the troop reforms. If funds remain after the 12-month holding period, the funds will be considered a donation to the Council.

F. Accounts Receivable

The accounts receivable consist primarily of amounts due from troops for product sales, payments for membership events, and checks that were returned due to nonsufficient funds. The Council attempts to collect on nonsufficient funds before remitting to a collection agency. Management believes the accounts receivable as of September 30, 2016, are fully collectible and; therefore, the Council has not recorded an allowance for doubtful accounts. Accounts receivable are written off when they are determined to be uncollectible.

NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventories

Inventories, which consist primarily of store items, are valued at the lower of cost or market. Cost is determined by the weighted average method.

H. Property and Equipment

Property and equipment are stated at cost, if purchased or at fair value at the date of the gift, if donated and significant. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Depreciation has been recorded using the straight-line method over the estimated useful lives of the assets ranging from three to ten years for vehicles, furniture, and equipment and ten to forty years for buildings and improvements. Property and equipment purchased at a cost in excess of \$1,000 is capitalized. Repairs, maintenance, and minor acquisitions are expensed as incurred, and the Council uses the direct expensing method to account for planned major maintenance activities.

I. Long-Lived Assets

The Council reviews long-lived assets such as property and equipment to determine if there has been an impairment of value whenever events or changes occur that indicate the carrying value of the assets may have declined and will not be recoverable. No circumstances have occurred during the year causing the Council to believe there has been any impairment of the carrying value of its long-lived assets. There can be no assurance, however, that market or other conditions will not change in the future resulting in impairment of long-lived assets.

J. Deferred Revenue

Deferred revenue consists of fees received for programs to be held in the next fiscal year. The revenue is recognized as the programs are held.

K. Custodial Funds

Custodial funds consist primarily of funds held by the Council on behalf of the troops.

NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Income Taxes

The Council is exempt from federal and State income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Tax Code. Consequently, the accompanying financial statements do not reflect any provision for income taxes. Contributions to the Council are deductible for tax purposes under Section 170(c)(2) of the IRC. The Council is not a private foundation. The Council uses the same accounting methods for tax and financial reporting.

M. Contributed Materials and Services

The Council receives periodic donations of materials from local vendors, and from the community, which are recorded at estimated fair market value at the date of donation, if significant.

A substantial number of volunteers have donated significant amounts of their time to the Council and its programs. The donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

N. Fair Value of Financial Instruments

The Council's financial instruments, including cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, accrued expenses, and deferred revenue are carried at cost, which approximates fair value because of the short-term nature of these instruments. The investment securities are carried at fair value based on quoted prices in active markets.

Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels as described in Note 5.

O. Expense Allocation

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

NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those assumptions and estimates. The significant items in these statements that are affected by management estimates are depreciation and allocations of functional expenses.

Q. Advertising Costs

The Council uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the year ended September 30, 2016 was \$11,589.

R. Shipping and Handling Costs

Freight billed to customers is considered sales revenue and the related freight costs as a cost of sales.

S. Payments to National Council

The Council is affiliated with the Girl Scouts of the United States of America (GSUSA), which provides the right to use its name and certain other technical and fundraising assistance.

2. CONTRIBUTIONS RECEIVABLE

Contributions receivable, due within one year, consisted of \$12,500 due from grantors and pledges of \$4,860 from individuals as of September 30, 2016.

NOTES TO FINANCIAL STATEMENTS (Continued)

3. PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2016 is summarized as follows:

	<u>AMOUNT</u>
Building and improvements	\$ 3,903,980
Furniture, fixtures, and equipment	1,001,359
Land	1,529,000
Vehicles	<u>443,761</u>
	6,878,100
Less: Accumulated depreciation and amortization	<u>2,990,737</u>
TOTAL	<u><u>\$ 3,887,363</u></u>

Depreciation and amortization expense for the year ended September 30, 2016 was \$163,579.

Certain land located in Yucaipa, California, known as Camp Wi-Wo-Ca, with a carrying amount of \$105,335, was acquired through a donation in 1975. The donor's intention was the initial value of the gift to be maintained permanently as endowment assets.

4. INVESTMENTS

Investments consisted of equities, corporate bonds, government obligations, and mutual funds classified as available for sale.

An analysis of the investments held as of September 30, 2016 is as follows:

	<u>FAIR VALUE</u>	<u>COST</u>	<u>UNREALIZED GAIN</u>
Equities	\$ 1,136,901	\$ 984,001	\$ 152,900
Corporate bonds	376,315	367,236	9,079
Government obligations	445,425	425,245	20,180
Mutual funds	1,100,555	1,073,323	27,232
Money funds	<u>88,333</u>	<u>88,333</u>	<u>-</u>
LONG-TERM INVESTMENTS	<u><u>\$ 3,147,529</u></u>	<u><u>\$ 2,938,138</u></u>	<u><u>\$ 209,391</u></u>

NOTES TO FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

The following schedule summarizes the investment return activities for the year ended September 30, 2016:

	<u>AMOUNT</u>
Interest and dividends	\$ 70,962
Realized gain	28,105
Unrealized gain	107,244
Management fees	<u>(28,157)</u>
TOTAL INVESTMENT RETURN	<u>\$ 178,154</u>

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Investments are managed by investment managers who have responsibility for investing the funds in various investment classes.

5. FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board's (FASB) codification ASC 820, *Fair Value Measurements and Disclosures*, 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 as follows:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.

Level 2

Inputs to the valuation methodology are inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NOTES TO FINANCIAL STATEMENTS (Continued)

5. FAIR VALUE MEASUREMENTS (Continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Council's assets at fair value as of September 30, 2016:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Equities	\$1,136,901	-	-	\$1,136,901
Corporate bonds	-	\$376,315	-	376,315
Government obligations	-	445,425	-	445,425
Mutual funds	1,100,555	-	-	1,100,555
Money funds	<u>88,333</u>	-	-	<u>88,333</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$2,325,789</u>	<u>\$821,740</u>	<u>\$ -</u>	<u>\$3,147,529</u>

The following is a description of the valuation methodologies used for Level 2 assets measured at fair value. There have been no changes in the methodologies used during the year ended September 30, 2016.

Corporate bonds and government obligations are valued at the present value of its expected cash flows as provided by the broker.

6. ACCRUED LIABILITIES

Accrued liabilities as of September 30, 2016 consisted of the following:

	<u>AMOUNT</u>
Sales incentives	\$ 399,894
Accrued paid time off	163,820
Credit card payable	17,219
Accrued salaries and wages	<u>22,493</u>
TOTAL	<u>\$ 603,426</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

7. LINE OF CREDIT

As of September 30, 2016, pursuant to an agreement with Bank of America, the Council had an available, unsecured line of credit up to the amount of the Council's investments held by Merrill Lynch, none of which was outstanding at that date.

8. RETIREMENT PLAN

The Council participates in the National Girl Scout Council Retirement Plan (Plan). The Plan is a multiemployer, noncontributory, defined benefit pension plan sponsored by the GSUSA (EIN 13-1624016). Effective July 31, 2010, the Plan was frozen to new entrants and to further benefit accruals for existing participants, although previously earned benefits can continue to vest. Accrued benefits earned prior to July 31, 2010 are based on years of service and salary levels.

The Council made contributions into the Plan of \$194,612 during the year ended September 30, 2016. These contributions represented .5% of total contributions into the Plan. For the year ended September 30, 2014, the Plan implemented a funding improvement strategy, in which the Council was not required to pay a surcharge.

9. OPERATING LEASES

The Council is committed under real property leases for premises in Palm Desert, Victorville, and Temecula expiring December 31, 2022, December 31, 2023, and December 31, 2024, respectively. The leases are classified as operating leases and require the Council to carry insurance at certain minimum limits. In addition, the Council is committed under equipment leases that expire in 2017 and 2018.

Lease payments required under the leases are as follows:

<u>YEARS ENDING</u> <u>SEPTEMBER 30,</u>	<u>REAL</u> <u>PROPERTY</u>	<u>EQUIPMENT</u>	<u>TOTAL</u>
2017	\$ 277,011	\$ 72,990	\$ 350,001
2018	285,506	18,543	304,049
2019	292,635		292,635
2020	299,773		299,773
2021	307,191		307,191
Thereafter	<u>789,874</u>	<u> </u>	<u>789,874</u>
TOTAL	<u>\$ 2,251,990</u>	<u>\$ 91,533</u>	<u>\$ 2,343,523</u>

Rental expenses under the real property agreements were \$263,503 and equipment lease expenses were \$47,532 for the year ended September 30, 2016.

NOTES TO FINANCIAL STATEMENTS (Continued)

10. NOTE PAYABLE

The Council obtained a mortgage on their service-center building in Redlands in the amount of \$1,400,000 in March 2016. The loan is payable in monthly installments of \$6,287 including interest. The initial interest rate is 3.5% and increases to 3.75% beginning March 1, 2018. The loan is due in full on March 1, 2021. Interest paid on the note during the year ended September 30, 2016 was \$24,395. The loan was used to finance the acquisition of a new camp called Skyland Ranch.

Principal payments on the note payable are as follows:

<u>YEAR ENDING SEPTEMBER 30,</u>	<u>AMOUNT</u>
2017	\$ 27,341
2018	27,841
2019	28,403
2020	29,487
2021	<u>1,273,603</u>
TOTAL	<u>\$ 1,386,675</u>

11. RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2016 are available for the following purposes or for use in a future period:

	<u>AMOUNT</u>
Youth development programs	\$ 535,273
Camp renovation	4,400
Endowment earnings, unappropriated	<u>63,208</u>
TOTAL	<u>\$ 602,881</u>

Permanently restricted net assets consist of the following at September 30, 2016:

	<u>AMOUNT</u>
Investments	\$ 128,386
Land - Camp Wi-Wo-Ca	<u>105,335</u>
TOTAL	<u>\$ 233,721</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

12. BOARD-DESIGNATED NET ASSETS

The Council's Board of Directors has designated unrestricted net assets for the following purposes:

	<u>AMOUNT</u>
Property fund	\$ 2,940,741
Endowment	<u>15,194</u>
TOTAL	<u>\$ 2,955,935</u>

13. ENDOWMENT

The Council's endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as an endowment. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Council has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the Council classifies as permanently restricted net assets: (a) the original value of the gifts donated to the permanent endowment; (b) the original value of the 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 the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund 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 UPMIFA.

Investment and Spending Policies - The Council has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment assets while seeking to maintain the purchasing power of these endowment assets over the long term. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities that are intended to result in a consistent rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing funds at a rate equal to inflation as measured by the Consumer Price Index (CPI). Actual returns in any given year may vary from this amount.

NOTES TO FINANCIAL STATEMENTS (Continued)

13. ENDOWMENT (Continued)

The Council has a policy of appropriating for distribution each year no more than 4% of a moving 12-quarter rolling average of the fair value of the endowment funds. In establishing this policy, the Council considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, and the possible effect of inflation.

Endowment net asset composition by type as of September 30, 2016 is summarized as follows:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Donor restricted		\$ 63,208	\$ 233,721	\$ 296,929
Board designated	\$ 15,194	—	—	15,194
TOTAL FUNDS	<u>\$ 15,194</u>	<u>\$ 63,208</u>	<u>\$ 233,721</u>	<u>\$ 312,123</u>

Changes in endowment net assets for the year ended September 30, 2016 are summarized as follows:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Endowment Net Assets,				
Beginning of Year	\$ 14,290	\$ 55,081	\$ 233,721	\$ 303,092
Investment Return				
Investment income	360	3,237		3,597
Net appreciation	687	6,174	-	6,861
Total Investment Return	<u>1,047</u>	<u>9,411</u>	<u>-</u>	<u>10,458</u>
Investment management fees	<u>(143)</u>	<u>(1,284)</u>	<u>-</u>	<u>(1,427)</u>
ENDOWMENT NET ASSETS,				
END OF YEAR	<u>\$ 15,194</u>	<u>\$ 63,208</u>	<u>\$ 233,721</u>	<u>\$ 312,123</u>

14. RELATED-PARTY TRANSACTIONS

The Council is chartered by GSUSA to organize and extend girl scouting within its jurisdiction. The Council collects and passes through membership fees on behalf of GSUSA. The Council also purchases a majority of its merchandise inventory from GSUSA.

NOTES TO FINANCIAL STATEMENTS (Continued)

14. RELATED-PARTY TRANSACTIONS (Continued)

The following summarizes payments to GSUSA for the year ended September 30, 2016:

	<u>AMOUNT</u>
Purchases of merchandise	\$ 258,969
Remittance of membership dues	<u>76,830</u>
TOTAL	<u>\$ 335,799</u>

The liabilities to GSUSA for merchandise and membership dues were \$34,771 and \$1,530, respectively, as of September 30, 2016.

The Council paid other Girl Scouts councils \$2,145 for camp fees and \$1,050 for training during the year ended September 30, 2016.

15. PRODUCT SALES

Product sales for the year ended September 30, 2016 are detailed as follows:

	<u>COOKIE SALES</u>	<u>FALL SALES</u>	<u>TOTAL</u>
Sales	\$ 11,185,574	\$ 730,994	\$ 11,916,568
Cost of sales	<u>5,868,780</u>	<u>529,278</u>	<u>6,398,058</u>
NET SALES	<u>\$ 5,316,794</u>	<u>\$ 201,716</u>	<u>\$ 5,518,510</u>

16. CONCENTRATIONS

A. Cash

The Council maintains its cash balances in financial institutions and money market investments. The balances at the financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At various times there were balances in the bank that were over the FDIC limit. At September 30, 2016, the uninsured cash balance was \$2,621,859. The Council has not experienced any loss in such accounts and believes it is not exposed to any significant credit risk on its cash balances.

B. Inventory

For the year ended September 30, 2016, the Council made 80% of total merchandise inventory purchases from GSUSA.

NOTES TO FINANCIAL STATEMENTS (Continued)

16. CONCENTRATIONS (Continued)

C. Support and Revenue

All of the Council's support and revenue from net product sales are derived from Riverside and San Bernardino counties.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 6, 2017, which is the date the financial statements were available to be issued.