

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

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013 AND 2012**

**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, 2013 and 2012, 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 of 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, 2013 and 2012 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 21, 2014

**ORANGE COUNTY COUNCIL, INC.  
BOY SCOUTS OF AMERICA  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2013 AND 2012**

**ASSETS**

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2013	2012	2013	2012	2013	2012	2013	2012
Current Assets:								
Cash And Cash Equivalents	\$ 566,940	\$ 473,584	\$ 454,983	\$ 801,029	\$ 105,185	\$ 19,422	\$ 1,127,108	\$ 1,294,035
Accounts Receivable, Net	251,486	459,173	-	-	(154,604)	(213,320)	96,882	245,853
Pledges Receivable, Net	145,459	110,500	340,947	622,780	5,650	31,607	492,056	764,887
Legacies And Bequests Receivable	40,000	-	25,000	-	115,705	-	180,705	-
Inventories	69,853	48,107	-	-	-	-	69,853	48,107
Inter-Fund Loans	291,086	291,086	(291,086)	(291,086)	-	-	-	-
Prepaid Expenses	115,771	533,042	-	-	-	-	115,771	533,042
<b>Total Current Assets</b>	<b>1,480,595</b>	<b>1,915,492</b>	<b>529,844</b>	<b>1,132,723</b>	<b>71,936</b>	<b>(162,291)</b>	<b>2,082,375</b>	<b>2,885,924</b>
Property, Plant, And Equipment:								
Land And Land Improvements	-	-	20,258,452	20,258,452	-	-	20,258,452	20,258,452
Buildings	-	-	30,641,216	30,668,816	-	-	30,641,216	30,668,816
Improvements	-	-	1,210,305	1,210,305	-	-	1,210,305	1,210,305
Furniture And Equipment	-	-	3,598,137	2,822,112	-	-	3,598,137	2,822,112
Construction In Progress	-	-	-	602,879	-	-	-	602,879
<b>Total Property, Plant And Equipment, At Cost</b>	<b>-</b>	<b>-</b>	<b>55,708,110</b>	<b>55,562,564</b>	<b>-</b>	<b>-</b>	<b>55,708,110</b>	<b>55,562,564</b>
Less: Accumulated Depreciation	-	-	(12,126,082)	(10,775,913)	-	-	(12,126,082)	(10,775,913)
<b>Property, Plant, And Equipment, At Net Book Value</b>	<b>-</b>	<b>-</b>	<b>43,582,028</b>	<b>44,786,651</b>	<b>-</b>	<b>-</b>	<b>43,582,028</b>	<b>44,786,651</b>
Other Assets:								
Pledges Receivable, Net	300,000	348,746	7,599,095	7,541,998	12,000	-	7,911,095	7,890,744
Note Receivable - Related Party	-	-	-	-	115,948	110,948	115,948	110,948
Investments	-	-	-	-	11,812,619	11,453,268	11,812,619	11,453,268
Intangible Assets, Net	-	-	35,326	44,157	-	-	35,326	44,157
<b>Total Other Assets</b>	<b>300,000</b>	<b>348,746</b>	<b>7,634,421</b>	<b>7,586,155</b>	<b>11,940,567</b>	<b>11,564,216</b>	<b>19,874,988</b>	<b>19,499,117</b>
<b>Total Assets</b>	<b>\$ 1,780,595</b>	<b>\$ 2,264,238</b>	<b>\$ 51,746,293</b>	<b>\$ 53,505,529</b>	<b>\$ 12,012,503</b>	<b>\$ 11,401,925</b>	<b>\$ 65,539,391</b>	<b>\$ 67,171,692</b>

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, 2013 AND 2012**

**LIABILITIES AND NET ASSETS**

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2013	2012	2013	2012	2013	2012	2013	2012
<b>Current Liabilities:</b>								
Accounts Payable	\$ 157,090	\$ 494,949	\$ 102	\$ 3,172	\$ -	\$ -	\$ 157,192	\$ 498,121
Accrued Employee Compensation	168,060	149,023	-	-	-	-	168,060	149,023
Custodian Accounts	727,039	744,957	32,190	53,528	33,104	33,095	792,333	831,580
Current Portion - Long-Term Debt	-	-	424,923	418,748	-	-	424,923	418,748
Deferred Income	176,108	247,196	-	-	-	-	176,108	247,196
Other Current Liabilities	357	681	-	-	-	-	357	681
<b>Total Current Liabilities</b>	<b>1,228,654</b>	<b>1,636,806</b>	<b>457,215</b>	<b>475,448</b>	<b>33,104</b>	<b>33,095</b>	<b>1,718,973</b>	<b>2,145,349</b>
<b>Long-Term Liabilities:</b>								
Long-Term Debt - Net Of Current Portion	-	-	12,975,984	13,403,528	-	-	12,975,984	13,403,528
Other Long-Term Liability	-	-	395,712	602,074	-	-	395,712	602,074
<b>Total Long-Term Liabilities</b>	<b>-</b>	<b>-</b>	<b>13,371,696</b>	<b>14,005,602</b>	<b>-</b>	<b>-</b>	<b>13,371,696</b>	<b>14,005,602</b>
<b>Total Liabilities</b>	<b>1,228,654</b>	<b>1,636,806</b>	<b>13,828,911</b>	<b>14,481,050</b>	<b>33,104</b>	<b>33,095</b>	<b>15,090,669</b>	<b>16,150,951</b>
<b>Net Assets:</b>								
Unrestricted	(62,473)	(109,634)	33,699,282	34,777,497	11,074,757	10,482,546	44,711,566	45,150,409
Temporarily Restricted-For Time	614,414	636,614	-	-	30,491	30,491	644,905	667,105
Temporarily Restricted-For Use	-	100,452	18,100	46,982	-	-	18,100	147,434
Permanently Restricted	-	-	4,200,000	4,200,000	874,151	855,793	5,074,151	5,055,793
<b>Total Net Assets</b>	<b>551,941</b>	<b>627,432</b>	<b>37,917,382</b>	<b>39,024,479</b>	<b>11,979,399</b>	<b>11,368,830</b>	<b>50,448,722</b>	<b>51,020,741</b>
<b>Total Liabilities And Net Assets</b>	<b>\$ 1,780,595</b>	<b>\$ 2,264,238</b>	<b>\$ 51,746,293</b>	<b>\$ 53,505,529</b>	<b>\$ 12,012,503</b>	<b>\$ 11,401,925</b>	<b>\$ 65,539,391</b>	<b>\$ 67,171,692</b>

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, 2013 AND 2012**

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2013	2012	2013	2012	2013	2012	2013	2012
<b>Changes In Unrestricted Net Assets</b>								
Support And Revenue:								
Direct Support:								
Friends Of Scouting	\$ 973,814	\$ 1,136,215	\$ -	\$ -	\$ -	\$ -	\$ 973,814	\$ 1,136,215
Noncash Contributions	8,792	15,900	50	-	-	-	8,842	15,900
Special Events Gross	1,101,381	905,635	-	-	-	-	1,101,381	905,635
Less: Events Cost	(221,691)	(271,415)	-	-	-	-	(221,691)	(271,415)
Net Special Events	879,690	634,220	-	-	-	-	879,690	634,220
Capital Campaigns	-	-	638,100	300,835	-	-	638,100	300,835
Pledge Receivables Discount	26,299	-	51,705	162,656	-	-	78,004	162,656
Bequests	293,148	265,166	25,000	-	115,705	-	433,853	265,166
Foundations and Trusts	163,300	146,625	-	-	-	-	163,300	146,625
Other Direct Support	149,688	147,639	19,500	2,500	-	4,957	169,188	155,096
Total Direct Support	2,494,731	2,345,765	734,355	465,991	115,705	4,957	3,344,791	2,816,713
Indirect Support:								
United Way	450	4,044	-	-	-	-	450	4,044
Grants And Foundations	100,377	638,188	-	-	-	-	100,377	638,188
Total Indirect Support	100,827	642,232	-	-	-	-	100,827	642,232
Revenues:								
Product Sales - Gross	1,330,989	1,274,102	-	-	-	-	1,330,989	1,274,102
Less: Cost Of Product Sold	(369,236)	(370,160)	-	-	-	-	(369,236)	(370,160)
Less: Commissions Earned And Retained By Units	(427,050)	(407,979)	-	-	-	-	(427,050)	(407,979)
Net Product Sales	534,703	495,963	-	-	-	-	534,703	495,963
Camping - Gross	2,841,095	2,429,615	-	-	-	-	2,841,095	2,429,615
Less: Cost Of Resale Items	(35,634)	(51,190)	-	-	-	-	(35,634)	(51,190)
Net Camping	2,805,461	2,378,425	-	-	-	-	2,805,461	2,378,425
Activities	2,105,117	1,225,058	-	-	-	-	2,105,117	1,225,058
Less: Cost Of Product And Commissions	(159,037)	(211,373)	-	-	-	-	(159,037)	(211,373)
Net Activities	1,946,080	1,013,685	-	-	-	-	1,946,080	1,013,685
Income From Rents	277,627	258,581	-	-	-	-	277,627	258,581
Return On Investments	415,503	406,585	-	-	544,094	815,143	959,597	1,221,728
Miscellaneous	421,478	537,995	15	26	-	-	421,493	538,021
Total Revenues	6,400,852	5,091,234	15	26	544,094	815,143	6,944,961	5,906,403
Net Assets Released From Restrictions	386,955	328,020	46,982	27,000	-	-	433,937	355,020
Total Unrestricted Support And Revenue	9,383,365	8,407,251	781,352	493,017	659,799	820,100	10,824,516	9,720,368

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, 2013 AND 2012**

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2013	2012	2013	2012	2013	2012	2013	2012
<u>Changes In Unrestricted Net Assets (Continued)</u>								
Expenses:								
Program Services	\$ 8,067,532	\$ 6,731,104	\$ 1,624,518	\$ 1,452,662	\$ 59,045	\$ 40,472	\$ 9,751,095	\$ 8,224,238
Support Services:								
Management And General	624,949	1,062,868	126,450	230,755	4,596	6,429	755,995	1,300,052
Fund Raising	536,720	504,595	108,599	109,550	3,947	3,043	649,266	617,188
Total Supporting Expenses	1,161,669	1,567,463	235,049	340,305	8,543	9,472	1,405,261	1,917,240
Total Functional Expenses	9,229,201	8,298,567	1,859,567	1,792,967	67,588	49,944	11,156,356	10,141,478
Payments To National Office	107,003	83,095	-	-	-	-	107,003	83,095
Total Expenses	9,336,204	8,381,662	1,859,567	1,792,967	67,588	49,944	11,263,359	10,224,573
Increase (Decrease) In Unrestricted Net Assets	47,161	25,589	(1,078,215)	(1,299,950)	592,211	770,156	(438,843)	(504,205)
<u>Changes In Temporarily Restricted Support</u>								
Support And Revenue:								
Direct Support:								
Friends Of Scouting	260,303	238,429	-	-	-	-	260,303	238,429
Special Events - Gross	-	68,600	-	-	-	-	-	68,600
Other Contributions	4,000	9,900	18,100	3,000	-	-	22,100	12,900
Total Direct Contributions	264,303	316,929	18,100	3,000	-	-	282,403	319,929
Total Support And Revenue	264,303	316,929	18,100	3,000	-	-	282,403	319,929
Net Assets Released From Restrictions	(386,955)	(328,020)	(46,982)	(27,000)	-	-	(433,937)	(355,020)
Decrease In Temporarily Restricted Net Assets	(122,652)	(11,091)	(28,882)	(24,000)	-	-	(151,534)	(35,091)
<u>Changes In Permanently Restricted Support</u>								
Support And Revenue:								
Direct Support:								
Other Direct Support	-	-	-	-	18,358	25	18,358	25
Increase In Permanently Restricted Net Assets	-	-	-	-	18,358	25	18,358	25
Increase (Decrease) In Total Net Assets	(75,491)	14,498	(1,107,097)	(1,323,950)	610,569	770,181	(572,019)	(539,271)
Total Net Assets At Beginning Of Year, As Restated	627,432	612,934	39,024,479	40,348,429	11,368,830	10,598,649	51,020,741	51,560,012
Total Net Assets At End Of Year	\$ 551,941	\$ 627,432	\$ 37,917,382	\$ 39,024,479	\$ 11,979,399	\$ 11,368,830	\$ 50,448,722	\$ 51,020,741

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, 2013 AND 2012**

	<u>Operating Fund</u>		<u>Capital Fund</u>		<u>Endowment Fund</u>		<u>Total All Funds</u>	
	2013	2012	2013	2012	2013	2012	2013	2012
<b>Cash Flows From Operating Activities:</b>								
Increase (Decrease) In Total Net Assets	\$ (75,491)	\$ 14,498	\$ (1,107,097)	\$ (1,323,950)	\$ 610,569	\$ 770,181	\$ (572,019)	\$ (539,271)
<b>Non Cash Items Included In Change In Total Net Assets:</b>								
Allowance For Uncollectible Promises/Discount on Pledges	60,474	6,148	(51,705)	(162,656)	-	-	8,769	(156,508)
Depreciation And Amortization	-	-	1,363,599	1,381,226	-	-	1,363,599	1,381,226
Loss On Sale Of Property And Equipment	-	-	23,000	-	-	-	23,000	-
Realized Gains On Investments	-	-	-	-	(399,899)	(887,983)	(399,899)	(887,983)
Unrealized Gains On Interest Rate Swap	-	-	(206,362)	(88,168)	-	-	(206,362)	(88,168)
<b>Changes In:</b>								
Accounts And Pledges Receivable	161,000	(77,253)	276,441	486,333	(44,759)	83,946	392,682	493,026
Legacies And Bequests Receivable	(40,000)	-	(25,000)	-	(115,705)	-	(180,705)	-
Property Held For Sale	-	-	-	2,024,059	-	-	-	2,024,059
Inventories	(21,746)	(4,721)	-	-	-	-	(21,746)	(4,721)
Prepaid Expenses	417,271	(336,721)	-	-	-	-	417,271	(336,721)
Notes Receivable - Related Party	-	-	-	-	(5,000)	(5,000)	(5,000)	(5,000)
Accounts Payable, Accrued Expenses And Other Current Liabilities	(319,146)	63,723	(3,070)	(40,350)	-	-	(322,216)	23,373
Custodian Accounts	(17,918)	87,383	(21,338)	(50,000)	9	(9)	(39,247)	37,374
Deferred Income	(71,088)	124,458	-	-	-	-	(71,088)	124,458
Net Cash Provided By (Used In) Operating Activities	93,356	(122,485)	248,468	2,226,494	45,215	(38,865)	387,039	2,065,144
<b>Cash Flows From Investing Activities:</b>								
Proceeds From Investments	-	-	-	-	3,389,389	5,811,441	3,389,389	5,811,441
Payments For Purchases Of Investments	-	-	-	-	(3,348,841)	(5,760,175)	(3,348,841)	(5,760,175)
Purchase Of Property And Equipment	-	-	(173,145)	(22,894)	-	-	(173,145)	(22,894)
Net Cash Provided By (Used In) Investing Activities	-	-	(173,145)	(22,894)	40,548	51,266	(132,597)	28,372
<b>Cash Flows From Financing Activities:</b>								
Net Payments On Line Of Credit	-	-	-	(1,686,878)	-	-	-	(1,686,878)
Payments On Long-Term Debt	-	-	(421,369)	(411,328)	-	-	(421,369)	(411,328)
Net Cash Used In Financing Activities	-	-	(421,369)	(2,098,206)	-	-	(421,369)	(2,098,206)
Net Increase (Decrease) In Cash And Cash Equivalents	93,356	(122,485)	(346,046)	105,394	85,763	12,401	(166,927)	(4,690)
Cash And Cash Equivalents At Beginning Of Year	473,584	596,069	801,029	695,635	19,422	7,021	1,294,035	1,298,725
Cash And Cash Equivalents At End Of Year	<u>\$ 566,940</u>	<u>\$ 473,584</u>	<u>\$ 454,983</u>	<u>\$ 801,029</u>	<u>\$ 105,185</u>	<u>\$ 19,422</u>	<u>\$ 1,127,108</u>	<u>\$ 1,294,035</u>
<b>Supplemental Disclosure Of Cash Flow Information:</b>								
Cash Paid For Interest	<u>\$ 3,502</u>	<u>\$ 625</u>	<u>\$ 220,203</u>	<u>\$ 404,663</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 223,705</u>	<u>\$ 405,288</u>

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, 2013, WITH 2012 TOTALS**

	Program Services	Supporting Services			Total Functional Expenses	
		Management and General	Fund Raising	Total	2013	2012
Salaries And Related Expenses:						
Salaries	\$ 3,202,052	\$ 249,244	\$ 214,057	\$ 463,301	\$ 3,665,353	\$ 3,962,368
Employee Benefits	435,069	33,865	29,084	62,949	498,018	539,474
Payroll Taxes And Compensation Insurance	363,330	28,281	24,289	52,570	415,900	452,799
Employee Related Expenses	11,919	928	797	1,725	13,644	8,299
<b>Total Salaries And Related Expenses</b>	<b>4,012,370</b>	<b>312,318</b>	<b>268,227</b>	<b>580,545</b>	<b>4,592,915</b>	<b>4,962,940</b>
Other Expenses:						
Pledge Bad Debt Expense	31,313	2,437	2,093	4,530	35,843	-
Professional Fees	260,137	20,249	17,390	37,639	297,776	138,599
Supplies	964,367	75,065	64,468	139,533	1,103,900	986,045
Telephone	63,623	4,952	4,253	9,205	72,828	88,718
Postage And Shipping	27,800	2,164	1,858	4,022	31,822	40,707
Occupancy	893,357	69,538	59,721	129,259	1,022,616	816,953
Rental And Maintenance Of Equipment	267,239	20,802	17,865	38,667	305,906	330,870
Printing And Publication	105,070	8,179	7,024	15,203	120,273	129,161
Travel	786,720	61,237	52,592	113,829	900,549	243,373
Conferences And Meeting	263,267	20,492	17,599	38,091	301,358	73,793
Specific Assistance To Individuals	38,783	-	-	-	38,783	40,062
Recognition Awards	166,639	12,971	11,140	24,111	190,750	223,309
Interest	375,707	29,245	25,116	54,361	430,068	493,456
Unrealized Gain On Interest Rate Swap	(180,278)	(14,033)	(12,052)	(26,085)	(206,363)	(88,168)
General Liability Insurance	138,660	10,793	9,269	20,062	158,722	136,918
Miscellaneous	332,704	25,897	22,241	48,138	380,842	194,179
Loss On Disposal Of Fixed Asset	20,093	1,564	1,343	2,907	23,000	-
<b>Total Other Expenses</b>	<b>4,555,201</b>	<b>351,552</b>	<b>301,920</b>	<b>653,472</b>	<b>5,208,673</b>	<b>3,847,975</b>
Expenses Before Depreciation	8,567,571	663,870	570,147	1,234,017	9,801,588	8,810,915
Depreciation Of Property, Plant And Equipment	1,183,524	92,125	79,119	171,244	1,354,768	1,330,563
<b>Total Functional Expenses</b>	<b>\$ 9,751,095</b>	<b>\$ 755,995</b>	<b>\$ 649,266</b>	<b>\$ 1,405,261</b>	<b>\$ 11,156,356</b>	<b>\$ 10,141,478</b>

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, 2013 AND 2012**

**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies**

- (1) Nature Of Operations - Orange County Council, Inc., Boy Scouts of America (the "Council") operates under the national charter of the Boy Scouts of America and provides training for qualified persons to serve as unit leaders while supplying program opportunities and facilities. 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 Bylaws, and Rules and Regulations of the Boy Scouts of America, the Scouting program of promoting the ability of boys, 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.

**ORANGE COUNTY COUNCIL, INC.,  
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**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies -  
(Continued)**

(1) Nature Of Operations - (Continued)

*Exploring* - A work-experience based program, Exploring gives young men and women, ages 14-20, an opportunity to visit community organizations and explore the dynamics of various careers. Local community organizations initiate an Explore 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 youths pursue their special interest.

*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](http://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 June 2014.

**ORANGE COUNTY COUNCIL, INC.,  
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**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies -  
(Continued)**

(1) Nature Of Operations - (Continued)

- 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.
- 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 is subleased to Adopt-A-Highway on a monthly basis.
- 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.

**ORANGE COUNTY COUNCIL, INC.,  
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DECEMBER 31, 2013 AND 2012**

**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies -  
(Continued)**

(2) Basis Of Presentation - The financial statements of the Council have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The accounts of the Council are maintained in accordance with the principles of fund accounting. Accordingly, all financial transactions have been recorded and reported by fund type.

- *Operating Fund* - Is used to account for all resources over which the Executive Board has discretionary control in carrying out the general operations of the Council.
- *Capital Fund* - Is used to account for all property, plant, and equipment used by the Council and the related liabilities and unexpended resources contributed specifically for the purpose of acquiring property, plant, and equipment.
- *Endowment Fund* - Are funds that are either (1) permanently restricted funds from donors who have stipulated that the corpus can never be used, (2) temporarily restricted funds that can be used for a specific purpose or time period, or (3) unrestricted funds that are designated by the Board of Directors for specific purposes.

Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Council are classified and reported as follows:

- *Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* - 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* - Net assets subject to donor-imposed stipulations that can never be removed by time or the actions of the Council's executive board. Typically, these are gifts to the Council's Endowment Fund but may also include gifts of permanently restricted property, such as land that can never be sold.

**ORANGE COUNTY COUNCIL, INC.,  
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DECEMBER 31, 2013 AND 2012**

**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies -  
(Continued)**

- (3) 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.
- (4) Accounts Receivable - Accounts receivable are recorded primarily for product sales and facility rentals 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, 2013 and 2012, the allowance for doubtful accounts was \$26,495 and \$0, respectively.
- (5) Contributions - Pledges are recorded as receivables, and allowances are provided for amounts estimated to be uncollectible. Pledges are considered to be income in the year the pledge is made. Pledges expected to be collected within one year are recorded at net realizable value. Pledges expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows.

The discounts on pledges, to be collected in future years, are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Pledges are classified as unrestricted, temporarily restricted, or permanently restricted.

Contributions to the capital fund that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is 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 restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of changes in net assets as net assets released from restrictions.

- (6) 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 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.

**ORANGE COUNTY COUNCIL, INC.,  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies -  
(Continued)**

(6) Donated Materials And Services - (Continued)

Donated services are recognized as contributions in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-605, “*Accounting For Contributions Received and Contributions Made*”, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Council. Many volunteers provide services throughout the year that are not recognized as contributions in the financial statements, because the recognition criteria under ASC 958-605 were not met. A substantial number of volunteers donated significant amounts of their time in the Council’s program services and its fundraising campaigns, the value of which is not recorded in the accompanying financial statements. During the years ended December 31, 2013 and 2012, the Council recorded \$8,792 and \$15,900, respectively, in the operating fund, and \$50 in the capital fund in 2013, as noncash contributions revenue and corresponding expenses for donated materials and services.

(7) Inventories - Inventories of merchandise are valued at the lower of average cost or market on a first-in, first-out basis.

(8) 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, 2013 and 2012, totaled \$1,354,768 and \$1,330,563, respectively.

**ORANGE COUNTY COUNCIL, INC.,  
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**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies -  
(Continued)**

- (9) Long-Lived Assets And Asset Impairment - The Council accounts for long-lived assets in accordance with FASB ASC 360-10, "*Property, Plant, and Equipment*". FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amount. At December 31, 2013 and 2012, there were no impairment losses noted.
- (10) 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 FASB ASC 958-320 and subsections (formerly SFAS No. 124, "*Accounting for Certain Investments Held by Not-for-Profit Organizations*"). This standard requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the statements of financial position. Fair value of marketable equity and debt securities is based on quoted market prices. The realized and unrealized gain or loss on investments is reflected in the statements of activities and changes in net assets.

Investments are exposed to various risks such as significant world events, interest rates, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position. In accordance with FASB ASC 958-205 and subsections (formerly FASB Staff Position No. 117-1 ("FAS 117-1"), "*Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*"), the Council has determined it is subject to the Uniform Prudent Management of Institutional Funds Act of 2006, which requires the Council to classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets, unless stated otherwise in the gift instrument by the donor. These gift instruments are donor-restricted assets until appropriated for expenditure by the Council.

- (11) Custodian Accounts - The custodian accounts represents amounts held for others.
- (12) Advertising - Advertising costs are charged to operations in the period in which the advertisement is placed. Advertising for 2013 and 2012 amounted to approximately \$180,000 and \$67,000, respectively.

**ORANGE COUNTY COUNCIL, INC.,  
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**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies -  
(Continued)**

- (13) 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 512 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 standard on “*Accounting for Uncertainty in Income Taxes*” (ASC 740-10-25). 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, 2013 and 2012, there were no interest or penalties recorded or included in the accompanying financial statements. The Council’s 2010 to 2013 tax years are open to review for federal tax purposes and 2009 to 2013 tax years are open to review for state income tax purposes.
- (14) 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.
- (15) Use Of Estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and gains, and expenses and losses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.
- (16) 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.

**ORANGE COUNTY COUNCIL, INC.,  
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NOTES TO FINANCIAL STATEMENTS  
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**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies -  
(Continued)**

- (17) 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 incur a significant 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.
- (18) Interfund Loans - The interfund loans at December 31, 2013 and 2012 resulted from the Operating Fund making advances of surplus cash funds to the Capital Fund for operating purposes.
- (19) Recent Accounting Pronouncements -

*Statement of Cash Flows (Topic 230), Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows (ASU 2012-05)* - Issued in October 2013, the amendments in this update require a local council to classify cash receipts from the sale of donated financial assets (e.g., stocks, bonds, and other contractual claims) as cash inflows from operating activities, *unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash inflows from financing activities and shall be simultaneously reported as cash outflows from investing activities.* ASU 2012-05 is effective for fiscal years beginning after June 15, 2013, with early adoption permitted under certain circumstances. The Council does not expect the implementation of ASU 2012-05 to have a material effect on its financial statements.

*Derivatives and Hedging (Topic 815), Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes (ASU 2013-10)* - The amendments in this update permit the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013. The Council does not expect the implementation of ASU 2013-10 to have a material effect on its financial statements.

**ORANGE COUNTY COUNCIL, INC.,  
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**NOTE B:** **Risks And Uncertainties** - The Council maintains cash balances at multiple financial institutions. At December 31, 2013, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2013 and 2012, the Council's cash balances on deposit at the institutions in excess of federally insured limits totaled \$391,558 and \$1,030,361, respectively.

**NOTE C:** **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 D:** **Pledges Receivable** - The unconditional promises to give at December 31, 2013 and 2012, are as follows:

	2013	2012
Friends Of Scouting	\$ 533,035	\$ 436,348
Restricted To Capital Fund	8,454,000	8,805,546
Restricted To Endowment Fund	17,650	31,607
Subtotal	9,004,685	9,273,501
Less: Discount For Present Value Of Pledge Receivables	(539,063)	(469,907)
Less: Allowance For Uncollectible Pledge Receivables	(62,471)	(147,963)
Subtotal Unconditional Promises To Give	8,403,151	8,655,631
Less Current Portion Of Pledge Receivables	(492,056)	(764,887)
Long-Term Portion Of Pledge Receivables	\$ 7,911,095	\$ 7,890,744
Pledges receivable, due in:		
Less Than One Year	\$ 554,632	\$ 790,735
One To Five Years	8,250,053	3,232,766
Thereafter	200,000	5,250,000
	\$ 9,004,685	\$ 9,273,501

The discount risk-adjusted interest rate used to calculate the present value ranged from 0.72 percent to 2.47 percent for the years ended December 31, 2013 and 2012.

**ORANGE COUNTY COUNCIL, INC.,  
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**NOTE D: Pledges Receivable - (Continued)**

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, 2013 and 2012, the remaining pledge receivable of \$2.7 million is reported at the lower of carrying value or the estimated fair value of the second property to be received.

**NOTE E: 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, is secured by real property, and will be repaid upon the sale of the secured real property or termination of employment. The balance due for principal and interest to the Council at December 31, 2013 and 2012, is \$115,948 and \$110,948, respectively, and is included in notes receivable-related party in the accompanying statements of financial position.

**NOTE F: Commitments And Contingencies**

- (1) Line of Credit - At December 31, 2013 and 2012, the Council had a unsecured revolving line of credit agreement with a commercial bank of \$500,000 maturing October 2014. Borrowings under this agreement bear interest at the bank's prime rate (3.25 percent at December 31, 2013 and 2012) At December 31, 2013 and 2012, outstanding borrowings were \$0.
- (2) 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 (1.41% and 1.43% at December 31, 2013 and 2012, 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, 2013 and 2012, the Loan balance was \$13,400,907, and \$13,822,276, respectively.

**ORANGE COUNTY COUNCIL, INC.,  
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**NOTE F: Commitments And Contingencies - (Continued)**

(2) 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:

2014	\$ 424,923
2015	431,190
2016	437,044
2017	443,995
2018	450,544
Thereafter	<u>11,213,211</u>
Subtotal	13,400,907
Less current portion of Long-Term Debt	<u>(424,923)</u>
Long-Term Debt	<u>\$ 12,975,984</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, 2013, the Council was in compliance with these financial covenants.

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

**ORANGE COUNTY COUNCIL, INC.,  
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**NOTE F: Commitments And Contingencies - (Continued)**

- (4) 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 \$73,000 and \$71,000, respectively, for the years ended December 31, 2013 and 2012.

The Council subleases a portion of two facilities to unrelated parties under non-cancelable lease agreements. The lease agreements expire through June 2014 and provide for monthly rental income ranging from \$1,000 to \$7,000. Total rental income for the years ended December 31, 2013 and 2012, under these agreements was approximately \$83,000 and \$104,000, respectively.

Minimum future net rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2013, in aggregate are as follows:

	Gross Lease Expense	Sublease Income	Net Lease Expense
2014	\$ 51,764	\$ (5,220)	\$ 46,544
2015	34,220	-	34,220
2016	19,500	-	19,500
2017	19,500	-	19,500
2018	19,500	-	19,500
Thereafter	<u>273,000</u>	<u>-</u>	<u>273,000</u>
	<u>\$ 417,484</u>	<u>\$ (5,220)</u>	<u>\$ 412,264</u>

- (5) 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.

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**NOTE G: Employee Benefit Plans**

- (1) 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 \$143,000 and \$170,000, for years ended December 31, 2013 and 2012, respectively, and covered current service costs.

The actuarial information for the multi-employer plan as of February 1, 2013 and 2012 indicates that it is in compliance with ERISA regulations regarding funding. The assumed rate of return used in determining actuarial present values of accumulated benefits was 7 percent. The actuarial information stated that there was a change from the prior year in actuarial assumptions, cost method, treatment of actuarial gains and losses, and amortization of past or prior service cost. The unit credit method, as required under the Pension Protection Act of 2006, is used in the actuarial valuation; amortization of gains and losses is over seven years; and the amortization of past or prior service cost is seven years. The actuarial valuation includes all Plan amendments as of February 1, 2013.

- (2) 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 \$21,000 and \$19,000, respectively to the Thrift Plan in 2013 and 2012, respectively.
- (3) 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, 2013 and 2012, the Council remitted approximately \$313,000 and \$349,000, respectively, on behalf of its employees to the National Council related to the healthcare plan.

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**NOTE H:**     **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 2013 and 2012 amounted to approximately \$278,000 and \$259,000, respectively, which are included in income from rents in the statements of activities and changes in net assets.

**NOTE I:**     **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.

The Council has interpreted the State 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

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**NOTE I: Endowment Funds - (Continued)**

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.

The following is the endowment net asset composition by type of fund as of December 31, 2013.

	<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	\$ -	\$ -	\$ 30,491	\$ 874,151	\$ 904,642
Board-Designated Endowment Funds	-	11,074,757	-	-	11,074,757
Total Funds	<u>\$ -</u>	<u>\$ 11,074,757</u>	<u>\$ 30,491</u>	<u>\$ 874,151</u>	<u>\$ 11,979,399</u>

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**NOTE I: Endowment Funds - (Continued)**

The following is the endowment net asset composition by type of fund as of December 31, 2012.

	<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	\$ -	\$ -	\$ 30,491	\$ 855,793	\$ 886,284
Board-Designated Endowment Funds	-	<u>10,482,546</u>	-	-	<u>10,482,546</u>
Total Funds	<u>\$ -</u>	<u>\$ 10,482,546</u>	<u>\$ 30,491</u>	<u>\$ 855,793</u>	<u>\$ 11,368,830</u>

Changes in the endowment fund net assets for the years ended December 31, 2013 and 2012 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, 2011	\$ -	\$ 9,712,390	\$ 30,491	\$ 855,768	\$ 10,598,649
Investment Return	-	815,143	-	-	815,143
Contributions	-	4,957	-	25	4,982
Appropriation of Endowment Assets For Expenditure	-	<u>(49,944)</u>	-	<u>855,793</u>	<u>(49,944)</u>
Endowment Fund Net Assets, December 31, 2012	\$ -	\$ 10,482,546	\$ 30,491	\$ 855,793	\$ 11,368,830
Investment Return	-	544,094	-	-	544,094
Contributions	-	115,705	-	18,358	134,063
Appropriation of Endowment Assets For Expenditure	-	<u>(67,588)</u>	-	-	<u>(67,588)</u>
Endowment Fund Net Assets December 31, 2013	<u>\$ -</u>	<u>\$ 11,074,757</u>	<u>\$ 30,491</u>	<u>\$ 874,151</u>	<u>\$ 11,979,399</u>

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**NOTE I: Endowment Funds - (Continued)**

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, 2013 and 2012.

**NOTE J: 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 IROEC. The restricted cash and capital assets are considered permanently restricted due to the donors' stipulations.**

Temporarily restricted net assets as of December 31, 2013 and 2012, consist of the following:

	2013	2012
Cash Restricted For Time	\$ 344,905	\$ 317,105
Cash Restricted For Use	18,100	147,434
Net Pledge Receivables Restricted For Time	300,000	350,000
<b>Total Temporarily Restricted Net Assets</b>	<b>\$ 663,005</b>	<b>\$ 814,539</b>

Permanently restricted net assets as of December 31, 2013 and 2012, consist of the following:

	2013	2012
Various Capital Assets	\$ 4,200,000	\$ 4,200,000
Cash Restricted	874,151	855,793
<b>Total Permanently Restricted Net Assets</b>	<b>\$ 5,074,151</b>	<b>\$ 5,055,793</b>

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**NOTE K:** Investments - Investments at December 31, 2013 are composed of the following:

	<u>Cost</u>	<u>Fair Value</u>
Fixed Income Bonds	\$ 7,979,690	\$ 7,778,087
Common Stock	2,312,729	2,965,798
International Stock	573,383	673,708
Money Market	<u>395,026</u>	<u>395,026</u>
Total	<u>\$ 11,260,828</u>	<u>\$ 11,812,619</u>

Investments at December 31, 2012 are composed of the following:

	<u>Cost</u>	<u>Fair Value</u>
Fixed Income Bonds	\$ 6,654,846	\$ 6,769,112
Common Stock	2,526,160	2,775,634
International Stock	570,214	629,227
Money Market	<u>1,279,295</u>	<u>1,279,295</u>
Total	<u>\$ 11,030,515</u>	<u>\$ 11,453,268</u>

The following summarizes the investment return in the statements of activities and changes in net assets for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Interest And Dividend Income	\$ 430,741	\$ 424,289
Net Realized and Unrealized Gains	579,881	847,242
Investment Expenses	<u>(51,025)</u>	<u>(49,803)</u>
Total	<u>\$ 959,597</u>	<u>\$ 1,221,728</u>

The above investments are classified in the 2013 and 2012 statements of financial position as follows:

	<u>2013</u>	<u>2012</u>
Unrestricted	\$ 10,907,977	\$ 10,566,984
Temporarily Restricted - For Time	30,491	30,491
Permanently Restricted	<u>874,151</u>	<u>855,793</u>
Total	<u>\$ 11,812,619</u>	<u>\$ 11,453,268</u>

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**NOTE K: Investments - (Continued)**

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 2013 and 2012, investment expenses were \$51,025 and \$49,803, respectively and are netted against investment return in the statements of changes in net assets (see schedule on previous page).

**NOTE L: Summary Of Fair Value Exposure -** The FASB *Fair Value Measurement* standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable. The Council has adopted this standard for its financial assets and liabilities measured on a recurring and nonrecurring basis (ASC 820-10).

*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 corporate bonds* - Valued at the closing market price on the stock exchange where they are traded (primarily the New York Stock Exchange).

*Money market* - Composed of funds invested in money market mutual funds. Money market mutual funds consist 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 funds seek 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.

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

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**NOTE L: Summary Of Fair Value Exposure - (Continued)**

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 Council's equity securities with a readily determinable fair value and debt securities held in the endowment fund at December 31, 2013 and 2012, which are measured at fair value on a recurring basis and are all Level 1 assets, comprise the following:

	2013	2012
Fixed Income Bonds	\$ 7,778,087	\$ 6,769,112
Common Stock	2,965,798	2,775,634
International Stock	673,708	629,227
Money Market	395,026	1,279,295
<b>Total</b>	<b>\$ 11,812,619</b>	<b>\$ 11,453,268</b>

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

**NOTE M: 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.

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**NOTE M: Interest Rate Risk Management - (Continued)**

On February 6, 2009, the Council entered into an interest rate swap agreement with a bank which became effective on October 1, 2009, whereby the Council pays interest based on a fixed rate of 4.64 percent (including the margin of 1.3 percent) in exchange for receipt of interest payments based on 30-day LIBOR plus 1.3 percent (matching the variable rate paid on long-term debt) on a notional amount of \$12 million reducing to \$9.2 million in amounts approximating the amortization on the term bank loan described in Note F. The Council had an option to early terminate the swap until December 1, 2015 in amounts up to 34.5 percent of the then current notional amount without penalty.

The Council amended the interest rate swap described in the preceding paragraph on February 4, 2011 with substantially the same terms but with a lower tax exempt rate. The amended swap provides for the Council to pay interest on the notional amount of \$12 million, reducing in amounts approximating the amortization on the Loan described in Note F, based on a fixed rate of 3.48 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). Until February 4, 2011, the Council had an option to early terminate the swap in amounts up to 34.5 percent of the then current notional amount without penalty. The swap terminates on January 1, 2016.

The following summarizes the terms for the year ended December 31:

	<u>2013</u>	<u>2012</u>
Net long-term borrowing, effective interest rate of 2.73% and 3.10% for the years ended December 31, 2013 and 2012, respectively	\$ 3,171,014	\$ 3,106,471
Notional amount of interest rate swap (fixed rate of 3.48 %)	<u>10,229,893</u>	<u>10,715,805</u>
Total	<u>\$ 13,400,907</u>	<u>\$ 13,822,276</u>

Net interest paid under the swaps was \$209,115 and \$212,266 for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, the fair value of the interest rate swap was a liability of \$395,712 and \$602,074, 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 L.

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**NOTE N:** **National Jamboree** – Held every four years, the Jamboree is a gathering of scouts throughout the nation. For the year ended December 31, 2013, of total activities revenue reported on the Statement of Activities and Changes in Net Assets, approximately \$1.1 million was attributable to the Jamboree.

On the Statement of Functional Expenses, for the year ended December 31, 2013, approximately \$625,000 of travel expenses, \$259,000 of conferences and meetings, and \$267,000 of supplies were attributable to the Jamboree.

**NOTE O:** **Prior Period Information** - The statement of functional expenses includes certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity 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, 2012, from which the summarized information was derived.

**NOTE P:** **Prior Period Adjustments** - Net assets and pledge receivables for the year ended December 31, 2012 have been adjusted for prior year correction in relation to a promise to give. This adjustment decreased total net assets for the year ended December 31, 2012, by \$50,000.

Capital campaign support and pledge receivables for the year ended December 31, 2012 have been reduced by \$50,000 for a prior year correction in relation to a promise to give. This adjustment decreased total direct support for the year ended December 31, 2012 by \$50,000.

**NOTE Q:** **Reclassifications** – Certain immaterial reclassifications have been made to the 2012 summarized financial statement information to conform to the current year presentation. These reclassifications had no effect on the change in net assets in 2012.

**NOTE R:** **Subsequent Events** - Events occurring after December 31, 2013 have been evaluated for possible adjustment to the financial statements or disclosure as of April 21, 2014, which is the date the financial statements were available to be issued.