

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

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

WITH INDEPENDENT AUDITORS' REPORT

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
FINANCIAL STATEMENTS
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DECEMBER 31, 2014 AND 2013**

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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, 2014 and 2013, and the related statements of activities and changes in net assets, cash flows, and functional expenses, for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orange County Council, Inc., Boy Scouts of America as of December 31, 2014 and 2013 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 24, 2015

**ORANGE COUNTY COUNCIL, INC.
BOY SCOUTS OF AMERICA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013**

ASSETS

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2014	2013	2014	2013	2014	2013	2014	2013
Current Assets:								
Cash and cash equivalents	\$ 1,188,951	\$ 566,940	\$ 156,530	\$ 454,983	\$ 135,392	\$ 105,185	\$ 1,480,873	\$ 1,127,108
Accounts receivable, net	105,933	96,882	1,200	-	-	-	107,133	96,882
Pledges receivable, net	182,165	171,758	3,244,569	340,947	6,550	5,650	3,433,284	518,355
Legacies and bequests receivable	-	40,000	-	25,000	-	115,705	-	180,705
Inventories	51,071	69,853	-	-	-	-	51,071	69,853
Interfund loans	143,988	154,604	-	-	(143,988)	(154,604)	-	-
Prepaid expenses	113,454	115,771	-	-	-	-	113,454	115,771
Total Current Assets	1,785,562	1,215,808	3,402,299	820,930	(2,046)	71,936	5,185,815	2,108,674
Property, Plant, and Equipment:								
Land and land improvements	-	-	20,258,452	20,258,452	-	-	20,258,452	20,258,452
Buildings	-	-	30,635,401	30,641,216	-	-	30,635,401	30,641,216
Improvements	-	-	1,210,305	1,210,305	-	-	1,210,305	1,210,305
Furniture and equipment	-	-	3,772,557	3,598,137	-	-	3,772,557	3,598,137
Total Property, Plant and Equipment, at Cost	-	-	55,876,715	55,708,110	-	-	55,876,715	55,708,110
Less: Accumulated Depreciation	-	-	(13,378,368)	(12,126,082)	-	-	(13,378,368)	(12,126,082)
Property, Plant, and Equipment, at Net Book Value	-	-	42,498,347	43,582,028	-	-	42,498,347	43,582,028
Other Assets:								
Pledges receivable, net	233,375	273,701	5,531,811	7,599,095	7,784	12,000	5,772,970	7,884,796
Note receivable - related party	-	-	-	-	120,948	115,948	120,948	115,948
Investments	-	-	-	-	12,069,203	11,812,619	12,069,203	11,812,619
Interfund loans	291,086	291,086	(291,086)	(291,086)	-	-	-	-
Other non-current assets	-	-	-	-	44,763	-	44,763	-
Intangible assets, net	-	-	26,490	35,326	-	-	26,490	35,326
Total Other Assets	524,461	564,787	5,267,215	7,343,335	12,242,698	11,940,567	18,034,374	19,848,689
Total Assets	\$ 2,310,023	\$ 1,780,595	\$ 51,167,861	\$ 51,746,293	\$ 12,240,652	\$ 12,012,503	\$ 65,718,536	\$ 65,539,391

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, 2014 AND 2013**

LIABILITIES AND NET ASSETS

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2014	2013	2014	2013	2014	2013	2014	2013
Current Liabilities:								
Accounts payable	\$ 191,168	\$ 157,090	\$ -	\$ 102	\$ 451	\$ -	\$ 191,619	\$ 157,192
Accrued employee compensation	191,455	168,060	-	-	-	-	191,455	168,060
Custodian accounts	925,249	727,039	32,190	32,190	33,104	33,104	990,543	792,333
Current portion - long-term debt	-	-	431,190	424,923	-	-	431,190	424,923
Deferred income	253,998	176,108	22,500	-	-	-	276,498	176,108
Other current liabilities	174	357	-	-	-	-	174	357
Total Current Liabilities	1,562,044	1,228,654	485,880	457,215	33,555	33,104	2,081,479	1,718,973
Long-Term Liabilities:								
Long-term debt - net of current portion	-	-	12,538,492	12,975,984	-	-	12,538,492	12,975,984
Other long-term liability	-	-	205,211	395,712	-	-	205,211	395,712
Total Long-Term Liabilities	-	-	12,743,703	13,371,696	-	-	12,743,703	13,371,696
Total Liabilities	1,562,044	1,228,654	13,229,583	13,828,911	33,555	33,104	14,825,182	15,090,669
Net Assets:								
Unrestricted	58,383	(62,473)	33,672,354	33,699,282	11,174,832	11,074,757	44,905,569	44,711,566
Temporarily restricted-for time	689,596	614,414	-	-	75,254	30,491	764,850	644,905
Temporarily restricted-for use	-	-	65,924	18,100	-	-	65,924	18,100
Permanently restricted	-	-	4,200,000	4,200,000	957,011	874,151	5,157,011	5,074,151
Total Net Assets	747,979	551,941	37,938,278	37,917,382	12,207,097	11,979,399	50,893,354	50,448,722
Total Liabilities and Net Assets	\$ 2,310,023	\$ 1,780,595	\$ 51,167,861	\$ 51,746,293	\$ 12,240,652	\$ 12,012,503	\$ 65,718,536	\$ 65,539,391

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, 2014 AND 2013

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2014	2013	2014	2013	2014	2013	2014	2013
Changes In Unrestricted Net Assets	\$ 1,014,635	\$ 1,000,113	\$ -	\$ -	\$ -	\$ -	\$ 1,014,635	\$ 1,000,113
Support and Revenue:								
Direct Support:								
Friends of Scouting	28,150	8,792	70,290	50	-	-	98,440	8,842
Noncash contributions	1,024,853	1,101,381	-	-	-	-	1,024,853	1,101,381
Special fundraising events - gross	(284,624)	(221,691)	-	-	-	-	(284,624)	(221,691)
Less: costs of direct benefit to participants	740,229	879,690	-	-	-	-	740,229	879,690
Net Special Events	-	-	1,360,856	638,100	-	-	1,360,856	638,100
Capital campaigns	-	-	180,469	51,705	-	-	180,469	51,705
Pledge receivables discount	268,400	293,148	-	25,000	-	-	268,400	433,853
Bequests	88,807	163,300	-	-	-	-	88,807	163,300
Foundations and trusts	-	-	19,289	-	-	-	19,289	-
Government fees grant	227,571	149,688	3,000	19,500	-	-	230,571	169,188
Other direct support	-	-	-	-	-	-	-	-
Total Direct Support	2,367,792	2,494,731	1,633,904	734,355	-	115,705	4,001,696	3,344,791
Indirect Support:								
United Way	159	450	-	-	-	-	159	450
Grants and foundations	74,277	100,377	-	-	-	-	74,277	100,377
Total Indirect Support	74,436	100,827	-	-	-	-	74,436	100,827
Revenues:								
Product sales - gross	1,301,984	1,330,989	-	-	-	-	1,301,984	1,330,989
Less: cost of product sold	(366,344)	(369,236)	-	-	-	-	(366,344)	(369,236)
Less: commissions earned and retained by units	(417,725)	(427,050)	-	-	-	-	(417,725)	(427,050)
Net Product Sales	517,915	534,703	-	-	-	-	517,915	534,703
Camping - gross	3,191,369	2,841,095	-	-	-	-	3,191,369	2,841,095
Less: cost of resale items	(68,027)	(35,634)	-	-	-	-	(68,027)	(35,634)
Net Camping	3,123,342	2,805,461	-	-	-	-	3,123,342	2,805,461
Activities	1,139,602	2,105,117	-	-	-	-	1,139,602	2,105,117
Less: cost of product and commissions	(189,906)	(159,037)	-	-	-	-	(189,906)	(159,037)
Net Activities	949,696	1,946,080	-	-	-	-	949,696	1,946,080
Income from rents	265,440	277,627	-	-	-	-	265,440	277,627
Return on investments	400,039	415,503	-	-	158,844	544,094	558,883	959,597
Miscellaneous	293,562	421,478	14	15	-	-	293,576	421,493
Total Revenues	5,549,994	6,400,852	14	15	158,844	544,094	5,708,852	6,944,961
Net Assets Released From Restrictions	311,397	386,955	-	46,982	-	-	311,397	433,937
Total Unrestricted Support and Revenue	8,303,619	9,383,365	1,633,918	781,352	158,844	659,799	10,096,381	10,824,516

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, 2014 AND 2013**

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2014	2013	2014	2013	2014	2013	2014	2013
<u>Changes In Unrestricted Net Assets (Continued)</u>								
Expenses:								
Program services	\$ 6,741,536	\$ 8,067,532	\$ 1,500,174	\$ 1,624,518	\$ 39,031	\$ 59,045	\$ 8,280,741	\$ 9,751,095
Support Services:								
Management and general	768,065	624,949	111,295	126,450	10,926	4,596	890,286	755,995
Fundraising	563,508	536,720	49,377	108,599	8,812	3,947	621,697	649,266
Total Supporting Expenses	1,331,573	1,161,669	160,672	235,049	19,738	8,543	1,511,983	1,405,261
Total Functional Expenses	8,073,109	9,229,201	1,660,846	1,859,567	58,769	67,588	9,792,724	11,156,356
Payments To National Office	109,654	107,003	-	-	-	-	109,654	107,003
Total Expenses	8,182,763	9,336,204	1,660,846	1,859,567	58,769	67,588	9,902,378	11,263,359
Increase (Decrease) In Unrestricted Net Assets	120,856	47,161	(26,928)	(1,078,215)	100,075	592,211	194,003	(438,843)
<u>Changes In Temporarily Restricted Support</u>								
Support and Revenue:								
Direct Support:								
Friends of Scouting	300,799	234,004	-	-	-	-	300,799	234,004
Pledge receivables discount	(9,674)	26,299	-	-	-	-	(9,674)	26,299
Capital campaigns	-	-	45,937	-	-	-	45,937	-
Foundations and trusts	91,458	-	-	-	44,763	-	136,221	-
Other contributions	3,996	4,000	1,887	18,100	-	-	5,883	22,100
Total Direct Contributions	386,579	264,303	47,824	18,100	44,763	-	479,166	282,403
Total Support and Revenue	386,579	264,303	47,824	18,100	44,763	-	479,166	282,403
Net Assets Released From Restrictions	(311,397)	(386,955)	-	(46,982)	-	-	(311,397)	(433,937)
Increase (Decrease) In Temporarily Restricted Net Assets	75,182	(122,652)	47,824	(28,882)	44,763	-	167,769	(151,534)
<u>Changes In Permanently Restricted Support</u>								
Support and Revenue:								
Direct Support:								
Other direct support	-	-	-	-	82,860	18,358	82,860	18,358
Increase In Permanently Restricted Net Assets	-	-	-	-	82,860	18,358	82,860	18,358
Increase (Decrease) In Total Net Assets	196,038	(75,491)	20,896	(1,107,097)	227,698	610,569	444,632	(572,019)
Total Net Assets at Beginning of Year	551,941	627,432	37,917,382	39,024,479	11,979,399	11,368,830	50,448,722	51,020,741
Total Net Assets at End of Year	\$ 747,979	\$ 551,941	\$ 37,938,278	\$ 37,917,382	\$ 12,207,097	\$ 11,979,399	\$ 50,893,354	\$ 50,448,722

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, 2014 AND 2013

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2014	2013	2014	2013	2014	2013	2014	2013
Cash flows From Operating Activities:								
Increase (Decrease) in Total Net Assets	\$ 196,038	\$ (75,491)	\$ 20,896	\$ (1,107,097)	\$ 227,698	\$ 610,569	\$ 444,632	\$ (572,019)
Non-Cash Items Included in Increase (Decrease) in Total Net Assets:								
Allowance for uncollectible promises/discount on pledges	35,046	60,474	(180,469)	(51,705)	-	-	(145,423)	8,769
Depreciation and amortization	-	-	1,292,211	1,363,599	-	-	1,292,211	1,363,599
Loss on disposal of fixed asset	-	-	19,552	23,000	-	-	19,552	23,000
Realized (gains) losses on investments	-	-	-	-	95,082	(399,899)	95,082	(399,899)
Unrealized (gains) losses on investments	-	-	-	-	(99,878)	(179,982)	(99,878)	(179,982)
Unrealized gains on interest rate swap	-	-	(190,501)	(206,362)	-	-	(190,501)	(206,362)
Changes In:								
Accounts and pledges receivable	(14,178)	161,000	(657,069)	276,441	3,316	(44,759)	(667,931)	392,682
Legacies and bequests receivable	40,000	(40,000)	25,000	(25,000)	115,705	(115,705)	180,705	(180,705)
Inventories	18,782	(21,746)	-	-	-	-	18,782	(21,746)
Interfund loans	10,616	-	-	-	(10,616)	-	-	-
Prepaid expenses	2,317	417,271	-	-	-	-	2,317	417,271
Notes receivable - related party	-	-	-	-	(5,000)	(5,000)	(5,000)	(5,000)
Other non-current assets	-	-	-	-	(44,763)	-	(44,763)	-
Accounts payable, accrued expenses and other current liabilities	57,290	(319,146)	(102)	(3,070)	451	-	57,639	(322,216)
Custodian accounts	198,210	(17,918)	-	(21,338)	-	9	198,210	(39,247)
Deferred income	77,890	(71,088)	22,500	-	-	-	100,390	(71,088)
Net Cash Provided by (Used In) Operating Activities	622,011	93,356	352,018	248,468	281,995	(134,767)	1,256,024	207,057
Cash Flows From Investing Activities:								
Proceeds from investments	-	-	-	-	3,743,278	3,389,389	3,743,278	3,389,389
Payments for purchases of investments	-	-	-	-	(3,995,066)	(3,168,859)	(3,995,066)	(3,168,859)
Purchase of property and equipment	-	-	(219,246)	(173,145)	-	-	(219,246)	(173,145)
Net Cash Provided by (Used In) Investing Activities	-	-	(219,246)	(173,145)	(251,788)	220,530	(471,034)	47,385
Cash Flows From Financing Activities:								
Payments on long-term debt	-	-	(431,225)	(421,369)	-	-	(431,225)	(421,369)
Net Cash Used in Financing Activities	-	-	(431,225)	(421,369)	-	-	(431,225)	(421,369)
Net Increase (Decrease) In Cash and Cash Equivalents	622,011	93,356	(298,453)	(346,046)	30,207	85,763	353,765	(166,927)
Cash and Cash Equivalents at Beginning of Year	566,940	473,584	454,983	801,029	105,185	19,422	1,127,108	1,294,035
Cash and Cash Equivalents at End of Year	\$ 1,188,951	\$ 566,940	\$ 156,530	\$ 454,983	\$ 135,392	\$ 105,185	\$ 1,480,873	\$ 1,127,108
Supplemental Disclosure:								
Interest paid	\$ 1,294	\$ 3,502	\$ 216,525	\$ 220,203	\$ -	\$ -	\$ 217,819	\$ 223,705

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, 2014, WITH 2013 TOTALS

	Program Services	Supporting Services			Total Functional Expenses	
		Management and General	Fundraising	Total	2014	2013
Salaries and Related Expenses:						
Salaries	\$ 3,191,444	\$ 428,609	\$ 150,440	\$ 579,049	\$ 3,770,493	\$ 3,665,353
Employee benefits	376,545	85,945	30,166	116,111	492,656	498,018
Payroll taxes and compensation insurance	321,470	74,044	25,989	100,033	421,503	415,900
Employee related expenses	9,676	2,756	967	3,723	13,399	13,644
Total Salaries and Related Expenses	3,899,135	591,354	207,562	798,916	4,698,051	4,592,915
Other Expenses:						
Professional fees	108,220	16,885	79,427	96,312	204,532	297,776
Supplies	794,250	6,220	16,990	23,210	817,460	1,103,900
Telephone	65,777	6,546	3,421	9,967	75,744	72,828
Postage and shipping	13,323	2,980	19,883	22,863	36,186	31,822
Occupancy	850,510	41,590	83,610	125,200	975,710	1,022,616
Rental and maintenance of equipment	290,218	41,242	14,984	56,226	346,444	305,906
Publications and media	97,725	10,534	7,721	18,255	115,980	120,273
Travel	229,200	30,732	12,815	43,547	272,747	900,549
Local conferences and meetings	45,482	4,081	1,431	5,512	50,994	301,358
Specific assistance to individuals	55,021	4,637	1,627	6,264	61,285	38,783
Recognition and awards	123,418	1,358	77,214	78,572	201,990	190,750
Insurance	169,168	11,393	3,999	15,392	184,560	158,722
Interest expense	157,287	44,805	15,727	60,532	217,819	223,705
Other expenses	150,945	30,368	48,982	79,350	230,295	416,685
Loss on disposal of fixed asset	14,118	4,022	1,412	5,434	19,552	23,000
Total Other Expenses	3,164,662	257,393	389,243	646,636	3,811,298	5,208,673
Expenses before Depreciation	7,063,797	848,747	596,805	1,445,552	8,509,349	9,801,588
Depreciation of Property, Plant and Equipment	1,216,944	41,539	24,892	66,431	1,283,375	1,354,768
Total Functional Expenses	\$ 8,280,741	\$ 890,286	\$ 621,697	\$ 1,511,983	\$ 9,792,724	\$ 11,156,356

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, 2014 AND 2013**

Note 1: Nature of Operations and Summary of Significant Accounting Policies

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.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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

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.

In addition, the Council owns or leases the following scout facilities in California:

- A. Schoepe Scout Reservation at Lost Valley - The Council closed escrow on this 1,400-acre property located in San Diego County in 1959. The first summer camp was in 1964. This property is operated year-round and serves as the Council's Boy Scout Resident Camp. Additionally, youth and adults from many community organizations have the opportunity to camp in the outdoors and experience different program elements including shooting sports, rock climbing, COPE course, swimming, horseback riding, nature studies, and Scout skills.
- B. Newport Sea Base - The Newport Sea Base is constructed on approximately 1.15 acres of land, originally leased in 1937, located in Newport Beach. The Newport Sea Base land is currently leased from the County of Orange until 2039 at no cost to the Council. A remodel of the facilities was completed in 2005. This property is operated year-round and serves all youth (boys and girls) directly and through numerous community partnerships. Youth experience learning opportunities on the water and in the classroom including sailing, environmental studies, canoeing, and various merit badge classes. Three Sea Scout ships and their members are based there. The Council leases a portion of the facility to Chapman University until May 2024.
- C. Oso Reservoir - In June 2007, the Council entered into a 25-year lease with an option for a 15-year extension with the Rancho Santa Margarita Water District. This property located in South Orange County serves to operate as an outdoor educational and recreational facility on the upper Oso reservoir consisting of 15 acres of land and 100 acres of lake. Youth and adult experience camping, shooting sports, boating, and fishing.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
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DECEMBER 31, 2014 AND 2013**

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

Nature of Operations (Continued)

- D. The Irvine Ranch Outdoor Education Center (“IROEC”) - The Council received a special use deeded land gift of 210 acres from The Irvine Company in August 2005 located in Orange, California. The Council substantially completed construction of buildings and facilities on a 52-acre site and began operations in August 2009. This property includes themed camps that focus on ranching, mining and astronomy. The IROEC provides educational and recreational experiences for all youth (boys and girls) of the community. Facilities include overnight outdoor camping, bunk house residence camping, shooting sports, swimming, COPE course, full service dining hall, training center, conference facilities and hiking into the surrounding wilderness areas.
- E. William Lyon Homes Center for Scouting - The Council’s headquarters office is owned and operated by the Council and is located in Santa Ana, California. This facility was opened in November 2004. This 40,000 square foot facility is available for use by all community organizations and serves as the location for primary program delivery management and support of the Council’s Scouting units and youth. This facility is also used for volunteer, professional and community organization meetings. A portion of the building 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.

Basis of Accounting

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). References to the “ASC” hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board (“FASB”) as the source of authoritative U.S. GAAP. Accordingly, the accounts of the Council are reported in the following net asset categories:

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

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

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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

Basis of Accounting (Continued)

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

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of available resources, the accounts of the Council are maintained in accordance with the principles of fund accounting. Under such principles, resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives.

The Council also prepares financial statements in accordance with the Financial Accounting Standards Board (FASB) standards for not-for-profit organizations (ASC 958-205 and subsections). Under these standards, the Council is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Council is required to present a Statement of Cash Flows.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include petty cash funds, bank checking accounts used for operating purposes, and investments with maturities of three months or less from the original purchase dates. Cash and cash equivalents held in the endowment investment fund are excluded from cash and cash equivalents and are included in the total for investments in the accompanying statements of financial position.

Accounts Receivable

Accounts receivable are recorded primarily for product sales and facility rentals and are stated at estimated realizable value if the amounts are due within one year. An allowance for doubtful accounts is based on an analysis of expected collection rates determined from experience. As of December 31, 2014 and 2013, the allowance for doubtful accounts was \$26,810 and \$26,495, respectively.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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

Contributions

Contributions receivable are recognized upon notification of a donor's unconditional promise to give to the Council. Unconditional promises to give that are expected to be collected in less than one year are measured at net realizable value because that amount results in a reasonable estimate of fair value in accordance with the *Contributions Received* section of the FASB ASC. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the Statement of Activities and Changes in Net Assets as assets released from restrictions.

Donated Materials and Services

Donated land, buildings, equipment, investments, and other noncash donations are recorded as contributions at their fair market value at their date of donation. The Council reports the donations as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets must be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Council reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated services that do not either require specialized skills or enhance nonfinancial assets are not recorded in the accompanying financial statements because no objective basis is available to measure the value of such services. A substantial number of volunteers have donated significant amounts of their time to the Council's program services and its fundraising campaigns, the value of which is not recorded in the accompanying financial statements.

For the years ended December 31, 2014 and 2013, the Council recognized \$28,150 and \$8,792, respectively, in the operating fund, and \$70,290 and \$50, respectively, in the capital fund, as noncash contributions revenue and corresponding expenses for donated materials and services.

Inventory

Inventory consists of Scouting and other items available for resale and is stated at the lower of cost or market. Cost is determined using the average method.

**ORANGE COUNTY COUNCIL, INC.,
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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

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, 2014 and 2013, totaled \$1,283,375 and \$1,354,768, respectively.

Long-Lived Assets and Asset Impairment

The Council reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use and ultimate disposition of the asset and its fair value are less than the carrying amount of that asset. The Council has not recognized any impairment of long-lived assets during 2014 and 2013.

Investments

Investments consist primarily of assets invested in marketable equity and debt securities, commodities, and money-market accounts. The Council accounts for investments in accordance with the FASB standard for investments held by not-for-profit organizations. This standard requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the Statement of Financial Position. Fair value of marketable equity and debt securities is based on quoted market prices. Alternative investments are stated at the fair value of their underlying assets and allocated to the investors in proportion to each investor's ownership percentage. The realized and unrealized gain or loss on investments is reflected in the Statement of Activities and Changes in Net Assets.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
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Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Investments (Continued)

Investments are exposed to various risks such as significant world events, interest rates, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Custodian Accounts

The custodian accounts represents amounts held for others.

Advertising

Advertising costs are charged to operations in the period in which the advertisement is placed. Advertising for 2014 and 2013 amounted to approximately \$46,000 and \$180,000, respectively.

Income Taxes

The Council is a not-for-profit organization that is exempt from income taxes under Section 501(a) as described under 501(c)(3) of the Internal Revenue Code Section and comparable state law as a charitable organization whereby only unrelated business income, as defined by Section 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 ASC 740-10-25 "*Accounting for Uncertainty in Income Taxes*". The Council does not believe there are any material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits. For the years ended December 31, 2014 and 2013, there were no interest or penalties recorded or included in the accompanying financial statements. The Council's 2011 to 2014 tax years are open to review for federal tax purposes and 2010 to 2014 tax years are open to review for state income tax purposes.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of functional expenses. Costs that are not directly associated with providing specific services have been allocated based upon the relative time spent by employees of the Council providing those services. In accordance with the policy of the National Council of the Boy Scouts of America (the "National Council"), the payment of the charter and national service fees to the National Council are not allocated as functional expenses.

**ORANGE COUNTY COUNCIL, INC.,
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Spending Policy

The Council has a Board approved total return spending policy that allows the operating fund to receive and recognize investment earnings originating from the endowment fund.

Investment Policy

The Council's investment policy intends for the Council to invest in assets that would produce results exceeding the investment's purchase price and realize a 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.

Interfund Loans

The interfund loans at December 31, 2014 and 2013 resulted from the Operating Fund making advances of surplus cash funds to the Capital Fund for operating purposes and earnings on investments due to the Operating Fund being held in the Endowment Fund until they are needed for operating purposes.

**ORANGE COUNTY COUNCIL, INC.,
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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

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.* The implementation of Accounting Standards Update (“ASU”) 2012-05 did not have a material effect on the Council’s 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 implementation of ASU 2013-10 did not have a material effect on the Council’s financial statements.

Note 2: Risks and Uncertainties

The Council maintains cash balances at multiple financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. At December 31, 2014 and 2013, the Council’s cash balances on deposit at the institutions in excess of federally insured limits totaled \$1,104,471 and \$391,558, respectively.

Note 3: Prepaid Expenses and Deferred Income

Prepaid expenses and deferred income in the operating fund consist principally of amounts collected from participants and related travel and other expenses paid in advance for various activities sponsored by the Council.

**ORANGE COUNTY COUNCIL, INC.,
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Note 4: Pledges Receivable

The unconditional promises to give at December 31, 2014 and 2013, are as follows:

	2014	2013
Friends of Scouting	\$ 538,142	\$ 533,035
Restricted to Capital Fund	9,134,974	8,454,000
Restricted to Endowment Fund	14,550	17,650
Subtotal	9,687,666	9,004,685
Less: Discount for present value of pledge receivables	(375,435)	(539,063)
Less: Allowance for uncollectible pledge receivables	(105,977)	(62,471)
Subtotal Unconditional Promises to Give	9,206,254	8,403,151
Less: Current portion of pledge receivables	(3,433,284)	(518,355)
Long-Term Portion of Pledge Receivables	\$ 5,772,970	\$ 7,884,796
Pledges Receivable, Due in:		
Less than one year	\$ 3,539,366	\$ 554,632
One to five years	6,048,300	8,250,053
Thereafter	100,000	200,000
	\$ 9,687,666	\$ 9,004,685

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, 2014 and 2013.

During 2011, the Council accepted title to a commercial real estate property and agreed to accept a second such property in full satisfaction of a pledge receivable totaling \$4.7 million. The first property was recorded at estimated fair value as of December 31, 2011 and sold in January 2012 at no significant gain or loss. As of December 31, 2014 and 2013, 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.

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

Note 5: Note Receivable Related Party

The Council has a secured loan of \$100,000 to an officer of the Council. The loan bears interest at a rate of five percent, 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, 2014 and 2013, is \$120,948 and \$115,948, respectively, and is included in notes receivable-related party in the accompanying statements of financial position.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
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Note 6: Charitable Gift Annuities Receivable

The Council is the beneficiary of a number of split-interest agreements with donors, whereby the National Council controls and invests the donated assets and shares with the donor or the donor's designee income generated from these assets until such time as stated in the agreement (usually upon the death of the donor or the donor's designee). At December 31, 2014, values of the Council's split-interest agreements were \$44,763.

Note 7: Commitments and Contingencies

Line of Credit

At December 31, 2014 and 2013, the Council had a unsecured revolving line of credit agreement with a commercial bank of \$500,000 maturing November 2015. Borrowings under this agreement bear interest at the bank's prime rate (3.25 percent at December 31, 2014 and 2013) At December 31, 2014 and 2013, there were no outstanding borrowings.

Long-Term Debt

On December 24, 2009, the Council entered into a loan agreement (the "Loan") with California Municipal Financing Authority, a municipal corporation of the State of California, whereby it refinanced its then outstanding borrowings under a \$15 million construction financing agreement with proceeds from a \$15 million revenue bond (the "Bond") issued by California Municipal Financing Authority and purchased by a commercial bank. The Council is required to pay to the Authority principal, interest, and any other payments due on the Bond, when due under terms of the Bond. Principal and interest payments are made monthly based on an interest rate of 62.5 percent of 30-day LIBOR, plus 1.3 percent (1.39% and 1.41% at December 31, 2014 and 2013, 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, 2014 and 2013, the Loan balance was \$12,969,682, and \$13,400,907, respectively.

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

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.

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

Long-Term Debt (Continued)

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

2015	\$ 431,190
2016	437,044
2017	443,995
2018	450,544,2019
	457,189
Thereafter	<u>10,749,720</u>
Subtotal	12,969,682
Less: Current portion	<u>(431,190)</u>
Total Long-Term Debt	<u>\$ 12,538,492</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, 2014, the Council was in compliance with these financial covenants.

Donations

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

Operating Leases

The Council has entered into several leases for offices, equipment and vehicles, expiring through December 2032. Total rent expense related to such operating leases amounted to approximately \$145,000 and \$148,000, respectively, for the years ended December 31, 2014 and 2013.

The Council subleases a portion of two facilities to unrelated parties under non-cancelable lease agreements. The lease agreements expire through May 2024 and provide for monthly rental income ranging from \$1,000 to \$5,000. Total rental income for the years ended December 31, 2014 and 2013, under these agreements was approximately \$120,000 and \$83,000, respectively.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
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DECEMBER 31, 2014 AND 2013**

Note 7: Commitments and Contingencies (Continued)

Operating Leases (Continued)

Minimum future net rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2014, in aggregate are as follows:

	Gross Lease Expense	Sublease Income	Net Lease Expense (Revenue)
2015	\$ 129,092	\$ (38,000)	\$ 91,092
2016	100,592	(60,000)	40,592
2017	81,300	(60,000)	21,300
2018	81,300	(60,000)	21,300
2019	60,700	(60,000)	700
Thereafter	<u>253,500</u>	<u>(265,000)</u>	<u>(11,500)</u>
	<u>\$ 706,484</u>	<u>\$ (543,000)</u>	<u>\$ 163,484</u>

Litigation

The Council is subject to certain legal actions and claims arising in the ordinary course of operations. Based upon the nature of, and management's understanding of the facts and circumstances which give rise to such actions and claims, management believes that such litigation and claims will be resolved without material effect on the Council's financial position or results of operations.

Note 8: Employee Benefit Plans

Retirement Plans

The National Council has a qualified defined benefit pension plan (the "Plan") administered at the national office that covers employees of the National Council and local councils, including the Orange County Council. The Plan name is the *Boy Scouts of America Master Pension Trust - Boy Scouts of America Retirement Plan for Employees* and covers all employees who have completed one year of service and who have agreed to make contributions. Eligible employees contribute 2 percent of compensation and the Council contributes an additional 7 percent to the Plan. Pension expense (excluding the contributions made by employees), was approximately \$153,000 and \$143,000, for years ended December 31, 2014 and 2013, respectively, and covered current service costs. The actuarial information for the plan as of February 1, 2014, indicates that it is in compliance with ERISA regulations regarding funding.

**ORANGE COUNTY COUNCIL, INC.,
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Note 8: Employee Benefit Plans (Continued)

Thrift Plan

The Council has established a Thrift Plan covering substantially all of the employees of the Council. Participants in the Thrift Plan may elect to make voluntary before-tax contributions based on a percentage of their pay, subject to certain limitations set forth in the Internal Revenue Code of 1986, as amended. The Council has elected to match employee contributions to the Thrift Plan up to 25 percent of contributions from each participant, limited to 6 percent of each employee's gross pay. The Council contributed approximately \$24,000 and \$21,000, respectively to the Thrift Plan in 2014 and 2013, respectively.

Healthcare Plan

The Council's employees participate in a healthcare plan provided by the National Council. The Council pays a portion of the cost for the employees, and the employees pay the remaining portion and the cost for any of their dependents participating in the plan. During the years ended December 31, 2014 and 2013, the Council remitted approximately \$316,000 and \$313,000, respectively, on behalf of its employees to the National Council related to the healthcare plan.

Note 9: Scout Shop

The National Council operates three Scout Shops within the Orange County area. The National Council manages the Scout shops and pays the Council an eight percent commission on gross sales up to \$750,000 and thirteen percent on sales in excess of \$750,000. The commissions earned (before expenses) by the Council during 2014 and 2013 amounted to approximately \$265,000 and \$278,000, respectively, which are included in income from rents in the statements of activities and changes in net assets.

Note 10: Endowment Funds

The Council's Endowment Fund includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Unrestricted net assets, identified by the Council's board of directors to be used for future investment and growth, are included in unrestricted net assets-board designated.

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
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DECEMBER 31, 2014 AND 2013**

Note 10: Endowment Funds (Continued)

The Council has interpreted the State of California Prudent Management of Institutional Funds Act (“UPMIFA”) 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 UPMIFA.

In accordance with UPMIFA, the Council considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Council and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Council
- (7) The investment policies of the Council

The Council’s investments are governed by a written investment policy, the principal objective of which is to make investments in a thoughtful and prudent manner so as to preserve and enhance the Council’s ability to provide for the benefits of Scouting. The oversight of the investment portfolio is the responsibility of the Investment Committee whose members are appointed by the Executive Committee of the Board of Directors, and which shall administer the investment portfolio in compliance with all written policies approved by the Board.

The Investment Committee has contracted with an independent trust company for the purpose of managing the investment and reinvestment of fund assets in a manner consistent with the overall investment policy as approved by the Board.

The Council’s investment objectives are to:

- Preserve the investment portfolio’s Corpus over the long-term.
- Ensure the investment portfolio’s long-term ability to distribute income.
- Ensure that restricted donations are protected so that they are available for the target use.

In achieving its objectives, the Council’s primary investment mission is to preserve principal and purchasing power in real dollar terms over time while supporting current income requirements.

**ORANGE COUNTY COUNCIL, INC.,
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 10: Endowment Funds (Continued)

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

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

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	<u>-</u>	<u>11,074,757</u>	<u>-</u>	<u>-</u>	<u>11,074,757</u>
Total Funds	<u>\$ -</u>	<u>\$ 11,074,757</u>	<u>\$ 30,491</u>	<u>\$ 874,151</u>	<u>\$ 11,979,399</u>

**ORANGE COUNTY COUNCIL, INC.,
BOY SCOUTS OF AMERICA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 10: Endowment Funds (Continued)

Changes in the endowment fund net assets for the years ended December 31, 2014 and 2013 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, 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>-</u>	<u>(67,588)</u>	<u>-</u>	<u>-</u>	<u>(67,588)</u>
Endowment Fund Net Assets, December 31, 2013	-	11,074,757	30,491	874,151	11,979,399
Investment Return	-	158,844	-	-	158,844
Contributions	-	-	44,763	82,860	127,623
Appropriation of Endowment Assets For Expenditure	<u>-</u>	<u>(58,769)</u>	<u>-</u>	<u>-</u>	<u>(58,769)</u>
Endowment Fund Net Assets December 31, 2014	<u>\$ -</u>	<u>\$ 11,174,832</u>	<u>\$ 75,254</u>	<u>\$ 957,011</u>	<u>\$ 12,207,097</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or SPMIFA requires the Council to retain as permanently restricted. Deficiencies of this nature result from unfavorable market fluctuations and would be included in unrestricted net assets. There were no deficiencies as of December 31, 2014 and 2013.

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Note 11: Net Assets and Restrictions

Net assets consist of cash, pledge receivables, and various capital assets. The restricted cash and pledge receivables are for future Scouting needs and charitable trusts of which the Council is a beneficiary. The restricted various capital assets consist of capital assets purchased with capital campaign funds in relation to the Irvine Ranch Outdoor Education Center. The restricted cash and capital assets are considered permanently restricted due to the donors' stipulations.

Temporarily restricted net assets as of December 31, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Cash restricted for time	\$ 531,475	\$ 371,204
Cash restricted for use	65,924	18,100
Net pledge receivables restricted for time	<u>233,375</u>	<u>273,701</u>
 Total Temporarily Restricted Net Assets	 <u>\$ 830,744</u>	 <u>\$ 663,005</u>

Permanently restricted net assets as of December 31, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Various capital assets	\$ 4,200,000	\$ 4,200,000
Cash and investments restricted	<u>957,011</u>	<u>874,151</u>
 Total Permanently Restricted Net Assets	 <u>\$ 5,157,011</u>	 <u>\$ 5,074,151</u>

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Note 12: Investments

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

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

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>

The following summarizes the investment return in the statements of activities and changes in net assets for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 616,976	\$ 430,741
Net realized and unrealized gain (loss)	(5,533)	579,881
Investment expenses	<u>(52,560)</u>	<u>(51,025)</u>
Total	<u>\$ 558,883</u>	<u>\$ 959,597</u>

The above investments are classified in the 2014 and 2013 statements of financial position as follows:

	<u>2014</u>	<u>2013</u>
Unrestricted	\$ 11,036,938	\$ 10,907,977
Temporarily restricted - for time	75,254	30,491
Permanently restricted	<u>957,011</u>	<u>874,151</u>
Total	<u>\$ 12,069,203</u>	<u>\$ 11,812,619</u>

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Note 12: 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 2014 and 2013, investment expenses were \$52,560 and \$51,025, respectively and are netted against return on investments in the statements of activities and changes in net assets (see schedule on previous page).

Note 13: Summary of Fair Value Exposure

The FASB ASC 820-10 “*Fair Value Measurement*”, 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.

Fair Value Measurement defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e., an exit price.

To estimate an exit price, a three-tier hierarchy is used to prioritize the inputs:

Level 1: Quoted market prices in active markets for identical securities.

Corporate common and preferred stocks and fixed income securities - Valued at the closing market price on the stock exchange where they are traded (primarily the New York Stock Exchange).

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.

Corporate bonds - Valued at prices obtained from independent pricing services, without adjustment.

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

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Note 13: 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 following table provides fair value measurement information for financial assets measured at fair value on a recurring basis as of December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed Income Bonds	\$2,224,765	\$4,411,273	\$ -	\$ 6,636,038
Common Stock	3,631,016	-	-	3,631,016
International Stock	719,271	-	-	719,271
Money Market	415,901	-	-	415,901
Mutual Funds	347,430	-	-	347,430
Preferred Stock	<u>319,547</u>	<u>-</u>	<u>-</u>	<u>319,547</u>
Total Investments	<u>\$ 7,657,930</u>	<u>\$4,411,273</u>	<u>\$ -</u>	<u>\$12,069,203</u>

The following table provides fair value measurement information for financial assets measured at fair value on a recurring basis as of December 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed Income Bonds	\$2,241,731	\$5,536,356	\$ -	\$ 7,778,087
Common Stock	2,965,798	-	-	2,965,798
International Stock	673,708	-	-	673,708
Money Market	<u>395,026</u>	<u>-</u>	<u>-</u>	<u>395,026</u>
Total Investments	<u>\$ 6,276,263</u>	<u>\$5,536,356</u>	<u>\$ -</u>	<u>\$11,812,619</u>

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

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Note 14: Interest Rate Risk Management

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

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

On February 6, 2009, the Council entered into an interest rate swap agreement with a bank which was amended February 4, 2011. The amended swap provides for the Council to pay interest based on a fixed rate of 3.48 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) on the notional amount of \$12 million reducing in amounts approximating the amortization on the term bank loan described in Note 6. The swap terminates on January 1, 2016.

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

	<u>2014</u>	<u>2013</u>
Net long-term borrowing, effective interest rate of 2.46% and 2.73% for the years ended December 31, 2014 and 2013, respectively	\$ 3,250,914	\$ 3,171,014
Notional amount of interest rate swap (fixed rate of 3.48 %)	<u>9,718,768</u>	<u>10,229,893</u>
Total	<u>\$ 12,969,682</u>	<u>\$ 13,400,907</u>

Net interest paid under the swaps was \$211,051 and \$209,115 for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the fair value of the interest rate swap was a liability of \$205,211 and \$395,712, 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 12.

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Note 15: 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 16: Prior Period Information

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

Note 17: Reclassifications

Certain reclassifications have been made to the 2013 financial statement information to conform to the current year presentation. These consisted of reclassifications between accounts receivable and pledges receivable on the Statement of Financial Position and fixed income bonds from level 1 to level 2 as presented in Note 13. These reclassifications had no effect on the change in net assets in 2013.

Note 18: Subsequent Events

Events occurring after December 31, 2014 have been evaluated for possible adjustments to or disclosure in the financial statements through April 24, 2015, the date the financial statements were available to be issued.