

Girl Scouts of Greater Los Angeles

**Financial Statements and
Independent Auditor's Report**

September 30, 2017

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Girl Scouts of Greater Los Angeles

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Independent Auditor's Report

To the Board of Directors
Girl Scouts of Greater Los Angeles

We have audited the accompanying financial statements of Girl Scouts of Greater Los Angeles, which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Girl Scouts of Greater Los Angeles as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Girl Scouts of Greater Los Angeles 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

CohnReznick LLP

Los Angeles, California
January 31, 2018

Girl Scouts of Greater Los Angeles

**Statement of Financial Position
September 30, 2017
With Summarized Totals at September 30, 2016**

Assets

| | 2017 | 2016 |
|--|---------------|---------------|
| Current assets | | |
| Cash and cash equivalents | \$ 7,415,293 | \$ 10,178,509 |
| Accounts and pledges receivable, current portion, net | 343,754 | 569,650 |
| Inventory | 381,458 | 318,428 |
| Prepaid expenses and other | 473,933 | 307,317 |
| Total current assets | 8,614,438 | 11,373,904 |
| Accounts and pledges receivables, net of current portion | 51,485 | 104,865 |
| Investments | 13,386,004 | 11,852,839 |
| Property and equipment, net | 14,181,240 | 9,494,778 |
| Total | \$ 36,233,167 | \$ 32,826,386 |

Liabilities and Net Assets

| | | |
|---|---------------|---------------|
| Current liabilities | | |
| Accounts payable | \$ 934,807 | \$ 515,974 |
| Accrued expenses | 833,007 | 728,623 |
| Custodial funds, held for others | 78,905 | 69,675 |
| Deferred revenue | 291,576 | 123,368 |
| Note payable, current portion | - | 24,820 |
| Capital lease obligations, current portion | 71,335 | 137,910 |
| Total current liabilities | 2,209,630 | 1,600,370 |
| Deferred rent | 561,467 | 652,409 |
| Note payable, net of current portion | - | 183,533 |
| Capital lease obligations, net of current portion | 37,763 | 94,851 |
| Total liabilities | 2,808,860 | 2,531,163 |
| Commitments and contingencies | - | - |
| Net assets | | |
| Unrestricted | | |
| Undesignated | 29,856,599 | 23,991,438 |
| Board-designated | 2,700,967 | 4,700,967 |
| Total unrestricted | 32,557,566 | 28,692,405 |
| Temporarily restricted | 725,132 | 1,461,209 |
| Permanently restricted | 141,609 | 141,609 |
| Total net assets | 33,424,307 | 30,295,223 |
| Total | \$ 36,233,167 | \$ 32,826,386 |

See Notes to Financial Statements.

Girl Scouts of Greater Los Angeles

**Statement of Activities
Year Ended September 30, 2017
With Summarized Totals for the Year Ended September 30, 2016**

| | 2017 | | | 2016 | |
|--|----------------------|------------------------|------------------------|----------------------|----------------------|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total | Total |
| Revenues and support | | | | | |
| Public support | \$ 681,739 | \$ 182,861 | \$ - | \$ 864,600 | \$ 2,031,696 |
| Product sales, net of direct costs | 16,514,186 | - | - | 16,514,186 | 15,298,296 |
| Merchandise sales, net of direct costs | 717,872 | - | - | 717,872 | 641,021 |
| Program fees | 1,457,062 | - | - | 1,457,062 | 1,518,343 |
| Property and equipment use fees | 76,615 | - | - | 76,615 | 69,103 |
| Interest and dividends, net of fees | 229,223 | - | - | 229,223 | 246,075 |
| Realized and unrealized gain on investments, net | 953,179 | 18,772 | - | 971,951 | 621,227 |
| Gain on disposal of property and equipment | 41,891 | - | - | 41,891 | 1,323,275 |
| Other income | 40,676 | - | - | 40,676 | 60,789 |
| Net assets released from restriction | 937,710 | (937,710) | - | - | - |
| Total revenues and support | 21,650,153 | (736,077) | - | 20,914,076 | 21,809,825 |
| Expenses | | | | | |
| Program expenses | 14,496,360 | - | - | 14,496,360 | 13,331,461 |
| Management and general expenses | 2,336,843 | - | - | 2,336,843 | 2,166,267 |
| Fundraising expenses | 951,789 | - | - | 951,789 | 897,894 |
| Total expenses | 17,784,992 | - | - | 17,784,992 | 16,395,622 |
| Change in net assets | 3,865,161 | (736,077) | - | 3,129,084 | 5,414,203 |
| Net assets, beginning | 28,692,405 | 1,461,209 | 141,609 | 30,295,223 | 24,881,020 |
| Net assets, end | \$ 32,557,566 | \$ 725,132 | \$ 141,609 | \$ 33,424,307 | \$ 30,295,223 |

See Notes to Financial Statements.

Girl Scouts of Greater Los Angeles

**Statement of Functional Expenses
Year Ended September 30, 2017**

With Summarized Totals for the Year Ended September 30, 2016

| | 2017 | | | 2016 | |
|--------------------------------|----------------------|---------------------------|-------------------|----------------------|----------------------|
| | Program | Management and general | Fundraising | Total | Total |
| Personnel | \$ 8,433,698 | \$ 1,396,604 | \$ 568,833 | \$ 10,399,135 | \$ 9,875,645 |
| Assistance and grants | 384,822 | - | - | 384,822 | 217,382 |
| Equipment | 206,032 | 34,118 | 13,896 | 254,046 | 213,388 |
| Insurance | 238,005 | 39,413 | 16,053 | 293,471 | 288,946 |
| Occupancy | 1,509,889 | 250,035 | 101,838 | 1,861,762 | 1,521,307 |
| Other expense | 325,636 | 53,925 | 21,964 | 401,525 | 363,846 |
| Printing and promotion | 251,548 | 41,656 | 16,966 | 310,170 | 251,598 |
| Professional services and fees | 710,331 | 117,629 | 47,910 | 875,870 | 875,686 |
| Supplies and recognitions | 1,404,872 | 232,644 | 94,755 | 1,732,271 | 1,641,156 |
| Telecommunications | 138,653 | 22,961 | 9,352 | 170,966 | 148,970 |
| Travel | 204,855 | 33,924 | 13,817 | 252,596 | 229,852 |
| Depreciation and amortization | 688,019 | 113,934 | 46,405 | 848,358 | 767,846 |
| Total | \$ 14,496,360 | \$ 2,336,843 | \$ 951,789 | \$ 17,784,992 | \$ 16,395,622 |
| Percent of total expenses | 81.5% | 13.1% | 5.4% | 100.0% | |

See Notes to Financial Statements.

Girl Scouts of Greater Los Angeles

**Statement of Cash Flows
Year Ended September 30, 2017
With Summarized Totals for the Year Ended September 30, 2016**

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|----------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 3,129,084 | \$ 5,414,203 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | . |
| Depreciation and amortization | 848,358 | 767,846 |
| Bad debt expense | 13,824 | 15,912 |
| Net realized and unrealized gain on investments | (971,951) | (621,227) |
| Gain on disposal of property and equipment | (41,891) | (1,323,275) |
| Deferred rent | (90,942) | (123,654) |
| Changes in operating assets and liabilities | | |
| Accounts and pledges receivable | 265,452 | (98,963) |
| Inventory | (63,030) | (33,162) |
| Prepaid expenses and other | (166,616) | 34,968 |
| Accounts payable | 103,459 | 198,962 |
| Accrued expenses | 104,384 | (291,569) |
| Custodial funds, held for others | 9,230 | (43,353) |
| Deferred revenue | 168,208 | (65,818) |
| | <u>3,307,569</u> | <u>3,830,870</u> |
| Cash flows from investing activities | | |
| Purchases of investments | (9,074,035) | (3,588,761) |
| Proceeds from sale of investments | 8,512,821 | 3,576,072 |
| Acquisition of property and equipment | (5,214,422) | (2,823,386) |
| Proceeds from sale of property and equipment | 48,051 | 1,811,770 |
| | <u>(5,727,585)</u> | <u>(1,024,305)</u> |
| Cash flows from financing activities | | |
| Principal payments on notes payable | (208,353) | (24,209) |
| Principal payments on capital lease obligations | (134,847) | (131,417) |
| | <u>(343,200)</u> | <u>(155,626)</u> |
| Net increase (decrease) in cash and cash equivalents | (2,763,216) | 2,650,939 |
| Cash and cash equivalents, beginning | 10,178,509 | 7,527,570 |
| Cash and cash equivalents, end | <u>\$ 7,415,293</u> | <u>\$ 10,178,509</u> |
| Supplemental disclosure of cash flow information | | |
| Interest paid during the year | <u>\$ 24,011</u> | <u>\$ 20,822</u> |
| Supplemental disclosure of noncash investing and financing activities | | |
| Equipment acquired under capital lease obligations | <u>\$ 11,184</u> | <u>\$ -</u> |
| Property and equipment costs included in accounts payable | <u>\$ 315,374</u> | <u>\$ -</u> |

See Notes to Financial Statements.

Girl Scouts of Greater Los Angeles

Notes to Financial Statements

September 30, 2017

With Summarized Totals at September 30, 2016

Note 1 - Business activity and summary of significant accounting policies

Business activity

Girl Scouts is the preeminent leadership development organization for girls, building girls of courage, confidence, and character who make the world a better place. Girl Scouts of Greater Los Angeles ("GSGLA" or the "Council"), a 501(c)(3) nonprofit chartered by Girl Scouts of the USA ("GSUSA"), serves nearly 43,000 girls, including more than 13,000 girls from low-income and underserved communities (our fastest growing segment), in partnership with 20,000 volunteers. GSGLA is the largest girl-serving nonprofit agency in Southern California, serving the diverse communities of Los Angeles County and parts of Kern, San Bernardino, and Ventura counties. GSGLA prepares girls for a lifetime of leadership through access to key experiences, connections, and programs in entrepreneurship, life skills, outdoor, and STEM (Science, Technology, Engineering and Math). GSGLA maintains seven service centers, ten program centers, two camps and a headquarters office.

Girls unleash their inner G.I.R.L. (Go-getter, Innovator, Risk Taker, Leader) through the Girl Scout Leadership Experience—a collection of engaging, challenging, and fun activities like earning badges, going on awesome trips, selling cookies, exploring science, getting outdoors, and doing community service projects. Everything Girl Scouts do is aimed at giving them the opportunity to:

- ❖ Discover life skills and a positive sense of self;
- ❖ Connect with others in a multicultural environment; and
- ❖ Take action to make the world a better place.

The Girl Scout troop experience is the primary pathway into Girl Scouting, though we also have had tremendous success in reaching more girls through local partnerships with youth-serving organizations (schools, afterschool programs, etc.). In these environments, we are able to meet girls where they are, and provide relevant programming that not only expands their horizons, but also introduces them and their families to Girl Scouting and its transformative benefits. Over the course of the Girl Scout year, troops are guided by journeys, proven curricula shown to develop leadership skills founded upon Girl Scout values.

In addition to the recruitment, guidance, training, and support offered to our traditional and partnership troops, GSGLA also provides a number of avenues for hands-on, real-world life experiences for girls around the region. These include day and overnight camp adventures, travel opportunities for older girls, and council-wide programming focused around the four pillars.

Our 2017 Gold Award Ceremony celebrated 256 Gold Award Girl Scouts. The Gold Award is the highest honor a Girl Scout can earn. Earning the award is a multi-year process, including providing more than 80 hours of community service and advocacy.

By providing an all-girl environment with supportive adults, we create a space where girls can try new things, learn new skills, overcome fear of failure, become resilient problem-solvers, build self-esteem, and, ultimately, thrive. The outcomes are powerful. Girl Scouts are more likely than non-Girl Scouts to have a strong sense of self, positive values, seek challenges and learn from setbacks, develop and maintain healthy relationships, and exhibit community problem-solving skills.

Girl Scouts of Greater Los Angeles

Notes to Financial Statements September 30, 2017 With Summarized Totals at September 30, 2016

At Girl Scouts, we're all about *practicing* everyday leadership, *preparing* girls to empower themselves, and *promoting* G.I.R.L. experiences. We don't just offer girls hard skills like other organizations that may teach girls how to code or run a business; we wrap these skills in leadership, so that in addition to exploring STEM, the outdoors, life skills, and entrepreneurship, girls develop the confidence, grit, and critical-thinking skills that will enable them to be successful in any career and throughout their lives.

Basis of accounting

The financial statements of GSGLA have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Financial statement presentation

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, which are described as follows:

Unrestricted - Undesignated - Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board.

Unrestricted - Board-designated - Net assets that are not subject to explicit donor-imposed stipulations. At September 30, 2017, the Council's Board has designated \$2,700,967 for future capital purchases or projects outside of the annual operating budget.

Temporarily restricted - Net assets whose use by the Council is subject to either explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of the Council or that expire by the passage of time.

Permanently restricted - Net assets subject to explicit donor-imposed stipulations that must be maintained permanently by the Council and stipulate the use of income and/or appreciation as temporarily restricted based on donor-imposed stipulations or by operation of law.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions for which donors have imposed restrictions, which limit the use of the donated assets, are reported as restricted support if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Contributions of assets which donors have stipulated must be maintained permanently, with only the income earned thereon available for current use, are classified as permanently restricted net assets. Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions that are met within the same reporting period, are reported as unrestricted support.

Girl Scouts of Greater Los Angeles

Notes to Financial Statements September 30, 2017 With Summarized Totals at September 30, 2016

Unconditional promises to give with payments due in future periods are reported as restricted contributions when the promises are received. Gifts of land, buildings and equipment are reported as unrestricted contributions 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 are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulations, the Council reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, shall be recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and all highly liquid investments with an initial maturity date of purchase of three months or less.

Accounts and pledges receivable

Accounts and pledges receivable are stated at unpaid balances, less an allowance for doubtful accounts and a discount on those pledges receivable due in greater than one year using a discount rate of 3%. The Council provides for losses on receivables using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of the customer to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Council's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

Inventory

Purchased supplies and merchandise inventories are stated at the lower of cost, using the average cost method, or market. No reserve for obsolescence was deemed necessary.

Investments

Investments are reported at their fair values in the statement of financial position. Realized and unrealized gains and losses are included in the statement of activities. Investment income is reported net of investment expense of \$68,785 for the year ended September 30, 2017, which is included in interest and dividends, net of fees.

Property and equipment

Property and equipment are stated at cost if purchased or fair value on the date of donation less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally ranging from three to thirty-nine years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the lease term. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

Long-lived assets

Long-lived assets to be held and used are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Council periodically reviews the carrying value of long-lived assets to determine whether or not impairment to such value has occurred. No impairments were recorded during the year ended September 30, 2017.

Girl Scouts of Greater Los Angeles

Notes to Financial Statements September 30, 2017 With Summarized Totals at September 30, 2016

Fair value of financial instruments

The Council's financial instruments consist of cash and cash equivalents, short-term receivables, investments in securities and short-term and long-term payables. The carrying value for all such instruments, considering the terms, approximates fair value at September 30, 2017.

Custodial funds

Custodial funds consist primarily of membership fees collected that will be remitted to GSUSA and other fees collected for the future use of members.

Merchandise and product sales

Merchandise sales consist primarily of sales of Girl Scout-related equipment and supplies. Sales occur primarily at the Council's retail stores. Proceeds from merchandise sales help to defer the cost of maintaining the Council retail stores as a service to members. Revenue is recognized at the time of the sale. Product sales consist of sales of nuts, magazines and cookies by troops. Product revenue is net of proceeds to troops and costs of sales and is recognized at the time of the sale.

Program fees

Program fees consist of payments for camp and other programmatic activities that are held for girls throughout the year. Girls develop their leadership potential through these activities that enable them to learn new skills, connect with others in a multicultural environment and take action to make a difference in their communities. Revenue from program fees are recorded at the time of the program or when earned.

Deferred revenue consists of revenue collected for events that have not yet occurred and property and equipment rental income for programs collected prior to the actual related rental period.

Donated goods and services

Donated goods are historically included in "public support" in the accompanying statement of activities at their estimated fair values at the date of receipt. Support arising from donated services is recognized if the services received require specialized skills, are provided by the individuals possessing those skills and would typically need to be purchased if not provided by donation. In-kind contributions of \$7,572 were recorded for the year ended September 30, 2017, which are included in public support in the statement of activities.

A substantial number of volunteers have donated significant amounts of their time to GSGLA's program services and fundraising activities; however, these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Girl Scout troop activity

Cash held in troops and groups accounts operate under GSGLA's federal identification number but not under its control. The Council has no signature authority over and will not access the funds as long as a troop or group is functioning according to Girl Scout policy and procedure. Individual troops and groups have the responsibility to use funds in their control for the purposes of Girl Scouting as determined by the members and adult volunteers. The accompanying financial statements do not include financial data for individual Girl Scout troops and other groups such as service units, committees and volunteer-led camps.

Girl Scouts of Greater Los Angeles

Notes to Financial Statements September 30, 2017 With Summarized Totals at September 30, 2016

Deferred rent

The Council records rent expense under their operating leases on a straight-line basis over the lease terms. Deferred rent results from the difference between increasing monthly cash rent payments and the straight-line expense. In addition, the Council sometimes receives up-front tenant allowances upon entering certain lease agreements. Such allowances are recorded as a deferred rent liability in the accompanying statement of financial position, and amortized as a reduction to rent expense on a straight-line basis over the lease terms.

Functional allocation of expenses

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

Fair value measurements

The Council values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Income taxes

The Council is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code of California. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Council has no unrecognized tax benefits at September 30, 2017.

If applicable, the Council recognizes interest and penalties associated with tax matters as part of income tax expense and includes accrued interest and penalties with accrued expenses in the statement of financial position.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, 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.

Girl Scouts of Greater Los Angeles

Notes to Financial Statements September 30, 2017 With Summarized Totals at September 30, 2016

Comparative totals

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended September 30, 2016, from which the summarized information was derived.

Reclassifications

Certain reclassifications of 2016 amounts have been made to conform with the 2017 presentation.

Subsequent events

The Council has evaluated the impact of subsequent events through January 31, 2018, which is the date the financial statements were available to be issued.

Note 2 - Concentrations

Financial instruments that potentially subject the Council to concentrations of credit risk consist primarily of cash and cash equivalents at financial institutions. The Council maintains its cash and cash equivalents with high credit quality financial institutions. At times, such amounts may exceed federally insured limits.

The Council's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to the Council's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes in any one class.

At September 30, 2017, approximately 51% of the Council's accounts and pledges receivable is due from one donor.

For the year ended September 30, 2017, approximately 79% of revenues and support was derived from net cookie, nut and magazine sales. For the year ended September 30, 2017, one donor accounted for approximately 20% of the Council's contributions.

Girl Scouts of Greater Los Angeles

**Notes to Financial Statements
September 30, 2017
With Summarized Totals at September 30, 2016**

Note 3 - Accounts and pledges receivable

At September 30, 2017 and 2016, accounts and pledges receivables consisted of the following:

| | 2017 | | | 2016 |
|-----------------------------------|---------------------|--------------------|------------------|-------------------|
| | Accounts receivable | Pledges receivable | Total | Total |
| Gross amount | \$ 48,130 | \$ 353,696 | \$ 401,826 | \$ 724,530 |
| Present value discount | - | (1,515) | (1,515) | (1,515) |
| Reserve for uncollectible amounts | (5,072) | - | (5,072) | (48,500) |
| Total | 43,058 | 352,181 | 395,239 | 674,515 |
| Less current portion | (43,058) | (300,696) | (343,754) | (569,650) |
| | <u>\$ -</u> | <u>\$ 51,485</u> | <u>\$ 51,485</u> | <u>\$ 104,865</u> |

At September 30, 2017, gross undiscounted pledges receivable due in less than one year is \$300,696, gross undiscounted pledges receivable due in one to five years is \$53,000 and no amounts are due in more than five years. At September 30, 2017, the Council believes that all pledges receivable are collectible.

Note 4 - Investments

At September 30, 2017 and 2016, investments consisted of the following:

| | 2017 | 2016 |
|-----------------|----------------------|----------------------|
| Mutual funds | | |
| Equities | \$ 2,793,586 | \$ 2,144,152 |
| Bonds | 406,519 | 105,868 |
| Corporate bonds | 4,384,320 | 4,101,488 |
| Equities | | |
| Domestic | 3,964,459 | 4,283,428 |
| International | 602,426 | 121,723 |
| Mid-Cap | 476,856 | 560,614 |
| Small-Cap | - | 515,347 |
| Cash funds | 739,227 | - |
| Annuity | 18,611 | 20,219 |
| | <u>\$ 13,386,004</u> | <u>\$ 11,852,839</u> |

Girl Scouts of Greater Los Angeles

**Notes to Financial Statements
September 30, 2017
With Summarized Totals at September 30, 2016**

Note 5 - Fair value measurements

Financial assets carried at fair value at September 30, 2017 are classified in the table below in one of the three categories described in Note 1:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------|----------------------|------------------|----------------|----------------------|
| Mutual funds | | | | |
| Equities | \$ 2,793,586 | \$ - | \$ - | \$ 2,793,586 |
| Bonds | 406,519 | - | - | 406,519 |
| Corporate bonds | 4,384,320 | - | - | 4,384,320 |
| Equities | | | | |
| Domestic | 3,964,459 | - | - | 3,964,459 |
| International | 602,426 | - | - | 602,426 |
| Mid-Cap | 476,856 | - | - | 476,856 |
| Small-Cap | - | - | - | - |
| Cash funds | 739,227 | - | - | 739,227 |
| Annuity | - | 18,611 | - | 18,611 |
| | <u>-</u> | <u>18,611</u> | <u>-</u> | <u>18,611</u> |
| Total | <u>\$ 13,367,393</u> | <u>\$ 18,611</u> | <u>\$ -</u> | <u>\$ 13,386,004</u> |

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets, and are valued on a recurring basis. Financial assets valued using Level 2 inputs are based on the present value of expected cash flows. For the year ended September 30, 2017, there have been no changes in the valuation methodologies.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Council believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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Note 6 - Property and equipment

At September 30, 2017 and 2016, property and equipment consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|---------------------|
| Land and land improvements | \$ 8,502,942 | \$ 5,154,511 |
| Building and improvements, including leasehold improvements | 10,956,750 | 9,995,123 |
| Furniture, fixtures and equipment | 1,485,397 | 1,405,347 |
| Computer hardware and software | <u>1,031,531</u> | <u>875,149</u> |
| | 21,976,620 | 17,430,130 |
| Less accumulated depreciation and amortization | <u>(9,070,383)</u> | <u>(8,225,764)</u> |
| | 12,906,237 | 9,204,366 |
| Construction in progress | <u>1,275,003</u> | <u>290,412</u> |
| | <u>\$ 14,181,240</u> | <u>\$ 9,494,778</u> |

Depreciation and amortization expense for the year ended September 30, 2017 was \$848,358. The net change in property and equipment was primarily due to the purchases of new service center properties in Inglewood in February 2017 and in Santa Clarita in July 2017.

Note 7 - Note payable

In July 2014, the Council entered into a note payable agreement with Citizens Business Bank, secured by investments held at the bank, with an interest rate of LIBOR plus 2%. At September 30, 2016, the Council had a note payable balance of \$208,353. In April 2017, the Council paid the remaining principal balance in full.

Note 8 - Line of credit

The Council has a line of credit with a bank with a maximum borrowing limit of \$4,000,000 maturing in April 2018. Borrowings on the line of credit bear interest at the LIBOR plus 2.50% (3.50% at September 30, 2017) and is secured by substantially all of the Council's assets. At September 30, 2017, there were no outstanding borrowings under the line of credit.

The line of credit agreement contains covenants regarding certain financial and nonfinancial requirements. At September 30, 2017, the Council was in compliance with all such covenants.

Note 9 - Commitments and contingencies

Operating leases

The Council leases five properties under noncancelable operating leases expiring through May 2022. Certain leases contain renewal options and escalation clauses. Total rent expense under the leases was \$855,491 for the year ended September 30, 2017.

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The Council's minimum lease requirements under the non-cancelable leases for each of the next five years and thereafter subsequent to September 30, 2017 are as follows:

| | | |
|------|----|------------------|
| 2018 | \$ | 805,029 |
| 2019 | | 687,875 |
| 2020 | | 244,641 |
| 2021 | | 69,084 |
| 2022 | | <u>46,968</u> |
| | \$ | <u>1,853,597</u> |

Capital leases

The Council has certain equipment which is accounted for as capital leases. At September 30, 2017, the net balance of equipment under capital lease is as follows:

| | | |
|--|----|------------------|
| Equipment | \$ | 652,514 |
| Less accumulated depreciation | | <u>(558,582)</u> |
| Net balance of equipment under capital lease | \$ | <u>93,932</u> |

Minimum future lease payments under the capital lease for each of the next five years subsequent to September 30, 2017 are as follows:

| | | |
|-----------------------------------|----|----------------|
| 2018 | \$ | 73,703 |
| 2019 | | 32,351 |
| 2020 | | 2,305 |
| 2021 | | 2,305 |
| 2022 | | <u>1,537</u> |
| Net minimum lease payments | | 112,201 |
| Less amount representing interest | | <u>(3,103)</u> |
| | | 109,098 |
| Less current portion | | <u>71,335</u> |
| | \$ | <u>37,763</u> |

Contingencies

The Council is subject to certain claims that arise out of the normal operations of the Council. In the opinion of management, the Council has sufficient liability insurance to cover any such claims, and these matters will not have a material effect on the financial position of the Council if disposed of unfavorably.

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Note 10 - Temporarily restricted net assets

At September 30, 2017 and 2016, temporarily restricted net assets consisted of the following:

| | 2017 | 2016 |
|--|------------|--------------|
| Camperships | \$ 4,582 | \$ 4,101 |
| Capital | 625 | 688,822 |
| Financial Literacy | 187,525 | 167,132 |
| Membership Outreach | 61,324 | 59,143 |
| Science, Technology, Engineering and Math (STEM) | 69,037 | 50,086 |
| ToGetHerThere Luncheon | 186,586 | 293,340 |
| Other | 215,453 | 198,585 |
| | \$ 725,132 | \$ 1,461,209 |

Note 11 - Program related sales

The gross revenue and expense of the program related product and merchandise sales for the years ended September 30, 2017 and 2016 are as follows:

| | 2017 | | | 2016 |
|------------------------------------|---------------|-------------------|---------------|---------------|
| | Product sales | Merchandise sales | Total | Total |
| Gross revenue | \$ 28,673,602 | \$ 1,697,580 | \$ 30,371,182 | \$ 27,692,946 |
| Troop proceeds | (5,597,549) | - | (5,597,549) | (5,135,638) |
| Direct costs | (6,561,867) | (979,708) | (7,541,575) | (6,617,991) |
| Product and merchandise sales, net | \$ 16,514,186 | \$ 717,872 | \$ 17,232,058 | \$ 15,939,317 |

Note 12 - Endowment

The Council's endowment consists of individual funds established for a variety of purposes. The endowment consists of donor-restricted funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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The Board of Directors of the Council has interpreted the State of California Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor 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, and (b) the original value of subsequent gifts to the permanent endowment. 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 various funds, (2) the purposes of the Council and donor-restricted endowment funds, (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, and (7) the Council's investment policies.

Investment return objectives, risk parameters and strategies

The Council has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost rate of return which exceeds the annual distribution with acceptable levels of risk.

Spending policy

The Council has a policy of appropriating for distribution each year up to 5% of its donor-restricted endowment fund's average fair value of the prior 12 quarters through the preceding fiscal year in which the distribution is planned. In establishing this policy, the Council considered long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Council expects the current spending policy to allow its endowment funds to grow at a nominal average rate annually. This is consistent with the Council's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund as of September 30, 2017 and 2016 is as follows:

| | 2017 | | | 2016 |
|-------------------|---------------------------|---------------------------|-------------------|-------------------|
| | Temporarily restricted | Permanently restricted | Total | Total |
| Camperships | \$ 4,582 | \$ 16,414 | \$ 20,996 | \$ 20,515 |
| General endowment | 14,166 | 50,752 | 64,918 | 63,431 |
| Scholarships | 20,765 | 74,443 | 95,208 | 93,027 |
| Total | \$ 39,513 | \$ 141,609 | \$ 181,122 | \$ 176,973 |

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Changes in endowment net assets for the years ended September 30, 2017 and 2016 are as follows:

| | 2017 | | | 2016 |
|--------------------|------------------------|------------------------|-------------------|-------------------|
| | Temporarily restricted | Permanently restricted | Total | Total |
| Balance, beginning | \$ 35,364 | \$ 141,609 | \$ 176,973 | \$ 172,869 |
| Investment income | 18,772 | - | 18,772 | 12,899 |
| Appropriation | (14,623) | - | (14,623) | (8,795) |
| Balance, end | <u>\$ 39,513</u> | <u>\$ 141,609</u> | <u>\$ 181,122</u> | <u>\$ 176,973</u> |

As of September 30, 2017, there were no deficiencies of donor-restricted endowment funds.

Note 13 - Employee pension plan

The Council participates in the National Girl Scout Council Retirement Plan (the "Plan"), a noncontributory defined benefit pension plan sponsored by Girl Scouts of the USA. The National Board of GSUSA voted to freeze the plan to new entrants and to freeze future benefit accruals for all current participants under the Plan effective July 31, 2010. The Plan covers substantially all of the employees of various Girl Scout councils who were eligible to participate in the plan prior to the plan freeze. Accrued and vested benefits prior to July 31, 2010 are based on years of service and salary levels.

Although net Plan assets grew during the year, net Plan assets available for Plan benefits continue to be less than the actuarial present value of accumulated Plan benefits as of January 1, 2017. Based on the April 18, 2014 conditional approval by the Internal Revenue Service ("IRS"), all existing amortization bases in the Plan's funding standard account as of January 1, 2013 were combined into one base and the resulting amortization period for that single base was extended to ten years. Approval applies as long as at a minimum, beginning with the January 1, 2013 calendar year, \$30,000,000 is remitted. The \$30,000,000 calendar year minimum applies for each succeeding calendar year until the Plan is fully funded based upon the requirements of the Pension Protection Act of 2006 ("PPA"). In addition, on April 8, 2014, President Obama signed H.R. 4275 into law, a relief package unanimously passed by Congress that gives the Plan the flexibility to adopt the PPA funding requirements immediately or not at all. The Plan has elected to adopt this relief and not be subject to PPA. Aggregate annual contributions made in fiscal year 2017 were approximately \$33,100,000. The aggregate annual contributions decreased from 2016 to 2017 due to the reduction in the Plan's total annual aggregate contributions from \$34,300,000 to \$32,500,000 effective May 1, 2017. The Council made contributions of \$617,428 for the year ended September 30, 2017. Aggregate contributions made in fiscal 2018 are expected to continue to be \$32,500,000.

In addition, the Council maintains a 403(b) Thrift Plan (the "Thrift Plan") for eligible employees. Under the provisions of the Thrift Plan, the Council can make discretionary contributions for the benefit of eligible employees. For the year ended September 30, 2017, the Council expensed and accrued contributions of \$179,825.

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Note 14 - Subsequent event

In October 2017, the Council sold the Montclair service center property for total consideration of \$3,200,000. The gain on the sale was \$941,350.

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