

GIRL SCOUTS, HORNETS' NEST COUNCIL
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

**GIRL SCOUTS, HORNETS' NEST COUNCIL
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YEARS ENDED DECEMBER 31, 2017 AND 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Girl Scouts, Hornets' Nest Council
Charlotte, North Carolina

We have audited the accompanying financial statements of Girl Scouts, Hornets' Nest Council (a nonprofit organization), which comprise the statement of financial position as of December 31, 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.

Auditors' 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 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 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.

Board of Directors
Girl Scouts, Hornets' Nest Council

Opinion

In our opinion, the 2017 financial statements referred to above present fairly, in all material respects, the financial position of Girl Scouts, Hornets' Nest Council as of December 31, 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.

Other Matter

The 2016 financial statements of Girl Scouts, Hornets' Nest Council were audited by other auditors whose report dated March 16, 2017, expressed an unmodified opinion on those statements.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
March 21, 2018

**GIRL SCOUTS, HORNETS' NEST COUNCIL
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016**

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,402,479	\$ 2,174,657
Pledges Receivable	151,337	135,009
Other Receivables	85,733	32,114
Inventory - Store	142,170	150,457
Prepaid Expenses	25,174	59,050
Total Current Assets	1,806,893	2,551,287
OTHER ASSETS		
Investments	1,890,209	1,735,110
Beneficial Interest in Assets Held by Others	180,844	164,373
Land, Buildings, and Equipment, Net	10,523,449	10,212,120
Property Held for Sale	808,300	808,300
Total Other Assets	13,402,802	12,919,903
Total Assets	\$ 15,209,695	\$ 15,471,190
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 71,105	\$ 131,505
Deferred Revenue	138,424	195,596
Accrued Liabilities	174,099	204,431
Current Portion of Long-Term Debt	66,424	63,660
Total Current Liabilities	450,052	595,192
LONG-TERM DEBT, Net of Current Portion, Net of Deferred		
Financing Costs	1,574,137	1,771,614
Total Liabilities	2,024,189	2,366,806
NET ASSETS		
Unrestricted	12,807,076	12,774,865
Temporarily Restricted	204,421	170,908
Permanently Restricted	174,009	158,611
Total Net Assets	13,185,506	13,104,384
Total Liabilities and Net Assets	\$ 15,209,695	\$ 15,471,190

See accompanying Notes to Financial Statements.

**GIRL SCOUTS, HORNETS' NEST COUNCIL
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES, GAINS, AND OTHER SUPPORT				
Sales, Net of Direct Costs:				
Cookies	\$ 2,504,004	\$ -	\$ -	\$ 2,504,004
Fall Products	158,996	-	-	158,996
Store Merchandise	153,619	-	-	153,619
Program Fees	298,567	-	-	298,567
United Way Allocations and Grants	157,166	124,846	-	282,012
Contributions and Other Grants	458,774	53,741	1,250	513,765
Capital Campaign Contributions	-	-	-	-
Investment Income	170,553	-	-	170,553
Change in Beneficial Interest in Assets				
Held by Others	-	8,324	14,148	22,472
Gain on Sale of Camp Tarheelia	-	-	-	-
In-Kind Contributions	39,035	-	-	39,035
Other Income	10,519	-	-	10,519
Total Sales, Net of Direct Costs	<u>3,951,233</u>	<u>186,911</u>	<u>15,398</u>	<u>4,153,542</u>
Net Assets Released from Restrictions:				
United Way	123,481	(123,481)	-	-
Capital Campaign Contributions	-	-	-	-
Other Contributions and Grants	21,817	(21,817)	-	-
Scholarships from Beneficial Interests	8,100	(8,100)	-	-
Total Net Assets Released from Restrictions	<u>153,398</u>	<u>(153,398)</u>	<u>-</u>	<u>-</u>
 Total Revenues, Gains, and Other Support	 4,104,631	 33,513	 15,398	 4,153,542
EXPENSES				
Program Services	3,089,907	-	-	3,089,907
Management and General	526,079	-	-	526,079
Fund Development	456,434	-	-	456,434
Total Expenses	<u>4,072,420</u>	<u>-</u>	<u>-</u>	<u>4,072,420</u>
 CHANGE IN NET ASSETS	 32,211	 33,513	 15,398	 81,122
Net Assets - Beginning of Year	<u>12,774,865</u>	<u>170,908</u>	<u>158,611</u>	<u>13,104,384</u>
 NET ASSETS - END OF YEAR	 <u>\$ 12,807,076</u>	 <u>\$ 204,421</u>	 <u>\$ 174,009</u>	 <u>\$ 13,185,506</u>

See accompanying Notes to Financial Statements.

2016

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 2,503,479	\$ -	\$ -	\$ 2,503,479
124,218	-	-	124,218
176,801	-	-	176,801
217,782	-	-	217,782
149,500	123,481	-	272,981
345,442	11,598	2,100	359,140
1,881	-	-	1,881
92,716	-	-	92,716
-	8,230	(635)	7,595
211,729	-	-	211,729
-	-	-	-
21,218	-	-	21,218
<u>3,844,766</u>	<u>143,309</u>	<u>1,465</u>	<u>3,989,540</u>
128,503	(128,503)	-	-
416,694	(416,694)	-	-
30,466	(30,466)	-	-
5,450	(5,450)	-	-
<u>581,113</u>	<u>(581,113)</u>	<u>-</u>	<u>-</u>
4,425,879	(437,804)	1,465	3,989,540
2,868,497	-	-	2,868,497
555,198	-	-	555,198
377,452	-	-	377,452
<u>3,801,147</u>	<u>-</u>	<u>-</u>	<u>3,801,147</u>
624,732	(437,804)	1,465	188,393
<u>12,150,133</u>	<u>608,712</u>	<u>157,146</u>	<u>12,915,991</u>
<u>\$ 12,774,865</u>	<u>\$ 170,908</u>	<u>\$ 158,611</u>	<u>\$ 13,104,384</u>

**GIRL SCOUTS, HORNETS' NEST COUNCIL
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017			
	Program Services	Management and General	Fund Development	Total
Salaries and Benefits	\$ 1,717,944	\$ 365,524	\$ 310,315	\$ 2,393,783
Facilities and Maintenance	139,084	13,516	3,000	155,600
Purchased Services	139,449	57,516	43,147	240,112
Supplies	267,698	7,063	3,586	278,347
Telecommunications	48,404	4,622	1,175	54,201
Postage	37,244	814	911	38,969
Equipment Rental and Maintenance	46,632	8,088	4,291	59,011
Printing and Publications	57,566	298	37,009	94,873
Travel	66,545	2,586	3,801	72,932
Conferences	16,121	4,831	42,402	63,354
Specific Assistance	106,466	-	-	106,466
Dues	2,515	2,261	4,967	9,743
Insurance	43,076	17,971	-	61,047
Bad Debts	8,909	(11,907)	210	(2,788)
Interest	64,863	-	-	64,863
Miscellaneous	20,253	22,520	1,620	44,393
Total	<u>2,782,769</u>	<u>495,703</u>	<u>456,434</u>	<u>3,734,906</u>
Depreciation	<u>307,138</u>	<u>30,376</u>	<u>-</u>	<u>337,514</u>
Total Functional Expenses	<u><u>\$ 3,089,907</u></u>	<u><u>\$ 526,079</u></u>	<u><u>\$ 456,434</u></u>	<u><u>\$ 4,072,420</u></u>

See accompanying Notes to Financial Statements.

2016

Program Services	Management and General	Fund Development	Total
\$ 1,562,240	\$ 372,807	\$ 322,597	\$ 2,257,644
157,867	14,878	3,212	175,957
158,265	69,638	18,002	245,905
275,361	8,295	5,347	289,003
50,148	10,720	1,259	62,127
23,800	967	1,478	26,245
11,519	919	18	12,456
49,921	512	4,324	54,757
67,636	3,891	4,131	75,658
14,715	5,359	4,725	24,799
63,118	-	-	63,118
5,570	2,750	7,204	15,524
45,714	12,151	3,209	61,074
11,781	25	1,244	13,050
62,715	-	-	62,715
21,950	23,983	702	46,635
<u>2,582,320</u>	<u>526,895</u>	<u>377,452</u>	<u>3,486,667</u>
<u>286,177</u>	<u>28,303</u>	<u>-</u>	<u>314,480</u>
<u>\$ 2,868,497</u>	<u>\$ 555,198</u>	<u>\$ 377,452</u>	<u>\$ 3,801,147</u>

GIRL SCOUTS, HORNETS' NEST COUNCIL
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 81,122	\$ 188,393
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Bad Debt Expense	(2,788)	13,050
Amortization of Financing Costs	3,946	3,946
Net Appreciation in Fair Value of Investments	(115,496)	(30,194)
Net Change in Beneficial Interest in Assets Held by Others	(22,472)	(7,595)
Depreciation	337,514	314,480
(Gain) Loss on Sale of Property and Equipment	3,355	(212,201)
Contributions Restricted for the Capital Campaign	-	(1,881)
Contributions Restricted for Permanent Investment	(1,250)	(2,100)
(Increase) Decrease in Assets:		
Pledges Receivable	(13,540)	16,828
Other Receivables	(53,619)	(28,154)
Inventory - Store	8,287	6,629
Prepaid Expenses	33,876	(30,755)
Other Assets	-	(21,353)
Increase (Decrease) in Liabilities:		
Accounts Payable	(60,400)	48,582
Deferred Revenue	(57,172)	13,178
Accrued Liabilities	(30,332)	75,854
Net Cash Provided by Operating Activities	111,031	346,707
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales or Maturities of Investments	1,120,695	799,557
Proceeds from Sale of Property and Equipment	-	283,759
Distribution from Beneficial Interest in Assets Held by Others	8,100	5,450
Additions to Beneficial Interest in Assets Held by Others	(2,099)	(1,101)
Purchases of Investments	(1,160,298)	(844,536)
Purchases of Land, Buildings, and Equipment	(652,198)	(369,191)
Net Cash Used by Investing Activities	(685,800)	(126,062)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions Restricted for the Capital Campaign	-	418,375
Contributions Restricted for Permanent Investment	1,250	2,100
Principal Payments on Long-Term Debt	(198,659)	(526,709)
Net Cash Used by Financing Activities	(197,409)	(106,234)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(772,178)	114,411
Cash and Cash Equivalents - Beginning of Year	2,174,657	2,060,246
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,402,479	\$ 2,174,657

See accompanying Notes to Financial Statements.

**GIRL SCOUTS, HORNETS' NEST COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Girl Scouts, Hornets' Nest Council (the Council) is a nonprofit corporation, chartered by the Girl Scouts of the United States of America, which provides programs for girls ages 5 to 17 in the North Carolina counties of Mecklenburg, Anson, Rowan, Montgomery, Cabarrus, Union and Stanly, and the South Carolina county of York.

Basis of Accounting

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

Basis of Presentation

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

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations. From time to time, the board of directors may designate certain amounts to be utilized/invested to meet specific objectives of the Council.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Council and/or the passage of time.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Council. Generally, the donors of these assets permit the Council to use all or part of the income earned on any related investments for general or specific purposes.

Contributions and other assets are recognized as restricted support if they are pledged or received with donor stipulations that limit the use of the donation. 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 reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period in which they are received are reported as unrestricted support.

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 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.

**GIRL SCOUTS, HORNETS' NEST COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Council considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, except funds included in long-term investments.

The Council maintains its cash and cash equivalents on deposit in various financial institutions. These balances are insured by the Federal Deposit Insurance Corporation (FDIC). Demand deposits with financial institutions exceed federally insured amounts throughout the year. Historically, the Council has not experienced any losses on such deposits.

The Council invests its excess cash in interest-bearing demand deposits and temporary cash management funds with various banks. These deposits have a maturity of 90 days or less and bear minimal risk. The Council has not experienced any losses on its deposits, accounts, or cash management funds.

Contributions and Grants Receivable

Unconditional promises to give that are expected to be collected in the next year are recorded at their net realizable value. Conditional promises to give are not included as support until such time as the conditions are substantially met. Grant awards are evaluated by management and determined to either be unconditional contributions or exchange transactions. If considered to be a contribution, revenue from grants is recorded upon notification of the award. If considered to be an exchange transaction, revenue from grants is recorded as expenses are incurred under the terms of the respective grant agreement. Management determines the allowance for doubtful accounts by using historical experience applied to an aging of the accounts.

Inventory

Store inventory, consisting mostly of uniforms, badges and other supplies, is valued at the lower of cost or market, with cost determined on an average cost basis.

Investments

Investments are presented in the financial statements at fair value determined in accordance with Topic 820, *Fair Value Measurement*, of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). GAAP defines fair value as 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.

The Council's investments include various types of investment securities which are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks in the near term could materially affect amounts reported in the financial statements.

GIRL SCOUTS, HORNETS' NEST COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Beneficial Interest in Assets Held by Others

The majority of assets held by others represent permanently restricted endowments invested at the Foundation for the Carolinas with the earnings to be used for scholarships for Girl Scouts attending an institution of higher learning. Distributions from permanently restricted endowments to temporarily restricted funds are determined by the Foundation using 5% of the average market value of the invested assets and were \$8,100 and \$5,450 for the years ended December 31, 2017 and 2016, respectively. Until the amounts are spent by the Council, the distributions will remain in temporarily restricted net assets. The assets held by others are measured at fair value with the change recorded in the statements of activities as permanently restricted gains and losses. Additional contributions to the scholarship fund are reported as increases in permanently restricted net assets in the period received.

Land, Buildings, and Equipment

Individual assets costing more than \$500 with a useful life of twelve months or more are capitalized. Land, buildings, and equipment are stated at cost for purchased items and at estimated fair market value at the date received for donated items. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets, which range between 5 and 50 years. The cost of maintenance and repairs are charged to expense as incurred.

The cost and accumulated depreciation of land, buildings, and equipment are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the change in net assets in the accompanying statements of activities. Long-lived assets held and used by the Council are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.

Property Held for Sale

Property held for sale consists of camp facilities no longer utilized by the Council that are marketed for sale. Any depreciation of costs associated with such property was ceased once the property was taken out of service.

Deferred Financing Costs

The Council has adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest* (Subtopic 835-30): *Simplifying the Presentation of Debt Issuance Cost*. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The effect of adopting the new standard decreased other assets and the debt liability by approximately \$22,000 as of December 31, 2016. The adoption of the standard has no effect on previously reported net assets. This ASU was effective for the Council's fiscal year ended December 31, 2017 and was retroactively applied.

**GIRL SCOUTS, HORNETS' NEST COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Refundable Advances and Deferred Revenue

Refundable advances represent advances from third parties that require the Council to achieve certain objectives. Should the Council not achieve these objectives, the funds would be returned to the third party. Deferred revenue represents program fees collected in advance of the services being performed and certain grants based on the provisions of the grant agreements.

Contribution Revenue

Contributions, including unconditional promises to give, are recognized as revenues in the period in which the Council becomes aware of the promise to give or receives the contribution. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue Recognition

Cookie and fall product sales, which consist of magazines, candy and nuts, are recognized upon receipt of the deposits at the Council. Store sales are recognized at the point of sale.

Donated Services

The Council records contributed services if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A number of unpaid volunteers, who serve in the capacity of board members, troop leaders, service unit managers and other leadership roles, have made significant contributions of their time in the furtherance of the Council's programs. The value of this contributed time is not reflected in these financial statements because it does not meet the above recognition criteria.

The Council received professional services which do meet the above criteria and are, therefore, recorded as contributed services and included in contributions in the statements of activities. Contributed professional services were approximately \$27,000 for the year ended December 31, 2017. The Council had no contributed professional services for the year ended December 31, 2016.

Income Taxes

The Council is a non-profit organization as defined by Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from income taxes on all income related to its exempt purpose. Management believes that the Council continues to satisfy the requirements of a tax-exempt organization. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

**GIRL SCOUTS, HORNETS' NEST COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Council follows the Financial Accounting Standards Board (FASB) guidance on accounting for uncertainty in income taxes which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Council's policy is to record a liability for any tax position taken that is beneficial to the Council, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of December 31, 2017 or 2016.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs, such as depreciation, insurance and departmental expenses charged to the human resources, service center, office support, and corporate departments, have been allocated among the program and supporting services benefited.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to be consistent with the classifications adopted for the year ended December 31, 2017. These reclassifications had no effect on net assets or on change in net assets as previously reported.

Subsequent Events

The Council has evaluated its subsequent events through March 21, 2018, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

Recent Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this update make several improvements to reporting requirements including changes to net asset classification and requiring additional disclosures related to various nonprofit issues. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017 and should be applied retrospectively upon adoption, with certain limited exceptions. Early adoption is permitted. The Council is currently evaluating the effect that the standard will have on the financial statements.

**GIRL SCOUTS, HORNETS' NEST COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The amendments in the update increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The amendments in the update are effective for annual financial statements issued for fiscal years beginning after December 15, 2019. Early application is permitted. The Council is currently evaluating the effect that the standard will have on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The updated standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is permitted with certain restrictions. The updated standard becomes effective for annual reporting periods beginning after December 15, 2018. The Council has not selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

NOTE 2 PLEDGES RECEIVABLE

As of December 31, 2017 and 2016, pledges receivable consist of the following:

	<u>2017</u>	<u>2016</u>
United Way Receivable	\$ 124,846	\$ 123,481
Capital Campaign Receivables	-	12,000
Other Contributions Receivable	<u>26,491</u>	<u>11,598</u>
Total Contributions and Grants Receivable	151,337	147,079
Less: Allowance for Uncollectible Contributions and Grants	-	(12,070)
Net Contributions and Grants Receivable	<u><u>\$ 151,337</u></u>	<u><u>\$ 135,009</u></u>

The following schedule summarizes the gross future payments as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Due in One Year or Less	\$ 151,337	\$ 147,079
Due in Two to Five Years	-	-
Total	<u><u>\$ 151,337</u></u>	<u><u>\$ 147,079</u></u>

**GIRL SCOUTS, HORNETS' NEST COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 3 BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Council holds beneficial interests in assets transferred to the Foundation for the Carolinas (the Foundation). The transfers were irrevocable, and the distributions are subject to the spending policy of the Foundation. The assets held by the Foundation are recorded at fair value and are invested in a commingled pool, which includes investments in large and small cap equity funds, international equities, hedge funds, alternative investments, and fixed income funds. The Council records its beneficial interest in assets held by the Foundation based on the estimated fair value as provided by the Foundation.

NOTE 4 INVESTMENTS

The composition of investments at December 31, 2017 and 2016, is as follows:

	2017	2016
Money Market and Cash Sweep Accounts	\$ 57,976	\$ 74,124
Mutual Funds	-	378,056
Exchange Traded Funds	1,832,233	1,282,930
Total	\$ 1,890,209	\$ 1,735,110

Income on investments is comprised of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Interest Income	\$ 55,057	\$ 62,522
Net Appreciation in Fair Value	115,496	30,194
Total	\$ 170,553	\$ 92,716

GIRL SCOUTS, HORNETS' NEST COUNCIL
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 – Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

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

In determining fair value, the Council uses valuation approaches within the FASB ASC 820 fair value measurement framework and utilizes the end of reporting period for determining when transfers between levels are recognized. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the hierarchy.

Mutual Funds

Valued at the daily closing price as reported by the fund. Mutual funds held by the Council are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Council are deemed to be actively traded. Such securities are classified within Level 1 of the valuation hierarchy.

Exchange Traded Funds

Exchange traded funds listed on national markets or exchanges are valued at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy.

**GIRL SCOUTS, HORNETS' NEST COUNCIL
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DECEMBER 31, 2017 AND 2016**

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Beneficial Interest in Assets Held by Others

Such interest is recorded based on the estimated value of the Council's interest in the assets held by the Foundation. The Council's interest is classified within Level 3 of the valuation hierarchy.

The following tables set forth, by level within the fair value hierarchy, the Council's assets measured at fair value subsequent to initial recognition on a recurring basis.

	2017			
	Level 1	Level 2	Level 3	Total
Exchange Traded Funds:				
Fixed Income	\$ 1,205,148	\$ -	\$ -	\$ 1,205,148
U.S. Equity	73,892	-	-	73,892
Non U.S. Equity	65,957	-	-	65,957
Real Estate	62,816	-	-	62,816
Allocation Strategies	21,348	-	-	21,348
Other Equity	403,072	-	-	403,072
Total Investments at Fair Value	<u>\$ 1,832,233</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,832,233</u>
Beneficial Interest in Assets Held by Others	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 180,844</u>	<u>\$ 180,844</u>

The Council had \$57,976 of cash included with investments as of December 31, 2017 which is not included in the fair value hierarchy.

	2016			
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Large Cap	\$ 295,257	\$ -	\$ -	\$ 295,257
Mid Cap	33,813	-	-	33,813
Term Bond	48,986	-	-	48,986
Exchange Traded Funds:				
Large Cap	262,742	-	-	262,742
Mid Cap	185,740	-	-	185,740
Term Bond	834,448	-	-	834,448
Total Investments at Fair Value	<u>\$ 1,660,986</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,660,986</u>
Beneficial Interest in Assets Held by Others	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,373</u>	<u>\$ 164,373</u>

The Council had \$74,124 of cash included with investments as of December 31, 2016 which is not included in the fair value hierarchy.

**GIRL SCOUTS, HORNETS' NEST COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

The table below sets forth a summary of changes in the fair value of the Council's Level 3 assets for the years ended December 31, 2017 and 2016:

	Beneficial Interest in Assets Held by Others
Balance - January 1, 2016	\$ 161,127
Change in Value of Beneficial Interests	7,595
Scholarships from Beneficial Interests	(5,450)
Contributions to Beneficial Interests	1,101
Balance - December 31, 2016	<u>164,373</u>
Change in Value of Beneficial Interests	22,472
Scholarships from Beneficial Interests	(8,100)
Contributions to Beneficial Interests	2,099
Balance - December 31, 2017	<u><u>\$ 180,844</u></u>

The contributions to beneficial interests above differ from permanently restricted contributions and other grants presented on the statements of activities due to contributions that had been received by the Council but not deposited with the Foundation.

NOTE 6 LAND, BUILDINGS, AND EQUIPMENT AND PROPERTY HELD FOR SALE

Land, buildings, and equipment are comprised of the following as of December 31, 2017 and 2016:

	2017	2016
Land and Improvements	\$ 7,734,819	\$ 7,560,391
Buildings and Camp Facilities	4,907,045	4,379,676
Furniture, Fixtures, and Equipment	806,276	781,400
Transportation Equipment	260,021	260,021
Total	<u>13,708,161</u>	<u>12,981,488</u>
Less: Accumulated Depreciation	3,184,712	2,965,524
Total	<u>10,523,449</u>	<u>10,015,964</u>
Constructions in Progress	-	196,156
Land, Buildings, and Equipment, Net	<u><u>\$ 10,523,449</u></u>	<u><u>\$ 10,212,120</u></u>

The Council's Camp Catawba is no longer utilized and is being marketed for sale. The basis of those assets of \$808,300 has been segregated from land, buildings, and equipment and is presented in the statements of financial position as property held for sale.

The Council's Camp Tarheelia was sold to an unrelated third party in February 2016 for a selling price of \$300,000, net of selling expenses of approximately \$19,000. The basis of the property sold was approximately \$69,000 and resulted in a gain on the sale of approximately \$212,000 for the year ended December 31, 2016. Proceeds from the sale were used to reduce the Council's outstanding debt. See Note 7.

**GIRL SCOUTS, HORNETS' NEST COUNCIL
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 LONG-TERM DEBT

On February 29, 2016, the Council amended its bank debt agreement, effectively splitting the debt into two facilities with varying terms. In addition, the Council prepaid \$480,760 of principal on the debt in February 2016, prior to the amendment, funded by proceeds from the sale of Camp Tarheelia and the board-designated reserve for debt reduction. A summary of long-term debt, modified for the February 29, 2016, amendment, as of December 31, 2017 and 2016, is as follows:

<u>Description</u>	<u>2017</u>	<u>2016</u>
Facility No. 1: Payments due in monthly installments through February 2026, at which time the entire outstanding balance is due; interest rate is fixed rate of 3.89% per year; collateralized by real property "Administrative Facilities."	\$ 752,522	\$ 780,164
Facility No. 2: Payments due in monthly installments through February 2021, at which time the entire outstanding balance is due; interest rate is LIBOR Daily Floating Rate plus 2.0% (3.57% at December 31, 2017); collateralized by real property "Camp Catawba Property."	905,950	1,076,967
Total Long-Term Debt	<u>1,658,472</u>	<u>1,857,131</u>
Less: Current Portion	(66,424)	(63,660)
Less: Deferred Financing Costs	(17,911)	(21,857)
Long-Term Debt, Net	<u>\$ 1,574,137</u>	<u>\$ 1,771,614</u>

Maturities of long-term debt for the next five years ended December 31, and thereafter are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 66,424
2019	69,309
2020	72,244
2021	820,019
2022	33,654
Thereafter	596,822
Total	<u>\$ 1,658,472</u>

**GIRL SCOUTS, HORNETS' NEST COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 8 NET ASSETS

The following is a summary of unrestricted net assets as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Board Designated for:		
Operating Reserves	\$ 2,309,549	\$ 2,217,336
Capital Project	458,085	1,031,832
Undesignated	10,039,442	9,525,697
Total	<u>\$ 12,807,076</u>	<u>\$ 12,774,865</u>
Portion Representing Net Equity in Land, Buildings, and Equipment	<u>\$ 9,673,277</u>	<u>\$ 9,163,289</u>

The following is a summary of temporarily restricted net assets as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Pledges Receivable	\$ 151,087	\$ 135,009
Purpose Restrictions:		
Financial Literacy Program	17,749	28,038
Scholarships Endowment	8,085	7,861
Other	27,500	-
Total	<u>\$ 204,421</u>	<u>\$ 170,908</u>

During 2017 and 2016, net assets of approximately \$153,000 and \$581,000, respectively, were released from restrictions due to the expiration of time and purpose restrictions.

Permanently restricted net assets are investments in perpetuity, the income from which is restricted for the following purposes as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Foundation for the Carolinas:		
Endowment Fund	\$ 16,932	\$ 14,236
Scholarship Endowment Fund	155,827	142,275
Donations Earmarked for Deposit	1,250	2,100
Total	<u>\$ 174,009</u>	<u>\$ 158,611</u>

**GIRL SCOUTS, HORNETS' NEST COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 9 SALES REVENUES AND COSTS

The following is a summary of sales revenue and related direct costs for the years ended December 31, 2017 and 2016:

	2017			
	Sales*	Direct Costs	Net	Margin
Cookies	\$ 3,696,597	\$ 1,192,593	\$ 2,504,004	67.7%
Fall Products	331,165	172,169	158,996	48.0
Store Merchandise	371,456	217,837	153,619	41.4
Total	\$ 4,399,218	\$ 1,582,599	\$ 2,816,619	64.0%
	2016			
	Sales*	Direct Costs	Net	Margin
Cookies	\$ 3,582,327	\$ 1,078,848	\$ 2,503,479	69.9%
Fall Products	272,627	148,409	124,218	45.6
Store Merchandise	416,205	239,404	176,801	42.5
Total	\$ 4,271,159	\$ 1,466,661	\$ 2,804,498	65.7%

* Cookies and fall product sales are reported net of proceeds retained by Girl Scout troops.

NOTE 10 EMPLOYEE BENEFIT PLAN

The Council has a defined contribution Retirement Savings Plan (the Plan) under Section 403(b) of the Internal Revenue Code. Employees may make pretax contributions not to exceed the amount set by law. The Council contributes a percent of annual salary when an employee becomes eligible to participate in the Plan after one year of service. Employees are fully vested after four years of service. The Council's contributions to the Plan were approximately \$31,000 and \$83,000 in 2017 and 2016, respectively.

NOTE 11 LEASES

The Council leases equipment under various operating leases. Lease expense for the years ended December 31, 2017 and 2016, was approximately \$16,000 and \$17,000, respectively. Future minimum lease payments under such agreements are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 13,563
2019	11,221
2020	7,830
Total	\$ 32,614

GIRL SCOUTS, HORNETS' NEST COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 12 RELATED PARTY TRANSACTIONS

The Council is an affiliate of Girl Scouts USA (GSUSA), which is a distributor of official Girl Scout paraphernalia. Membership dues, technology services, and inventory purchases from GSUSA totaled approximately \$223,000 and \$196,000 in 2017 and 2016, respectively. As of December 31, 2017 the Council owed GSUSA approximately \$11,000 for technology services. As of December 31, 2016, the Council owed GSUSA approximately \$55,000 for membership dues collected on its behalf as well as purchased goods. These amounts are presented in accrued liabilities in the statements of financial position.

NOTE 13 DONOR ENDOWMENT

The Council's endowment consists of two individual funds established for different purposes by donors. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board of directors of the Council has interpreted the North Carolina Uniform Prudent Management of Institutional Funds Act (the Act) 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 (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 the accumulations are 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 the Act. In accordance with the Act, 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.

Endowments are held and invested at the Foundation. The spendable balance is classified as temporarily restricted net assets until appropriated for expenditure by the Council, and the remaining balance of the endowments is classified as permanently restricted net assets. The activity from the endowments is reported as changes in beneficial interest in assets held by others. Additional contributions to the funds are reported as increases in permanently restricted net assets in the period received.

**GIRL SCOUTS, HORNETS' NEST COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 13 DONOR ENDOWMENT (CONTINUED)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Council to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2017 or 2016.

Return Objectives and Risk Parameters

The Council has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the Council made investment elections when the funds were initially transferred to the Foundation. Those elections were done in a manner to reflect the Council's objectives and goals with regard to endowment investing. The Council expects its endowment funds, over time, to provide an average rate of return of approximately 5%. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

The endowment assets are expected to endure in perpetuity and inflation is a key component in the Council's investment objective; therefore, the Council believes that investing in assets with higher return expectations outweighs their short-term volatility risk. The Council targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The spending amount for the endowments is at the discretion of the Foundation, and for the majority of the assets is currently established to be at 5% of the average market value of the assets invested. The Council's election with the Foundation states that the donor allows for appropriation from an endowment with a balance below the amount required to be maintained in perpetuity; however, the Council's practice has been to forego distributions and use other Council assets to fund scholarships.

Changes in donor endowment net assets for the year ended December 31, 2017 is as follows:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets -				
Beginning of Year	\$ -	\$ 7,861	\$ 156,512	\$ 164,373
Investment Return	-	-	22,472	22,472
Contributions	-	-	2,099	2,099
Transfers	-	8,324	(8,324)	-
Appropriation for Expenditure	-	(8,100)	-	(8,100)
Endowment Net Assets -				
End of Year	<u>\$ -</u>	<u>\$ 8,085</u>	<u>\$ 172,759</u>	<u>\$ 180,844</u>

**GIRL SCOUTS, HORNETS' NEST COUNCIL
NOTES TO FINANCIAL STATEMENTS
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NOTE 13 DONOR ENDOWMENT (CONTINUED)

Changes in donor endowment net assets for the year ended December 31, 2016 is as follows:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets -				
Beginning of Year	\$ -	\$ 5,081	\$ 156,046	\$ 161,127
Investment Return	-	-	7,595	7,595
Contributions	-	-	1,101	1,101
Transfers	-	8,230	(8,230)	-
Appropriation for Expenditure	-	(5,450)	-	(5,450)
Endowment Net Assets -				
End of Year	<u>\$ -</u>	<u>\$ 7,861</u>	<u>\$ 156,512</u>	<u>\$ 164,373</u>