

Girl Scouts of Western Ohio

Financial Statements

September 30, 2016 and 2015

(with Independent Auditors' Report)

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Girl Scouts of Western Ohio:

Report on the Financial Statements

We have audited the accompanying financial statements of Girl Scouts of Western Ohio (a not-for-profit organization), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Girl Scouts of Western Ohio as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
January 5, 2017

Girl Scouts of Western Ohio
Statements of Financial Position
September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash	\$ 259,000	1,417,809
Accounts receivable, net of allowance of \$304,428 and \$224,492, respectively	61,034	70,041
Contributions receivable	293,837	347,630
Inventories	242,248	241,629
Prepaid expenses and other	172,557	184,326
Investments	<u>24,399,570</u>	<u>22,210,230</u>
	<u>25,428,246</u>	<u>24,471,665</u>
Property and equipment, at cost:		
Land and improvements	5,169,461	5,148,567
Building and improvements	20,337,903	20,411,535
Equipment and vehicles	<u>3,079,877</u>	<u>2,874,448</u>
	28,587,241	28,434,550
Less accumulated depreciation	<u>17,935,945</u>	<u>17,343,582</u>
Property and equipment, net	<u>10,651,296</u>	<u>11,090,968</u>
Beneficial interest in perpetual trusts	681,154	502,424
Beneficial interest in remainder trust	<u>111,813</u>	<u>97,736</u>
	<u>792,967</u>	<u>600,160</u>
Total assets	\$ <u>36,872,509</u>	<u>36,162,793</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 384,389	387,300
Deferred income	<u>64,916</u>	<u>83,792</u>
	<u>449,305</u>	<u>471,092</u>
Net assets:		
Unrestricted:		
Board designated	22,550,876	21,638,072
Property and equipment	<u>10,651,296</u>	<u>11,090,968</u>
	<u>33,202,172</u>	<u>32,729,040</u>
Temporarily restricted	524,549	504,335
Permanently restricted	<u>2,696,483</u>	<u>2,458,326</u>
	<u>36,423,204</u>	<u>35,691,701</u>
Total liabilities and net assets	\$ <u>36,872,509</u>	<u>36,162,793</u>

See accompanying notes to the financial statements.

Girl Scouts of Western Ohio
Statement of Activities
Year Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Cookie and merchandise sales	\$ 15,870,098	-	-	15,870,098
Less direct cost of cookie and merchandise sales	(4,278,600)	-	-	(4,278,600)
Less allocations to troops and service units	<u>(2,365,459)</u>	<u>-</u>	<u>-</u>	<u>(2,365,459)</u>
	<u>9,226,039</u>	<u>-</u>	<u>-</u>	<u>9,226,039</u>
United Way allocations	26,704	792,637	-	819,341
Legacies, bequests and contributions	387,792	308,168	-	695,960
Program fees and dues	<u>784,311</u>	<u>-</u>	<u>-</u>	<u>784,311</u>
	<u>1,198,807</u>	<u>1,100,805</u>	<u>-</u>	<u>2,299,612</u>
Investment return:				
Interest and dividends, net of fees	404,884	4,745	-	409,629
Net realized gains (losses)	(66,666)	20,973	(3,140)	(48,833)
Net unrealized gains	<u>987,741</u>	<u>11,899</u>	<u>241,297</u>	<u>1,240,937</u>
	<u>1,325,959</u>	<u>37,617</u>	<u>238,157</u>	<u>1,601,733</u>
Other	348,661	-	-	348,661
Gain on sale of property and equipment	2,000	-	-	2,000
Gain on involuntary conversion	109,976	-	-	109,976
Net assets released from restrictions	<u>1,118,208</u>	<u>(1,118,208)</u>	<u>-</u>	<u>-</u>
	<u>1,578,845</u>	<u>(1,118,208)</u>	<u>-</u>	<u>460,637</u>
	<u>13,329,650</u>	<u>20,214</u>	<u>238,157</u>	<u>13,588,021</u>
Expenses:				
Program services	11,390,984	-	-	11,390,984
Management and general	823,844	-	-	823,844
Fundraising	<u>641,690</u>	<u>-</u>	<u>-</u>	<u>641,690</u>
	<u>12,856,518</u>	<u>-</u>	<u>-</u>	<u>12,856,518</u>
Change in net assets	473,132	20,214	238,157	731,503
Net assets, beginning of period	<u>32,729,040</u>	<u>504,335</u>	<u>2,458,326</u>	<u>35,691,701</u>
Net assets, end of period	\$ <u>33,202,172</u>	<u>524,549</u>	<u>2,696,483</u>	<u>36,423,204</u>

See accompanying notes to the financial statements.

Girl Scouts of Western Ohio
Statement of Activities
Year Ended September 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Cookie and merchandise sales	\$ 15,745,246	-	-	15,745,246
Less direct cost of cookie and merchandise sales	(4,147,012)	-	-	(4,147,012)
Less allocations to troops and service units	<u>(2,375,624)</u>	<u>-</u>	<u>-</u>	<u>(2,375,624)</u>
	<u>9,222,610</u>	<u>-</u>	<u>-</u>	<u>9,222,610</u>
United Way allocations	35,021	863,794	-	898,815
Legacies, bequests and contributions	267,446	309,788	-	577,234
Program fees and dues	<u>749,818</u>	<u>-</u>	<u>-</u>	<u>749,818</u>
	<u>1,052,285</u>	<u>1,173,582</u>	<u>-</u>	<u>2,225,867</u>
Investment return:				
Interest and dividends, net of fees	301,589	5,526	-	307,115
Net realized gains (losses)	(15,347)	10,256	(7,102)	(12,193)
Net unrealized losses	<u>(802,729)</u>	<u>(34,221)</u>	<u>(85,741)</u>	<u>(922,691)</u>
	<u>(516,487)</u>	<u>(18,439)</u>	<u>(92,843)</u>	<u>(627,769)</u>
Other	218,080	-	-	218,080
Gain on sale of property and equipment	323,864	-	-	323,864
Net assets released from restrictions	<u>1,253,365</u>	<u>(1,253,365)</u>	<u>-</u>	<u>-</u>
	<u>1,795,309</u>	<u>(1,253,365)</u>	<u>-</u>	<u>541,944</u>
	<u>11,553,717</u>	<u>(98,222)</u>	<u>(92,843)</u>	<u>11,362,652</u>
Expenses:				
Program services	11,186,947	-	-	11,186,947
Management and general	941,918	-	-	941,918
Fundraising	<u>668,406</u>	<u>-</u>	<u>-</u>	<u>668,406</u>
	<u>12,797,271</u>	<u>-</u>	<u>-</u>	<u>12,797,271</u>
Change in net assets	(1,243,554)	(98,222)	(92,843)	(1,434,619)
Net assets, beginning of period	<u>33,972,594</u>	<u>602,557</u>	<u>2,551,169</u>	<u>37,126,320</u>
Net assets, end of period	\$ <u>32,729,040</u>	<u>504,335</u>	<u>2,458,326</u>	<u>35,691,701</u>

See accompanying notes to the financial statements.

Girl Scouts of Western Ohio
Statement of Functional Expenses
Year Ended September 30, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries, benefits and related taxes	\$ 7,284,811	503,984	497,174	8,285,969
Occupancy	751,753	80,945	36,583	869,281
Supplies and printing	1,097,618	12,261	15,099	1,124,978
Travel	244,804	25,525	12,099	282,428
Telephone and postage	125,202	14,217	8,353	147,772
Professional services	348,870	79,363	13,045	441,278
Financial assistance to individuals	320,065	-	-	320,065
Conference fees	11,883	8,124	596	20,603
Insurance	197,849	36,585	11,028	245,462
Other	<u>226,018</u>	<u>7,768</u>	<u>3,596</u>	<u>237,382</u>
Total expenses before depreciation	10,608,873	768,772	597,573	11,975,218
Depreciation	<u>782,111</u>	<u>55,072</u>	<u>44,117</u>	<u>881,300</u>
Total expenses	\$ <u>11,390,984</u>	<u>823,844</u>	<u>641,690</u>	<u>12,856,518</u>

See accompanying notes to the financial statements.

Girl Scouts of Western Ohio
Statement of Functional Expenses
Year Ended September 30, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries, benefits and related taxes	\$ 7,230,509	558,594	509,926	8,299,029
Occupancy	673,360	73,726	32,851	779,937
Supplies and printing	1,095,680	12,081	11,724	1,119,485
Travel	264,039	65,135	12,830	342,004
Telephone and postage	145,085	16,081	10,004	171,170
Professional services	370,622	99,327	30,072	500,021
Financial assistance to individuals	277,810	-	-	277,810
Conference fees	17,908	20,768	1,663	40,339
Insurance	211,736	35,821	12,314	259,871
Other	<u>102,081</u>	<u>-</u>	<u>-</u>	<u>102,081</u>
Total expenses before depreciation	10,388,830	881,533	621,384	11,891,747
Depreciation	<u>798,117</u>	<u>60,385</u>	<u>47,022</u>	<u>905,524</u>
Total expenses	\$ <u>11,186,947</u>	<u>941,918</u>	<u>668,406</u>	<u>12,797,271</u>

See accompanying notes to the financial statements.

Girl Scouts of Western Ohio
Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 731,503	(1,434,619)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	881,300	905,524
Gain on sale of property and equipment	(2,000)	(323,864)
Gain on involuntary conversion	(109,976)	-
Bad debt expense	76,406	96,460
Realized losses on investments	48,833	12,193
Unrealized (gain) loss on investments	(1,240,937)	922,691
Effects of change in operating assets and liabilities:		
Accounts receivable	(67,399)	(88,690)
Contributions receivable	53,793	(27,882)
Inventories, prepaid expenses and other	11,150	10,406
Accounts payable and accrued liabilities	(2,911)	105,407
Custodial funds	-	(13,644)
Deferred income	(18,876)	29,941
Net cash provided by operating activities	360,886	193,923
Cash flows from investing activities:		
Proceeds from sale of property and equipment	2,000	397,845
Insurance proceeds for loss of property and equipment	115,706	-
Purchases of property and equipment	(447,358)	(304,604)
Proceeds from sale of investments	12,045,630	13,149,593
Purchases of investments	(13,235,673)	(12,320,985)
Net cash provided (used) by investing activities	(1,519,695)	921,849
Net change in cash	(1,158,809)	1,115,772
Cash, beginning of period	1,417,809	302,037
Cash, end of period	\$ 259,000	1,417,809

See accompanying notes to the financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of operations

Girl Scouts of Western Ohio (the "Council"), is chartered by the Girl Scouts of the United States of America (GSUSA) and is incorporated in the State of Ohio as a charitable organization. As a non-formal educational organization, the Council's mission is to help girls grow up to be caring, competent, confident women.

Services are provided in 32 counties in western Ohio and southeastern Indiana. The Council's primary method of delivery of the Girl Scout program is the troop. There were approximately 42,000 girls in the Council during 2016 and 2015.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from these estimates.

Financial statement presentation

The Council reports 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. Unrestricted net assets are not subject to donor-imposed stipulations. However, certain unrestricted net assets have been designated for specific purposes by action of the Board of Directors. Temporarily restricted net assets are those net assets subject to donor-imposed stipulations that will likely be met by specific expenditures being made and/or the passage of time. Permanently restricted net assets are subject to donor-imposed stipulations that the principal of the gifts remain in perpetuity with the resulting investment income utilized for general, or in some cases, specific purposes.

Accounts receivable

Accounts receivable generally consists of amounts owed from individuals for product sales. The Council provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. All product sale proceeds are due at the time products are delivered. Troops have a settlement date for all proceeds to be deposited into the Council product sale account. Letters outlining the collection process are sent to all individuals with unpaid balances. Delinquent balances are referred to collections no later than 90 days subsequent to the settlement date. Balances are written off when the collection agency has exhausted all attempts at collection.

Inventories

Inventories consist primarily of merchandise for sale and are stated at the lower of cost or market, with cost determined on an average-cost basis.

Investments and investment return

Investments in equity and debt securities having a readily determinable fair value are carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments. Interest and dividends are reported net of investment fees of approximately \$77,000 and \$76,000 for 2016 and 2015, respectively.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as temporarily restricted then released from restriction. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted, or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Council maintains a pooled investment account. Realized and unrealized gains and losses from securities in the pooled investment account are allocated annually to the endowments based on the relationship or the fair value of the interest of each endowment to the total fair value of the pooled investments account, as adjusted for additions to or deductions from that account.

Property and equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Purchases of property and equipment in excess of \$1,000 are capitalized.

Board designated net assets

Board designated net assets are unrestricted net assets whose use by the Council has been designated by the Board for the following purposes at September 30:

	<u>2016</u>	<u>2015</u>
Operating reserve	\$ 9,299,384	9,299,384
Asset replacement	6,666,556	6,351,532
Pension reserve	4,311,296	3,572,791
Other	<u>2,273,640</u>	<u>2,414,365</u>
	<u>\$ 22,550,876</u>	<u>21,638,072</u>

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor 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. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Contributed services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. A substantial number of volunteers have donated significant amounts of their time to the Council's programs and supporting services. However, such services are not reflected in the accompanying financial statements.

Deferred income

Deferred income consists primarily of deposits and sponsorships for future events.

Income taxes

The Council is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. It has been determined by the IRS that the Council is not a private foundation. As such, the Council is subject to income tax only on unrelated business taxable income, if any, under the provisions of Section 511 of the Internal Revenue Code. Management does not believe the Council has any activities that would generate unrelated business income.

Functional allocation of expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fundraising categories based on the direct identification and other methods.

Concentrations of credit risk

Periodically during the year, the Council had cash deposits in excess of federally insured limits. The Council has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

The Council has holdings in one bond fund which represented 31% and 30% of the fair value of all investments at September 30, 2016 and 2015, respectively.

The Council has contributions receivable from United Way which represented 87% and 86% of all contributions receivable at September 30, 2016 and 2015, respectively.

Subsequent events

The Council evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through January 5, 2017, the date on which the financial statements were available to be issued.

2. CONTRIBUTIONS RECEIVABLE:

Contributions receivable, primarily composed of United Way allocations, were \$293,837 and \$347,630 as of September 30, 2016 and 2015, respectively, all of which were due within one year.

3. BENEFICIAL INTERESTS IN PERPETUAL AND REMAINDER TRUSTS:

The Council is a beneficiary under various perpetual trusts administered by outside parties. Under the terms of these trusts, the Council has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is \$681,154 and \$502,424, which represents the fair value of the trust assets at September 30, 2016 and 2015, respectively. The income from these trusts for 2016 and 2015 were \$40,946 and \$28,984, respectively.

The Council is a beneficiary of a charitable remainder trust administered by an outside party. Under the terms of the trust, the Council has the irrevocable right to receive annual distributions from the trust and a portion of the net assets of the trust at the end of the trust's term. The beneficial interest in this trust is recorded at the present value of the expected future cash flows discounted at a rate of 1.90% and 2.64% at September 30, 2016 and 2015, respectively. The estimated value of the expected future cash flows was \$111,813 and \$97,736 at September 30, 2016 and 2015, respectively. The Council's interest in the trust resulted in distributions in 2016 and 2015 of \$1,885 and 2,906, respectively.

4. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes at September 30:

	<u>2016</u>	<u>2015</u>
Time restrictions	\$ 255,457	300,061
Purpose restrictions	157,279	106,538
Beneficial interest in remainder trust	<u>111,813</u>	<u>97,736</u>
	<u>\$ 524,549</u>	<u>504,335</u>

5. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets are available to provide income for the following purposes as of September 30:

	<u>2016</u>	<u>2015</u>
General operations	\$ 1,865,329	1,805,902
Purpose restrictions	150,000	150,000
Beneficial interest in perpetual trusts	<u>681,154</u>	<u>502,424</u>
	<u>\$ 2,696,483</u>	<u>2,458,326</u>

6. ENDOWMENT:

The Council's endowment consists of two funds established for a variety of purposes. An endowment may include both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. As of September 30, 2016 and 2015, all endowment funds consisted of donor-restricted funds.

The Council's governing body has interpreted the State of Ohio's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring 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 permanently restricted net assets as (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 accumulation is added to the fund. The remaining portion of donor-restricted endowment funds 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. Duration and preservation of the fund
2. Purposes of the Council and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Council
7. Investment policies of the Council

Changes in donor-restricted endowment net assets for the year ended September 30, 2016 were:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 23,842	1,955,902	1,979,744
Investment income	4,617	-	4,617
Realized and unrealized gains	18,795	59,427	78,222
Appropriation of endowment assets for expenditure	<u>(25,747)</u>	<u>-</u>	<u>(25,747)</u>
Endowment net assets, end of year	\$ <u>21,507</u>	<u>2,015,329</u>	<u>2,036,836</u>

Changes in donor-restricted endowment net assets for the year ended September 30, 2015 were:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 54,109	2,030,619	2,084,728
Investment income	3,593	-	3,593
Realized and unrealized losses	(5,757)	(74,717)	(80,474)
Appropriation of endowment assets for expenditure	<u>(28,103)</u>	<u>-</u>	<u>(28,103)</u>
 Endowment net assets, end of year	 \$ <u>23,842</u>	 <u>1,955,902</u>	 <u>1,979,744</u>

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Council is required to retain as a fund of perpetual duration pursuant to donor stipulation. At September 30, 2016 and 2015, the Council had no deficiencies in its endowment funds.

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 and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Council must hold in perpetuity. Under the Council's policies, endowment assets are invested in a manner that is intended to produce results that exceed the rate of inflation while assuming a low level of investment risk.

Strategies employed for achieving objectives

To satisfy its long-term rate of return objectives, the Council relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). 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

For one endowment fund held and managed by the Council, 50% of the realized gains and losses and 100% of the unrealized gains and losses are retained as permanently restricted net assets. For the other endowment fund, all gains and losses are recorded as temporarily restricted net assets until appropriated for expenditure. These policies are consistent with the Council's objective to maintain the purchasing power of endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return. Unless otherwise authorized by the Board of Directors, appropriations shall not exceed 5% of the rolling three-year average market value as of September 30.

7. COOKIE AND OTHER MERCHANDISE SALES:

Sales of cookies and other merchandise, and the related direct costs, which include cost of purchases, are comprised of the following at September 30:

<u>2016</u>	<u>Gross Sales</u>	<u>Direct Costs</u>	<u>Allocations</u>	<u>Net Sales</u>
Cookie sales	\$ 15,140,115	3,826,249	2,365,459	8,948,407
Council store	<u>729,983</u>	<u>452,351</u>	<u>-</u>	<u>277,632</u>
	<u>\$ 15,870,098</u>	<u>4,278,600</u>	<u>2,365,459</u>	<u>9,226,039</u>
<u>2015</u>	<u>Gross Sales</u>	<u>Direct Costs</u>	<u>Allocations</u>	<u>Net Sales</u>
Cookie sales	\$ 15,061,469	3,713,875	2,375,624	8,971,970
Council store	<u>683,777</u>	<u>433,137</u>	<u>-</u>	<u>250,640</u>
	<u>\$ 15,745,246</u>	<u>4,147,012</u>	<u>2,375,624</u>	<u>9,222,610</u>

8. OPERATING LEASES:

The Council has various operating lease agreements for office equipment expiring in various years through 2019. Future minimum lease payments at September 30, 2016 were:

2017	\$ 42,336
2018	42,336
2019	<u>22,548</u>
	<u>\$ 107,220</u>

Rental expense for all operating leases amounted to \$42,336 in 2016 and 2015.

9. RETIREMENT PLANS:

The Council participates in two non-contributory multiemployer defined pension plans. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

1. Assets contributed to the multiemployer plan by one employer/council may be used to provide benefits to employees of other participating employers/councils.
2. If a participating employer/council stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers/councils.

3. If the Council chooses to stop participating in its multiemployer plan, the Council may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The National Girl Scout Council Retirement Plan, sponsored by GSUSA, was frozen for new entrants and future benefit accruals for all current participants under the Plan effective July 31, 2010 as voted by The National Board of GSUSA. 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. The Council's pension expense and contributions to this plan for 2016 and 2015 was \$685,488 and \$652,965, respectively. Due to the nature of the plan, it is not practicable to determine the extent to which the assets of the plan cover the actuarially computed value of vested benefits for the Council as a standalone operation. In addition, because the plan is considered a multiemployer plan, it is only subject to certain minimum reporting requirements of FASB guidance related to multiemployer plans, disclosures about an employer's participation in a multiemployer plan. 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, 2016. 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 10 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). Aggregate annual contributions made in fiscal year 2016 and 2015 are \$34,300,000 and \$34,500,000, respectively. Aggregate contributions made in fiscal 2017 are expected to be \$34,300,000.

The Council also participates in The Defined Benefit Pension Plan of United Way of Greater Toledo and Affiliated Agencies (EIN/Plan Number 34-4427947/PN 333) and covers certain employees of one of its legacy councils. This plan was approximately 96.66% funded as of December 31, 2015, which is the most recent information available. Pension expense and contributions to this plan were \$53,017 and \$53,502 for 2016 and 2015, respectively.

Because the assumptions used in the accounting for the multiemployer retirement plans are significant estimates, it is at least reasonably possible the amounts may change in the future, and these changes could be significant.

The Council also has a 403(b) Thrift plan covering substantially all employees. The plan includes a 3% non-contributory employer contribution and a 2% employer matching contribution. Council contributions to the Plan in 2016 and 2015 were \$177,562 and \$215,872, respectively.

10. TROOP FUNDS HELD:

Bank accounts for each troop are established under the Council's employer identification number. All troop funds are maintained for the beneficial interest of the girls within the respective troop. Management has estimated troop funds total approximately \$1,529,000 and \$1,825,000 at September 30, 2016 and 2015, respectively. These funds are not available for use by the Council and have not been included in the financial statements.

11. FAIR VALUE MEASUREMENTS:

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and established a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principle market for the asset or liability or, in the absence of a principle market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value into three broad levels:

- Level 1 – Valuations based on quoted price in active markets for identical assets or liabilities that the Council has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these items does not entail a significant degree of judgment.
- Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The asset 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.

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds, equity securities, U.S. Treasury and fixed income securities (bond funds). If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. Level 2 securities include agency and corporate debt securities and municipal bonds.

Beneficial interest in perpetual trusts

Fair value is calculated as the present value of the perpetual future distributions expected to be received over the term of the agreement and is estimated using the current fair value of the investments held in the trusts, without adjustment by management. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Beneficial interest in remainder trust

The fair value is estimated using a discounted cash flow model. Inputs in the calculation include the current fair value of assets in the trust, life expectancy of beneficiaries, discount rates and expected earnings rates. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2016</u>				
Investments:				
Money market funds	\$ 514,835	514,835	-	-
Equity mutual funds	4,671,682	4,671,682	-	-
Equity securities:				
Energy	537,725	537,725	-	-
Materials	21,145	21,145	-	-
Industrials	717,170	717,170	-	-
Consumer discretionary	909,441	909,441	-	-
Consumer staples	789,324	789,324	-	-
Healthcare	1,095,256	1,095,256	-	-
Information technology	1,548,324	1,548,324	-	-
Financial	1,027,623	1,027,623	-	-
Telecommunication services	119,554	119,554	-	-
Utilities	80,040	80,040	-	-
Preferred stock	56,110	56,110	-	-
Fixed income mutual funds	7,753,448	7,753,448	-	-
U.S. Treasury	490,591	490,591	-	-
Agency securities	308,285	-	308,285	-
Corporate debt securities	3,674,506	-	3,674,506	-
Municipal bonds	84,511	-	84,511	-
	<u>\$ 24,399,570</u>	<u>20,332,268</u>	<u>4,067,302</u>	<u>-</u>
Beneficial interest in perpetual trusts	\$ <u>681,154</u>	<u>-</u>	<u>-</u>	<u>681,154</u>
Beneficial interest in remainder trust	\$ <u>111,813</u>	<u>-</u>	<u>-</u>	<u>111,813</u>

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2015	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Money market funds	\$ 684,902	684,902	-	-
Equity mutual funds	4,675,456	4,675,456	-	-
Equity securities:				
Energy	405,358	405,358	-	-
Materials	17,826	17,826	-	-
Industrials	724,582	724,582	-	-
Consumer discretionary	896,580	896,580	-	-
Consumer staples	587,619	587,619	-	-
Healthcare	878,346	878,346	-	-
Information technology	1,103,885	1,103,885	-	-
Financial	879,661	879,661	-	-
Telecommunication services	100,073	100,073	-	-
Preferred stock	76,990	76,990	-	-
Fixed income mutual funds	6,861,330	6,861,330	-	-
U.S. Treasury	537,019	537,019	-	-
Agency securities	248,005	-	248,005	-
Corporate debt securities	3,447,422	-	3,447,422	-
Municipal bonds	85,176	-	85,176	-
	\$ 22,210,230	18,429,627	3,780,603	-
Beneficial interest in perpetual trusts	\$ 502,424	-	-	502,424
Beneficial interest in remainder trust	\$ 97,736	-	-	97,736

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

	Beneficial Interest in Perpetual Trusts	Beneficial Interest in Remainder Trust
Balance, October 1, 2015	\$ 502,424	97,736
Total unrealized gains included in change in net assets, held at year-end	178,730	14,077
Balance, September 30, 2016	\$ 681,154	111,813

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	Beneficial Interest in Perpetual <u>Trusts</u>	Beneficial Interest in Remainder <u>Trust</u>
Balance, October 1, 2014	\$ 520,550	115,945
Total unrealized gains included in change in net assets, held at year-end	<u>(18,126)</u>	<u>(18,209)</u>
Balance, September 30, 2015	\$ <u>502,424</u>	<u>97,736</u>

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements.

	<u>Fair Value at 9/30/16</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Assumptions</u>
Beneficial interest in perpetual trusts	\$ 681,154	Present value of perpetual future distributions	Present value rates: term of the trust	Various rates ranging from .25% to 5% perpetual
Beneficial interest in remainder trust	\$ 111,813	Discounted cash flow	Discount rates: term of the trust	1.90% 11 years
	<u>Fair Value at 9/30/15</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Assumptions</u>
Beneficial interest in perpetual trusts	\$ 502,424	Present value of perpetual future distributions	Present value rates: term of the trust	Various rates ranging from .25% to 5% perpetual
Beneficial interest in remainder trust	\$ 97,736	Discounted cash flow	Discount rates: term of the trust	2.64% 12 years

12. INVOLUNTARY CONVERSION:

During 2016, the Council experienced a casualty loss related to damage sustained at a camp from a severe storm. The Council received insurance proceeds for the rebuilding and replacement of assets lost, as well as reimbursement of certain operating costs. The net effect on the 2016 financial statements is a gain of \$109,976 as of September 30, 2016. The gain will be utilized during fiscal year 2017 to complete the repairs and replace assets that were lost that was not completed as of September 30, 2016. The amounts recorded during 2016 are as follows:

Proceeds from insurance settlement	\$ 179,158
Repairs expensed during the year	(63,452)
Net book value of assets lost	<u>(5,730)</u>
Gain on involuntary conversion	\$ <u>109,976</u>



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