



girl scouts
diamonds of
arkansas, oklahoma
and texas

FINANCIAL STATEMENTS
September 30, 2017 and 2016
(With Independent Auditor's Report Thereon)

**Thomas &
Thomas LLP**

Certified Public Accountants

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

TABLE OF CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statement of Activities – Year Ended September 30, 2017	4
Statement of Activities – Year Ended September 30, 2016	5
Statement of Functional Expenses – Year Ended September 30, 2017	6
Statement of Functional Expenses – Year Ended September 30, 2016	7
Statements of Cash Flows	8
Notes to Financial Statements	9 – 23

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas
Little Rock, Arkansas

We have audited the accompanying financial statements of **Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas** (the Council), which comprise the statements of financial position as of September 30, 2017 and 2016, 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.

Auditor's 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 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 the Council as of September 30, 2017 and 2016, 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.

Thomas & Thomas LLP

Certified Public Accountants

January 18, 2018
Little Rock, Arkansas

Financial Statements

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

STATEMENTS OF FINANCIAL POSITION September 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 3,138,114	\$ 1,397,549
Investments	474,507	2,765,486
Accounts receivable, net	33,788	86,266
Contributions and grants receivable	138,680	82,353
Inventory	141,471	156,820
Prepaid expenses	85,152	79,506
Property and equipment, net	4,024,331	4,083,941
Other assets	9,481	-
	\$ 8,045,524	\$ 8,651,921
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 156,919	\$ 159,447
Accrued payroll expenses	112,008	193,040
Custodial funds	11,963	9,574
Capital lease obligations	32,036	-
Deferred revenue	3,579	20,316
Deferred rent	14,997	-
Total Liabilities	331,502	382,377
Net Assets		
Unrestricted	7,425,115	5,929,193
Unrestricted - board designated	28,407	2,052,013
Total Unrestricted Net Assets	7,453,522	7,981,206
Temporarily restricted	114,278	144,869
Permanently restricted	146,222	143,469
Total Net Assets	7,714,022	8,269,544
TOTAL LIABILITIES AND NET ASSETS	\$ 8,045,524	\$ 8,651,921

See accompanying notes to financial statements.

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

STATEMENT OF ACTIVITIES Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT, REVENUE, GAINS AND RECLASSIFICATIONS				
Support				
United Way	\$ 79,401	\$ 78,750	\$ -	\$ 158,151
Contributions	366,467	35,528	2,753	404,748
Total Support	<u>445,868</u>	<u>114,278</u>	<u>2,753</u>	<u>562,899</u>
Program Revenue				
Cookie sales	5,387,829	-	-	5,387,829
Cost of sales	(1,436,955)	-	-	(1,436,955)
Allocation to troops and service units	(793,991)	-	-	(793,991)
Net cookie sales revenue	<u>3,156,883</u>	<u>-</u>	<u>-</u>	<u>3,156,883</u>
Fall sales	429,490	-	-	429,490
Cost of sales	(182,656)	-	-	(182,656)
Allocation to troops and service units	(48,600)	-	-	(48,600)
Net fall sales revenue	<u>198,234</u>	<u>-</u>	<u>-</u>	<u>198,234</u>
Merchandise sales	266,667	-	-	266,667
Cost of sales	(161,996)	-	-	(161,996)
Net merchandise sales revenue	<u>104,671</u>	<u>-</u>	<u>-</u>	<u>104,671</u>
Camp and program fees	<u>250,424</u>	<u>-</u>	<u>-</u>	<u>250,424</u>
Total Program Revenue	<u>3,710,212</u>	<u>-</u>	<u>-</u>	<u>3,710,212</u>
Other Income				
Net investment income	111,735	35,376	-	147,111
Other support, gains and miscellaneous income	433,957	-	-	433,957
Total Other Income	<u>545,692</u>	<u>35,376</u>	<u>-</u>	<u>581,068</u>
Net Assets Released from Restrictions	<u>180,245</u>	<u>(180,245)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, Gains and Reclassifications	<u>4,882,017</u>	<u>(30,591)</u>	<u>2,753</u>	<u>4,854,179</u>
Expenses				
Program services	3,968,363	-	-	3,968,363
Management and general	1,127,364	-	-	1,127,364
Fundraising	313,974	-	-	313,974
Total Expenses	<u>5,409,701</u>	<u>-</u>	<u>-</u>	<u>5,409,701</u>
INCREASE (DECREASE) IN NET ASSETS	(527,684)	(30,591)	2,753	(555,522)
NET ASSETS, BEGINNING OF YEAR	<u>7,981,206</u>	<u>144,869</u>	<u>143,469</u>	<u>8,269,544</u>
NET ASSETS, END OF YEAR	<u>\$ 7,453,522</u>	<u>\$ 114,278</u>	<u>\$ 146,222</u>	<u>\$ 7,714,022</u>

See accompanying notes to financial statements.

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

STATEMENT OF ACTIVITIES Year Ended September 30, 2016

SUPPORT, REVENUE, GAINS AND RECLASSIFICATIONS	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support				
United Way Contributions	\$ 129,452	\$ 23,000	\$ -	\$ 152,452
	256,058	1,334	1,970	259,362
Total Support	<u>385,510</u>	<u>24,334</u>	<u>1,970</u>	<u>411,814</u>
Program Revenue				
Cookie sales	5,101,049	-	-	5,101,049
Cost of sales	(1,245,587)	-	-	(1,245,587)
Allocation to troops and service units	(758,248)	-	-	(758,248)
Net cookie sales revenue	<u>3,097,214</u>	<u>-</u>	<u>-</u>	<u>3,097,214</u>
Fall sales	454,442	-	-	454,442
Cost of sales	(192,315)	-	-	(192,315)
Allocation to troops and service units	(54,080)	-	-	(54,080)
Net fall sales revenue	<u>208,047</u>	<u>-</u>	<u>-</u>	<u>208,047</u>
Merchandise sales	263,895	-	-	263,895
Cost of sales	(156,244)	-	-	(156,244)
Net merchandise sales revenue	<u>107,651</u>	<u>-</u>	<u>-</u>	<u>107,651</u>
Camp and program fees	214,118	-	-	214,118
Total Program Revenue	<u>3,627,030</u>	<u>-</u>	<u>-</u>	<u>3,627,030</u>
Other Income (Loss)				
Net investment income	219,769	28,645	-	248,414
Other support and miscellaneous (loss) income	(387,602)	-	-	(387,602)
Total Other Income (Loss)	<u>(167,833)</u>	<u>28,645</u>	<u>-</u>	<u>(139,188)</u>
Net Assets Released from Restrictions	<u>90,872</u>	<u>(90,872)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, Gains (Loss) and Reclassifications	<u>3,935,579</u>	<u>(37,893)</u>	<u>1,970</u>	<u>3,899,656</u>
Expenses				
Program services	3,846,204	-	-	3,846,204
Management and general	1,268,015	-	-	1,268,015
Fundraising	281,110	-	-	281,110
Total Expenses	<u>5,395,329</u>	<u>-</u>	<u>-</u>	<u>5,395,329</u>
INCREASE (DECREASE) IN NET ASSETS	(1,459,750)	(37,893)	1,970	(1,495,673)
NET ASSETS, BEGINNING OF YEAR	<u>9,440,956</u>	<u>182,762</u>	<u>141,499</u>	<u>9,765,217</u>
NET ASSETS, END OF YEAR	<u>\$ 7,981,206</u>	<u>\$ 144,869</u>	<u>\$ 143,469</u>	<u>\$ 8,269,544</u>

See accompanying notes to financial statements.

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

STATEMENT OF FUNCTIONAL EXPENSES Year Ended September 30, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, benefits and taxes	\$ 2,248,429	\$ 741,895	\$ 271,944	\$ 3,262,268
Professional services and fees	119,626	105,985	6,838	232,449
Program supplies and food	288,780	1,234	2,626	292,640
Communications and postage	127,534	36,929	4,377	168,840
Building rent, maintenance and utilities	345,801	63,266	10,305	419,372
Equipment rental and maintenance	99,140	-	-	99,140
Marketing and printing	19,867	31,233	2,484	53,584
Travel	113,218	10,334	5,167	128,719
Development and training	52,500	5,409	2,144	60,053
Girl and adult assistance and troop support	71,644	-	-	71,644
Sales incentives	140,359	-	-	140,359
Bad debts/loss on uncollectible contributions	26,258	-	7,000	33,258
Insurance	71,210	19,721	-	90,931
Other operating expense	12,533	57,390	1,089	71,012
Depreciation and amortization	231,464	53,968	-	285,432
TOTAL EXPENSES	3,968,363	1,127,364	313,974	5,409,701
Costs of sales	1,781,607	-	-	1,781,607
Allocation to troops and service units	842,591	-	-	842,591
TOTAL EXPENSES AND COST OF SALES	\$ 6,592,561	1,127,364	313,974	\$ 8,033,899

See accompanying notes to financial statements.

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

STATEMENT OF FUNCTIONAL EXPENSES Year Ended September 30, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, benefits and taxes	\$ 2,157,922	\$ 938,308	\$ 235,019	\$ 3,331,249
Professional services and fees	98,987	112,055	7,369	218,411
Program supplies and food	287,218	2,666	9,789	299,673
Communications and postage	95,087	28,708	5,168	128,963
Building rent, maintenance and utilities	289,442	64,873	4,800	359,115
Equipment rental and maintenance	112,560	-	-	112,560
Marketing and printing	35,011	23,100	4,376	62,487
Travel	111,431	10,226	5,114	126,771
Development and training	30,132	5,048	1,896	37,076
Girl and adult assistance and troop support	106,919	-	-	106,919
Sales incentives	131,576	-	-	131,576
Bad debts/loss on uncollectible contributions	77,278	-	7,000	84,278
Insurance	81,608	20,254	-	101,862
Other operating expense	5,374	6,362	579	12,315
Depreciation and amortization	225,659	56,415	-	282,074
TOTAL EXPENSES	3,846,204	1,268,015	281,110	5,395,329
Costs of sales	1,594,146	-	-	1,594,146
Allocation to troops and service units	812,328	-	-	812,328
TOTAL EXPENSES AND COST OF SALES	<u><u>\$ 6,252,678</u></u>	<u><u>\$ 1,268,015</u></u>	<u><u>\$ 281,110</u></u>	<u><u>\$ 7,801,803</u></u>

See accompanying notes to financial statements.

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

STATEMENTS OF CASH FLOWS Years Ended September 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in Total Net Assets	\$ (555,522)	\$ (1,495,673)
Adjustments to Reconcile Changes in Net Assets to		
Net Cash Used by Operating Activities		
Depreciation and amortization	285,432	282,074
(Gain) loss on disposal of property and equipment	(212,645)	478,686
Net appreciation in fair value of investments	(82,597)	(112,948)
Loss on uncollectible receivables	1,460	7,215
Changes in operating assets and liabilities:		
Accounts receivable, net	52,478	(25,483)
Contributions and grants receivable	(57,787)	(18,264)
Inventory	15,349	50,604
Prepaid expenses	(5,646)	(44,264)
Other assets	(9,481)	-
Accounts payable and accrued expenses	7,696	(1,191)
Accrued payroll expenses	(81,032)	(6,708)
Custodial funds	2,389	(49,194)
Deferred revenue	(16,737)	14,042
Deferred rent	14,997	-
Net Cash Used by Operating Activities	(641,646)	(921,104)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(395,626)	(137,522)
Proceeds from sale of property and equipment	418,999	709,066
Purchases of investments	(193,325)	(502,914)
Proceeds from sale of investments	2,566,901	458,892
Net Cash Provided by Investing Activities	2,396,949	527,522
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligations	(14,738)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,740,565	(393,582)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,397,549	1,791,131
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,138,114	\$ 1,397,549
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Purchases of property and equipment included in accounts payable	\$ 3,026	\$ 13,250

See accompanying notes to financial statements.

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

NOTES TO FINANCIAL STATEMENTS September 30, 2017 and 2016

NOTE 1: NATURE OF ACTIVITIES

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas (the Council) is a nonprofit organization incorporated under the laws of the state of Arkansas and chartered by the Girl Scouts of the United States of America (GSUSA). As part of a national strategy developed by GSUSA to streamline and consolidate operations by creating high capacity, high performing Girl Scout councils throughout the United States, the Council was created and commenced operations effective October 1, 2008, as a result of a merger of five Girl Scout Councils (Girl Scout Councils of NOARK, Ouachita, Crowley's Ridge, Mount Magazine and Conifer).

The Council's mission is to build girls of courage, confidence and character who make the world a better place. To accomplish its mission, the Council strives to provide a variety of Girl Scout programs and exciting opportunities throughout the area it serves. The Council serves over 7,700 girls and has over 3,700 volunteers.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Council have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

(b) Basis of Presentation

The Council is required to report information regarding its financial position and activities according to three classes of net assets – unrestricted, temporarily restricted and permanently restricted, as applicable.

(c) Cash and Cash Equivalents

The Council considers all money market mutual funds and highly liquid investments with original maturities of three months or less at the date of purchase to be cash and cash equivalents.

The accompanying financial statements do not report balances or transactions attributable to separate bank accounts established and maintained by individual Girl Scout troops under the employer identification number (EIN) of the Council. At September 30, 2017 and 2016, management estimates that the balance in individual troop accounts totaled approximately \$732,000 and \$556,000, respectively. The Council has no signature authority on or direct control over the individual troop accounts and will not access the funds as long as a troop is functioning according to Girl Scout policy and procedure. Individual troops have the responsibility to use funds in their control for purposes of conducting Girl Scout-related programs. If a troop disbands and the troop bank account has a balance, the members of that troop may elect to return it to the Council. It is the Council's policy not to use any funds received from disbanded troops for operations and to retain these funds until they can be provided to a new troop that serves the same area as the disbanded troop. Any amounts received from disbanded troops are included in cash and cash equivalents, and they are also included in the custodial funds liability on the Council's statements of financial position, as described in Note 7.

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

NOTES TO FINANCIAL STATEMENTS September 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Investments

The Council's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. See Note 5 for further discussion of fair value measurements.

Investment transactions are recorded on a trade-date basis. Interest income is recorded when it is earned, and dividends are recorded as income on the ex-dividend date.

Realized and unrealized gains and losses, as well as dividends and interest, are included in net investment income on the statement of activities. Donor restricted investment income is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions, unless the restrictions are met (that is, when a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income is earned, in which case the investment income is reported as an increase in unrestricted net assets.

(e) Inventory

Inventories, consisting primarily of shop merchandise, are stated at the lower of cost (determined using the first-in, first-out method) or market value.

(f) Property and Equipment, Net

Property and equipment are reported at historical cost, or if donated, at the approximate fair value at the date of donation. Such donations are reported as increases in unrestricted net assets, unless the donor has restricted the donated asset to a specified purpose.

Generally, major renewals and improvements in excess of \$5,000 are capitalized, while normal repairs and maintenance are expensed in the period incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to forty years.

(g) Contributions

Contributions, including unconditional promises to give, are recognized as support in the period received or when the Council becomes aware that an unconditional promise to give has been made, whichever occurs first. Conditional promises to give are not recognized until they become unconditional, that is when the conditions specified by the donor are substantially met.

Contributions that are restricted by the donor are recorded as increases in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time period ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as "net assets released from restrictions."

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

NOTES TO FINANCIAL STATEMENTS September 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Revenue Recognition

Sales of cookies and fall sale products (e.g., nuts, snack mix, magazine subscriptions) are recognized at the time of delivery of the cookies or products to the buyer. Merchandise sales, which consist primarily of Girl Scout-related equipment and supplies sold at the Council's retail stores, are recognized at the time of the sale. Camp and other program fee revenues are recognized at the time the related camp or other program occurs.

The Council records accounts receivable for cookie and fall sales proceeds due from individual troops. Accounts receivable are stated net of an allowance for doubtful accounts, determined by management based upon a review of outstanding receivables and historical collection information. Management does not anticipate material losses on the Council's receivables in excess of the established allowance, which was \$25,000 at September 30, 2017 and 2016.

(i) Cost of Sales

Costs of sales include all costs associated with the purchase of cookies, fall sale products and merchandise. Shipping and handling costs are also included in cost of sales. All cookie inventory is purchased from one vendor, and all fall sale inventory is purchased from another vendor. All Girl Scout-related merchandise is purchased from GSUSA.

(j) Allocation to Troops and Service Units

Individual troops and service units earn on average \$0.60 for each box of cookies sold, \$0.75 for each candy or nut item sold in the fall sale and 12% of magazine subscriptions sold in the fall sale. In addition, individual Girl Scout members are eligible to receive awards and incentives based upon individual amounts sold.

(k) Functional Expenses

The Council allocates its expenses on a functional basis among various programs and supporting services. Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service according to their natural expenditure classification. Other expenses that are common to several functions are allocated to various programs and supporting services based on various statistical bases.

Expenses associated with certain activities and functions necessary for the support of programs provided by the Council are considered supporting services expenses. Supporting services include various costs associated with administration, fundraising, maintenance and other general functions of the Council.

(l) Income Taxes

The Council is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation.

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

NOTES TO FINANCIAL STATEMENTS September 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Income Taxes (Continued)

Accounting standards require the Council to evaluate tax positions and recognize a tax liability (or asset) if the Council has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS). The Council has analyzed the tax positions taken and has concluded that as of September 30, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require the recognition of a liability (or asset) or disclosure in the financial statements. The Council may be subject to audit by the IRS; however, there are currently no audits for any tax periods in progress.

(m) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(n) Reclassifications

Certain amounts presented in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

(o) Recently Issued Accounting Standards

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The purpose of ASU No. 2016-14 is to amend existing financial reporting standards applicable to not-for-profit entities to improve the usefulness, relevance and clarity of information presented in financial statements and to enhance the information presented in the notes thereto. This new standard, which becomes effective for the Council on October 1, 2018, requires the following:

- Presentation of two classes of net assets – net assets with donor restrictions and net assets without donor restrictions.
- Elimination of the requirement to present a reconciliation of cash flows using the indirect method if the organization elects to use the direct method for purposes of preparing the statement of cash flows.
- Enhanced disclosures about governing board designations and other self-imposed limits on the use of resources, as well as the composition of net assets with donor restrictions at the end of the period and how those restrictions affect the use of resources.
- New disclosures containing qualitative information communicating how liquid resources are managed to meet cash needs for general expenditures within one year of the financial reporting date and quantitative information communicating the availability of resources to meet cash needs for general expenditures within one year of the financial reporting date.

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

NOTES TO FINANCIAL STATEMENTS September 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Recently Issued Accounting Standards (Continued)

- Presentation of expenses by natural and functional classification, either on the statement of activities, in a separate statement or in the notes to the financial statements.
- Reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhanced disclosures about underwater endowments.
- Enhanced disclosures about the method(s) used to allocate costs among program and support functions.
- Reporting of investment return net of external and direct internal investment expenses.

While this new standard will significantly impact the presentation of the financial statements and the content of disclosures in the notes to the financial statements, it is not expected to have a material impact on the recording or measurement of amounts presented therein.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in ASU 2016-02 supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The requirements under the updated standard will be effective for the Council on October 1, 2020. The Council has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

NOTE 3: INVESTMENTS

The Council's investments at September 30 are as follows:

	<u>2017</u>	<u>2016</u>
Common stock	\$ -	\$ 10,654
Mutual funds	370,436	2,701,384
Corporate debt obligations	52,363	-
Government-sponsored entity obligations	26,063	27,049
Foreign government obligations	25,645	26,399
Total investments	<u>\$ 474,507</u>	<u>\$ 2,765,486</u>

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

NOTES TO FINANCIAL STATEMENTS September 30, 2017 and 2016

NOTE 3: INVESTMENTS (Continued)

At September 30, net investment income includes the following:

	2017	2016
Dividends and interest	\$ 73,643	\$ 155,542
Net appreciation in fair value of investments	82,597	112,948
Investment fees	(9,129)	(20,076)
Total net investment income	<u>\$ 147,111</u>	<u>\$ 248,414</u>

NOTE 4: CONTRIBUTIONS AND GRANTS RECEIVABLE

The following is a summary of contributions and grants receivable at September 30:

	2017	2016
Second Century Endowment	\$ 3,400	\$ 4,884
United Way grant	120,041	71,493
Other contributions and grants	15,239	5,976
Total contributions and grants receivable	<u>\$ 138,680</u>	<u>\$ 82,353</u>

Contributions and grants receivable at September 30, 2017 are expected to be collected as follows:

Amounts due in:	
Less than one year	\$ 109,855
One to five years	28,825
	<u>\$ 138,680</u>

NOTE 5: FAIR VALUE MEASUREMENTS

The framework for measuring fair value 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) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Council has the ability to access.

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

NOTES TO FINANCIAL STATEMENTS September 30, 2017 and 2016

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

Level 2 Inputs to the valuation methodology include the following:

- 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.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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 maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in methodologies used during the years ended September 30, 2017 and 2016.

The fair values of shares of common stock are determined based on the closing price reported on the active market in which the individual securities are traded.

The fair values of mutual funds are determined based on the net asset value per share and the number of shares held by the Council at year end.

The fair values of government-sponsored entity obligations, foreign government obligations and corporate debt obligations are determined based on yields currently available on comparable securities of issuers with similar credit ratings.

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

NOTES TO FINANCIAL STATEMENTS September 30, 2017 and 2016

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

The fair values of the Council's investments measured at fair value on a recurring basis at September 30 are as follows:

	2017			Fair Value
	Level 1	Level 2	Level 3	
Mutual funds				
Diversified emerging markets	\$ 7,983	\$ -	\$ -	\$ 7,983
Energy limited partnership	9,667	-	-	9,667
Foreign large growth	27,972	-	-	27,972
Intermediate-term bond	25,096	-	-	25,096
Large blend	12,898	-	-	12,898
Large growth	62,153	-	-	62,153
Large value	48,912	-	-	48,912
Mid-cap growth	18,459	-	-	18,459
Mid-cap value	17,207	-	-	17,207
Moderate allocation	13,447	-	-	13,447
Multisector bond	24,091	-	-	24,091
Nontraditional bond	4,835	-	-	4,835
Small blend	6,960	-	-	6,960
Small growth	14,475	-	-	14,475
Small value	4,926	-	-	4,926
Tactical allocation	9,455	-	-	9,455
Ultrashort bond	7,102	-	-	7,102
World allocation	22,665	-	-	22,665
World bond	8,656	-	-	8,656
World stock	23,477	-	-	23,477
Total mutual funds	<u>370,436</u>	<u>-</u>	<u>-</u>	<u>370,436</u>
Corporate debt obligations	<u>-</u>	<u>52,363</u>	<u>-</u>	<u>52,363</u>
Government-sponsored entity obligations	<u>-</u>	<u>26,063</u>	<u>-</u>	<u>26,063</u>
Foreign government obligations	<u>-</u>	<u>25,645</u>	<u>-</u>	<u>25,645</u>
Total investments	<u>\$ 370,436</u>	<u>\$ 104,071</u>	<u>\$ -</u>	<u>\$ 474,507</u>

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

NOTES TO FINANCIAL STATEMENTS September 30, 2017 and 2016

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

	2016			Fair Value
	Level 1	Level 2	Level 3	
Common stock	\$ 10,654	\$ -	\$ -	\$ 10,654
Mutual funds				
Diversified emerging markets	103,048	-	-	103,048
Energy limited partnership	156,851	-	-	156,851
Foreign large growth	32,801	-	-	32,801
Intermediate-term bond	40,201	-	-	40,201
Large blend	179,015	-	-	179,015
Large growth	314,392	-	-	314,392
Large value	236,004	-	-	236,004
Mid-cap growth	138,384	-	-	138,384
Mid-cap value	141,018	-	-	141,018
Moderate allocation	180,394	-	-	180,394
Multisector bond	222,865	-	-	222,865
Nontraditional bond	77,221	-	-	77,221
Small blend	109,802	-	-	109,802
Small growth	135,585	-	-	135,585
Small value	7,195	-	-	7,195
Tactical allocation	127,832	-	-	127,832
Ultrashort bond	11,595	-	-	11,595
World allocation	326,539	-	-	326,539
World bond	127,867	-	-	127,867
World stock	32,775	-	-	32,775
Total mutual funds	2,701,384	-	-	2,701,384
Government-sponsored entity obligations	-	27,049	-	27,049
Foreign government obligations	-	26,399	-	26,399
Total investments	\$ 2,712,038	\$ 53,448	\$ -	\$ 2,765,486

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

NOTES TO FINANCIAL STATEMENTS September 30, 2017 and 2016

NOTE 6: PROPERTY AND EQUIPMENT, NET

Property and equipment, net of accumulated depreciation, at September 30 consists of the following:

	2017	2016
Non-depreciable:		
Land	\$ 341,308	\$ 514,708
Idle land	94,000	94,000
Construction in progress	55,793	35,750
Depreciable:		
Buildings and improvements	5,721,270	5,579,185
Furniture and equipment	229,714	210,034
Automobiles	274,961	215,070
Land improvements	143,242	98,632
Capital lease	31,183	-
	6,891,471	6,747,379
Accumulated depreciation and amortization	(2,867,140)	(2,663,438)
Total property and equipment, net	\$ 4,024,331	\$ 4,083,941

Construction in progress at September 30, 2017, consists of costs incurred related to leasehold improvements at the Rogers regional office and architectural fees and concepts for the Mt. Magazine area. Construction in progress at September 30, 2016, consisted of costs incurred related to remodeling a director's cabin and infirmary at Camp Crossed Arrows.

NOTE 7: CUSTODIAL FUNDS

Custodial funds include amounts held by the Council acting as agent for members of individual troops, as well as other groups and organizations, at September 30 as follows:

	2017	2016
GSUSA membership dues	\$ 4,690	\$ 4,185
Disbanded troop cash	7,273	5,389
Total custodial funds	\$ 11,963	\$ 9,574

NOTE 8: CAPITAL LEASES

The Council leases computer equipment under an agreement that is classified as a capital lease. The cost of equipment under the capital lease totaled \$46,774 at September 30, 2017, and is recorded in property and equipment on the statements of financial position. Amortization expense of the leased computer equipment for the year ended September 30, 2017 was \$15,591 and is included in depreciation and amortization expense on the statements of activities.

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

NOTES TO FINANCIAL STATEMENTS September 30, 2017 and 2016

NOTE 8: CAPITAL LEASES (Continued)

The future minimum lease payments under the capital lease and the present value of the net minimum lease payments for the year ended September 30, 2017 are as follows:

2018	\$ 17,163
2019	17,163
Total minimum lease payments	<u>34,326</u>
Less: amount representing interest	<u>(2,290)</u>
Present value of net minimum lease payments	<u>\$ 32,036</u>

NOTE 9: ENDOWMENTS

The Council maintains endowment funds established for a variety of purposes. These endowment funds may include both donor-restricted funds and funds designated by the Council's Board of Directors to function as endowments. As required under generally accepted accounting principles, 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.

At September 30, 2017 and 2016, the Council's endowment funds include a temporarily restricted endowment that is to be used for operating expenses or capital expenditures for Girl Scout activities in the Mount Magazine area and four permanently restricted endowments – the Second Century Endowment established in association with the one hundredth anniversary of the Girl Scouts organization as well as three separate memorial endowment funds established by individual donors. The corpus of the permanently restricted endowment funds must be maintained in perpetuity and the income earned thereon must be used for specific Girl Scout-related purposes.

The Council's Board of Directors has interpreted the 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 the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment and 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 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.

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2017 and 2016

NOTE 9: ENDOWMENTS (Continued)

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 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.

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. Endowment assets are invested in a diversified portfolio, which consists primarily of money market accounts, mutual funds, corporate debt obligations, government-sponsored entity obligations and foreign government obligations. The Council’s investment strategy is to earn a consistent rate of return and maintain acceptable levels of risk, while providing sufficient liquidity to fund capital expenditures and various Girl Scout programs. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Changes in net assets attributable to the Council’s endowment funds during the years ended September 30 are as follows:

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 119,651	\$ 143,469	\$ 263,120
Contributions	-	2,753	2,753
Investment income	14,042	-	14,042
Net appreciation in fair value of investments	21,334	-	21,334
Amounts spent	(155,027)	-	(155,027)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 146,222</u>	<u>\$ 146,222</u>
	2016		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 168,698	\$ 141,499	\$ 310,197
Contributions	-	1,970	1,970
Investment income	16,328	-	16,328
Net appreciation in fair value of investments	12,317	-	12,317
Amounts spent	(77,692)	-	(77,692)
Endowment net assets, end of year	<u>\$ 119,651</u>	<u>\$ 143,469</u>	<u>\$ 263,120</u>

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

NOTES TO FINANCIAL STATEMENTS September 30, 2017 and 2016

NOTE 10: NET ASSETS

The following disclosure provides a description of the amounts comprising board designated, temporarily restricted and permanently restricted net assets at September 30, 2017 and 2016. The numbers to the right of the descriptive categories reference to explanations immediately following this table.

	2017	2016
Board Designated Net Assets		
Unfunded pension liability (see Note 11)	\$ -	\$ 2,023,994
Emergency expenditures	19,776	19,756
Second Century Endowment	3,591	3,228
Other	5,040	5,035
Total Board Designated Net Assets	\$ 28,407	\$ 2,052,013
Temporarily Restricted Net Assets		
Endowment trust ⁽¹⁾	\$ -	\$ 119,651
Scholarships, grants and other ⁽²⁾	114,278	25,218
Total Temporarily Restricted Net Assets	\$ 114,278	\$ 144,869
Permanently Restricted Net Assets		
Lyon Memorial ⁽³⁾	\$ 25,450	\$ 25,000
Emde Memorial ⁽³⁾	6,000	5,000
Hensley Memorial ⁽³⁾	10,103	10,000
Second Century Endowment ⁽³⁾	104,669	103,469
Total Permanently Restricted Net Assets	\$ 146,222	\$ 143,469

⁽¹⁾ Represents the unspent balance of contributions from various donors to be utilized for operating or capital expenditures in the area formerly served by the Girl Scout Council of Mount Magazine Area, Inc.

⁽²⁾ Represents the unspent balance of contributions from various donors to be utilized for scholarships awarded to girls who meet certain criteria and other purposes, as specified by individual donors.

⁽³⁾ Represents contributions received from various donors, the corpus of which is to be maintained in perpetuity. The income earned thereon is to be utilized by the Council to provide various forms of assistance to girls participating in Girl Scout programs or for purposes of conducting various Girl Scout programs.

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

NOTES TO FINANCIAL STATEMENTS September 30, 2017 and 2016

NOTE 11: RETIREMENT PLANS

(a) 403(b) Thrift Plan

The Council sponsors a 403(b) thrift plan, which covers all employees of the Council. Employees are allowed to make salary deferrals to this plan subject to limitations set forth in the Internal Revenue Code. In addition, employees who have reached the age of eighteen and have completed one year of service are eligible to receive a base contribution of 3% of compensation and an employer matching contribution on salary deferrals, not to exceed 4% of the participant's compensation. Employer contributions to the 403(b) thrift plan for the years ended September 30, 2017 and 2016 totaled approximately \$91,600 and \$71,800, respectively.

(b) Defined Benefit Pension Plan

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

GSUSA utilizes the services of an independent actuary to estimate the Retirement Plan's unfunded liability, as well as each participating council's share of the liability and contribution requirements. As of January 1, 2017, the Council's share of the total liability was estimated to be approximately \$3.1 million. As disclosed in Note 10, during the year ended September 30, 2016, the Council's Board of Directors had designated approximately \$2.0 million of the Council's unrestricted net assets to satisfy a portion of the Council's share of the total liability. During the year ended September 30, 2017, the Council's Board of Directors voted to temporarily remove this designation of the Council's unrestricted net assets related to the unfunded pension liability.

Although the Retirement Plan's net assets grew during the year, the Retirement Plan's net assets available for benefits continue to be less than the actuarial present value of accumulated Retirement Plan benefits as of January 1, 2017. The Council's required contribution rate is 16.3% of eligible salaries in 2017 and 2016, and the dollar amount of contributions totaled approximately \$299,000 and \$297,000, respectively, during the years ended September 30, 2017 and 2016. Legislative and regulatory solutions are being explored to reduce the minimum required contributions.

NOTE 12: CONCENTRATION OF CREDIT RISK

(a) Cash and Cash Equivalents

The Council maintains cash and investment balances that may, at times, exceed applicable insurance limits available under the Federal Deposit Insurance Corporation (FDIC) or Securities Investor Protection Corporation (SIPC). In the event of a bank or investment banking firm failure, the excess of the

Girl Scouts – Diamonds of Arkansas, Oklahoma and Texas

NOTES TO FINANCIAL STATEMENTS September 30, 2017 and 2016

NOTE 12: CONCENTRATION OF CREDIT RISK (Continued)

(a) Cash and Cash Equivalents (Continued)

balance over applicable limits may not be recoverable. The actual amount of uninsured cash and cash equivalents balances is not readily determinable due to the fact that individual troops maintain deposits in the EIN of the Council and all accounts at a single financial institution established under the same EIN are aggregated for purposes of determining the amount of insured balances.

(b) Support and Revenue

The Council is dependent to some extent upon United Way grants and private donations. If this level of support varies, there may be a resulting negative impact upon the level and types of activities and program services offered by the Council.

During the years ended September 30, 2017 and 2016, approximately 63% and 76%, respectively, of total support, revenue, gains (losses) and reclassifications is attributable to net cookie sales.

NOTE 13: RELATED PARTY TRANSACTIONS

During the years ended September 30, 2017 and 2016, certain members of the Council's Board of Directors also served as employees at financial institutions in which the Council maintains cash accounts and investment accounts.

NOTE 14: SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 18, 2018, the date that the financial statements were available to be issued.