



Financial Statements
September 30, 2018 and 2017

Girl Scouts - Arizona Cactus-Pine Council, Inc.

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Independent Auditor's Report

The Board of Directors
Girl Scouts - Arizona Cactus-Pine Council, Inc.
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Girl Scouts - Arizona Cactus-Pine Council, Inc. (the Council), which comprise the statements of financial position as of September 30, 2018 and 2017, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Girl Scouts - Arizona Cactus-Pine Council, Inc. as of September 30, 2018 and 2017, 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.


Phoenix, Arizona
January 28, 2019

Girl Scouts - Arizona Cactus-Pine Council, Inc.
Statements of Financial Position
September 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,520,388	\$ 4,230,505
Short term investments	1,046,068	655,165
Promises to give		
Capital Campaign	578,700	252,649
United Way	113,284	137,391
Other	111,862	52,350
Accounts receivable, net of allowance for doubtful accounts of \$176,818 and \$249,525, respectively	139,828	55,866
Inventory	138,681	147,751
Prepaid expenses	189,497	242,004
Total current assets	4,838,308	5,773,681
Investments	12,073,514	11,316,833
Property and equipment, net	20,199,928	20,859,680
Capital campaign promises to give, net	45,530	569,982
Total assets	\$ 37,157,280	\$ 38,520,176
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 639,129	\$ 639,920
Deferred income	204,149	167,197
Amount due to affiliated organization	8,229	10,036
Current portion of capital lease obligation	15,260	14,538
Current portion of bond payable	345,626	209,030
Total current liabilities	1,212,393	1,040,721
Capital lease obligation, less current portion	13,294	28,554
Bond payable, less current portion and unamortized bond issuance costs of \$213,987 and \$223,940, respectively	2,336,152	6,463,052
Total liabilities	3,561,839	7,532,327
Net Assets		
Unrestricted		
Board-designated	7,184,130	6,796,689
Undesignated	25,132,645	22,721,309
Total unrestricted	32,316,775	29,517,998
Temporarily restricted	1,278,666	1,469,851
Total net assets	33,595,441	30,987,849
Total liabilities and net assets	\$ 37,157,280	\$ 38,520,176

Girl Scouts - Arizona Cactus-Pine Council, Inc.
 Statements of Activities
 Years Ended September 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Support						
Contributions	\$ 3,447,885	\$ 494,945	\$ 3,942,830	\$ 656,422	\$ 783,661	\$ 1,440,083
United Way	19,257	113,284	132,541	29,044	137,391	166,435
Special fundraising events	3,045	-	3,045	253	-	253
Revenue						
Program service fees, including camp fees	1,224,691	-	1,224,691	1,214,360	-	1,214,360
Cookie and product sales	15,227,304	-	15,227,304	15,366,518	-	15,366,518
Cost of cookie and product sales	(6,112,506)	-	(6,112,506)	(6,071,888)	-	(6,071,888)
Net cookie and product sales	<u>9,114,798</u>	<u>-</u>	<u>9,114,798</u>	<u>9,294,630</u>	<u>-</u>	<u>9,294,630</u>
Sale of scout merchandise	766,136	-	766,136	833,298	-	833,298
Cost of scout merchandise sales	(430,846)	-	(430,846)	(489,454)	-	(489,454)
Net scout merchandise sales	<u>335,290</u>	<u>-</u>	<u>335,290</u>	<u>343,844</u>	<u>-</u>	<u>343,844</u>
Miscellaneous	21,919	-	21,919	47,801	-	47,801
Net assets released from restrictions	<u>799,414</u>	<u>(799,414)</u>	<u>-</u>	<u>1,349,392</u>	<u>(1,349,392)</u>	<u>-</u>
Total support and revenue	<u>14,966,299</u>	<u>(191,185)</u>	<u>14,775,114</u>	<u>12,935,746</u>	<u>(428,340)</u>	<u>12,507,406</u>
Expenses						
Program services	10,910,426	-	10,910,426	9,781,248	-	9,781,248
Management and general	1,393,613	-	1,393,613	1,318,592	-	1,318,592
Fundraising	988,310	-	988,310	880,323	-	880,323
Total expenses	<u>13,292,349</u>	<u>-</u>	<u>13,292,349</u>	<u>11,980,163</u>	<u>-</u>	<u>11,980,163</u>
Change in Net Assets before Non-Operating Activity	1,673,950	(191,185)	1,482,765	955,583	(428,340)	527,243
Gain on sale of property and equipment	-	-	-	5,494	-	5,494
Net investment return	<u>1,124,827</u>	<u>-</u>	<u>1,124,827</u>	<u>960,368</u>	<u>-</u>	<u>960,368</u>
Change in Net Assets	2,798,777	(191,185)	2,607,592	1,921,445	(428,340)	1,493,105
Net Assets, Beginning of Year	<u>29,517,998</u>	<u>1,469,851</u>	<u>30,987,849</u>	<u>27,596,553</u>	<u>1,898,191</u>	<u>29,494,744</u>
Net Assets, End of Year	<u>\$ 32,316,775</u>	<u>\$ 1,278,666</u>	<u>\$ 33,595,441</u>	<u>\$ 29,517,998</u>	<u>\$ 1,469,851</u>	<u>\$ 30,987,849</u>

See Notes to Financial Statements

Girl Scouts - Arizona Cactus-Pine Council, Inc.
 Statements of Functional Expenses
 Years Ended September 30, 2018 and 2017

	2018							
	Program Services				Supporting Services			
	Programs	Membership Support	Volunteer Support	Community Activities	Total	Management and General	Fundraising	Total
Salaries and related	\$ 2,688,322	\$ 1,462,773	\$ 845,697	\$ 439,383	\$ 5,436,175	\$ 929,926	\$ 625,260	\$ 6,991,361
Supplies and incentives	1,204,214	110,119	335,193	162,742	1,812,268	18,099	65,409	1,895,776
Professional services	243,315	37,757	30,801	266,797	578,670	131,335	42,698	752,703
Telephone	44,123	35,907	11,264	10,322	101,616	8,769	7,739	118,124
Postage and shipping	30,458	5,243	6,808	2,906	45,415	2,997	5,924	54,336
Occupancy	435,020	35,827	26,268	17,367	514,482	18,366	17,681	550,529
Equipment rental	31,160	2,415	8,623	6,874	49,072	1,485	20,629	71,186
Conferences, conventions, and meetings	31,356	13,369	9,362	27,933	82,020	18,269	8,725	109,014
Printing and publications	212,377	85,911	69,121	47,548	414,957	37,792	49,566	502,315
Depreciation	485,457	171,236	135,699	96,514	888,906	113,526	80,521	1,082,953
Interest	92,079	32,479	25,739	18,306	168,603	21,532	15,273	205,408
Miscellaneous	460,615	108,714	160,992	87,921	818,242	91,517	48,885	958,644
Cost of sales - cookies and product	6,112,506	-	-	-	6,112,506	-	-	6,112,506
Cost of sales - scout equipment	-	-	430,846	-	430,846	-	-	430,846
	<u>12,071,002</u>	<u>2,101,750</u>	<u>2,096,413</u>	<u>1,184,613</u>	<u>17,453,778</u>	<u>1,393,613</u>	<u>988,310</u>	<u>19,835,701</u>
Less expenses included with revenues on the statement of activities								
Cost of sales - cookies and product	(6,112,506)	-	-	-	(6,112,506)	-	-	(6,112,506)
Cost of sales - scout equipment	-	-	(430,846)	-	(430,846)	-	-	(430,846)
	<u>-</u>	<u>-</u>	<u>(430,846)</u>	<u>-</u>	<u>(430,846)</u>	<u>-</u>	<u>-</u>	<u>(430,846)</u>
Total expenses included in the expense section on the statement of activities	<u>\$ 5,958,496</u>	<u>\$ 2,101,750</u>	<u>\$ 1,665,567</u>	<u>\$ 1,184,613</u>	<u>\$ 10,910,426</u>	<u>\$ 1,393,613</u>	<u>\$ 988,310</u>	<u>\$ 13,292,349</u>

Girl Scouts - Arizona Cactus-Pine Council, Inc.
 Statements of Functional Expenses
 Years Ended September 30, 2018 and 2017

	2017							
	Program Services				Supporting Services			
	Programs	Membership Support	Volunteer Support	Community Activities	Total	Management and General	Fundraising	Total
Salaries and related	\$ 2,656,126	\$ 1,130,351	\$ 721,864	\$ 412,048	\$ 4,920,389	\$ 952,467	\$ 640,819	\$ 6,513,675
Supplies and incentives	1,231,854	58,075	264,449	144,950	1,699,328	16,162	24,771	1,740,261
Professional services	222,536	30,415	23,403	229,018	505,372	99,680	17,010	622,062
Telephone	49,213	33,008	12,510	10,062	104,793	9,057	7,272	121,122
Postage and shipping	24,457	4,911	5,356	2,285	37,009	2,823	7,903	47,735
Occupancy	412,992	40,649	27,104	20,159	500,904	26,073	17,658	544,635
Equipment rental	67,242	10,186	81,862	12,645	171,935	10,592	30,413	212,940
Conferences, conventions, and meetings	33,982	20,807	7,785	23,608	86,182	15,465	7,217	108,864
Printing and publications	160,295	66,456	66,062	33,995	326,808	27,573	31,711	386,092
Depreciation	369,580	101,449	85,513	64,219	620,761	78,700	55,869	755,330
Interest	60,039	16,481	13,892	10,433	100,845	18,569	9,076	128,490
Miscellaneous	535,100	85,732	37,615	48,475	706,922	61,431	30,604	798,957
Cost of sales - cookies and product	6,071,888	-	-	-	6,071,888	-	-	6,071,888
Cost of sales - scout equipment	-	-	489,454	-	489,454	-	-	489,454
	<u>11,895,304</u>	<u>1,598,520</u>	<u>1,836,869</u>	<u>1,011,897</u>	<u>16,342,590</u>	<u>1,318,592</u>	<u>880,323</u>	<u>18,541,505</u>
Less expenses included with revenues on the statement of activities								
Cost of sales - cookies and product	(6,071,888)	-	-	-	(6,071,888)	-	-	(6,071,888)
Cost of sales - scout equipment	-	-	(489,454)	-	(489,454)	-	-	(489,454)
Total expenses included in the expense section on the statement of activities	<u>\$ 5,823,416</u>	<u>\$ 1,598,520</u>	<u>\$ 1,347,415</u>	<u>\$ 1,011,897</u>	<u>\$ 9,781,248</u>	<u>\$ 1,318,592</u>	<u>\$ 880,323</u>	<u>\$ 11,980,163</u>

Girl Scouts - Arizona Cactus-Pine Council, Inc.
 Statements of Cash Flows
 Years Ended September 30, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	\$ 2,607,592	\$ 1,493,105
Adjustments to reconcile net assets to net cash from operating activities		
Depreciation	1,082,953	755,330
Interest expense attributable to amortization of debt issuance costs	9,953	4,977
Net realized and unrealized gain on investments	(1,009,235)	(859,466)
Change in present value of discount on promises to give	50,548	27,741
Bad debt expense	104	60,552
Gain on sale of property and equipment	-	(5,494)
Change in assets and liabilities		
Promises to give, Capital campaign	147,853	522,654
Promises to give, United Way	24,107	33,505
Promises to give, other	(59,512)	(3,000)
Accounts receivable	(84,066)	(38,256)
Inventory	9,070	10,941
Prepays expenses	52,507	(19,701)
Accounts payable and accrued expenses	(791)	(745,462)
Deferred income	36,952	6,557
Amount due to affiliated organization	(1,807)	(2,658)
Net Cash from Operating Activities	2,866,228	1,241,325
Cash Flows from Investing Activities		
Purchases of property and equipment	(423,201)	(472,405)
Proceeds from sale of property and equipment	-	11,189
Purchases of investments	(138,349)	(100,902)
Net Cash used for Investing Activities	(561,550)	(562,118)
Cash Flows from Financing Activities		
Receipt of contributions restricted to building project	-	2,118,555
Payments on capital lease obligations	(14,538)	(13,849)
Payments on bond payable	(4,000,257)	(3,103,977)
Bond issuance costs	-	(7,121)
Net Cash used for Financing Activities	(4,014,795)	(1,006,392)
Net Change in Cash and Cash Equivalents	(1,710,117)	(327,185)
Cash and Cash Equivalents, Beginning of Year	4,230,505	4,557,690
Cash and Cash Equivalents, End of Year	\$ 2,520,388	\$ 4,230,505
Supplemental Disclosure of Cash Flow Information		
Purchase of property and equipment through issuance of bond	\$ -	\$ 5,196,259

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Operations

Girl Scouts - Arizona Cactus-Pine Council, Inc. (the "Council") follows the mission statement of the Girl Scouts of the USA, which is, "Girls Scouting builds girls of courage, confidence, and character who make the world a better place." Through the Girl Scout leadership experience, girls discover their personal best, connect with others, and take action to improve their communities and the world around them. This leadership model is experienced through troops, day and resident camp, program series, signature events, and travel opportunities. At the intersection of what girls want, what girls need, and what society needs, the Council focuses on the four program pillars: Outdoor Experience; Science, Technology, Engineering, and Math (STEM); Entrepreneurship; Life Skills. The Girl Scout Cookie program is the nation's largest girl-run financial literacy enterprise.

The Council's membership is comprised of over 20,000 girl members, aged 5 to 17 and more than 10,000 adult members. The Council's jurisdiction includes 2/3 of Arizona with 85% of the girls who benefit from Girl Scout programs residing in Maricopa County. The Council also provides programming to girls living in Apache, Coconino, Gila, La Paz, Mohave, Navajo, and Yavapai counties, the northern half of Pinal and Graham counties, the portion of the Navajo Nation that extends into Utah and New Mexico, and the southern portion of Clark County, Nevada.

As an independent 501(c)(3) nonprofit organization, chartered by Girl Scouts of the USA, the Council is governed and supervised by a volunteer Board of Directors elected by delegate members at an annual meeting.

Cash and Cash Equivalents

The Council considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of the Council are excluded from this definition.

Cash does not include bank accounts held by Girl Scout troops and other groups such as service units under the federal identification number of the Council. Bank accounts held by troops and groups are under the federal identification number but are not under the control of the Council. The Council has no signature authority over and will not access the funds in these accounts as long as a troop or group is functioning according to Girl Scout policy and procedure. Individual troops and groups have the responsibility to use funds in their control for the purpose of Girl Scouting as determined by the members and adult volunteers. If a troop or group is about to disband, the troop may use the funds to pay for a final group activity or to donate to groups or projects considered worthwhile. If a troop or group disbands without making a determination as to the final distribution of funds, the funds will revert to the Council for a holding period in case the troop re-forms, or members of the troop join another troop. After this time, if funds are not claimed they will be considered a donation to the Council.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At September 30, 2018 and 2017, the Council has determined all outstanding promises to give are collectible and no allowance has been recorded.

Inventory

As of October 1, 2017, the Council adopted Accounting Standards Update (ASU) 2015-11, *Inventory: Simplifying the Measurement of Inventory*. This update requires inventory to be measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Adoption of this accounting standard update is on a prospective basis.

Inventory is comprised of program-related merchandise held for sale in the Council shop and is stated at the lower of cost, determined on an average cost basis, or net realizable value.

Property and Equipment

Property and equipment additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Council reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended September 30, 2018 and 2017.

Bond Issuance Costs

Bond issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method. Bond issuance costs are included within long-term debt in the statements of financial position. Amortization of bond issuance costs is included in interest expense in the accompanying financial statements.

Investments

The Council records purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment gain/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Net Assets

Net assets, revenues, 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 available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for operating reserve.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Council and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Council's Board of Directors.

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

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Council. The restrictions stipulate that resources be maintained permanently but permit the Council to expend the income generated in accordance with the provisions of the agreements. As of September 30, 2018 and 2017, the Council had no permanently restricted net assets.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Cookie Activity Credits

As a program reward, the Council issues credits to those who sell a certain amount of cookies which are redeemable for program and membership fees and Girl Scout merchandise. The value of these credits is recorded as an expense of cookie sales. Unredeemed and available credits are reflected in the financial statements as accrued expenses. Credits expire within a specified time period and are charged back to accrued expenses upon expiry.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to the Council's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Council records donated professional services at the respective fair values of the services received.

Advertising Costs

Advertising costs are expensed as incurred, and approximated \$249,000 and \$156,000 for the years ended September 30, 2018 and 2017, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Council is organized as an Arizona nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3) and has been determined not to be a private foundation under Section 509(a)(2). Accordingly, contributions to it qualify for the charitable contribution deduction under Section 170(b)(1)(A). The Council is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Council is generally subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Council has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS, or its Arizona equivalent (Form 990-T), with the Arizona Department of Revenue.

Management believes that it has appropriate support for any tax positions taken affecting the Organization's annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 and those differences could be material.

Financial Instruments and Credit Risk

The Council manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Council has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from board members, governmental agencies, and foundations supportive of the Council's mission. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Council. Additionally, a significant portion of the Council's revenues result from the annual cookie program. Loss of this revenue source would have a significant adverse effect upon the Council.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 is that revenue should be recognized in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process in order to achieve this core principle which may require the use of judgment and estimates. The entity may adopt ASU 2014-09 either by using a full retrospective approach for all periods presented or a modified retrospective approach. Additionally, in April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. The amendments in this standard clarify the process of identifying performance obligations and the licensing implementation guidance. These standards are effective for annual reporting periods beginning after December 15, 2018, or October 1, 2019 for the Council. The Council has not yet selected a transition method and is currently evaluating the impact of these standards on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02 to improve financial reporting about leasing transactions (Topic 842). The ASU affects all lease transactions. The Council as a lessee is required to recognize a right-of-use asset and a lease liability, initially measured at present value of the lease payments, on the statements of financial position. For leases greater than twelve months, the Council as a lessee must also recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of activities. Repayments of the principal portion of the lease liability must be classified within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. Leases for less than twelve months recognize a single lease cost on a straight-line basis. The amendments in this update are effective for years beginning after December 15, 2019, or October 1, 2020 for the Council. The Council is currently evaluating the impact of adopting ASU 2016-02 and has not determined the effect on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14 to improve presentation of financial statements for nonprofit entities. The ASU affects all nonprofit entities. The main provisions of this update that will impact the Council include:

- Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. The nonprofits will report amounts for net assets with donor restrictions and net assets without donor restrictions. They will also be required to present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes.
- All nonprofits will now be required to disclose an analysis of expenses by both functional and natural classifications.
- All nonprofits will have to add disclosures regarding how they manage liquidity and information that communications the availability of financial assets to meet cash needs for general expenditures.

This new standard will be effective for years beginning after December 15, 2017, or October 1, 2018 for the Council. The standard requires retrospective application.

Subsequent Events

The Council has evaluated subsequent events through January 28, 2019, the date which the financial statements were available to be issued.

Note 2 - Promises to Give

Unconditional promises to give are estimated to be collected as follows as of September 30:

	2018	2017
Within one year	\$ 803,846	\$ 442,390
In one to five years	50,000	625,000
	853,846	1,067,390
Less discount to net present value at 2.5%	(4,470)	(55,018)
	\$ 849,376	\$ 1,012,372
Promises to give		
Capital Campaign	\$ 624,230	\$ 822,631
United Way	113,284	137,391
Other	111,862	52,350
	\$ 849,376	\$ 1,012,372

At September 30, 2018 and 2017, one donor accounted for 70% and 75%, respectively, of outstanding promises to give.

In 2011, the Council began “The Campaign for Girls in Arizona,” a capital campaign, to raise funds needed to significantly expand the Girl Scout Leadership Experience, especially in the South Mountain area. This includes not only reaching more girls, developing and supporting more volunteers and expanding programming but also transforming the existing South Mountain facility into The Bob and Renee Parsons Leadership Center for Girls and Women at Camp South Mountain. This campaign was completed in the year ended September 30, 2018.

Note 3 - Property and Equipment

Property and equipment consists of the following at September 30:

	2018	2017
Buildings and improvements	\$ 27,851,517	\$ 27,583,680
Equipment	1,398,964	1,324,833
Vehicles	240,860	240,860
Computer hardware and software	649,942	763,772
	30,141,283	29,913,145
Accumulated depreciation	(10,684,649)	(9,796,759)
	19,456,634	20,116,386
Land	743,294	743,294
	\$ 20,199,928	\$ 20,859,680

During the year ended September 30, 2017, the Council completed construction of the Bob and Renee Parsons Leadership Center for Girls and Women Camp at Camp South Mountain. This was an \$18 million project which included one contract of approximately \$15,850,000. At the completion of the project, costs were added to property and equipment and depreciation started. The Leadership Center was funded by bond proceeds and the capital campaign.

Note 4 - Fair Value Measurements and Disclosure

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Council develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Council's assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of the Council's investment assets are classified within Level 1 because they are comprised of equity securities, treasury notes, money market funds, mutual funds, and exchange traded funds with readily determinable fair values based on daily redemption values. The Council invests in certificates of deposit traded in the financial markets. Those certificates of deposit are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

The fair value of the Council's beneficial interest in assets held by the Arizona Community Foundation is based on the fair value of fund investments as reported by the community foundation. These are considered to be Level 2 measurements.

The following table presents assets measured at fair value on a recurring basis at September 30:

	Total	2018		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Equity securities	\$ 4,884,447	\$ 4,884,447	\$ -	\$ -
Treasury notes	1,602,255	1,602,255	-	-
Money market and cash mutual funds	376,075	376,075	-	-
Exchange traded funds				
Bonds	1,739,905	1,739,905	-	-
Negotiable certificates of deposits	570,110	-	570,110	-
Annuity	41,612	-	41,612	-
	<u>9,214,404</u>	<u>8,602,682</u>	<u>611,722</u>	<u>-</u>
Assets held by community foundation	<u>3,905,178</u>	<u>-</u>	<u>3,905,178</u>	<u>-</u>
Total	<u>\$ 13,119,582</u>	<u>\$ 8,602,682</u>	<u>\$ 4,516,900</u>	<u>\$ -</u>

Girl Scouts - Arizona Cactus-Pine Council, Inc.

Notes to Financial Statements

September 30, 2018 and 2017

	2017			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Equity securities	\$ 4,223,756	\$ 4,223,756	\$ -	\$ -
Money market mutual funds	1,080,166	1,080,166	-	-
Exchange traded funds				
Bonds	1,584,785	1,584,785	-	-
Negotiable certificates of deposits	941,725	-	941,725	-
Annuity	38,934	-	38,934	-
	<u>7,869,366</u>	<u>6,888,707</u>	<u>980,659</u>	<u>-</u>
Assets held by community foundation	4,102,632	-	4,102,632	-
	<u>\$ 11,971,998</u>	<u>\$ 6,888,707</u>	<u>\$ 5,083,291</u>	<u>\$ -</u>

Funds held by the Arizona Community Foundation (the Foundation) are part of pooled investments, invested in debt and equity securities, and are valued at the fair value reported by the Foundation. These funds held by the Foundation can be redeemed by the Council at any time.

Net investment return consisted of the following for September 30:

	2018	2017
Dividends and interest	\$ 192,415	\$ 170,424
Net realized and unrealized gains	1,009,235	859,466
Investment fees	(76,823)	(69,522)
	<u>\$ 1,124,827</u>	<u>\$ 960,368</u>

Note 5 - Due to Affiliated Organization and Related Party Transactions

The Council collects membership dues from its members for their national affiliate, Girls Scouts of the USA. The membership dues do not benefit the Council. The total amount of dues collected by the Council, and not yet submitted to Girl Scouts of the USA, was \$807 and \$2,494 as of September 30, 2018 and 2017, respectively. The Council also holds disbanded troop treasury funds in the amounts of \$7,422 and \$7,542, respectively. These funds are awaiting distribution to new troops in the area of the disbanded troops or being recognized as donations if no troop reforms in the area of the disbanded troops.

During the years ended September 30, 2018 and 2017, the Council purchased inventory in the amount of \$332,962 and \$353,366, respectively, from Girl Scouts of the USA. Additionally, the Council paid software licenses and web hosting fees to Girl Scouts of the USA in the amount of \$65,448 and \$47,574, respectively. The Council also received \$148,388 and \$118,846 in grants and other financial assistance from Girl Scouts of the USA for the years then ended.

The Council's Board of Directors is committed to the financial success of the Council and regularly makes contributions to the Council. During the years ended September 30, 2018 and 2017, board members gave approximately \$66,000 and \$59,000, respectively. Amounts outstanding on promises to give with terms up to five years from board members as of September 30, 2018 and 2017 were \$8,733 and \$6,550, respectively, and are reflected in promises to give on the accompanying statements of financial position.

Note 6 - Bond Payable

In March 2015, the Council entered into an agreement with the Industrial Development Authority of the City of Phoenix to issue Direct Purchase Revenue Bonds, Series 2015 (the bond) in the amount of \$10,000,000 for a term of twenty-five years. The bond is collateralized by certain real property as set forth in the agreement. Effective March 29, 2017, the bond agreement was amended to reflect the Council's decision to prepay principal on the bond so that the outstanding principal of the bonds was \$7,000,000, and to cause a corresponding portion of the bond to be optionally redeemed. The repayment schedule was modified to reflect the new principal balance; however, no changes were made to the bond term. During the year ended September 30, 2018, the Council made an additional principal payment of \$3,600,000. This principal prepayment did not change the bond terms. However, based on the current payment schedule, the bond will be completely paid in 2025.

At September 30, 2018 and 2017, the Council had \$2,895,765 and \$6,896,023, respectively, outstanding on the balance, which is presented net of unamortized bond issuances costs of \$213,987 and \$223,940, respectively. Interest on the bond is payable monthly at a fixed rate of 3.3%, which will continue for the life of the bond. The bond contains certain covenants the Council must comply with.

Annual principal payments on the bond are scheduled for repayment are as follows:

<u>Years Ending September 30</u>		
2019	\$	345,626
2020		356,324
2021		368,654
2022		381,180
2023		394,131
Thereafter		1,049,850
Total		<u>2,895,765</u>
Less debt issuance costs		<u>(213,987)</u>
Total bond payable	\$	<u><u>2,681,778</u></u>

Note 7 - Capital Lease Obligation

In August 2016, the Council entered into a capital lease agreement for office equipment for a term of four years. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or fair value of the asset. The Council's assets and liabilities are recorded at the present value of future lease payments. The assets are depreciated over their estimated productive lives.

Leased property under capital leases at September 30, 2018 and 2017 includes:

	2018	2017
Property and equipment under capital lease obligations	\$ 59,185	\$ 59,185
Less accumulated depreciation	(23,674)	(11,837)
	\$ 35,511	\$ 47,348

Future minimum lease payments are as follows:

2019	\$ 16,311
2020	13,592
Total minimum lease payments	29,903
Less portion representing interest	(1,349)
Total	\$ 28,554

Note 8 - Board-Designated Unrestricted Net Assets

Board-designated unrestricted net assets consist of the following balance for the years ended September 30:

	2017	Designated	Expended	2018
Board-designated net assets				
Property replacement	\$ 3,234,434	\$ 755,330	\$ (367,889)	\$ 3,621,875
Future funds	3,252,255	-	-	3,252,255
Seed fund	110,000	-	-	110,000
Pension obligation	200,000	-	-	200,000
Total	\$ 6,796,689	\$ 755,330	\$ (367,889)	\$ 7,184,130

	2016	Designated	Expended	2017
Board-designated net assets				
Property replacement	\$ 3,179,471	\$ 341,182	\$ (286,219)	\$ 3,234,434
Capital campaign	1,065,289	-	(1,065,289)	-
Future funds	3,252,255	-	-	3,252,255
Seed fund	-	110,000	-	110,000
Pension obligation	200,000	-	-	200,000
Total	\$ 7,697,015	\$ 451,182	\$ (1,351,508)	\$ 6,796,689

Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2018	2017
Purpose restriction:		
Scholarships and camperships	\$ 13,452	\$ 5,014
Girl programming	303,156	228,600
Recruitment	22,519	86,985
Fellowship	13,146	-
Other	9,980	6,562
Time restriction:		
Fiscal year operations - United Way	113,284	137,391
Fiscal year operations - future special event	157,684	120,150
Fiscal year operations - general	16,745	7,500
Time and purpose restriction:		
Promises to give - capital campaign	628,700	877,649
Total temporarily restricted net assets	\$ 1,278,666	\$ 1,469,851

Temporarily restricted net assets released from restriction include:

	2018	2017
Purpose restriction:		
Scholarships and camperships	\$ (600)	\$ (8,724)
Girl programming	(219,700)	(182,806)
Recruitment	(65,100)	(10,000)
Time restriction:		
Fiscal year operations - United Way	(137,391)	(170,896)
Fiscal year operations - Event	(120,150)	-
Fiscal year operations - General	(7,500)	-
Time and purpose restriction:		
Promises to give - programming	-	(41,000)
Promises to give - capital campaign	(248,973)	(935,966)
Total temporarily restricted net assets released from restriction	\$ (799,414)	\$ (1,349,392)

Note 10 - Leases

The Council leases equipment under various non-cancelable operating lease agreements.

Approximate minimum future rental payments are as follows:

2019		\$	71,184
2020			46,673
2021			4,945
2022			<u>1,236</u>
Total future minimum lease payments		\$	<u>124,038</u>

Total rental expense paid for the years ended September 30, 2018 and 2017 was \$100,772 and \$154,104, respectively.

Note 11 - Retirement Plans

Defined Benefit Plan

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

Although net Plan assets grew during the year, net Plan assets available for Plan benefits continue to be less than the actuarial present value of accumulated Plan benefits as of January 1, 2018. 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). In addition, on April 8, 2014, President Obama signed H.R. 4275 into law, a relief package unanimously passed by Congress that gives NGSCR the flexibility to adopt the Pension Protection Act (PPA) funding requirements immediately or not at all. NGSCR has elected to adopt this relief and not be subject to PPA. Aggregate annual contributions made in fiscal years 2017 and 2018 were \$33.1 million and \$32.4 million, respectively. The aggregate annual contributions decreased from 2017 to 2018 due to both the reduction in the Plan's total annual contributions from \$34.3 million to \$32.5 million effective May 1, 2017 and the spin-off of Girl Scouts of Louisiana East effective May 1, 2018. Aggregate contributions to be made in fiscal 2019 are expected to be \$32.2 million.

The Council's contributions to the Plan and corresponding pension expense for the years ended September 30, 2018 and 2017, were approximately \$383,000 and \$412,000, 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.

403(b) Plan

The Council has a 403(b) retirement plan in which all employees are eligible to participate. Investments in the Plan are participant directed. The Council makes contributions to the Plan on behalf of employees after one year of service when an employee has at least 1,000 hours of service during that year. The Council's contribution to the Plan is equal to 2% of an employee's salary. Additionally, the Council matches 50% of the employee's contributions up to 4% of salary. The Council's contributions to the Plan during the years ended September 30, 2018 and 2017 were \$127,504 and \$116,552, respectively.