

2017 REPORT OF THE TREASURER  
AND CONSOLIDATED FINANCIAL STATEMENTS



**Prepared. For Life.®**



BOY SCOUTS OF AMERICA®

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# 2017 IN REVIEW

(\$ stated in thousands)

The National Council of the Boy Scouts of America (National Council) along with 266 local councils, continued to deliver an exciting and valuable program to young people in 2017, with approximately 2,283,000 youth members and Explorers registered in individual programs. Approximately 889,000 registered adult leaders provide support to these youth. Over 52,000 Scouts and Scouters attended the national high-adventure bases. The Summit Bechtel Family National Scout Reserve (the Summit) had approximately 47,600 attendees totaling over 331,300 camper days. Included within the attendees are over 29,000 Scouts and Scouters that participated in the 2017 National Scout Jamboree hosted at the Summit.

The following further discusses sources, uses, and stewardship of the National Council's resources during 2017.

## **Unrestricted net assets:**

### *Net Assets, Controlling Interest*

The National Council's controlling interest in its unrestricted net assets decreased by \$6,479. The decrease in net assets was driven by payments made to the Boy Scouts of America Retirement Plan for Employees totaling \$14,400, claims and provision expense related to the General Liability program totaling \$57,427. Offsetting the decrease in net assets was increases in investment income totaling \$58,745.

Board-designated net assets comprise funds previously appropriated by the Board, such as for endowment, land, buildings, and equipment, and special program and administrative initiatives. Also included are funds related to the Retirement Benefit Trust (RBT), General Liability Insurance Program (GLIP), and self-funding events, such as the world and national jamborees or Top Hands.

During 2017, the National Scouting Museum located in Irving, Texas closed and relocated to Philmont Scout Ranch in Cimarron, New Mexico. There was not a significant impact on net assets in 2017 due the closure.

### Revenues –

Fees increased in 2017 by \$24,426 primarily due to the 2017 National Scout Jamboree. Excluding the national jamboree, fees decreased by \$4,900 largely due to a decrease in high-adventure and Summit fees.

In 2017, the National Executive Board approved a registration fee increase from \$24 to \$33, effective December 1, 2017. The fee increase did not result in a significant change as it was only effective for one month of the fiscal year. Also, in 2017, the National Executive Board resolved to implement the family Cub Scout program effective 2018. The family Cub Scout program will include the registration of girls and it did not have a financial impact in 2017.

Unrestricted contributions increased from \$8,621 to \$10,638 in 2017 mainly due to an increase in high-adventure base contributions and individual giving.

Unrestricted investment income of \$58,745 increased from \$33,450 in 2016. The total return for investments held in the unrestricted endowment was 15.75 percent during 2017 compared with 8.82 percent during 2016. The endowment, RBT, and GLIP investments are among the designated assets within this portfolio, and these are overseen by a committee of the Board that also oversees restricted investment portfolios. The related investment purchases and sales are primarily the result of the decisions of investment managers in fulfilling their investment mandates.

### Expenses –

Total expenses increased by \$19,864 to \$283,604 in 2017, up from \$263,740 during 2016. Of this increase, \$33,221 relates to cost attributed to the 2017 National Scout Jamboree. Offsetting the increase are declines in expenses attributed to pension and insurance cost of \$13,564.

### *Net Assets, Noncontrolling Interest*

Also, reported within unrestricted net assets is the local councils' noncontrolling interest in the BSA Commingled Endowment Fund, LP (Partnership) which is managed by the BSA Asset Management, LLC (BSAAM), the General Partner for the Partnership. Investment income reported for these local councils increased to \$28,321 in 2017 compared to \$11,704 in 2016. Overall, including the investment income, contributions, and withdrawals the noncontrolling interest unrestricted net assets increased \$70,012. Contributions and withdrawals were \$53,891 and \$12,200 respectively.

**Restricted net assets:**

Net assets restricted by donors are either permanently restricted (endowment) and may not be spent or they are temporarily restricted, and their use is restricted to a specific purpose or during a specific time period.

Restricted contribution income increased to \$27,863 for 2017, an increase of \$2,949 from 2016 donation levels.

Restricted investment income gains for 2017 are \$16,919 an increase of \$9,264 from 2016.

During 2017, \$34,799 of restricted net assets were used for donor-specified purposes, compared with \$26,871 in the prior year. \$1,189 of the restricted net assets were released from permanently restricted due to updated donor documentation received changing the restriction from permanent to temporary.

Overall, net assets restricted by donors increased in 2017 by \$9,983 to a total of \$219,397.

**Total net assets:**

The National Council's total net assets increased in 2017 by \$73,516 compared to a decrease of \$34,537 in 2016.

**Financial condition, liquidity, financing, and capital resources, and financial condition:***Liquidity*

The National Council has financial assets available within the next 12 months of the balance sheet date to meet cash needs for general expenditures which include cash and cash equivalents, board designated general endowment, and a line of credit. As of December 31, 2017, cash and cash equivalents totaled \$45,194, of which \$14,710 was set aside for property additions at the Summit.

Income from donor restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure; however, our board designated general endowment described in Note 3, has a spending rate for appropriating up to 5 percent of its endowment fund's average. The appropriation from the board designated endowment is projected to be consistent with the \$9,900 amount appropriated during 2017.

Although, the National Council does not intend to spend from its board designated endowment other than the amounts appropriated for general expenditure

as part of its annual budget approval and appropriation, amounts from the board designated general endowment could be made available.

Also available for general operations is a \$75,000 line of credit, of which, \$26,000 was utilized as of December 31, 2017.

Management believes that cash generated from operations, together with the liquidity provided by existing cash balances and the line of credit will continue to be sufficient to fund liquidity requirements during the next 12 months.

*Financing*

At its February 2017 meeting, the National Executive Board approved a resolution to extend the current maturity date of the line of credit to March 2020. Also, a resolution was approved that included converting \$25,000 of the outstanding balance in the line of credit to a 5-year term loan with a March 2022 maturity date. The line of credit covenant requirements were amended as well (see Note 6).

Principal and interest payment obligations were made as scheduled in 2017. Also, all covenant requirements were met during 2017. Management believes that cash generated from operations, together with liquidity from existing cash balances, the line of credit, and donor contributions will continue to be sufficient for the repayment of debt as scheduled in 2018.

*Capital Resources*

Capital is required to expand, improve, or replace the National Council's properties such as the Summit, its high-adventure facilities, its distribution center and retail stores (Scout shops), and the rest of its infrastructure in order to maintain a high level of service to its constituents.

The Summit had property additions of \$18,345 in 2017. This was funded through restricted contributions received for development of the Summit and from cash generated from operations.

During 2017, the National Council added \$13,707 in property additions to other properties. These capital investments were funded from existing cash balances.

*Financial Condition*

The National Council's financial condition for 2018 and the next few years will depend, in large part, upon three factors. The first is the outcome of the litigation

discussed within this report (see Note 9) and the impact to GLIP (Note 7). The second lies with the success of securing donations for the Summit project in order to continue to pay bond payments as scheduled and maintaining compliance with debt covenants. The third factor is the economy and legislation and their effect on market conditions and liquidity requirements. The National Executive Board, Advisory Council, and other dedicated volunteers and staff continue to work diligently to ensure that the National Council successfully addresses these factors. A strong National Council helps to make sure the Scouting program remains effective and true to its mission.

Respectfully,

A handwritten signature in black ink, appearing to read "Joseph P. Landy". The signature is fluid and cursive, with the first name "Joseph" being the most prominent part.

Joseph P. Landy  
Treasurer/Vice President-Finance

April 10, 2018

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**AUDIT COMMITTEE**  
of the  
Executive Board of the Boy Scouts of America  
Francis R. McAllister, *Chairman*  
Dennis H. Chookaszian   David Biegler   David Moody

**Report of Independent Auditors**

To the Executive Board of the National Council of the Boy Scouts of America

We have audited the accompanying consolidated financial statements of the National Council of the Boy Scouts of America and its affiliates (the National Council), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of revenues, expenses, and other changes in net assets, of functional expenses and of cash flows for the year then ended.

***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the National Council's preparation and fair presentation of the consolidated 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 National Council'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the National Council of the Boy Scouts of America and its affiliates as of December 31, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

We previously audited the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of revenues, expenses, and other changes in net assets, of functional expenses and of cash flows for the year then ended (not presented herein), and in our report dated April 6, 2017, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of December 31, 2016 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

April 10, 2018

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# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2017 (with summarized totals for 2016)

(In thousands)

Boy Scouts of America

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash and cash equivalents .....	\$ 45,194	\$ 55,533
Investments, at fair value including collateral for securities		
on loan of \$12,216 (2016—\$14,913) (Note 2) .....	826,817	745,287
Accounts receivable, less allowance of \$103 (2016—\$108) .....	17,362	22,072
Pledges receivable, less discount of \$26,322 (2016—\$28,029) (Note 4) .	63,024	65,202
Other receivables .....	2,956	1,539
Gift annuities .....	8,047	7,471
Prepaid and deferred charges .....	7,879	11,312
Inventories, less provision for obsolescence of 4,712 (2016—\$5,807) .....	68,056	74,262
Land, buildings, and equipment, net (Note 5).....	483,379	475,033
Other .....	<u>12,468</u>	<u>14,273</u>
Total assets .....	<u>\$ 1,535,182</u>	<u>\$ 1,471,984</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities .....	\$ 40,613	\$ 36,949
Gift annuities .....	8,047	7,471
Unearned fees and subscriptions .....	45,247	56,215
Notes payable including line of credit (Note 6).....	246,987	259,070
Insurance reserves (Note 7) .....	191,911	180,721
Payable upon return of securities loaned (Note 2) .....	<u>12,216</u>	<u>14,913</u>
Total liabilities .....	545,021	555,339
Commitments and contingencies (Note 9)		
Net assets:		
Unrestricted (Note 10):		
Unrestricted controlling interest:		
General operations .....	(20,626)	(21,756)
Board-designated .....	<u>562,269</u>	<u>569,878</u>
Total unrestricted—controlling interest .....	541,643	548,122
Unrestricted—noncontrolling interest (Commingled Endowment LP) .....	<u>229,121</u>	<u>159,109</u>
Total unrestricted .....	770,764	707,231
Temporarily restricted (Note 11) .....	125,896	125,152
Permanently restricted (Note 11).....	<u>93,501</u>	<u>84,262</u>
Total net assets .....	<u>990,161</u>	<u>916,645</u>
Total liabilities and net assets .....	<u>\$ 1,535,182</u>	<u>\$ 1,471,984</u>

The accompanying notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS

Year ended December 31, 2017 (with summarized totals for 2016)

(In thousands)

Boy Scouts of America

	Unrestricted (Note 10)	Temporarily Restricted (Note 11)	Permanently Restricted (Note 11)	Total	
				2017	2016
<b>Revenues:</b>					
Fees (Note 12) .....	\$ 138,672			\$ 138,672	\$ 114,246
Supply operations—sales .....	140,279			140,279	143,894
Cost of sales and expenses .....	(114,839)			(114,839)	(118,764)
	25,440			25,440	25,130
Magazine publication—sales .....	11,737			11,737	12,562
Cost of production and expenses .....	(15,884)			(15,884)	(15,213)
	(4,147)			(4,147)	(2,651)
Contributions and bequests .....	10,638	\$ 27,687	\$ 176	38,501	33,535
Other—including trading post sales .....	16,132			16,132	17,231
Cost of sales and expenses .....	(3,154)			(3,154)	(3,864)
	12,978	0	0	12,978	13,367
Total revenues before net investment gain .....	183,581	27,687	176	211,444	183,627
Investment income, net of fees .....	58,745	6,667	10,252	75,664	41,105
Total revenues .....	242,326	34,354	10,428	287,108	224,732
<b>Net assets released from restrictions:</b>					
Donor restrictions satisfied .....	34,799	(33,610)	(1,189)		
<b>Expenses:</b>					
Program services:					
Field operations .....	49,814			49,814	54,961
Human resources and training .....	11,849			11,849	13,702
Program development and delivery .....	109,463			109,463	75,622
Program marketing .....	12,060			12,060	11,046
World Scout Bureau fees .....	1,503			1,503	1,484
Insurance programs—losses and costs (Notes 7 and 13) .....	71,827			71,827	84,364
Premiums .....	(14,515)			(14,515)	(13,488)
	57,312			57,312	70,876
Total program services .....	242,001			242,001	227,691
Supporting services:					
Management and general .....	34,125			34,125	30,291
Fundraising .....	7,478			7,478	5,758
Total supporting services .....	41,603			41,603	36,049
Total expenses .....	283,604	0	0	283,604	263,740
Change in net assets—controlling interest .....	(6,479)	744	9,239	3,504	(39,008)
Change in net assets—noncontrolling interest (Commingled Endowment LP) .....	70,012	0	0	70,012	4,471
<b>Change in net assets</b> .....	63,533	744	9,239	73,516	(34,537)
<b>Net assets, beginning of year</b> .....	707,231	125,152	84,262	916,645	951,182
<b>Net assets, end of year</b> .....	\$ 770,764	\$ 125,896	\$ 93,501	\$ 990,161	\$ 916,645

The accompanying notes are an integral part of these consolidated financial statements.



# CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2017 (with summarized totals for 2016)

(In thousands)

Boy Scouts of America

PROGRAM SERVICES								
	<u>Field Operations</u>		<u>Human Resources and Training</u>		<u>Program Development and Delivery</u>		<u>Program Marketing</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Salaries	\$ 16,993	\$ 17,158	\$ 6,042	\$ 6,375	\$ 20,081	\$ 19,248	\$ 4,193	\$ 3,942
Benefits	5,597	5,734	1,686	1,822	5,506	5,052	1,157	999
Travel	2,305	2,194	292	385	862	824	283	278
Office expense and occupancy	8,680	10,939	912	807	10,203	11,426	2,243	2,297
Depreciation and amortization	3,266	3,396	356	295	3,520	3,131	140	197
Insurance losses and costs								
Premiums								
Net insurance programs								
Jamboree (world/national)					33,221	4,014		
All other expenses	13,014	15,547	2,839	4,144	35,021	30,878	4,277	3,610
Allocated expenses <sup>1</sup>	(41)	(7)	(278)	(126)	1,049	1,049	(233)	(277)
Total expenses	<u>\$ 49,814</u>	<u>\$ 54,961</u>	<u>\$ 11,849</u>	<u>\$ 13,702</u>	<u>\$ 109,463</u>	<u>\$ 75,622</u>	<u>\$ 12,060</u>	<u>\$ 11,046</u>

	PROGRAM SERVICES					
	<u>World Scout Bureau Fees</u>		<u>Insurance Programs</u>		<u>Total Program Services</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Salaries					\$ 47,309	\$ 46,723
Benefits					13,946	13,607
Travel					3,742	3,681
Office expense and occupancy					22,038	25,469
Depreciation and amortization					7,282	7,019
Insurance losses and costs			\$ 71,827	\$ 84,364	71,827	84,364
Premiums			<u>(14,515)</u>	<u>(13,488)</u>	<u>(14,515)</u>	<u>(13,488)</u>
Net insurance programs			57,312	70,876	57,312	70,876
Jamboree (world/national)					33,221	4,014
All other expenses	\$ 1,503	\$ 1,484			56,654	55,663
Allocated expenses <sup>1</sup>					497	639
Total expenses	<u>\$ 1,503</u>	<u>\$ 1,484</u>	<u>\$ 57,312</u>	<u>\$ 70,876</u>	<u>\$242,001</u>	<u>\$227,691</u>

	SUPPORTING SERVICES							
	<u>Management and General</u>		<u>Fundraising</u>		<u>Total Supporting Services</u>		<u>Total Expenses</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Salaries	\$ 16,488	\$15,634	\$ 2,707	\$ 2,473	\$ 19,195	\$ 18,107	\$ 66,504	\$ 64,830
Benefits	4,260	3,836	699	700	4,959	4,536	18,905	18,143
Travel	1,039	939	621	461	1,660	1,400	5,402	5,081
Office expense and occupancy	2,198	386	403	638	2,601	1,024	24,639	26,493
Depreciation and amortization	12,677	10,212	7	20	12,684	10,232	19,966	17,251
Insurance losses and costs							71,827	84,364
Premiums							<u>(14,515)</u>	<u>(13,488)</u>
Net insurance programs							57,312	70,876
Jamboree (world/national)							33,221	4,014
All other expenses	1,646	3,709	3,053	1,531	4,699	5,240	61,353	60,903
Allocated expenses <sup>1</sup>	<u>(4,183)</u>	<u>(4,425)</u>	<u>(12)</u>	<u>(65)</u>	<u>(4,195)</u>	<u>(4,490)</u>	<u>(3,698)</u>	<u>(3,851)</u>
Total expenses	<u>\$ 34,125</u>	<u>\$ 30,291</u>	<u>\$ 7,478</u>	<u>\$ 5,758</u>	<u>\$ 41,603</u>	<u>\$ 36,049</u>	<u>\$283,604</u>	<u>\$263,740</u>

<sup>1</sup> Certain expenses have been allocated to Supply operations, Magazine publications, and Program services. The accompanying notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2017 (with summarized totals for 2016)

(In thousands)

Boy Scouts of America

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operations:</b>		
Change in net assets .....	\$ 73,516	\$ (34,537)
Adjustments to reconcile change in net assets		
to net cash and cash equivalents provided by operations:		
Depreciation and amortization .....	21,634	18,619
Net realized and unrealized losses (gains) on investments .....	(95,809)	(44,678)
Interest and dividends reinvested .....	(977)	(942)
Contributions to the permanently restricted endowment .....	(176)	(222)
Net losses on disposal of land, buildings, and equipment .....	2,072	1,447
Changes in assets and liabilities:		
Decrease in accounts receivable .....	4,710	2,764
(Increase) decrease in pledges receivable .....	2,178	(1,786)
(Increase) in other receivables .....	(1,417)	(168)
Decrease (increase) in inventories .....	6,206	(8,925)
Decrease (increase) in prepaid charges and other assets .....	4,662	(4,707)
Increase in accounts payable/accrued liabilities/gift annuities .....	4,240	5,286
(Decrease) increase in unearned fees and subscriptions .....	(10,968)	11,850
Increase in insurance reserves.....	<u>11,190</u>	<u>28,081</u>
Net cash and cash equivalents provided by (used in) operations .....	<u>21,061</u>	<u>(27,918)</u>
<b>Cash Flows from Investing:</b>		
Additions to land, buildings, and equipment .....	(32,052)	(26,403)
Contributions restricted for capital expenditures and debt service .....	(15,093)	(12,390)
Net sales of investments .....	15,256	86,627
(Increase) in securities lending payable .....	<u>(2,697)</u>	<u>(10,215)</u>
Net cash and cash equivalents (used in) provided by investing activities ..	<u>(34,586)</u>	<u>37,619</u>
<b>Cash Flows from Financing:</b>		
Net (payments) borrowings on line of credit financing .....	(29,000)	(6,000)
Borrowings on term loan .....	25,000	0
Repayment of debt .....	(8,083)	(5,463)
Contributions to the permanently restricted endowment .....	176	222
Contributions restricted for capital expenditures and debt service .....	<u>15,093</u>	<u>12,390</u>
Net cash and cash equivalents provided by financing activities .....	<u>3,186</u>	<u>1,149</u>
(Decrease) increase in cash and cash equivalents .....	(10,339)	10,850
Cash and cash equivalents, beginning of year .....	<u>55,533</u>	<u>44,683</u>
Cash and cash equivalents, end of year .....	<u>\$ 45,194</u>	<u>\$ 55,533</u>
<b>Supplemental Cash Flow Information:</b>		
Interest paid .....	\$ 7,211	\$ 7,462
Gifts-in-kind .....	2,695	322

The accompanying notes are an integral part of these consolidated financial statements.

# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

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## Note 1. Summary of Significant Accounting Policies

On June 15, 1916, the Boy Scouts of America was officially chartered by Congress with the stated purpose to promote “the ability of boys to do things for themselves and others, to train them in Scoutcraft, and to teach them patriotism, courage, self-reliance, and kindred virtues. ...” Toward this purpose, major activities of the National Council provides local councils with program materials and support in the areas of membership growth, fundraising, communications, administration, insurance, employee benefits, investment management, and human resources. The National Council also include merchandise sales, magazine publications, and the coordination of national events.

**Consolidation.** The consolidated financial statements combine the accounts and results of operations and activities of the National Council of the Boy Scouts of America and its affiliates (National Council): Learning for Life; the Learning for Life Foundation; BSA Asset Management, LLC (BSAAM); BSA Commingled Endowment Fund, LP (Partnership); the Boy Scouts of America National Foundation, NewWorld19, LLC; and Arrow WV, Inc. The NewWorld19, LLC was formed in 2015 to host the 2019 World Jamboree with Asociación de Scouts Mexico, A.C. and Scouts Canada. Arrow WV, Inc. was formed in 2009 to develop the future home of the national Scout jamboree and a new high-adventure base, the Summit. The National Council is the sole member of BSAAM, and BSAAM is the General Partner of the Partnership, whose limited partners consist primarily of National Council and local councils. Thus, the National Council has a limited partner interest in the Partnership as well as a general partner interest as the sole member of BSAAM. As such, the financial statements include the consolidation of the Partnership’s assets, liabilities, capital, and operations. The limited partner interest of the local councils in the Partnership is presented in the consolidated financial statements as a noncontrolling interest. Other results of operations and activities of local councils are not included. All significant intercompany transactions have been eliminated.

**Net Assets.** Restricted net assets comprise those amounts restricted by donors, grantors, or applicable state law for endowment or other specific purposes. Temporarily restricted net assets comprise those amounts restricted by donors or grantors for use during a specified time period or for a particular purpose. The expiration of a temporary restriction is evidenced by a transfer of net assets to the unrestricted classification.

Unrestricted net assets include “general operations” and “board-designated” funds. General operations comprise the ongoing, day-to-day activities of the National Council, including, but not limited to, merchandise sales, magazine publications, high-adventure base operations, program development, field support, and program marketing. Board-designated net assets are designated by the Executive Board of the National Council or an authorized committee of the Executive Board of the National Council. These assets act as an endowment; help defray future health costs for National Council and local council employees and their retirees; are invested in land, buildings, and equipment; support the general liability insurance program (Note 7); or fund specific program efforts.

**Statement of Cash Flows.** For purposes of reporting cash flows, cash includes demand deposits with banks or financial institutions, on-hand currency, and other kinds of accounts that have the general characteristics of demand deposits. Cash equivalents include short-term investments with original maturities of three months or less but do not include short-term investment funds of third-party investment managers.

**Estimated Fair Values of Financial Instruments.** Financial instruments include cash, investments, accounts and pledges receivable, accounts payable, and debt. Cash, investments, accounts receivable, accounts payable, and debt are deemed to be stated at their fair values.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received.

The National Council has adopted the fair value accounting guidance issued by the Financial Accounting Standards Board (FASB). Fair value accounting guidance establishes a hierarchy for inputs used in measuring fair value that

# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

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maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available.

Observable inputs are used by market participants in pricing an asset or liability based on market data obtained from sources independent of the National Council. Unobservable inputs reflect the National Council's judgment regarding assumptions market participants would use in pricing an asset or liability based on the best information available in the circumstances. In instances where the determination of the fair value measurement is based on inputs from more than one level of the fair value hierarchy, the entire fair value measurement is classified within the hierarchy based on the lowest level of input that is significant to the fair value measurement in its entirety.

The hierarchy is measured in three levels based on the reliability of inputs:

- Level 1—Valuations based on quoted prices in active markets for identical assets as of the reporting date.
- Level 2—Valuations based on pricing inputs that are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from independent sources.
- Level 3—Valuations are derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and require significant judgment in determining the fair value assigned to such assets or liabilities.

Regarding Level 2, the valuation of these securities is handled daily by external pricing services administered by the National Council's safekeeping and custodial agent that monitor and assign values based on secondary markets. Where this is insufficient (e.g., for bank loans and private placements), the agent utilizes its proprietary pricing matrix for valuation, taking into consideration numerous input factors such as risk and liquidity.

Real estate investments, private equity, and collective trust funds are carried at estimated fair value based on the reported net asset value provided by the general partner of the fund.

The general partner of the fund marks the underlying real estate assets to fair value using the following procedures and parameters:

- All real estate investments are valued on at least an annual basis with the objective of providing a quarterly valuation schedule that is balanced with respect to property type, location, and percentage of portfolio carrying value.
- Newly acquired investments are carried at cost until their first scheduled valuation approximately 12 months after acquisition (the initial valuation) unless within the first 12 months market factors indicate cost may not be a reliable indicator of fair value.
- Subsequent to and including the initial valuation, the fair value of an investment shall be determined by an annual valuation prepared in accordance with standard industry practice by an independent third-party appraiser that is licensed and has an MAI designation (Member of the Appraisal Institute).
- All investments not scheduled for valuation in a particular quarter will be reviewed to determine if an interim value adjustment is warranted based on property or market-level changes. If warranted, an updated valuation will be prepared by an independent third-party appraiser that is licensed and has an MAI designation.
- Any capitalized costs relating to investments incurred during periods between independent valuations will be added to the most recent independent valuation to determine the current carrying value of the investment.

# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

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The appraisal process, while based on independent third-party valuations as well as verified property and market-level information, may result in a valuation estimate that differs materially from the sales price actually realized due to the particular motivations of buyers and sellers, as well as the subjectivity inherent in the process. Although the estimated fair values represent subjective estimates, the general partner of the fund believes these estimated values are reasonable approximations of market prices. Management has obtained an understanding of the valuation methodology utilized to value the underlying assets and believes the reported net asset value of the fund is an accurate fair value of the investment.

Bank loans are priced through the Markit Loan Pricing service. It offers liquidity information for the leveraged loan market, as well as access to liquidity metrics, such as the number of dealers quoting with the size and the average size quoted. A daily price is received on every bank loan in the portfolio.

**Inventories.** Inventories of merchandise, printing stock, and supplies are carried at the lower of average cost or market. Periodically, but no less often than once each year, inventory is evaluated for obsolescence. If inventory quantities on hand exceed reasonably anticipated future demands, inventory is written down to its net realizable value. The difference between current carrying cost and net realizable value is a period cost. Damaged inventory items are expensed immediately.

**Land, Buildings, and Equipment.** These assets are stated at cost or, if acquired by gift, at the estimated fair market value at the date of the gift. Depreciation and amortization are provided over the estimated useful lives of the related assets using the straight-line method. Estimated useful lives for financial reporting purposes are as follows: buildings and improvements, 10 to 40 years; computer software and hardware, 3 to 10 years; and furniture, fixtures, and other equipment, 3 to 10 years. Land improvements are depreciated over 20 years. Leasehold improvements are amortized over the lesser of the lease term or the life of the asset. Construction in progress is not depreciated until placed into operation.

**Revenue.** Registration and licensing fees are recorded as income in the applicable membership, participation, or licensing period. High-adventure and jamboree fees are recorded as income in the applicable period of attendance. National service fees are paid by the local councils for administrative services provided and are recognized in the period earned. Revenues from merchandise sales are recognized at the point of sale and are reported net of returns and allowances. Subscription and advertising revenues are reflected as earned income when publications are issued. Investment gain (loss) includes interest and dividends earned during the period as well as realized and unrealized gains and losses on investments, net of investment expenses.

Pledges (Note 4) and contributions are recognized as revenues in the year in which an unconditional promise to give is received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Restricted pledges and contributions that are to be utilized in the same period as donated are initially recorded as restricted revenues. Bequests are recorded when the amount and timing of receipt of funds are known. Contributions of land, buildings, and equipment are generally recorded as board-designated net assets as no time restriction is assumed for their use. Insurance premium revenue is recognized pro rata over the terms of the related policies.

**Concentration of Market and Credit Risk.** Market risk represents the potential loss the National Council faces due to a decrease in the value of its investments and assets held at fair value. Credit risk represents the potential loss the National Council faces due to possible nonperformance by obligors and counterparties of the terms of their contracts. Financial instruments that potentially subject the National Council to concentrations of credit risk consist principally of cash equivalents, the investment portfolio (Note 2), and accounts receivable and pledges receivable. Credit risk on pledges receivable is managed by discounting the pledges based on a rate that reflects the risk of that pledge not being collectable.

In order to limit credit risk with respect to cash equivalents and the investment portfolio, the National Council invests in obligations of the United States government, mutual funds, and other marketable securities. These investments are held by diverse, high-quality financial institutions. The National Council grants unsecured credit to local councils and

# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

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others for merchandise sales and insurance coverage within established guidelines for creditworthiness. These transactions make up the majority of accounts receivable.

**Donated Services.** A substantial number of volunteers have donated significant amounts of their time to the operations of the National Council, and numerous media organizations have provided public service advertising. Volunteer services that create or enhance nonfinancial assets (e.g., camps, buildings) or require specialized skills, and are performed by people possessing those skills, are recorded as contributions and as expenses or additions to land, buildings, and equipment. Due to practical reasons, not all donated services are recorded. Where practical and of significant materiality, the National Council records donated services at fair value of the services received as contribution revenue on the Consolidated Statement of Revenues, Expenses, and Other Changes in Net Assets.

**Collections.** The National Scouting Museum in Irving, Texas, possesses artifacts, fine art, and multimedia archives last appraised in November 2017 at approximately \$80,000. The museum also houses collections of Scouting memorabilia, objects, and archival documents. In conformity with accounting policy generally followed by museums, these collections are not recognized as assets in the Consolidated Statement of Financial Position; however, costs associated with insuring and maintaining these collections have been expensed. During 2017, no major additions or disposals of collections items occurred.

In 2017, the National Scouting Museum located in Irving, Texas closed and relocated to Philmont Scout Ranch in Cimarron, New Mexico.

## **Program Services Expenses comprise:**

- **Field Operations.** Support for local councils, including but not limited to, administration of standards of performance, inspection of council campsites, assistance with long-range planning, conduct of regional training and conferences for professionals and volunteers, administration of an extensive program of local council financial support, and administration and funding of the defense of our private membership rights.
- **Human Resources and Training.** Administration of all aspects of human resources policies, including recruiting, placement, and training of professional employees; promoting diversity; managing compensation and benefits programs; and monitoring employee relations.
- **Program Development and Delivery.** Development of the basic program; providing camping and outdoor literature, materials, and techniques, as well as engineering service, to local councils; managing the volunteer training programs of the Boy Scouts of America and handling all national program support in the areas of health and safety, activities, program evaluation, and low-income program; developing uniforms and insignia and other program elements; operating the National Scouting Museum; operating the high-adventure bases and the national jamboree.
- **Program Marketing.** Administration of public relations, including providing news releases, features for print and broadcast media, and internal news in the form of newsletters, fact sheets, and the annual report for the nationwide Scouting family. In addition, protection and promotion of the Scouting brand.
- **World Scout Bureau Fees.** Payment to the World Organization of the Scout Movement in support of international enrichment programs based on an established fee for each registered, uniformed youth and adult member.
- **Insurance Programs.** Support of the group medical, life, dental, and general liability insurance programs for local councils and the National Council.

**The Use of Estimates in Preparing Financial Statements.** The preparation of financial statements in conformity with United States of America generally accepted accounting principles (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and

# Notes to Consolidated Financial Statements (\$ stated in thousands)

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liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

**Income Tax Status.** The National Council and its other affiliates, Learning for Life, the Learning for Life Foundation, the Boy Scouts of America National Foundation, BSA Asset Management, LLC, and Arrow WV, Inc., are exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and have been classified as organizations that are not private foundations. Each of the partners of the Partnership is responsible for reporting its allocable share of the partnership's income or loss on its individual tax returns.

Income from certain activities (primarily magazine advertising income, sponsorships, and net revenue from sales of livestock) not directly related to the National Council's tax-exempt purpose is subject to taxation as unrelated business income. As of December 31, 2017, the National Council has a cumulative net operating loss of approximately \$39,837. Management has determined that it is more likely than not that the net operating loss will not be realized and has therefore provided a full valuation allowance against any deferred tax asset as of December 31, 2017.

**Uncertainty in Income Taxes.** The National Council recognizes interest and penalties related to underpayment of income taxes as income tax expense. As of December 31, 2017, the National Council had not recorded any amounts related to unrecognized income tax benefits or accrued interest and penalties. The National Council does not anticipate any significant changes to unrecognized income tax benefits over the next year.

**Nature of Comparative Totals for 2016.** The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Alone, such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the National Council's financial statements for the year ended December 31, 2016, from which the summarized information was derived. PricewaterhouseCoopers LLP issued an unmodified opinion on those financial statements dated April 6, 2017.

**Recent Accounting Pronouncements.** In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 guidance simplifies the current net asset classification requirements from three net asset classifications to two. The amendment also improves the information presented in the financial statements and notes regarding liquidity, financial performance, and cash flows. The standard is effective for annual reporting periods in fiscal years that begin after December 15, 2017. We are currently evaluating the standard and do not anticipate it will have a material impact on the financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenues from Contracts with Customers (Topic 606)* and has modified the standard thereafter. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASU No. 2014-09 is effective for annual reporting periods in fiscal years that begin after December 15, 2018. We are currently evaluating the magnitude and other potential impacts on the National Council's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements. ASU 2016-02 will require lessees to recognize most leases on their statement of financial position as liabilities, with corresponding "right-of-use" assets. The standard is effective for annual reporting periods in fiscal years that begin after December 15, 2019. We are currently evaluating the magnitude and other potential impacts on the National Council's financial statements.

**Subsequent Events.** The National Council has performed a review of subsequent events through the date of the audit opinion, which is the date the financial statements were available to be issued, and concluded that other than those items disclosed in the consolidated financial statements, there were no events or transactions during this subsequent event reporting period that required recognition or disclosure.

# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

## Note 2. Investments

At December 31, 2017, investments comprised the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term investment funds and treasury bills .....	\$ 543	\$ 9,766	\$ 0	\$ 10,309
Investment of cash/non-cash collateral in investment trust .....	0	12,216	0	12,216
Debt securities				
Government (includes \$172 of securities on loan).....	0	69,517	0	69,517
Corporate (includes \$7,097 of securities on loan).....	0	69,232	0	69,232
Other.....	<u>0</u>	<u>36,706</u>	<u>0</u>	<u>36,706</u>
Total debt securities .....	0	175,455	0	175,455
Equity securities				
Common stocks—domestic (includes \$2,557 of securities on loan).....	34,951	4,045	0	38,996
Common stocks—foreign (includes \$2,071 of securities on loan).....	<u>79,939</u>	<u>6,402</u>	<u>0</u>	<u>86,341</u>
Total equity securities .....	<u>114,890</u>	<u>10,447</u>	<u>0</u>	<u>125,337</u>
Investments measured at net asset value <sup>1</sup> .....				<u>503,500</u>
Total investments .....	<u>\$ 115,433</u>	<u>\$207,884</u>	<u>\$ 0</u>	<u>\$826,817</u>

<sup>1</sup> Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts are presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Statement of Financial Position.

No transfers between any of the levels occurred in 2017.



# Notes to Consolidated Financial Statements (\$ stated in thousands)

The National Council uses the Net Asset Value (NAV) to determine the fair value of all underlying investments which: (a) do not have a readily determinable fair value and (b) prepare their investee's financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments by major category as of December 31, 2017:

2017						
Type	Strategy	NAV in Funds	# of Funds	Remaining Life	\$ Amount of Unfunded Commitments	Timing to Drawdown Commitments
Private Equity (Limited Partnership)	Private equity funds invest in companies not listed publicly and startup companies to earn high rate of return. The strategy allocates between middle market corporate finance focused funds and venture capital focused funds	\$ 44,674	45	1 to 12 years	\$ 13,334	1 to 5 years
Collective Trust	Collective trust fund is like a mutual fund, but it only sells to institutional investors. CTF funds cover broad strategies including but not limited to U.S. equity, Non U.S. equity, U.S. investment grade debt, U.S. treasury debt, high yield debt and global REITS	398,049	32	N/A	N/A	N/A
Private Real Estate (Limited Partnership)	Private real estate fund utilizing core strategy to generate income while maintain low risk profile by focusing on gateway cities and other large cities. Investments include residential, industrial, retail and office sectors to diversify portfolio.	42,750	2	N/A	N/A	N/A
High Yield (Limited Partnership)	The limited partnership focus mainly on U.S. high yield market and has small exposure to bank loans.	18,027	2	N/A	N/A	N/A
Total		<u>\$ 503,500</u>	<u>81</u>		<u>\$ 13,334</u>	

The Private Equity funds have no redemption terms. The Private Real Estate funds have a 45-day notice period and quarterly redemption. Most Collective Trust funds may be redeemed daily except the ACWI ex U.S. CTF fund that can typically be redeemed twice a month. High Yield Limited Partnership funds can be redeemed monthly with a ten-business day notice.

Investment securities may be purchased or sold on a when-issued or delayed delivery basis. These transactions involve a commitment to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. When delayed delivery purchases are outstanding, liquid assets will be set aside or earmarked internally, until the settlement date, in an amount sufficient to meet the purchase price. When purchasing a security on a delayed delivery basis, the rights and risks of ownership are assumed, including the risk of price and yield fluctuations, and such fluctuations are taken into account when determining net asset values. Delayed delivery transactions may be disposed of or renegotiated after they are entered into, and when-issued securities may be sold before they are delivered, which may result in an investment gain or loss.

Investment securities of the National Council whose values are expressed in foreign currencies are translated to U.S. dollars at the bid price of such currency against U.S. dollars last quoted by an approved pricing vendor or major bank on the valuation date. Dividend and interest income and certain expenses denominated in foreign currencies are translated to U.S. dollars based on the exchange rates in effect on the date the income is earned, and the expense is incurred. Exchange gains and losses are realized upon ultimate receipt or disbursement.

Net investment income on the Consolidated Statement of Revenues, Expenses, and Other Changes in Net Assets includes \$11,068 of interest and dividends, \$22,695 of net realized gains, and \$73,114 of unrealized gains in the fair value of investments less \$2,893 in investment manager expenses. Included within the change in net assets attributed to noncontrolling interests is net investment income pertaining to the local councils' limited partner interest within the Partnership which for 2017 includes \$3,334 of interest and dividends, \$4,722 of net realized gains, and \$21,181 of unrealized gains in the fair value of investments less \$917 in investment manager expenses.

# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

The National Council participates in a securities lending program with its investment custodian, State Street. This program allows State Street to loan securities, which are assets of the National Council, to approved brokers. State Street requires the borrowers, pursuant to a security loan agreement, to deliver collateral at least equal to 102 percent of the market value of U.S. securities loaned, and 105 percent of the market value of non-U.S. securities loaned, to secure each loan. In the event of a default by the borrower, State Street shall indemnify the National Council by purchasing replacement securities equal to the number of unreturned loaned securities or, if replacement securities are not able to be purchased, State Street shall credit the National Council for the market value of the unreturned securities. In each case, State Street would apply the proceeds from the collateral for such loan to make the National Council whole.

As of December 31, 2017, the market value of securities on loan to approved brokers was \$11,897. Collateral received for securities on loan was invested in the State Street Navigator Securities Lending Prime Portfolio. Total collateral of \$12,216, received for securities on loan at December 31, 2017, is held by State Street on behalf of the National Council. Income associated with the securities lending program amounted to \$39 for 2017 and is included in net investment income. The following table summarizes the securities loaned and the related collateral as of December 31, 2017:

## **Securities Loaned and the Related Collateral**

<b>Securities</b>	<b>Fair Value</b>	<b>Fair Value of Collateral</b>
Government obligations .....	\$ 172	\$ 176
Corporate obligations .....	7,097	7,246
Common stocks—domestic .....	2,557	2,616
Common stocks—foreign .....	<u>2,071</u>	<u>2,178</u>
Total investments purchased with cash collateral .....	<u>\$ 11,897</u>	<u>\$ 12,216</u>

## **Investments Purchased with Collateral**

State Street Navigator Securities Lending Prime Portfolio .....	<u>\$ 12,216</u>
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## **Risk Factors**

**Currency/foreign exchange risk.** The National Council may hold investments denominated in currencies other than the U.S. dollar, the National Council's functional currency. In such instances, there is exposure to currency risk, as the value of the investments denominated in other currencies will fluctuate due to changes in exchange rates. To the extent that these investments create risk in respect of movements in foreign exchange rates, the National Council may hedge this risk, in a cost-effective manner, to the extent possible. As of December 31, 2017, there are no foreign currency hedges.

**Interest rate/credit risk.** The National Council's investment portfolios are subject to interest rate and credit risk. The value of debt securities may decline as interest rates increase. The investment portfolios could lose money if the issuer of a fixed-income security is unable to pay interest or repay principal when it is due.

**Market price risk.** The prices of securities held by the National Council may decline in response to certain events, including those directly involving the companies whose securities it owns. Those events may include, but are not necessarily limited to: conditions affecting the general economy; overall market changes; local, regional, or global political, social, or economic instability; and currency, interest rate, and commodity price fluctuations.

# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

## Note 3. Endowment

Endowment net asset composition and changes in composition by type of fund as of and for the year ended December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance December 31, 2016 .....	\$ 125,153	\$ 8,809	\$ 84,262	\$ 218,224
Investment return:				
Interest and dividends .....	4,061	120	1,492	5,673
Realized and unrealized investment gains .....	31,650	815	13,181	45,646
Investment manager fees .....	<u>(1,110)</u>	<u>(53)</u>	<u>(447)</u>	<u>(1,610)</u>
Net investment return .....	34,601	882	14,226	49,709
Contributions .....	577	433	176	1,186
Spending allocation .....	(9,900)	2,699	(3,974)	(11,175)
Net assets released from restriction ...	0	(2,387)	(1,189)	(3,576)
Endowment receivable GLIP .....	510	0	0	510
Other (net) .....	<u>1,078</u>	<u>1,697</u>	<u>0</u>	<u>2,775</u>
Balance December 31, 2017.....	<u>\$ 152,019</u>	<u>\$ 12,133</u>	<u>\$ 93,501</u>	<u>\$ 257,653</u>

The National Council's endowment consists of approximately 112 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Executive Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Executive Board to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions or in accordance with the Executive Board's interpretation of relevant law.

In 2017, \$1,189 was released from restrictions from permanently restricted funds as a result of donor documentation changing the restriction.

**Interpretation of relevant law.** The National Council classifies net assets associated with its donor-restricted endowment as either permanently or temporarily restricted. Investment returns in excess of spending authorized by the "spending policy" (the spending policy is defined below) are classified as permanently restricted net assets, absent explicit donor stipulations to the contrary. The Executive Board of the National Council has determined that this classification is consistent with the intent of the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). Among other things, TUPMIFA creates a rebuttable presumption of imprudence if an organization authorizes a current spending rate in excess of 7 percent absent explicit donor stipulations. Amounts made available from donor-restricted endowment funds in accordance with the spending policy are classified as temporarily restricted net assets until they are expended.

In accordance with TUPMIFA, the National Council considers the following factors in establishing its spending rate for donor-restricted endowment funds:

- 1) The duration and preservation of the fund;
- 2) The purposes of the National Council and its donor-restricted endowment fund;
- 3) General economic conditions;
- 4) The possible effects of inflation and deflation;
- 5) The expected total return from income and the appreciation of investments;
- 6) Other resources; and
- 7) The National Council's investment policies.

# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

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**Return objectives and risk parameters.** The Executive Board of the National Council has adopted a Strategic Investment Policy and a Spending Policy for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the National Council must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The National Council invests its endowment assets in the Partnership. Under the Strategic Investment Policy, the endowment assets are invested in a manner that is intended to produce the highest total long-term return, consistent with prudent investment practices, sufficient to cover the maximum annual spending rate plus an allowance for inflation. The National Council expects its endowment funds to provide an average annual real rate of return of approximately 4.5 percent over the long term, after allowance for expected inflation and investment cost. Actual returns in any given year may vary significantly from this expectation.

**Strategies employed for achieving objectives.** To satisfy its long-term rate-of-return objectives, the National Council relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The National Council targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending policy and how the investment objectives relate to spending policy.** The National Council has a policy of appropriating for distribution each year up to 5 percent of its endowment fund's average fair value over the prior 12 quarters through June 30 of the year preceding the fiscal year in which the distribution is planned. In establishing this policy, the National Council considered the long-term expected return on its endowment.

# Notes to Consolidated Financial Statements *(\$ stated in thousands)*

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## Note 4. Pledges Receivable

Included in pledges receivable are the following:

Unconditional promises to give before discount .....	\$ 89,425
Less discount .....	<u>(26,322)</u>
Net unconditional promises to give (before allowance).....	63,103
Less allowance .....	<u>(79)</u>
Net unconditional promises to give (after allowance) .....	<u>\$ 63,024</u>

Amounts due in:

Less than one year .....	\$ 3,517
One to five years .....	48,686
More than five years .....	<u>37,222</u>
Total undiscounted pledges .....	<u>\$ 89,425</u>

Pledges are evaluated for collectability and assigned a discount rate related to the risk of uncollectable amounts. The discount rates for valuing 2017 pledges ranged from 0.88 to 4.36 percent.

# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

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## Note 5. Land, Buildings, and Equipment

At December 31, 2017, land, buildings, and equipment comprised the following:

National office, less accumulated depreciation of \$19,212 .....	\$ 9,301
High-adventure bases, less accumulated depreciation of \$30,383 .....	60,300
National Distribution Center, less accumulated depreciation of \$6,948 .....	3,409
Summit Bechtel Family National Scout Reserve, less accumulated depreciation of \$39,273 .....	370,994
Furniture, equipment, and software, less accumulated depreciation and amortization of \$79,066 .....	<u>39,375</u>
Total land, buildings, and equipment, less accumulated depreciation and amortization of \$174,882 .....	<u>\$ 483,379</u>

Depreciation and amortization expense was \$21,634 in 2017.

High-adventure bases include Philmont Scout Ranch, Florida Sea Base, and Northern Tier.

# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

## Note 6. Notes Payable

Notes payable consists of the following at December 31, 2017:

	<u>2017 Principal Payment</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding at December 31, 2017</u>
Revolving \$75,000 line of credit (0.15% fee for unused credit)	29,000	1.25% + LIBOR	2020	26,000
2010 Bond issuance (Series B) of \$50,000	1,249	3.22% fixed	2020	42,986
2012 Bond issuance of \$175,000	4,334	2.94% fixed	2022	155,501
Term Loan of \$25,000 payable in 20 equal payments of \$1,250, including interest and principal	<u>2,500</u>	1% + LIBOR	2022	<u>22,500</u>
Total	<u>\$ 37,083</u>			<u>\$ 246,987</u>

In March 2012, the National Council issued debt to finance the development of the Summit. \$175,000 in 10-year, tax-exempt bonds was added to the existing 2010 Series A and B bonds, and the 5-year \$50,000 line of credit was increased by \$25,000 to \$75,000. Bond issuance costs were \$100. The Series A bond was paid in 2015 and the Series B bond has monthly principal and interest payment with a balloon payment of \$40,363 due in 2020.

The \$175,000 bonds payable, requires monthly interest and principal payments with a balloon payment of \$136,834 due in 2022.

The organization's entire bond proceeds have been used for development of the Summit. All the bonds are senior obligations of the organization and required collateral of the National Council's unrestricted gross revenues and the pledges pertaining to the project. The bond agreements include the standard covenants and events of default, including limitations on incurring additional indebtedness, a requirement to maintain a minimum ratio of certain cash and pledge amounts to debt, and a requirement to maintain a minimum ratio of unrestricted net assets to debt. At December 31, 2017, the National Council was in compliance with these debt covenants.

Covenants, collateral, and other terms for the \$75,000 line of credit are as follows: The non-usage fee as amended is 0.15 percent per annum. The interest rate on amounts utilized is LIBOR plus 1.25 percent on funds used for greater than 90 days or prime rate of 4.5 percent for funds used less than 90 days.

In March 2017, the National Council amended the \$175,000, 10-year tax-exempt bonds and the 2010 Series A and B were amended. The amendments changed the minimum ratio of unrestricted net assets to debt.

The \$75,000 line of credit was amended March 2017 and \$25,000 of the line of credit was converted to a 5-year term loan with a maturity in March 2022 and an interest rate of 1.0 percent plus one-month LIBOR. The revolving line of credit maturity was extended 3 years to March 2020. The line of credit covenants were amended to include a change in the minimum ratio of unrestricted net assets to debt along with a requirement for a cleanup period in which no revolver line of credit indebtedness can be incurred.

# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

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Aggregate maturities of notes payable for each of the years subsequent to December 31, 2017, are as follows:

2018 .....	\$ 10,753
2019 .....	10,928
2020 .....	76,097
2021 .....	9,875
2022 and thereafter .....	<u>139,334</u>
Total.....	<u>\$ 246,987</u>

Interest incurred, capitalized, expensed, and paid during the year ending December 31, 2017, were:

Interest incurred .....	\$ 7,222	
Interest capitalized .....	<u>0</u>	Interest paid ..... \$ 7,211
Interest expensed .....	\$ 7,222	

## **Note 7. General Liability Insurance Program**

The National Council has a general liability insurance program that operates primarily for the benefit of local councils. The program is partially self-insured with deductible features as follows: \$1,000 per occurrence and a \$9,000 aggregate excess limit. The program is funded by payments received from the National Council, local councils, chartered units, and from investment income. Premiums received during 2017 for this program were \$13,861, and insurance losses and costs were \$56,806 net of recoveries. On the Consolidated Statement of Revenues, Expenses, and Other Changes in Net Assets, which includes the stated insurance losses and costs total, is \$15,021 of insurance losses and costs from other insurance programs. Similarly, \$654 is included in premiums revenue from other insurance programs.

The insurance reserves of \$191,911 stated on the Statement of Financial Position at December 31, 2017, includes \$188,603 established by the National Council as a reserve for estimated self-insured losses and loss adjustment expenses of this program, based on an independent actuarial estimate of ultimate insurance losses. The remaining reserves apply primarily to directors' and officers' liability insurance and workers' compensation insurance.

The program contained \$141,682 of investments, receivables, other assets, and \$190,994 of liabilities and reserves for a net deficit of \$49,312 as of December 31, 2017. The net deficit of the general liability insurance program is reported as board-designated net assets in the accompanying Consolidated Statement of Financial Position.

At December 31, 2017, the National Council had provided standby letters of credit totaling \$74,355 for the benefit of insurance companies in conjunction with the assumed deductible portion of the program.

At the February 2018 National Executive Board meeting, the National Executive Board approved an amendment to renew the existing standby letters of credit which include updates to the covenant requirements that are consistent with the line of credit. Also in February 2018, an amendment was made to the existing line of credit agreement to increase its limit for usage as a standby letter of credit.

## **Note 8. Credit Arrangements**

At December 31, 2017, the National Council has provided a \$1,020 irrevocable letter of credit for the benefit of an insurance company to guarantee payments in conjunction with a self-insured workers' compensation program. In addition, the National Council has an import letter of credit of \$10,000 in order to guarantee payments in conjunction with Supply Group international purchases. As of December 31, 2017, the National Council had a total of five import letters of credit outstanding of \$3,179. Additional letters of credit are discussed in Note 7.



# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

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## Note 9. Commitments and Contingencies

The National Council rents various office equipment and occupies various Scout shops and other office space under non-cancellable operating leases expiring at various dates through 2024. Rental commitments for Scout shop leases are contingent on future sales levels. Real estate leases are renewable at the option of the National Council. Total rental expense for all operating leases for the year ended December 31, 2017, amounted to \$13,413. The estimated minimum rental commitments under operating leases that have initial or remaining non-cancellable terms as of December 31, 2017, are as follows (as of December 31 for each year):

2018 .....	\$ 9,186
2019 .....	7,718
2020 .....	5,094
2021 .....	2,328
2022 and after .....	<u>713</u>
Total minimum payments required .....	<u>\$ 25,039</u>

The National Council has been named as a beneficiary of several estates that are in various stages of probate. No income from future anticipated distributions has been recorded because the amounts and timing of future distributions are uncertain.

Certain conditions may exist as of the date the consolidated financial statements are issued which may result in a loss to the National Council but will only be resolved when one or more future events occur or fail to occur. The National Council's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the National Council or unasserted claims that may result in such proceedings, the National Council's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be reasonably estimated, then the estimated liability would be accrued in the National Council's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

The National Council maintains insurance for various types of damages, including general liability losses. Depending on the policy terms, a portion of the potential claims, representing deductibles or aggregate excess limits, are self-insured by the National Council. Reserves are maintained for estimated self-insured losses.

The National Council has been named as a defendant in several lawsuits alleging inappropriate conduct by local council employees or Scouting unit volunteers, including allegations of conduct that did not occur within Scouting and allegations of incidents dating back as far as the early 1960s. The National Council is also aware of threatened and expanding litigation of a similar nature. Most of the cases claim specific amounts of compensatory damages and, in a few cases, unspecified amounts of punitive damages.

There continues to be additional lawsuits filed alleging sexual abuse, including claims for punitive damages. The National Council could be required to pay damages out of its own funds to the extent the claims are not covered by insurance or if the insurance carriers are unable or unwilling to honor the claims. Based upon the nature of and management's understanding of the facts and circumstances that give rise to such actions and claims, management believes the reserves established by the General Liability Insurance Program of the National Council are sufficient to provide for the resolution of these lawsuits. However, in the event the General Liability Insurance Program or its reserves are insufficient to resolve such claims, it is the opinion of the National Council that the total amount of payments to resolve current and future claims could have a significant impact on the financial position or results of operations of the National Council in the future.

# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

## Note 10. Unrestricted Net Assets

At December 31, 2017, unrestricted net assets with a controlling interest comprised the following:

General operations .....	\$ (20,626)
Board-designated:	
General endowment .....	152,019
Properties .....	257,051
Retirement Benefits Trust (Note 13) .....	132,147
Insurance Programs .....	(47,800)
Other .....	<u>68,852</u>
Total board-designated net assets .....	<u>562,269</u>
Total unrestricted net assets, controlling interest .....	<u>\$ 541,643</u>

The amounts above include \$52,942 of net realized gains and unrealized changes in the fair value of investments earned on unrestricted net assets attributed to controlling interests during 2017. Unrestricted net assets attributed to noncontrolling interests represent the local councils' ownership in the Partnership. Total unrestricted net assets have changed as follows:

	Controlling Interest	Noncontrolling Interest	Total Unrestricted
Net assets as of December 31, 2015 .....	\$ 592,828	\$ 154,638	\$ 747,466
Change in net assets .....	<u>(44,706)</u>	<u>4,471</u>	<u>(40,235)</u>
Net assets as of December 31, 2016 .....	548,122	159,109	707,231
Change in net assets .....	<u>(6,479)</u>	<u>70,012</u>	<u>63,533</u>
Net assets as of December 31, 2017.....	<u>\$ 541,643</u>	<u>\$ 229,121</u>	<u>\$ 770,764</u>

# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

## Note 11. Restricted Net Assets

At December 31, 2017, restricted net assets comprised the following:

### Permanently restricted net assets:

John W. Watzek Jr. (income supports general operations).....	\$ 11,221
National Scouting Museum (income supports museum operations) .....	7,788
Waite Phillips Scholarship (income supports Philmont scholarships) .....	7,032
Cooke Eagle Endowment (income supports Eagle Scout scholarships) .....	5,966
Genevieve and Waite Phillips (income supports maintenance of Philmont) .....	5,700
DeWitt-Wallace Foundation (income supports leadership programs) .....	3,523
Kenneth McIntosh (income supports Scouting around the world) .....	3,353
Scoutmaster Recognition (income supports scholarships for outstanding Scoutmasters) .....	2,878
High adventure (income benefits high-adventure program) .....	2,868
Southern Region Trust Fund (income supports Southern Region) .....	2,792
Steve Fossett High-Adventure Base Endowment (income supports high-adventure bases) ...	1,923
Sonia S. Maguire (income supports Philmont camperships) .....	1,863
Hall Scholarship (income supports Eagle Scout scholarships) .....	1,843
Augustus F. Hook Jr. (income supports professional staff in Indiana) .....	1,621
Mortimer L. Schiff (income supports professional training and development) .....	1,608
Genevieve Phillips (income maintains Philmont Villa and grounds) .....	1,602
Thomas J. Watson (income supports general operations) .....	1,585
Summerfield Endowment (income supports general operations) .....	1,500
Northeast Region Main Trust Fund (income supports Northeast Region).....	1,474
NESA Scholarship (income provides academic scholarships for Eagle Scouts).....	1,419
A. Ward (income supports local councils).....	1,306
Other .....	<u>22,636</u>
Total permanently restricted net assets .....	93,501

### Temporarily restricted net assets:

Arrow WV (contributions and income supports the Summit) .....	72,257
Other .....	<u>53,639</u>
Total temporarily restricted net assets. ....	125,896
Total restricted net assets .....	<u>\$ 219,397</u>

The restricted net asset totals include \$16,963 of net realized gains and unrealized changes in the fair value of investments earned on permanently and temporarily restricted net assets during 2017.

# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

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## **Note 12. Fees**

During 2017, fees comprised the following:

Registration and license fees .....	\$ 58,793
National service fees from local councils .....	8,419
High-adventure bases .....	34,885
The Summit .....	1,563
National Scout Jamboree .....	29,326
Other .....	<u>5,686</u>
Total fees .....	<u>\$ 138,672</u>

## **Note 13. Retirement Benefits Trust**

The Retirement Benefits Trust (the “Trust”), a grantor trust, is funded at the discretion of the National Council by payments from local councils, the National Council, and by investment income. In 2017, neither the National Council nor the local councils made payments to the Trust. Net investment gains for the Trust in 2017 equaled \$17,315, and at December 31, 2017, the Trust’s net assets were \$132,147.

In accordance with the Trust agreement, Trust funds may be used as follows: (1) to subsidize the cost of medical insurance benefits for retired employees of local councils and the National Council and their dependents; (2) to supplement the funding of the “qualified” defined benefit retirement plan, should the fair value of its assets fall below 125 percent of its accumulated benefit obligation; (3) to pay costs related to a “non-qualified” defined benefit retirement plan; or (4) for any other purpose deemed by the National Executive Board to be in the best interests of the Boy Scouts of America.

In 2017, \$14,400 from the Trust was used to supplement the qualified defined benefit plan.

## **Note 14. Health, Life, and Other Welfare Insurance Programs**

The National Executive Board offers health, life, and other welfare insurance programs that operate for the benefit of employees of local councils and the National Council and their dependents as well as certain retirees (defined in Note 13). These insurance programs provide health, life, dental, vision, accidental death and dismemberment, and long-term disability benefits. The health and dental programs are self-insured, and the other programs are fully insured. Premiums, losses, and costs of the medical, dental, and vision insurance plans are the responsibility of the Welfare Benefits Trust, a VEBA trust whose beneficiaries are the same as those previously described.

During 2017, the National Council’s total expense for the employees’ insurance coverage of the benefits covered by the Welfare Benefits Trust was \$8,884. This is included in the cost of benefits for Supply operations, Magazine publications, and the respective functional areas included in the Consolidated Statement of Functional Expenses.

## **Note 15. Benefits**

The National Council offers a “non-qualified” defined benefit retirement plan (the “non-qualified plan”) to ensure that all employees receive retirement benefits on a comparable basis, notwithstanding limitations imposed upon qualified retirement plans by the tax laws. The National Council also sponsors a “qualified” elective thrift plan where one-half of National Council employee contributions are matched by the National Council, subject to certain limits. The National Council’s pension expense for the non-qualified retirement plans equals the amount of its contributions paid or accrued, such amounts being determined by the administrator of the plans. The National Council 2017 expense related to the non-qualified retirement plan (Note 13) was \$2,270, and the National Council expense in 2017 related to the thrift plan was \$1,546.

# Notes to Consolidated Financial Statements (*\$ stated in thousands*)

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In October 2017, the National Executive Board amended the thrift plan to the “BSA Match Savings Plan” effective January 1, 2019. Non-grandfathered employees (see Note 16) will receive an automatic contribution from the National Council of 1.75 percent of pay and \$1 for \$1 matching contributions on personal contributions up to 6 percent of pay. The National Council will match grandfathered employees’ personal contributions, \$.50 per \$1 contributed, up to 6 percent of pay. The change does not have an effect on the 2017 financial statements.

## **Note 16. Defined Benefit Retirement Plan**

The National Council participates in a January 31 year-end qualified multiemployer defined benefit retirement plan covering National Council and local council employees with at least one year of service. The plan’s legal name is the Boy Scouts of America Retirement Plan for Employees. The plan’s three-digit plan number and its Employee Identification Number (EIN) are 001 EIN 22-1576300. The plan is not subject to a collective-bargaining agreement, and coverage under this plan is at the option of the employee. In the event the plan is terminated, no assets will inure to the benefit of the National Council prior to the satisfaction of all benefit obligations to the participants.

The risks of participating in the multiemployer plan are different from a single employer plan in that the assets contributed to a multiemployer plan may be used to provide benefits to employees of other participating employers (i.e., the local councils). If a participating employer stops contributing to the plan, the unfunded obligations of the plan will be borne by the remaining participating employers.

The overall number of employees contributing to the plan decreased in correlation with an overall decrease in employees from 5,113 in 2016 to 4,974 in 2017 with each employee contributing 2 percent of his or her salary, subject to certain IRS limitations. The National Council and local councils each contributed an amount equal to 7 percent of an employee’s salary in 2017 and 2016. The National Council’s employer contribution for 2017 and 2016 was \$4,589 and \$4,495, respectively. These amounts represent in excess of 5 percent of total contributions to the plan in each year.

Total employer contributions to the plan, including local councils, were \$19,711 for 2017 and \$19,413 for 2016. Including employees’ contributions, total contributions for 2017 and 2016, respectively, were \$25,343 and \$24,960. For the years ended December 31, 2017 and 2016, the plan had net assets of \$1,260,962 and \$1,145,987, respectively.

The National Council and local councils contribute such amounts as necessary, on an actuarial basis, to provide the plan with assets sufficient to meet the benefits paid to the plan’s members and to meet the funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Pension Protection Act of 2006 (PPA). Under a provision in the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act passed in 2010, the Boy Scouts of America retirement plan was given a temporary exemption until 2017 of funding requirements and benefit restrictions enacted by the PPA. However, in 2014 a Congressional amendment was added to ERISA which provided the Boy Scouts of America retirement plan with a permanent exemption from PPA. The actuarial present value of accumulated plan benefits, based on an annual interest rate of 7 percent and the PPA-prescribed mortality tables for each plan year, for the years ending December 31, 2017 and 2016, was \$1,199,714 and \$1,178,825, respectively. As of December 31, 2017, the pension plan is believed to be at least 80 percent funded with contributions exceeding the minimum funding requirements of ERISA.

In October 2017, the National Executive Board amended the defined benefit retirement program. Effective January 1, 2019 there will be a two-tiered retirement program that distinguishes between employees based upon years of service. Employees with 15 years of service and age plus service equal to 60 years (grandfathered employees) effective January 1, 2019 will continue to participate in the current retirement program. Employees who do not meet the new requirements will automatically be enrolled in the “BSA Match Savings Plan” thrift plan. Contributions to the plan for grandfathered employees will also increase to 4.25 percent of his or her salary and employer contributions are discretionary.

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Thomas S. Monson  
Salt Lake City, Utah

### **Advisory Council**

Michael D. Harris, Esq.  
Palm Springs, California

Harold S. Hook  
Houston, Texas

James M. Reddinger  
Birmingham, Alabama

