2012 Report of the Treasurer and Consolidated Financial Statements

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BOY SCOUTS OF AMERICA®

The Boy Scouts of America, consisting of 291 local councils, continued to deliver an exciting and valuable program to young people in 2012, with approximately 2,775,000 youth members and Explorers registered in individual programs. Adult leaders providing support to these youth were registered in approximately 1,068,000 individual programs. Moreover, the existing three high-adventure bases set attendance records in 2012 with over 51,000 Scouts and Scouters attending. In addition, the National Council continued in 2012 to develop the Summit Bechtel Family National Scout Reserve (the Summit). As with last year, the impact of this project is apparent in a number of places in the financial statements.

The following further discusses sources, uses, and stewardship of the National Council's resources during 2012.

Unrestricted net assets:

Net Assets, Controlling Interest

The National Council's controlling interest in its unrestricted net assets, which includes general operations and board-designated net assets, increased by $5,953 during 2012. Investment gains within the board-designated endowment and Retirement Benefits Trust (RBT) account for the majority of this increase; however, the day-to-day activities of general operations did generate a surplus available for appropriations of $5,431 during 2012, a decrease of $2,433 from 2011. General operating surpluses are generally utilized for special initiatives and capital improvements.

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 RBT, the General Liability Insurance Program (GLIP), and self-funding events, such as the world and national jamborees or Top Hands.

Revenues –

Fees increased by $260 from 2011 despite the absence of a world scout jamboree, which had generated $4,150 fees in 2011. Offsetting this loss in fees were higher fees from the national high-adventure bases as well as fees from two bi-annual events, the Order of the Arrow conference and the Exploring Law Enforcement conference. Registration and license fee revenue decreased $280 from 2011.

Net results of Supply operations, which were adversely impacted by the storms in the Northeast, increased $231 from its 2011 amount to $25,175.

Magazine publications' net operating results increased by $97 from 2011 to 2012, primarily due to a decrease in expenses.

Unrestricted contributions increased from $5,163 to $10,451, mainly due to increases in individual giving and in estate gifts.

Net investments for unrestricted net assets reported a 2012 gain of $59,677, an increase from the $8,412 gain in 2011. The total return for investments held in the unrestricted endowment was 13.6 percent during 2012 compared with a 1.59 percent gain during 2011. 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 $6,229 to $212,402 in 2012, up from $206,173 during 2011. In most instances, the functional areas increased due to technology spending. One expense increase not driven by technology was insurance. Led mainly by GLIP, insurance expenses after consideration of local council premiums increased by $6,654 in 2012. Offsetting 2012 program expense increases was a $7,511 decrease from 2011 attributable to the 2011 World Scout Jamboree.

Board actions during 2013 –

At its February 2013 meeting, the National Executive Board appropriated the aforementioned $5,431 surplus generated from general operations along with $1,591 in remaining funds from prior appropriations and other sources to be allocated $3,728 for the high-adventure bases and $3,294 for contingency.

Net Assets, Noncontrolling Interest

Also reported within unrestricted net assets is the local councils' noncontrolling interest in the Commingled Endowment LP, which contains investments managed by the Boy Scouts of America Asset Management LLC (BSAAM). Investment income reported for these local councils increased $7,994 in 2012 compared to $361 in 2011. Overall, including the aforementioned investment income, noncontrolling unrestricted net assets increased $32,418, as more local councils joined the BSAAM portfolio.

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.

Temporarily restricted contribution income decreased to $15,094 for 2012, a decline of $40,076 from 2011 donation levels.

During 2012, $17,017 of restricted net assets was used for donor-specified purposes, compared with the prior-year amount of $20,154.

Overall, net assets restricted by donors increased in 2012 by $10,558 to a total of $221,881.

Total net assets:

The National Council's total net assets increased in 2012 by $48,929 compared to $20,664 in 2011. As mentioned earlier, during 2012, a significant portion of the changes in the National Council's net assets was attributable to investment performance of the endowment and other investment portfolios, as well as the added participation of more local councils in the Commingled Endowment, LP. In 2012, including the local councils' interest in the limited partnership, the organization totaled $78,667 in investment gains compared with a gain in 2011 of $8,697.

Financial condition, liquidity, financing, and capital resources:

Separately stated from cash available for operations is $69,327 restricted cash remaining from $275,000 of tax-exempt bond proceeds that is limited to use for the Summit development (Note 6). Available to supplement the cash from the bond debt for work on the project and/or general operations is a $75,000 line of credit, of which $3,000 was being utilized as of December 31, 2012.

$151,371 was added to the property in 2012, and total projected cost, excluding start-up and operational cost, for the Summit is estimated to be approximately $350,000 through December 31, 2013. Management believes that the bonds and the line of credit, along with significant donor contributions, will be sufficient to fund the cost of the project.

Unrestricted cash and cash equivalents decreased by $11,538 during 2012, and $37,160 of cash was provided by operations during 2012. Management believes that cash generated from operations, together with liquidity provided by existing cash balances and the line of credit, will be sufficient to satisfy its remaining non-Summit liquidity requirements during the next 12 months.

In addition, capital is required to expand, improve, or replace the National Council's other properties such as 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. During 2012, the National Council added $9,469 to these non-Summit properties. These non-Summit capital investments were funded from existing cash balances.

The National Council's financial condition for 2012 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). The second factor lies with the success of securing donations for the Summit project, and the third factor is the economy and its effect on market conditions. 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,

Aubrey Harwell

Aubrey B. Harwell Jr.
Treasurer

March 25, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Executive Board of the Boy Scouts of America

We have audited the accompanying consolidated financial statements of the Boy Scouts of America, which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of revenues, expenses and other changes in net assets, functional expenses, and cash flows for the year then ended. The prior year summarized comparative information has been derived from the Boy Scouts of America's 2011 consolidated financial statements, and in our report dated March 22, 2012, we expressed an unqualified opinion on those financial statements.

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.

Auditor's Responsibility
Our responsibility is to express an opinion on the consolidated financial statements based on our audit. 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 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 Company'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 Company'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 Boy Scouts of America and its subsidiaries at December 31, 2012 and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Dallas, Texas
March 26, 2013

CONSOLIDATED BALANCE SHEET

December 31, 2012 and 2011 (In thousands) Boy Scouts of America

	2012	2011
Assets		
Cash and cash equivalents	$ 32,303	$ 43,841
Cash restricted for construction	69,327	29,879
Total cash	101,630	73,720
Investments, at fair value including collateral for securities on loan of $39,981 (2011—$34,070) (Note 2)	760,649	667,986
Accounts receivable, less allowance of $113 (2011—$118)	24,587	15,298
Pledges receivable, less discount of $16,889 (2011—$15,791) (Note 4)	74,369	82,899
Other receivables	1,140	1,604
Gift annuities	8,321	7,954
Prepaid and deferred charges	15,534	19,204
Inventories, less provision for obsolescence of $4,010 (2011—$4,984)	72,965	56,292
Land, buildings, and equipment, net (Note 5)	379,334	227,866
Other	6,469	5,598
Total assets	$ 1,444,998	$ 1,158,421
Liabilities and Net Assets		
Accounts payable and accrued liabilities	$ 46,402	$ 63,823
Gift annuities	8,321	7,954
Unearned fees and subscriptions	66,789	34,473
Notes payable including line of credit (Note 6)	283,946	112,512
Insurance reserves (Note 7)	132,163	87,122
Payable upon return of securities loaned (Note 2)	39,981	34,070
Total liabilities	577,602	339,954
Net assets:		
Unrestricted (Note 10):		
Unrestricted controlling interest:		
General operations	27,080	28,657
Board-designated	535,458	527,928
Total unrestricted—controlling interest	562,538	556,585
Unrestricted—noncontrolling interest (Commingled Endowment LP)	82,977	50,559
Total unrestricted	645,515	607,144
Temporarily restricted (Note 11)	147,492	145,002
Permanently restricted (Note 11)	74,389	66,321
Total net assets	867,396	818,467
Total liabilities and net assets	$ 1,444,998	$ 1,158,421

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, 2012 (with comparative totals for 2011) (In thousands) Boy Scouts of America

	Unrestricted (Note 10)	Temporarily Restricted (Note 11)	Permanently Restricted (Note 11)	Total 2012	Total 2011
Revenues:					
Fees (Note 12)	$ 96,749			$ 96,749	$ 96,489
Supply operations—Sales	137,014			137,014	136,874
Cost of sales and expenses	(111,839)			(111,839)	(111,930)
	25,175			25,175	24,944
Magazine publication—Sales	16,103			16,103	16,895
Cost of production and expenses	(15,049)			(15,049)	(15,938)
	1,054			1,054	957
Contributions and bequests	10,451	$ 15,094	$ 1,485	27,030	61,041
Other—Including trading post sales	11,523			11,523	15,181
Cost of sales and expenses	(3,291)			(3,291)	(2,935)
	8,232	0	0	8,232	12,246
Total revenues before net investment gain	141,661	15,094	1,485	158,240	195,677
Net investment gain	59,677	4,350	6,646	70,673	8,336
Total revenues	201,338	19,444	8,131	228,913	204,013
Net assets released from restrictions:					
Donor restrictions satisfied	17,017	(16,954)	(63)		
Expenses:					
Program services:					
Field operations	39,408			39,408	33,484
Human resources and training	10,644			10,644	12,337
Program development and delivery	57,190			57,190	58,708
Program marketing	16,301			16,301	15,282
World Scout Bureau fees	1,412			1,412	1,395
Insurance programs–Losses and costs (Notes 7, 13, and 14)	69,128			69,128	62,163
Premiums	(6,108)			(6,108)	(5,797)
	63,020			63,020	56,366
Total program services	187,975			187,975	177,572
Supporting services:					
Management and general	19,158			19,158	23,258
Fundraising	5,269			5,269	5,343
Total supporting services	24,427			24,427	28,601
Total expenses	212,402			212,402	206,173
Change in net assets—controlling interest	5,953	2,490	8,068	16,511	(2,160)
Change in net assets—noncontrolling interest (Commingled Endowment LP)	32,418	0	0	32,418	22,824
Change in net assets	38,371	2,490	8,068	48,929	20,664
Net assets, beginning of year	607,144	145,002	66,321	818,467	797,803
Net assets, end of year	$ 645,515	$ 147,492	$ 74,389	$ 867,396	$ 818,467

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Years ended December 31, 2012 and 2011 (In thousands) Boy Scouts of America

	PROGRAM SERVICES							
	Field Operations		Human Resources and Training		Program Development and Delivery		Program Marketing	
	2012	2011	2012	2011	2012	2011	2012	2011
Salaries	$14,569	$12,909	$ 5,034	$ 5,823	$15,886	$16,932	$ 6,251	$ 6,548
Benefits	4,650	4,368	1,369	1,602	4,700	4,953	1,821	1,722
Travel	2,654	2,521	628	862	1,436	1,038	701	805
Office expense and occupancy	4,530	4,965	490	393	5,175	3,781	2,250	1,963
Depreciation and amortization	610	138	156	197	2,797	2,551	564	419
Insurance losses and costs								
Premiums								
Net insurance programs								
Jamboree (world/national)					0	7,511		
All other expenses	12,395	8,590	3,477	3,679	26,438	20,763	5,364	4,761
Allocated expenses[1]		(7)	(510)	(219)	758	1,179	(650)	(936)
Total expenses	$39,408	$33,484	$10,644	$12,337	$57,190	$58,708	$ 16,301	$ 15,282

	PROGRAM SERVICES					
	World Scout Bureau Fees		Insurance Programs		**Total Program Services**	
	2012	2011	2012	2011	2012	2011
Salaries					$ 41,740	$ 42,212
Benefits					12,540	12,645
Travel					5,419	5,226
Office expense and occupancy					12,445	11,102
Depreciation and amortization					4,127	3,305
Insurance losses and costs			$69,128	$62,163	69,128	62,163
Premiums			(6,108)	(5,797)	(6,108)	(5,797)
Net insurance programs			63,020	56,366	63,020	56,366
Jamboree (world/national)					0	7,511
All other expenses	$ 1,412	$ 1,395			49,086	39,188
Allocated expenses[1]					(402)	17
Total expenses	$ 1,412	$ 1,395	$63,020	$56,366	$187,975	$177,572

	SUPPORTING SERVICES							
	Management and General		Fundraising		**Total Supporting Services**		**Total Expenses**	
	2012	2011	2012	2011	2012	2011	2012	2011
Salaries	$13,285	$12,945	$ 2,064	$ 2,369	$ 15,349	$ 15,314	$ 57,089	$ 57,526
Benefits	3,523	3,349	665	871	4,188	4,220	16,728	16,865
Travel	1,191	920	444	571	1,635	1,491	7,054	6,717
Office expense and occupancy	1,550	4,529	949	300	2,499	4,829	14,944	15,931
Depreciation and amortization	1,168	1,615	107	41	1,275	1,656	5,402	4,961
Insurance losses and costs							69,128	62,163
Premiums							(6,108)	(5,797)
Net insurance programs							63,020	56,366
Jamboree (world/national)							0	7,511
All other expenses	6,131	6,762	1,122	1,311	7,253	8,073	56,339	47,261
Allocated expenses[1]	(7,690)	(6,862)	(82)	(120)	(7,772)	(6,982)	(8,174)	(6,965)
Total expenses	$19,158	$23,258	$ 5,269	$ 5,343	$24,427	$28,601	$212,402	$206,173

[1] 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

Years ended December 31, 2012 and 2011 (In thousands) Boy Scouts of America

	2012	2011
Cash Flows from Operations:		
Change in net assets	$ 48,929	$ 20,664
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	7,005	7,074
Net (gains) losses on sales of securities and unrealized changes in the fair value of investments	(64,501)	6,647
Interest and dividends reinvested	(867)	(1,649)
Contributions to the permanently restricted endowment	(1,482)	(708)
Net losses (gains) on disposal of assets	2,309	(749)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(9,289)	478
Decrease (increase) in pledges receivable	8,530	(6,598)
Decrease in other receivables	464	53
Increase in inventories	(16,673)	(9,709)
Decrease (increase) in prepaid charges/gift annuities/other assets	2,432	(14,697)
(Increase) decrease in accounts payable/accrued liabilities/gift annuities	(17,054)	20,190
Increase (decrease) in unearned fees and subscriptions	32,316	(3,767)
Increase in insurance reserves	45,041	17,072
Net cash provided by operations	37,160	34,301
Cash Flows from Investing:		
Additions to properties	(160,830)	(108,786)
Contributions restricted for purchases of fixed assets	(17,919)	(29,144)
Net (purchases) sales of investments	(27,295)	38,051
Increase (decrease) in securities lending payable	5,911	(21,162)
Proceeds from sale of property and other	48	3,503
Net cash used in investing activities	(200,085)	(117,538)
Cash Flows from Financing:		
Net (repayments) borrowings in line of credit financing	3,000	0
Proceeds from bond issuance (restricted for construction)	175,000	0
Repayment of debt	(6,566)	(3,691)
Contributions to the permanently restricted endowment	1,482	708
Contributions restricted for the purchase of fixed assets	17,919	29,144
Net cash provided by financing activities	190,835	26,161
Increase (decrease) in cash and cash equivalents	27,910	(57,076)
Cash and cash equivalents, beginning of year	73,720	130,796
Cash and cash equivalents, end of year (includes restricted cash)	$ 101,630	$ 73,720
Supplemental Cash Flow Information:		
Interest paid (net of $7,374 and $3,399 capitalized in 2012/2011)	$ 0	$ 67
Non-cash asset financing	0	4,000

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

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 include merchandise sales, magazine publications, and the coordination of national events. The National Council also 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.

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: Learning for Life; the Learning for Life Foundation; Boy Scouts of America Asset Management, LLC; Boy Scouts of America Commingled Endowment Fund, LP; the Boy Scouts of America National Foundation; and Arrow WV, Inc. 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 general partner of the Boy Scouts of America Commingled Endowment Fund, LP, whose limited partners consist primarily of local councils. The limited partner interest of the local councils in the Commingled Endowment Fund, LP 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." 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 endowment; help defray future health costs for National Council and local council employees and their retirees; are invested in property, plant, 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 also includes funding provided by the long-term financing (Note 6) that is restricted for construction of the new high-adventure base; this restricted cash has been separately stated on the balance sheet. 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, accounts receivable, accounts payable, and debt are deemed to be stated at their fair values. Investments are reported at fair value (Note 2). Held for sale properties are reported at the lesser of carrying cost or fair value less cost to sale and are classified on the balance sheet as other assets.

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.

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 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 amortized 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 operations.

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 fixed assets 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 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. Services that create or enhance nonfinancial assets (e.g., camps, buildings, etc.) or require specialized skills and are performed by people possessing those skills are recorded as contributions and as expenses or as 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 Statement of Revenues, Expenses, and Other Changes in Net Assets.

In 2012, the National Council recorded $1,176 of donated service provided to the Summit site for assistance in construction of its roads. This is a non-cash transaction; however, it has not been reported separately within the supplemental section on the Statement of Cash Flows.

Collections. The National Scouting Museum in Irving, Texas, possesses fine art appraised in March 2012 at approximately $60,000. The Museum also houses collections of Scouting memorabilia and archival documents, valued at approximately $1,500. These collections are not recognized as assets in the consolidated balance sheet; however, costs associated with maintenance of these collections has been expensed. During 2012, no major additions or disposals of collection items occurred.

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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ 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, Boy Scouts of America 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 Boy Scouts of America Commingled Endowment Fund, LP, is responsible for reporting its allocable share of the partnership's income or loss on their 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, 2012, the National Council has a cumulative net operating loss of approximately $30,000. 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, 2012.

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, 2012, 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.

Operational Risk. In February 2013, at the direction of the National Executive Board of the Boy Scouts of America, a dialogue began within the Scouting family about its membership standards. This discussion involves an extensive communications process that engages the Scouting family. Until the review is completed, management is unable to determine the impact to the Boy Scouts of America; however, due to the controversial nature and high media attention, membership, charitable contributions, litigation, and insurance coverage related to these matters could be adversely impacted.

Nature of Comparative Totals for 2011. 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, 2011, from which the summarized information was derived. PricewaterhouseCoopers LLP issued an unqualified opinion on those financial statements.

Notes to Consolidated Financial Statements ($ stated in thousands)

Reclassifications. Certain comparative prior-year amounts in the financial statements and accompanying notes have been reclassified to conform to the current-year presentation. These reclassifications had no effect on previously reported net assets or changes in net assets.

Recent Accounting Pronouncements. Accounting Standards Update 2011-09 on multiemployer pension plan reporting requires that additional information regarding the pension plan (see Note 16) be disclosed beginning with the 2012 year. The adoption of this standard did not have a material impact on the 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.

Note 2. Investments

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.

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, 2012, the market value of securities on loan to approved brokers was $38,951. Collateral received for securities on loan was invested in the State Street Navigator Securities Lending Prime Portfolio. Total collateral of $39,981, received for securities on loan at December 31, 2012, is held by State Street on behalf of the National Council. Income associated with the securities lending program amounted to $97 for 2012, and is included in net investment income. The following table summarizes the securities loaned and the related collateral as of December 31, 2012:

Securities Loaned and the Related Collateral

Securities	**Fair Value**	**Fair Value of Collateral**
Common stocks—foreign	$ 4,048	$ 4,257
Common stocks—domestic	16,377	16,810
Corporate obligations	12,850	13,119
Government obligations	5,676	5,795
Total investments purchased with cash collateral	$ 38,951	$ 39,981

Investments Purchased with Collateral

State Street Navigator Securities Lending Prime Portfolio	$ 39,981

The National Council has adopted the fair value accounting guidance issued by the FASB. Fair value accounting guidance establishes a hierarchy for inputs used in measuring fair value that 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 l–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 professional judgment in determining the fair value assigned to such assets or liabilities. Level 3 investments comprise primarily real estate investment funds and bank loans at December 31, 2012, which are discussed in greater detail below.

Regarding Level 2, the valuation of these securities is handled annually by external pricing services administered by the organization'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.

Regarding Level 3, real estate investment 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 will 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.

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.

Notes to Consolidated Financial Statements ($ stated in thousands)

Bank loans are valued using a pricing model. When a pricing model is used to value investments, inputs to the model are adjusted when changes to inputs and assumptions are corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows.

At December 31, 2012, investments comprised the following:

	Level 1	Level 2	Level 3	Total
Short-Term Investment Funds and Treasury Bills	$ 307	$ 2,257	$ 0	$ 2,564
Investment of Cash Collateral in Investment Trust	0	39,981	0	39,981
Debt securities				
Government (includes $5,676 of securities on loan)	0	92,912	0	92,912
Corporate (includes $12,850 of securities on loan)	0	73,856	0	73,856
Common/collective trusts*	0	72,216	0	72,216
Other	0	17,227	19,706	36,933
Total debt securities	0	256,211	19,706	275,917
Equity securities				
Common stocks—domestic (includes $16,377 of securities on loan)	27,287	0	0	27,287
Common stocks—foreign (includes $4,048 of securities on loan)	58,779	0	0	58,779
Common/collective trusts*	0	303,469	0	303,469
Real estate partnerships	0	0	37,361	37,361
Private equity partnerships	0	0	15,291	15,291
Total equity securities	86,066	303,469	52,652	442,187
Total investments	$86,373	$601,918	$72,358	$760,649

* Common/collective trust investments comprise the following:
- domestic, investment, and non-investment grade securities: U.S. Treasury, agency, corporate, mortgage-backed, and asset-backed;
- domestic and foreign equity securities.

During 2012, Level 3 investments changed as follows:

	Other Debt Securities	Real Estate Partnerships	Private Equity	Total
Balance December 31, 2011	$ 15,512	$ 34,387	$ 9,881	$ 59,780
Purchases	21,500	1,026	7,135	29,661
Sales	(17,758)	0	(1,425)	(19,183)
Realized gains	17	0	575	592
Unrealized (losses) gains	429	1,948	(875)	1,502
Amortized discount	6	0	0	6
Transfers from other levels	0	0	0	0
Balance December 31, 2012	$ 19,706	$ 37,361	$ 15,291	$ 72,358

No transfers between any of the levels occurred in 2012.

For all three levels in 2012, net investment income for net assets with a controlling interest on the Statement of Revenues, Expenses, and Other Changes in Net Assets includes $9,178 of interest and dividends, $23,102 of net realized gains, and $48,497 of unrealized gains in the fair value of investments less $2,110 in investment manager expenses. Similarly, included within the change in net assets attributed to noncontrolling interests is net investment income pertaining to the limited partners within the Commingled Endowment, LP, which for 2012 includes $1,139 of interest and dividends, $2,606 of net realized gains, and $4,492 of unrealized gains in the fair value of investments less $243 in investment manager expenses.

Notes to Consolidated Financial Statements ($ stated in thousands)

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, 2012, 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.

Note 3. Endowment

Endowment net asset composition and changes in composition by type of fund as of and for the year ended December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance December 31, 2011	$234,369	$ 6,220	$ 66,321	$306,910
Investment return:				
Interest and dividends	4,799	99	1,220	6,118
Realized and unrealized investment gains/(losses)	29,834	348	8,784	38,966
Investment manager fees	(1,220)	(36)	(358)	(1,614)
Net investment return	33,413	411	9,646	43,470
Contributions	2,145	135	1,482	3,762
Spending allocation	(11,767)	1,983	(3,063)	(12,847)
Net assets released from restriction	0	(1,959)	0	(1,959)
Other (net)	(65,295)	0	3	(65,292)
Balance December 31, 2012	$192,865	$ 6,790	$ 74,389	$274,044

The National Council's endowment consists of approximately 78 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.

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:

Notes to Consolidated Financial Statements ($ stated in thousands)

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.

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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. 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, over time, to provide an average annual, nominal rate of return of approximately 7.75 percent. After inflation, expected to average 2.75 percent annually, the average annual real rate of return is expected to be 5 percent. 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 organization considered the long-term expected return on its endowment.

Note 4. Pledges Receivable

Included in pledges receivable are the following:

Unconditional promises to give before discount	$91,274
Less discount	(16,889)
Net unconditional promises to give (before allowance)	$74,385
Less allowance	(16)
Net unconditional promises to give (after allowance)	$74,369
Amounts due in:	
Less than one year	$18,090
One to five years	47,387
More than five years	25,797
Total undiscounted pledges	$91,274

Discount rates for 2012 for valuing pledges ranged from 0.4 to 5.0 percent.

Notes to Consolidated Financial Statements ($ stated in thousands)

Note 5. Land, Buildings, and Equipment

At December 31, 2012, land, buildings, and equipment comprised the following:

National office, less accumulated depreciation of $15,094	$ 12,587
High-adventure bases, less accumulated depreciation of $21,443	41,196
National Distribution Center, less accumulated depreciation of $5,395	4,163
Summit Bechtel Family National Scout Reserve, less accumulated depreciation of $9	289,303
Furniture, equipment, and software, less accumulated depreciation and amortization of $66,232	32,085
Total land, buildings, and equipment, less accumulated depreciation and amortization of $108,173	$379,334

Depreciation and amortization expense was $7,005 in 2012. Technology enhancements developed by a third party for the organization that were recorded as assets in 2011 were reduced by $3,113 in 2012, as the project was unable to be successfully implemented.

Gifts-in-kind in 2012, which includes $1,176 of donated services, totaled $3,163. This is a non-cash transaction; however, it has not been reported separately within the supplemental section on the Statement of Cash Flows.

Included within the Summit Bechtel Family National Scout Reserve is construction in progress and land. With the exception of an overview deck, this property will not be depreciated until placed into operation. Further, $7,374 interest was capitalized from various sellers' notes to purchase the Summit's land and from the financing used for site development. Interest will continue to be capitalized as the site undergoes development. The debt and related interest payments are discussed in Note 6.

Notes to Consolidated Financial Statements ($ stated in thousands)

Note 6. Notes Payable

Notes payable consists of the following at December 31, 2012:

	2012 Principal Payment	Interest Rate	Maturity Date	Outstanding at December 31, 2012
Seller's note of $14,025, payable in 5 equal principal payments (collateral is the deed of trust on the land)	$ 2,805	5.50% fixed	2014	$ 5,610
Seller's note of $1,200, payment schedule revised in 2012, final payment due in 2013 (collateral is deed of trust on the property)	539	5.00% fixed	2013	215
Revolving $75,000 line of credit (0.15% to 0.20% fee for unused credit)	17,000	1.25% + LIBOR	2017	3,000
Bond issuance (Series A) of $50,000	1,215	2.38% fixed	2015	48,686
Bond issuance (Series B) of $50,000	1,064	3.22% fixed	2020	48,849
Bond issuance of $175,000	0	2.94% fixed	2022	175,000
Seller's note of $1,500, payable in 3 equal principal payments (collateral is deed of trust on the property)	500	6.00% fixed	2014	1,000
Seller's note of $2,500 payable in 60 equal payments of $45, including interest and principal (collateral is deed of trust on the property)	444	3.00% fixed	2016	1,586
Total	$ 23,567			$ 283,946

Regarding the $2,500 note payable, interest payments through the middle of March 2012 were exchanged for allowing the seller to lease the property.

In March 2012, the organization entered into a note payable for the development of the Summit. $175,000 in 10-year, tax-exempt bonds was added to the existing 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.

Regarding the $175,000 note payable, interest-only payments at a fixed rate of 2.94 percent are due for the first 12 months based on a 29-year amortization schedule; thereafter, both interest and principal will be paid monthly with a balloon payment of $135,393 due in 10 years.

All of the organization's bond proceeds may only be used for Summit site development. All of the bonds are senior obligations of the organization and required collateral of the organization'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, 2012, the National Council was in compliance with these debt covenants. The line of credit collateral and covenants are the same as those for the bonds.

Covenants, collateral, and other terms for the revised line of credit remain the same; however, the interest rate and fees have changed. The non-usage fee is 0.15 percent during quarterly periods with average utilization of 30 percent or greater and 0.20 percent during quarterly periods with average utilization of less than 30 percent. The interest rate on amounts utilized is LIBOR plus 1.25 percent (previously 1.40 percent).

Notes to Consolidated Financial Statements ($ stated in thousands)

Aggregate maturities of notes payable for each of the years subsequent to December 31, 2012, are as follows:

2013	$ 9,262
2014	10,195
2015	51,956
2016	5,463
2017 and thereafter	207,070
Total	$ 283,946

Interest incurred, capitalized, expensed, and paid during the year ending December 31, 2012, were:

Interest incurred	$ 7,752
Interest capitalized	7,374
Interest expensed	378
Interest paid	$ 7,374

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 2012 for this program were $5,680, and losses and costs were $68,487. Note that on the Statement of Revenues, Expenses, and Other Changes in Net Assets, that included within the stated insurance losses and costs total is $642 of losses and costs from other insurance programs. Similarly, $429 is included in premiums from other insurance programs.

The insurance reserves of $132,163 stated on the Balance Sheet at December 31, 2012, include $129,215 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 losses. The remaining reserves apply primarily to directors' and officers' liability insurance and workers' compensation insurance.

The general liability insurance program did not distribute a dividend in 2012. The program contained $135,935 of investments and other assets designated to it as of December 31, 2012. Net assets of this insurance program, which were at $0 as of December 31, 2012, are reported as board-designated net assets in the accompanying balance sheet.

At December 31, 2012, the National Council had provided standby letters of credit totaling $41,162 for the benefit of insurance companies in conjunction with the assumed deductible portion of the program. The letters of credit are collateralized by assets of $51,770.

Note 8. Credit Arrangements

At December 31, 2012, the National Council had provided an $850 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 had provided a $2,000 letter of credit for construction material purchases at the Summit site and a $4,446 import letter of credit to guarantee payments in conjunction with Supply Group international purchases. Additional letters of credit are discussed in Note 7.

Notes to Consolidated Financial Statements ($ stated in thousands)

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 2017. 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, 2012, amounted to $10,967. The estimated minimum rental commitments under operating leases that have initial or remaining non-cancellable terms as of December 31, 2011, are as follows (as of December 31 for each year):

2013	$ 9,389
2014	7,846
2015	5,796
2016	3,881
2017	1,261
Total minimum payments required	$28,173

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 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 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 continue to be additional lawsuits filed alleging sexual abuse, including claims for punitive damages. The National Council could be required to pay damages beyond those amounts 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 and, where not covered by the General Liability Insurance Program or its reserves, it is the opinion of the National Council that the total amount of payments in resolution of those lawsuits will not have a significant impact on the financial position or results of operations of the National Council.

Notes to Consolidated Financial Statements ($ stated in thousands)

Note 10. Unrestricted Net Assets

At December 31, 2012, unrestricted net assets with a controlling interest comprised the following:

General operations	$ 27,080
Board designated:	
General endowment	192,865
Properties	112,060
Retirement Benefits Trust (Note 13)	156,718
Insurance programs	810
Other	73,005
Total board-designated net assets	535,458
Total unrestricted net assets, controlling interest	$562,538

The amounts above include $53,528 of net realized gains and unrealized changes in the fair value of investments earned on unrestricted net assets attributed to controlling interests during 2012. Unrestricted net assets attributed to noncontrolling interests represents the local councils' ownership in the Commingled Endowment LP. Total unrestricted net assets has changed as follows:

	Controlling Interest	Noncontrolling Interest	Total Unrestricted
Net assets as of December 31, 2010	$ 595,000	$ 27,735	$ 622,735
Change in net assets	(38,415)	22,824	(15,591)
Net assets as of December 31, 2011	556,585	50,559	607,144
Change in net assets	5,953	32,418	38,371
Net assets as of December 31, 2012	$ 562,538	$ 82,977	$ 645,515

Note 11. Restricted Net Assets

At December 31, 2012, restricted net assets comprised the following:

Permanently restricted net assets:	
John W. Watzek Jr. (income supports general operations)	$ 9,197
Waite Phillips Scholarship (income supports Philmont scholarships)	5,469
National Scouting Museum (income supports museum operations)	5,409
Cooke Eagle Endowment (income supports Eagle Scout scholarships)	4,624
Genevieve and Waite Phillips (income supports maintenance of Philmont)	4,297
DeWitt-Wallace Foundation (income supports leadership programs)	2,866
High-Adventure (income benefits high-adventure program)	2,298
Kenneth McIntosh (income supports Scouting around the world)	2,142
Scoutmaster Recognition (income supports scholarships for outstanding Scoutmasters)	2,122
Steve Fossett High-Adventure Base Endowment (income supports high-adventure bases)	1,548
Southern Region Trust Fund (income supports Southern Region)	1,517
Hall Scholarship (income supports Eagle Scout scholarships)	1,511
Sonia S. Maguire (income supports Philmont camperships)	1,457
Mortimer L. Schiff (income supports professional training and development)	1,319
Thomas J. Watson (income supports general operations)	1,294
Augustus F. Hook Jr. (income supports professional staff in Indiana)	1,286
Northeast Region Main Trust Fund	1,233
Summerfield Endowment (income supports general operations)	1,225
Genevieve Phillips (income maintains Philmont Villa and grounds)	1,207
A. Ward (income supports local councils)	1,166
Other	21,202
Total permanently restricted net assets	74,389
Temporarily restricted net assets	147,492
Total restricted net assets	$221,881

Notes to Consolidated Financial Statements ($ stated in thousands)

The restricted net asset totals include $10,973 of net realized gains and unrealized changes in the fair value of investments earned on permanently and temporarily restricted net assets during 2012.

Note 12. Fees

During 2012, fees comprised the following:

Registration and license fees	$49,470
National service fees from local councils	8,253
High-adventure	30,804
Other	8,222
Total fees	$96,749

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 2012, neither the National Council nor the local councils made payments to the Trust. Investment earnings for the Trust in 2012 equaled $17,985, and at December 31, 2012, the Trust's net assets were $156,718.

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 October 2010, the National Executive Board passed a resolution, effective January 1, 2011, that the Retirement Benefits Trust would no longer be available to fund post-retirement medical subsidies for Medicare-eligible participants age 65 and older. Post-retirement medical plan coverage for participants under age 65 will continue under existing medical plans at the current subsidy levels and are to be funded by a combination of the reimbursement received from the Boy Scouts of America's participation in the Retiree Drug Subsidy Program sponsored by the Centers for Medicare and Medicaid Services and the Employee Welfare Benefits Trust.

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 2012, the National Council's total expense for the employees' insurance coverage of the benefits covered by the Welfare Benefits Trust was $8,009. 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 of the Boy Scouts of America 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 (the “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 2012 expense related to the non-qualified retirement plan (Note 13) was $1,897, and the National Council expense in 2012 related to the thrift plan was $1,451.

Note 16. Defined Benefit Retirement Plan

The National Council of the Boy Scouts of America 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). And, 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 5,899 in 2011 to 5,743 in 2012 with each employee contributing 2% of his or her salary, subject to certain IRS limitations. The National Council and local councils each contributed an amount equal to 6.75% of an employee’s salary in 2011 and 7.00% in 2012. The National Council’s employer contribution for 2012 and 2011 was $4,384 and $4,159, respectively. These amounts represent in excess of 5% of total contributions to the plan in each year. In addition, the National Council made an additional payment of $10,000 in 2011 to ensure the plan’s funded status.

Total employer contributions to the plan, including local councils, were $19,585 for 2012 and $18,933 for 2011. Including employees’ contributions, total contributions for 2012 and 2011, respectively, were $25,181 and $24,543. For the years ended December 31, 2012 and 2011, the plan had net assets of $985,518 and $908,556, 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. The aforementioned amounts are determined using the “aggregate cost method,” interest rates derived from corporate bond yield curves, a mortality table prescribed by the IRS, and an assumption for the average compensation level increase for the year. The actuarial present value of accumulated plan benefits for the years ending December 31, 2012 and 2011, was $926,128 and $888,262, respectively. As of December 31, 2012, the pension plan is believed to be at least 80% funded with contributions exceeding the minimum funding requirements of ERISA.

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