# 2011 REPORT OF THE TREASURER

# AND CONSOLIDATED FINANCIAL STATEMENTS

Prepared. For Life.™

BOY SCOUTS OF AMERICA®

# 2011 IN REVIEW

*($ stated in thousands)*

Our emphasis in 2010 was on the celebration of our 100th Anniversary. In 2011, we launched our second century of service with a National Council focus on protecting and promoting the Scouting brand and on increasing the capacity of our 295 local councils to succeed.

The National Council continued developing 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. Amidst this, the Boy Scouts of America continued to deliver an exciting and valuable program to young people in 2011, with youth members and Explorers registered in approximately 2,837,000 individual programs. Adult leaders providing support to these youth were registered in approximately 1,075,000 individual programs. Moreover, the existing three high-adventure bases set attendance records in 2011 with nearly 50,000 Scouts and Scouters attending.

The following further discusses sources, uses, and stewardship of the National Council's resources during 2011.

**Unrestricted net assets**:

Unrestricted net assets, which include general operations and other unrestricted net assets, decreased overall by $38,415 during 2011. The insurance program net assets within other unrestricted net assets account for the majority of this decrease; however, the day-to-day activities of general operations did generate a surplus available for appropriations of $7,864 during 2011, a decrease of $5,283 from 2010. General operating surpluses are generally utilized for special initiatives and capital improvements.

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

*Revenues –*
Fees decreased by $22,199, primarily due to the 2010 National Scout Jamboree, which had fees of $34,980. Partially offsetting the decline from the national jamboree were $4,150 in fees from the world jamboree, and a $6,519 increase in high-adventure base fees. Also, a membership fee increase was effective January 1, 2010, and with 2011 being the first full year for deferred fees from the increase to be recognized, membership revenue increased $3,027 despite a small decline in membership.

Net results of Supply operations decreased $10,558 from its 2010 amount to $24,944, due partly to lower sales in 2011 after the national Scout jamboree and the 100th Anniversary Celebration in 2010.

Magazine publications' net operating results decreased by $1,142 from 2010 to 2011, primarily due to a decrease in advertising sales.

There were no contributions from local councils related to the RBT in 2011 compared to $8,566 in 2010. Going forward, the local councils will instead be providing additional funding to the pension plan.

Net investments reported a 2011 gain of $8,773, a decrease from the $62,655 gain in 2010. The total return for investments held in the unrestricted endowment was 1.59 percent during 2011 compared with a 13.7 percent gain during 2010. 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 decreased by $15,048 to $203,329 in 2011, down from $218,377 during 2010. Exceeding this amount of decrease was a decline in expenses from 2010 to 2011 of $38,514 as a result of the 2010 National Scout Jamboree. With the exception of marketing, which experienced a slight decrease, all other functional areas of expenses increased, in most instances due to increased 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 $9,143 in 2011. Included within the total cost for insurance in both 2010 and 2011 is a $10,000 payment each year to subsidize the pension plan, which also contributed to the higher expense total.

*Board actions during 2012 –*
At its February 2012 meeting, the National Executive Board appropriated the aforementioned $7,864 surplus generated from general operations along with $3,822 in remaining funds from prior appropriations and other sources as follows: $3,622 for high-adventure bases, $1,977 for marketing/innovation, $555 for human resources, $1,636 for council operations, $825 for the office of development, $1,618 for legal fees, and $1,453 for other various projects and initiatives.

**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 increased to $55,170 for 2011, an increase of $2,132 from 2010 donation levels. The majority of this represents pledges receivable that are designated for the Summit.

During 2011, $20,154 of restricted net assets was used for donor-specified purposes, compared with the prior-year amount of $14,450.

Overall, net assets restricted by donors increased in 2011 by $36,255 to a total of $211,323.

**Total net assets**:

The National Council's total net assets decreased in 2011 by $2,160 compared to an increase of $90,089 in 2010. As mentioned earlier, during 2010, 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. In 2011, the organization totaled $8,697 in investment gains compared with a gain in 2010 of $72,556.

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

Separately stated from cash available for operations is $29,879 restricted cash remaining from $100,000 of tax-exempt bond proceeds issued in November 2010 that is limited to use for the Summit development. Available to supplement the cash from the bond debt for work on the project, should it be needed, is a $50,000 line of credit, of which $5,000 is currently being utilized to provide a performance letter of credit. In addition, in March 2012, Management entered into $200,000 of additional financing (see Note 6).

$95,293 was added to the property in 2011, and total projected cost, excluding start-up and operational cost, for the Summit is estimated to be approximately $327,845 through December 31, 2013. With the aforementioned additional financing that we plan to attain in 2012, Management believes that it, the bonds, and the line of credit, along with significant donor contributions, will be sufficient to fund this cost.

Unrestricted cash and cash equivalents increased by $1,714 during 2011, and $11,838 of cash was provided by operations during 2011. Management believes that cash generated from operations, together with liquidity provided by existing cash balances, 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. It sold the final two regional facilities in 2011. During 2011, the National Council added $17,493 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 22, 2012

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2001 Ross Avenue
Suite 1800
Dallas, Texas 75201-2997
Telephone 214-999-1400

**AUDIT COMMITTEE**
of the
Executive Board of the
Boy Scouts of America



To the Executive Board of the
Boy Scouts of America

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of revenues, expenses and other changes in net assets, functional expenses, and cash flows present fairly, in all material respects, the financial position of the Boy Scouts of America and its subsidiaries at December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Boy Scouts of America's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Boy Scouts of America 2010 consolidated financial statements, and in our report dated March 24, 2011, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 22, 2012

# CONSOLIDATED BALANCE SHEET

December 31, 2011 and 2010 (In thousands) Boy Scouts of America

| | 2011 | 2010 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 43,841 | $ 42,127 |
| Cash restricted for construction | 29,879 | 88,669 |
| Total cash | 73,720 | 130,796 |
| Investments, at fair value including collateral for securities on loan of $34,070 (2010—$55,232) (Note 2) | 667,986 | 711,035 |
| Accounts receivable, less allowance of $118 (2010—$90) | 15,298 | 15,776 |
| Pledges receivable, less discount of $15,791 (2010—$12,384) (Note 4). | 82,899 | 76,301 |
| Other receivables | 1,604 | 1,657 |
| Gift annuities | 7,954 | 8,747 |
| Prepaid and deferred charges | 19,204 | 4,093 |
| Inventories, less provision for obsolescence of $4,984 (2010—$5,196) | 56,292 | 46,583 |
| Land, buildings, and equipment, net (Note 5) | 227,866 | 122,286 |
| Other | 5,598 | 7,841 |
| Total assets | $ 1,158,421 | $ 1,125,115 |
| **Liabilities and Net Assets** | | |
| Accounts payable and accrued liabilities | $ 63,823 | $ 42,840 |
| Gift annuities | 7,954 | 8,747 |
| Unearned fees and subscriptions | 34,473 | 38,240 |
| Notes payable (Note 6) | 112,512 | 112,203 |
| Insurance reserves (Note 7) | 87,122 | 70,050 |
| Payable upon return of securities loaned (Note 2) | 34,070 | 55,232 |
| Total liabilities | 339,954 | 327,312 |
| Limited partners' minority interest in Commingled Endowment, LP | 50,559 | 27,735 |
| Net assets: | | |
| Unrestricted (Note 10): | | |
| General operations | 28,657 | 36,930 |
| Board designated | 527,928 | 558,070 |
| Total unrestricted | 556,585 | 595,000 |
| Temporarily restricted (Note 11) | 145,002 | 107,249 |
| Permanently restricted (Note 11) | 66,321 | 67,819 |
| Total net assets | 767,908 | 770,068 |
| Total liabilities and net assets | $ 1,158,421 | $ 1,125,115 |

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, 2011 (with comparative totals for 2010) (In thousands) Boy Scouts of America

| | Unrestricted (Note 10) | Temporarily Restricted (Note 11) | Permanently Restricted (Note 11) | Total 2011 | Total 2010 |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Fees (Note 12) | $ 96,489 | | | $ 96,489 | $ 118,688 |
| Supply operations–Sales | 136,874 | | | 136,874 | 159,364 |
| Cost of sales and expenses | (111,930) | | | (111,930) | (123,862) |
| | 24,944 | | | 24,944 | 35,502 |
| Magazine publication–Sales | 16,895 | | | 16,895 | 18,058 |
| Cost of production and expenses | (15,938) | | | (15,938) | (15,959) |
| | 957 | | | 957 | 2,099 |
| Retirement Benefits Trust–Contributions from local councils (Note 13) | 0 | | | 0 | 8,566 |
| Contributions and bequests | 5,163 | $ 55,170 | $ 708 | 61,041 | 65,405 |
| Other–Including trading post sales | 11,730 | 607 | | 12,337 | 13,447 |
| Cost of sales and expenses | (2,935) | 0 | | (2,935) | (5,745) |
| | 8,795 | 607 | | 9,402 | 7,702 |
| Total revenues before net investment gain | 136,348 | 55,777 | 708 | 192,833 | 237,962 |
| Net investment gain (loss) | 8,773 | 2,130 | (2,206) | 8,697 | 72,556 |
| Total revenues | 145,121 | 57,907 | (1,498) | 201,530 | 310,518 |
| **Net assets released from restrictions:** | | | | | |
| Donor restrictions satisfied | 20,154 | (20,154) | | | |
| **Expenses:** | | | | | |
| Program services: | | | | | |
| Field operations | 31,461 | | | 31,461 | 30,172 |
| Human resources and training | 11,516 | | | 11,516 | 10,900 |
| Program development and delivery | 58,708 | | | 58,708 | 90,567 |
| Program marketing | 15,282 | | | 15,282 | 15,379 |
| World Scout Bureau fees | 1,395 | | | 1,395 | 1,378 |
| Insurance programs–Losses and costs (Notes 7, 13, and 14) | 62,163 | | | 62,163 | 53,087 |
| Premiums | (5,797) | | | (5,797) | (5,864) |
| | 56,366 | | | 56,366 | 47,223 |
| Total program services | 174,728 | | | 174,728 | 195,619 |
| Supporting services: | | | | | |
| Management and general | 23,258 | | | 23,258 | 19,059 |
| Fundraising | 5,343 | | | 5,343 | 3,699 |
| Total supporting services | 28,601 | | | 28,601 | 22,758 |
| Total expenses | 203,329 | | | 203,329 | 218,377 |
| Change in net assets including local councils' minority interest | (38,054) | 37,753 | (1,498) | (1,799) | 92,141 |
| Less: Minority interest in Commingled Endowment, LP gain | 361 | - | - | 361 | 2,052 |
| **Change in net assets** | (38,415) | 37,753 | (1,498) | (2,160) | 90,089 |
| **Net assets, beginning of year** | 595,000 | 107,249 | 67,819 | 770,068 | 679,979 |
| **Net assets, end of year** | $ 556,585 | $ 145,002 | $ 66,321 | $ 767,908 | $ 770,068 |

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

# CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Years ended December 31, 2011 and 2010 (In thousands) Boy Scouts of America

PROGRAM SERVICES

| | Field Operations 2011 | Field Operations 2010 | Human Resources and Training 2011 | Human Resources and Training 2010 | Program Development and Delivery 2011 | Program Development and Delivery 2010 | Program Marketing 2011 | Program Marketing 2010 |
|---|---|---|---|---|---|---|---|---|
| Salaries | $12,909 | $12,349 | $ 5,823 | $ 5,378 | $16,932 | $17,676 | $ 6,548 | $ 4,831 |
| Benefits | 4,368 | 4,463 | 1,602 | 2,001 | 4,953 | 4,454 | 1,722 | 1,268 |
| Travel | 2,521 | 2,898 | 862 | 843 | 1,038 | 1,115 | 805 | 686 |
| Office expense and occupancy | 4,965 | 5,681 | 393 | 432 | 3,781 | 3,023 | 1,963 | 1,977 |
| Depreciation and amortization | 138 | 241 | 197 | 213 | 2,551 | 2,562 | 419 | 389 |
| Insurance losses and costs | | | | | | | | |
| Premiums | | | | | | | | |
| Net insurance programs | | | | | | | | |
| Jamboree (world/national) | | | | | 7,511 | 38,514 | | |
| All other expenses | 6,567 | 4,592 | 2,858 | 2,451 | 20,763 | 22,461 | 4,761 | 7,374 |
| Allocated expenses[1] | (7) | (52) | (219) | (418) | 1,179 | 762 | (936) | (1,146) |
| Total expenses | $31,461 | $30,172 | $11,516 | $10,900 | $58,708 | $90,567 | $ 15,282 | $ 15,379 |

PROGRAM SERVICES

| | World Scout Bureau Fees 2011 | World Scout Bureau Fees 2010 | Insurance Programs 2011 | Insurance Programs 2010 | **Total Program Services** 2011 | **Total Program Services** 2010 |
|---|---|---|---|---|---|---|
| Salaries | | | | | $ 42,212 | $ 40,234 |
| Benefits | | | | | 12,645 | 12,186 |
| Travel | | | | | 5,226 | 5,542 |
| Office expense and occupancy | | | | | 11,102 | 11,113 |
| Depreciation and amortization | | | | | 3,305 | 3,405 |
| Insurance losses and costs | | | $62,163 | $53,087 | 62,163 | 53,087 |
| Premiums | | | (5,797) | (5,864) | (5,797) | (5,864) |
| Net insurance programs | | | 56,366 | 47,223 | 56,366 | 47,223 |
| Jamboree (world/national) | | | | | 7,511 | 38,514 |
| All other expenses | $ 1,395 | $ 1,378 | | | 36,344 | 38,256 |
| Allocated expenses[1] | | | | | 17 | (854) |
| Total expenses | $ 1,395 | $ 1,378 | $56,366 | $47,223 | $174,728 | $195,619 |

SUPPORTING SERVICES

| | Management and General 2011 | Management and General 2010 | Fundraising 2011 | Fundraising 2010 | **Total Supporting Services** 2011 | **Total Supporting Services** 2010 | **Total Expenses** 2011 | **Total Expenses** 2010 |
|---|---|---|---|---|---|---|---|---|
| Salaries | $12,945 | $12,594 | $ 2,369 | $ 1,815 | $ 15,314 | $ 14,409 | $ 57,526 | $ 54,643 |
| Benefits | 3,349 | 2,818 | 871 | 545 | 4,220 | 3,363 | 16,865 | 15,549 |
| Travel | 920 | 1,009 | 571 | 287 | 1,491 | 1,296 | 6,717 | 6,838 |
| Office expense and occupancy | 4,529 | 2,534 | 300 | 158 | 4,829 | 2,692 | 15,931 | 13,805 |
| Depreciation and amortization | 1,615 | 1,620 | 41 | 11 | 1,656 | 1,631 | 4,961 | 5,036 |
| Insurance losses and costs | | | | | | | 62,163 | 53,087 |
| Premiums | | | | | | | (5,797) | (5,864) |
| Net insurance programs | | | | | | | 56,366 | 47,223 |
| Jamboree (world/national) | | | | | | | 7,511 | 38,514 |
| All other expenses | 6,762 | 5,552 | 1,311 | 883 | 8,073 | 6,435 | 44,417 | 44,691 |
| Allocated expenses[1] | (6,862) | (7,068) | (120) | | (6,982) | (7,068) | (6,965) | (7,922) |
| Total expenses | $23,258 | $19,059 | $ 5,343 | $ 3,699 | $28,601 | $22,758 | $203,329 | $218,377 |

[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, 2011 and 2010 (In thousands) Boy Scouts of America

| | 2011 | 2010 |
|---|---|---|
| **Cash Flows from Operations:** | | |
| Change in net assets | $ (2,160) | $ 90,089 |
| Adjustments to reconcile change in net assets to net cash provided by operations: | | |
| Depreciation and amortization | 7,074 | 7,209 |
| Net losses (gains) on sales of securities and unrealized changes in the fair value of investments | 6,647 | (56,079) |
| Interest and dividends reinvested | (1,649) | (4,620) |
| Contributions to the permanently restricted endowment | (708) | (598) |
| Net gains on disposal of assets | (749) | (186) |
| Minority interest in Commingled Endowment LP gain | 361 | 2,052 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable | 478 | 9,488 |
| Increase in pledges receivable | (6,598) | (33,882) |
| Decrease (increase) in other receivables | 53 | (239) |
| (Increase) decrease in inventories | (9,709) | 4,332 |
| (Increase) decrease in prepaid charges/gift annuities/other assets | (14,697) | 7,200 |
| Increase in accounts payable/accrued liabilities/gift annuities | 20,190 | 5,045 |
| Decrease in unearned fees and subscriptions | (3,767) | (23,051) |
| Increase in insurance reserves | 17,072 | 4,521 |
| Net cash provided by operations | 11,838 | 11,281 |
| **Cash Flows from Investing:** | | |
| Additions to properties | (108,786) | (29,313) |
| Contributions restricted for purchases of fixed assets | (29,144) | (10,491) |
| Net sales (purchases) of investments | 38,052 | (17,377) |
| Increase in securities lending payable | (21,162) | 14,927 |
| Proceeds from sale of property and other | 3,503 | 1,202 |
| Net cash used in investing activities | (117,537) | (41,052) |
| **Cash Flows from Financing:** | | |
| Net (repayments) borrowings in credit financing | 0 | (5,850) |
| Proceeds from bond issuance (restricted for construction) | 0 | 100,000 |
| Debt issuance costs | 0 | (208) |
| Repayment of debt | (3,691) | (3,022) |
| Contributions to the permanently restricted endowment | 708 | 598 |
| Contributions restricted for the purchase of fixed assets | 29,144 | 10,491 |
| Limited partners' contributions to Commingled Endowment, LP | 24,022 | 12,328 |
| Limited partners' withdrawals from Commingled Endowment, LP | (1,560) | (1,139) |
| Net cash provided by financing activities | 48,623 | 113,198 |
| (Decrease) increase in cash and cash equivalents | (57,076) | 83,427 |
| Cash and cash equivalents, beginning of year | 130,796 | 47,369 |
| Cash and cash equivalents, end of year (includes restricted cash) | $ 73,720 | $ 130,796 |
| **Supplemental Cash Flow Information:** | | |
| Interest paid (net of $3,399 and $940 capitalized interest in 2011/2010) | $ 67 | $ 126 |
| Non-cash asset financing | 4,000 | 0 |

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 conduct 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 support the future home of the national Scout jamboree and a new high-adventure base, the Summit. 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. Contributions received from local councils for the Retirement Benefits Trust (Note 13) are recorded as revenue in the period that the contribution is receivable net of certain trust 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 2011, the National Council recorded $9,425 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 2011, 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 of fees 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, 2011, the National Council has a cumulative net operating loss of approximately $28,238. 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, 2011.

**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, 2011, 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 2010.** 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, 2010, 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 be disclosed beginning with the 2012 year. The adoption of this standard is not anticipated to 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, 2011, the market value of securities on loan to approved brokers was $33,239. Collateral received for securities on loan was invested in the State Street Navigator Securities Lending Prime Portfolio. Total collateral of $34,070, received for securities on loan at December 31, 2011, is held by State Street on behalf of the National Council. Income associated with the securities lending program amounted to $122 for 2011, and is included in net investment income. The following table summarizes the securities loaned and the related collateral as of December 31, 2011:

**Securities Loaned and the Related Collateral**

| **Securities** | **Fair Value** | **Fair Value of Collateral** |
|---|---|---|
| Common stocks—foreign | $ 4,743 | $ 4,986 |
| Common stocks—domestic | 0 | 0 |
| Corporate obligations | 12,104 | 12,356 |
| Government obligations | 16,392 | 16,728 |
| Total investments purchased with cash collateral | $ 33,239 | $ 34,070 |

**Investments Purchased with Collateral**

| | |
|---|---|
| State Street Navigator Securities Lending Prime Portfolio | $ 34,070 |

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, 2011, 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, 2011, investments comprised the following:**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Short-Term Investment Funds and Treasury Bills | $ 191 | $ 14,790 | $ 0 | $ 14,981 |
| Debt securities | | | | |
| Government (includes securities lending collateral of $16,728) | 0 | 90,132 | 0 | 90,132 |
| Corporate (includes securities lending collateral of $12,356) | 0 | 87,359 | 0 | 87,359 |
| Common/collective trusts* | 0 | 69,078 | 0 | 69,078 |
| Other | 0 | 12,125 | 15,512 | 27,637 |
| Total debt securities | 0 | 258,694 | 15,512 | 274,206 |
| Equity securities | | | | |
| Common stocks—domestic | 0 | 178,675 | 0 | 178,675 |
| Common stocks—foreign (includes securities lending collateral of $4,986) | 38,153 | 117,703 | 0 | 155,856 |
| Real estate partnerships | 0 | 0 | 34,387 | 34,387 |
| Private equity partnerships | 0 | 0 | 9,881 | 9,881 |
| Total equity securities | 38,153 | 296,378 | 44,268 | 378,799 |
| Total investments | $38,344 | $569,862 | $59,780 | $667,986 |

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

**During 2011, Level 3 investments changed as follows:**

| | Other Debt Securities | Real Estate Partnerships | Private Equity | Total |
|---|---|---|---|---|
| Balance December 31, 2010 | $ 12,453 | $ 30,515 | $ 4,719 | $ 47,687 |
| Purchases | 13,636 | 765 | 4,389 | 18,790 |
| Sales | (10,305) | 0 | (981) | (11,286) |
| Realized gains | 206 | 0 | 427 | 633 |
| Unrealized (losses) gains | (495) | 3,107 | 1,327 | 3,939 |
| Amortized discount | 17 | 0 | 0 | 17 |
| Transfers from other levels | 0 | 0 | 0 | 0 |
| Balance December 31, 2011 | $ 15,512 | $ 34,387 | $ 9,881 | $ 59,780 |

No transfers between any of the levels occurred in 2011.

For all three levels in 2011, net investment income on the Statement of Revenues, Expenses, and Other Changes in Net Assets includes $17,846 of interest and dividends, $11,214 of net realized gains, and $18,389 of unrealized losses in the fair value of investments less $1,974 in investment manager expenses. Included within these respective totals are $1,007 of interest and dividends, $441 of net realized gains, and $969 of unrealized losses in the fair value of investments less $118 in investment manager expenses pertaining to limited partners within the Commingled Endowment, LP.

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, 2011, 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, 2011:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Balance December 31, 2010 | $239,632 | $ 5,924 | $ 67,819 | $313,375 |
| Investment return: | | | | |
| Interest and dividends | 7,965 | 482 | 1,884 | 10,331 |
| Realized and unrealized investment gains/(losses) | (3,649) | 70 | (1,037) | (4,616) |
| Investment manager fees | (907) | (65) | (250) | (1,222) |
| Net investment return | 3,409 | 487 | 597 | 4,493 |
| Contributions | 327 | 143 | 708 | 1,178 |
| Spending allocation | (11,319) | 1,766 | (2,803) | (12,356) |
| Net assets released from restriction | 0 | (1,910) | 0 | (1,910) |
| Other (net) | 2,320 | (190) | 0 | 2,130 |
| Balance December 31, 2011 | $234,369 | $ 6,220 | $ 66,321 | $306,910 |

The National Council's endowment consists of approximately 76 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:

1) The duration and preservation of the fund;

Notes to Consolidated Financial Statements ($ stated in thousands)

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 | $98,706 |
| Less discount | (15,791) |
| Net unconditional promises to give (before allowance) | $82,915 |
| Less allowance | (16) |
| Net unconditional promises to give (after allowance) | $82,899 |
| | |
| Amounts due in: | |
| Less than one year | $14,786 |
| One to five years | 56,420 |
| More than five years | 27,500 |
| Total undiscounted pledges | $98,706 |

Discount rates for 2011 for valuing pledges ranged from 1.2 to 6.3 percent.

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

## Note 5. Land, Buildings, and Equipment

At December 31, 2011, land, buildings and equipment comprised the following:

| | |
|---|---|
| National office, less accumulated depreciation of $14,156 | $ 12,298 |
| High-adventure bases, less accumulated depreciation of $19,765 | 42,347 |
| National Distribution Center, less accumulated depreciation of $5,104 | 4,454 |
| Summit Bechtel Family National Scout Reserve | 140,246 |
| Furniture, equipment and software, less accumulated depreciation and amortization of $62,411 | 28,521 |
| Total land, buildings, and equipment, less accumulated depreciation and amortization of $101,436 | $227,866 |

Depreciation and amortization expense was $7,074 in 2011. Gifts-in-kind in 2011, which includes $9,425 of donated services, totaled $10,937. 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. None of this property will be depreciated until placed into operation. Further, $3,399 interest was capitalized from various sellers' notes to purchase the Summit's land and from the 2010 bond proceeds 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.

No longer included in the above table are the regional facilities. Of the original four properties, the first was sold in 2009 and the second one in 2010. In March 2011, the Central Region office sold for a $387 gain, and the Northeast Region office sold in July 2011 for a $473 gain. Prior to the sale, the regional facilities were listed as other assets held-for-sale rather than in land, buildings, and equipment.

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

## Note 6. Notes Payable

Notes payable consists of the following at December 31, 2011:

| | 2011 Principal Payment | Interest Rate | Maturity Date | Outstanding at December 31, 2011 |
|---|---|---|---|---|
| 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 | $ 8,415 |
| Seller's note of $1,200, payable in 5 equal payments of $277, including interest and principal (collateral is deed of trust on the property) | 228 | 5.00% fixed | 2014 | 755 |
| Revolving $50,000 line of credit (0.20% fee for unused credit as of December 31, 2011) | 0 | 1.40% + LIBOR | 2015 | 0 |
| Bond issuance (Series A) of $50,000 | 100 | 2.38% fixed | 2015 | 49,900 |
| Bond issuance (Series B) of $50,000 | 87 | 3.22% fixed | 2020 | 49,913 |
| Seller's note of $1,500, payable in 3 equal principal payments (collateral is deed of trust on the property) | 0 | 6.00% fixed | 2014 | 1,500 |
| 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) | 471 | 3.00% fixed | 2016 | 2,029 |
| Total | $ 3,691 | | | $ 112,512 |

Regarding the $2,500 note payable, up to 10 months of interest (through June 2012) may be exchanged for allowing the seller to lease the property.

Monthly interest-only payments were due on both bonds until December 2011, when the first monthly principal plus interest payment was due. 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 agreement includes 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, 2011, 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.

Regarding the $50,000 line of credit, $5,000 of it has been utilized for a performance letter of credit. Unused letters of credit have a 0.50 percent fronting fee; however, these letter of credit borrowings are then not included in the 0.20 percent unused balance fee referenced in the above table.

On March 9, 2012, the organization entered into additional financing for the development of the Summit. $175,000 in 10-year, tax-exempt bonds were added to the existing bonds and the 5-year line of credit was increased by $25,000. Regarding the bonds, 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. The bond proceeds may only be used for Summit site development. The bonds' other conditions such as covenants and collateral are similar to those for the original 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.

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

Excluding the additional financing not entered into until 2012, aggregate maturities of notes payable for each of the years subsequent to December 31, 2011, are as follows:

| | |
|---|---|
| 2012 .............................. | $ 6,267 |
| 2013 .............................. | 6,397 |
| 2014 .............................. | 6,490 |
| 2015 .............................. | 47,869 |
| 2016 and thereafter ....... | 45,489 |
| Total............................... | $ 112,512 |

Interest incurred, capitalized, expensed, and paid during the year ending December 31, 2011, were:

| | |
|---|---|
| Interest incurred ............ | $ 3,511 |
| Interest capitalized ........ | 3,399 |
| Interest expensed .......... | 112 |
| Interest paid .................. | $ 3,466 |

## 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, and chartered units and from investment income. Premiums received during 2011 for this program were $5,797, and losses and costs were $52,021. 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 $10,142 of losses and costs from other insurance programs.

The insurance reserves of $87,122 stated on the Balance Sheet at December 31, 2011, include $84,488 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 2011. The program contained $64,304 of investments and other assets designated to it as of December 31, 2011. Net assets of this insurance program, which were at ($20,184) as of December 31, 2011, are reported as board-designated net assets in the accompanying balance sheet. In addition to this sum is $3,649 of related administrative costs that is included in the program's stated losses and costs but which is being separately funded outside of the program.

At December 31, 2011, the National Council had provided standby letters of credit totaling $37,890 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 $31,866.

## Note 8. Credit Arrangements

At December 31, 2011, the National Council had provided a $186 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 $13,169 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 2015. 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, 2011, amounted to $10,239. 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):

| | |
|---|---|
| 2012 | $ 9,412 |
| 2013 | 7,744 |
| 2014 | 5,685 |
| 2015 | 3,513 |
| 2016 and thereafter | 1,815 |
| Total minimum payments required | $28,169 |

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 individuals serving in various volunteer capacities for local councils or individual troops. 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. In April 2010, a verdict was rendered against the National Council along with the local Boy Scout council in Oregon related to one of these cases. The jury awarded both punitive damages and compensatory damages. In August 2010, the case was settled for a lesser amount than originally awarded by the jury and the settlement amount not covered by insurance was not material to the financial position and results of operations of the National Council.

Subsequent to the April 2010 verdict, there have continued 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 insurance, it is the opinion of the National Council that the total amount of payments in resolution of those lawsuits will not be material to 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, 2011, unrestricted net assets comprised the following:

| | |
|---|---|
| General operations | $ 28,657 |
| Board designated: | |
| General endowment | 234,369 |
| Properties | 103,595 |
| Retirement Benefits Trust (Note 13) | 140,745 |
| Insurance programs | (18,400) |
| World Scout jamboree | (254) |
| Other | 67,873 |
| Total board-designated net assets | 527,928 |
| Total unrestricted net assets | $556,585 |

The amounts above include $5,151 of net realized losses and unrealized changes in the fair value of investments earned on unrestricted net assets during 2011.

## Note 11. Restricted Net Assets

At December 31, 2011, restricted net assets comprised the following:

| | |
|---|---|
| Permanently restricted net assets: | |
| John W. Watzek Jr. (income supports general operations) | $ 8,489 |
| Waite Phillips Scholarship (income supports Philmont scholarships) | 4,894 |
| National Scouting Museum (income supports museum operations) | 4,598 |
| Cooke Eagle Endowment (income supports Eagle Scout scholarships) | 4,158 |
| Genevieve and Waite Phillips (income supports maintenance of Philmont) | 3,915 |
| DeWitt-Wallace Foundation (income supports leadership programs) | 2,640 |
| High-Adventure (income benefits high-adventure program) | 2,044 |
| Kenneth McIntosh (income supports Scouting around the world) | 1,916 |
| Scoutmaster Recognition (income supports scholarships for outstanding Scoutmasters) | 1,893 |
| Steve Fossett High-Adventure Base Endowment (income supports high-adventure bases) | 1,414 |
| Hall Scholarship (income supports Eagle Scout scholarships) | 1,395 |
| Southern Region Trust Fund (income supports Southern Region) | 1,369 |
| Sonia S. Maguire (income supports Philmont camperships) | 1,329 |
| Mortimer L. Schiff (income supports professional training and development) | 1,218 |
| Thomas J. Watson (income supports general operations) | 1,193 |
| Augustus F. Hook Jr. (income supports professional staff in Indiana) | 1,176 |
| Northeast Region Main Trust Fund | 1,141 |
| Summerfield Endowment (income supports general operations) | 1,109 |
| Genevieve Phillips (income maintains Philmont Villa and grounds) | 1,085 |
| Milton H. and Adele R. Ward (income supports local councils) | 1,070 |
| Other | 18,275 |
| Total permanently restricted net assets | 66,321 |
| Temporarily restricted net assets | 145,002 |
| Total restricted net assets | $211,323 |

The amounts above include $1,496 of net realized losses and unrealized changes in the fair value of investments earned on permanently and temporarily restricted net assets during 2011.

Notes to Consolidated Financial Statements ($ stated in thousands)

## Note 12. Fees

During 2011, fees comprised the following:

| | |
|---|---|
| Registration and license fees | $49,750 |
| National service fees from local councils | 8,280 |
| High-adventure | 29,634 |
| World jamboree | 4,150 |
| Other | 4,675 |
| Total fees | $96,489 |

## 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 2011, neither the National Council nor the local councils made payments to the Trust. Investment earnings for the Trust in 2011 equaled $1,756, and at December 31, 2011, the Trust's net assets were $140,745.

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.

In 2011, $10,000 from the Trust was used to supplement the qualified defined benefit plan.

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

Traditionally, the National Executive Board offered health, life, and other welfare insurance programs that operate for the benefit of employees of local councils and the National Council and their dependents and retirees and their dependents. 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. See Note 13 for the organization's decision to no longer provide certain retiree medical coverage, effective January 1, 2011.

During 2011, the National Council's total expense for the employees' insurance coverage of the benefits covered by the Welfare Benefits Trust was $7,536. 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 participates in a “qualified” multiemployer defined benefit retirement plan covering National Council and local council employees with at least one year of service. 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. Additionally, there is a “non-qualified” defined benefit retirement plan (the “non-qualified plan”). The non-qualified plan exists 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 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 qualified and 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 2011 expense related to the qualified retirement plan was $4,159, and the expense related to the non-qualified retirement plan (Note 13) was $1,675. The National Council expense in 2011 related to the thrift plan was $1,422.

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**BOY SCOUTS OF AMERICA**
1325 West Walnut Hill Lane
P.O. Box 152079
Irving, Texas 75015-2079
www.scouting.org

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