

2016 REPORT OF THE TREASURER
AND CONSOLIDATED FINANCIAL STATEMENTS



Prepared. For Life.®

2016 IN REVIEW

(\$ stated in thousands)

The National Council of the Boy Scouts of America (National Council) along with 273 local councils, continued to deliver an exciting and valuable program to young people in 2016, with approximately 2,341,000 youth members and Explorers registered in individual programs. Approximately 919,000 registered adult leaders provide support to these youth. Moreover, three of the national high-adventure bases continue to set attendance records, with 56,000 Scouts and Scouters attending. The Summit Bechtel Family National Scout Reserve (the Summit) had approximately 11,200 attendees totaling over 41,000 camper days.

The following further discusses sources, uses, and stewardship of the National Council's resources during 2016.

Unrestricted net assets:

Net Assets, Controlling Interest

The National Council's controlling interest in its unrestricted net assets decreased by \$44,706. The decrease in net assets was driven by payments made to the Boy Scouts of America Retirement Plan for Employees totaling \$15,500, claims and provision expense related to the General Liability program totaling \$68,864. Offsetting the decrease in net assets was increases in investment income totaling \$33,450.

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

Revenues –

Fees decreased in 2016 by \$12,574 due largely to the absence of the world jamboree and the National Order of the Arrow Conference held prior-year.

Unrestricted contributions increased from \$8,219 to \$8,621 in 2016 mainly due to an increase in high-adventure base contributions.

Investment income of unrestricted net assets reported \$33,450, an increase from \$4,865 in 2015. The total return for investments held in the unrestricted endowment was 8.82 percent during 2016 compared with 1.36 percent during 2015. 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 \$21,482 to \$263,740 in 2016, up from \$242,258 during 2015. This increase in cost is related to pension and insurance costs. Offsetting the increase are declines in expenses attributed to the world jamboree and the National Order of the Arrow Conference held in 2015.

Net Assets, Noncontrolling Interest

Also, reported within unrestricted net assets is the local councils' noncontrolling interest in the BSA Commingled Endowment Fund, LP (Partnership) which is managed by the BSA Asset Management, LLC (BSAAM), the General Partner for the Partnership. Investment income reported for these local councils increased to \$11,704 in 2016 compared to \$1,069 in 2015. Overall, including the investment income, contributions, and withdrawals the noncontrolling interest unrestricted net assets increased \$4,471. Contributions and withdrawals were \$17,818 and \$25,051 respectively.

Restricted net assets:

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

Restricted contribution income increased to \$24,914 for 2016, an increase of \$4,942 from 2015 donation levels.

Investment income gains for 2016 are \$7,655 an increase of \$8,369 from 2015.

During 2016, \$26,871 of restricted net assets was used for donor-specified purposes, compared with \$28,916 in the prior year.

Overall, net assets restricted by donors increased in 2016 by \$5,698 to a total of \$209,414.

Total net assets:

The National Council's total net assets decreased in 2016 by \$34,537 compared to a decrease of \$25,506 in 2015.

Financial condition, liquidity, financing, and capital resources:

Available for general operations is a \$75,000 line of credit, of which, \$55,000, was being utilized as of December 31, 2016.

At its February 2017 meeting, the National Executive Board approved a resolution that included a proposal to extend the current maturity date of the line of credit to March 2020. Also, a resolution was approved that included a proposal to convert \$25,000 of the outstanding balance in the line of credit to a 5-year term loan with a March 2022 maturity date. On March 2, 2017, the terms approved by the Board were formalized. The line of credit covenant requirements were amended as well (see Note 4).

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

The Summit had property additions of \$15,028 in 2016. This was funded through restricted contributions received for development of the Summit. Management believes that cash generated from operations, together with the liquidity provided by existing cash balances, the line of credit, along with significant donor contributions, will continue to be sufficient to pay the bond payments as scheduled.

During 2016, the National Council added \$11,375 in property additions to other properties. These capital investments were funded from existing cash balances.

Cash and cash equivalents increased by \$10,850 during 2016, and \$27,918 of net cash was used by operations during 2016. Management believes that cash generated from operations, together with the liquidity provided by existing cash balances and the line of credit will continue to be sufficient to fund liquidity requirements during the next 12 months.

The National Council's financial condition for 2017 and the next few years will depend, in large part, upon three factors. The first is the outcome of the litigation discussed within this report (see Note 9) and the impact to the General Liability Insurance Program (Note 7). The second lies with the success of securing donations for the Summit project in order to continue to pay bond payments as scheduled and maintaining compliance with debt covenants. The third factor is the economy and legislation and their effect on market conditions and liquidity requirements. The National Executive Board, Advisory Council, and other dedicated volunteers and staff continue to work diligently to ensure that the National Council successfully addresses these factors. A strong National Council helps to make sure the Scouting program remains effective and true to its mission.

Respectfully,



Joseph P. Landy
Treasurer/Vice President-Finance

April 6, 2017

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AUDIT COMMITTEE

of the

Executive Board of the Boy Scouts of America

Francis R. McAllister, *Chairman*

David Biegler

Dennis H. Chookaszian

Ronald K. Migita

David Moody

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of the National Council of the Boy Scouts of America and its affiliates (the National Council), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of revenues, expenses, and other changes in net assets, of functional expenses and of cash flows for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the National Council of the Boy Scouts of America and its affiliates as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We previously audited the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of revenues, expenses, and other changes in net assets, of functional expenses and of cash flows for the year then ended (not presented herein), and in our report dated April 11, 2016, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of December 31, 2015 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

April 6, 2017

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2016 (with summarized totals for 2015)

(In thousands)

Boy Scouts of America

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 55,533	\$ 44,683
Investments, at fair value including collateral for securities on loan of \$14,913 (2015—\$25,128) (Note 2)	745,287	786,294
Accounts receivable, less allowance of \$108 (2015—\$109)	22,072	24,836
Pledges receivable, less discount of \$28,029 (2015—\$22,941) (Note 4) ..	65,202	63,416
Other receivables	1,539	1,371
Gift annuities	7,471	7,410
Prepaid and deferred charges	11,312	8,812
Inventories, less provision for obsolescence of 5,807 (2015—\$4,911)	74,262	65,337
Land, buildings, and equipment, net (Note 5).....	475,033	468,696
Other	<u>14,273</u>	<u>12,127</u>
Total assets	<u>\$ 1,471,984</u>	<u>\$ 1,482,982</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 36,949	\$ 31,724
Gift annuities	7,471	7,410
Unearned fees and subscriptions	56,215	44,365
Notes payable including line of credit (Note 6).....	259,070	270,533
Insurance reserves (Note 7)	180,721	152,640
Payable upon return of securities loaned (Note 2)	<u>14,913</u>	<u>25,128</u>
Total liabilities	555,339	531,800
Net assets:		
Unrestricted (Note 10):		
Unrestricted controlling interest:		
General operations	(21,756)	(598)
Board-designated	<u>569,878</u>	<u>593,426</u>
Total unrestricted—controlling interest	548,122	592,828
Unrestricted—noncontrolling interest (Commingled Endowment LP)	<u>159,109</u>	<u>154,638</u>
Total unrestricted	707,231	747,466
Temporarily restricted (Note 11)	125,152	121,853
Permanently restricted (Note 11).....	<u>84,262</u>	<u>81,863</u>
Total net assets	<u>916,645</u>	<u>951,182</u>
Total liabilities and net assets	<u>\$ 1,471,984</u>	<u>\$ 1,482,982</u>

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

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

Year ended December 31, 2016 (with summarized totals for 2015)

(In thousands)

Boy Scouts of America

	Unrestricted (Note 10)	Temporarily Restricted (Note 11)	Permanently Restricted (Note 11)	Total	
				2016	2015
Revenues:					
Fees (Note 12)	\$ 114,246			\$ 114,246	\$ 126,820
Supply operations—sales	143,894			143,894	142,994
Cost of sales and expenses	<u>(118,764)</u>			<u>(118,764)</u>	<u>(119,152)</u>
	25,130			25,130	23,842
Magazine publication—sales	12,562			12,562	14,435
Cost of production and expenses	<u>(15,213)</u>			<u>(15,213)</u>	<u>(15,188)</u>
	(2,651)			(2,651)	(753)
Contributions and bequests	8,621	\$ 24,692	\$ 222	33,535	28,191
Other—including trading post sales	17,231			17,231	19,327
Cost of sales and expenses	<u>(3,864)</u>			<u>(3,864)</u>	<u>(4,435)</u>
	<u>13,367</u>	0	0	<u>13,367</u>	<u>14,892</u>
Total revenues before net investment gain	158,713	24,692	222	183,627	192,992
Investment income, net of fees	<u>33,450</u>	<u>5,478</u>	<u>2,177</u>	<u>41,105</u>	<u>4,151</u>
Total revenues	192,163	30,170	2,399	224,732	197,143
Net assets released from restrictions:					
Donor restrictions satisfied	<u>26,871</u>	<u>(26,871)</u>			
Expenses:					
Program services:					
Field operations	54,961			54,961	43,974
Human resources and training	13,702			13,702	14,125
Program development and delivery	75,622			75,622	84,958
Program marketing	11,046			11,046	14,225
World Scout Bureau fees	1,484			1,484	1,466
Insurance programs—losses and costs (Notes 7, 13, and 14)	84,364			84,364	52,519
Premiums	<u>(13,488)</u>			<u>(13,488)</u>	<u>(12,566)</u>
	<u>70,876</u>			<u>70,876</u>	<u>39,953</u>
Total program services	<u>227,691</u>			<u>227,691</u>	<u>198,701</u>
Supporting services:					
Management and general	30,291			30,291	36,352
Fundraising	<u>5,758</u>			<u>5,758</u>	<u>7,205</u>
Total supporting services	<u>36,049</u>			<u>36,049</u>	<u>43,557</u>
Total expenses	<u>263,740</u>	0	0	<u>263,740</u>	<u>242,258</u>
Change in net assets—controlling interest	(44,706)	3,299	2,399	(39,008)	(45,115)
Change in net assets—noncontrolling interest (Commingled Endowment LP).....	<u>4,471</u>	0	0	<u>4,471</u>	<u>19,609</u>
Change in net assets	(40,235)	3,299	2,399	(34,537)	(25,506)
Net assets, beginning of year	<u>747,466</u>	<u>121,853</u>	<u>81,863</u>	<u>951,182</u>	<u>976,688</u>
Net assets, end of year	<u>\$ 707,231</u>	<u>\$ 125,152</u>	<u>\$ 84,262</u>	<u>\$ 916,645</u>	<u>\$ 951,182</u>

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2016 (with summarized totals for 2015)

(In thousands)

Boy Scouts of America

	PROGRAM SERVICES							
	Field Operations		Human Resources and Training		Program Development and Delivery		Program Marketing	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Salaries	\$ 17,158	\$ 15,337	\$ 6,375	\$ 6,829	\$ 19,248	\$ 18,364	\$ 3,942	\$ 4,390
Benefits	5,734	4,688	1,822	1,938	5,052	4,941	999	1,192
Travel	2,194	2,234	385	396	824	1,002	278	353
Office expense and occupancy	10,939	7,086	807	497	11,426	10,281	2,297	2,573
Depreciation and amortization	3,396	1,908	295	180	3,131	3,043	197	310
Insurance losses and costs								
Premiums								
Net insurance programs								
Jamboree (world/national)					4,014	7,222		
All other expenses	15,547	12,675	4,144	4,427	30,878	39,507	3,610	5,643
Allocated expenses ¹	<u>(7)</u>	<u>46</u>	<u>(126)</u>	<u>(142)</u>	<u>1,049</u>	<u>598</u>	<u>(277)</u>	<u>(236)</u>
Total expenses	<u>\$ 54,961</u>	<u>\$ 43,974</u>	<u>\$ 13,702</u>	<u>\$ 14,125</u>	<u>\$ 75,622</u>	<u>\$ 84,958</u>	<u>\$ 11,046</u>	<u>\$ 14,225</u>

	PROGRAM SERVICES					
	World Scout Bureau Fees		Insurance Programs		Total Program Services	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Salaries					\$ 46,723	\$ 44,920
Benefits					13,607	12,759
Travel					3,681	3,985
Office expense and occupancy					25,469	20,437
Depreciation and amortization					7,019	5,441
Insurance losses and costs			\$ 84,364	\$ 52,519	80,364	52,519
Premiums			<u>(13,488)</u>	<u>(12,566)</u>	<u>(13,488)</u>	<u>(12,566)</u>
Net insurance programs			70,876	39,953	70,876	39,953
Jamboree (world/national)					4,014	7,222
All other expenses	\$ 1,484	\$ 1,466			55,663	63,718
Allocated expenses ¹					<u>639</u>	<u>266</u>
Total expenses	<u>\$ 1,484</u>	<u>\$ 1,466</u>	<u>\$ 70,876</u>	<u>\$ 39,953</u>	<u>\$ 227,691</u>	<u>\$ 198,701</u>

	SUPPORTING SERVICES							
	Management and General		Fundraising		Total Supporting Services		Total Expenses	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Salaries	\$ 15,634	\$ 15,640	\$ 2,473	\$ 2,591	\$ 18,107	\$ 18,231	\$ 64,830	\$ 63,151
Benefits	3,836	3,958	700	742	4,536	4,700	18,143	17,459
Travel	939	1,147	461	532	1,400	1,679	5,081	5,664
Office expense and occupancy	386	521	638	1,490	1,024	2,011	26,493	22,448
Depreciation and amortization	10,212	10,677	20	166	10,232	10,843	17,251	16,284
Insurance losses and costs							84,364	52,519
Premiums							<u>(13,488)</u>	<u>(12,566)</u>
Net insurance programs							70,876	39,953
Jamboree (world/national)							4,014	7,222
All other expenses	3,709	8,875	1,531	1,736	5,240	10,611	60,903	74,329
Allocated expenses ¹	<u>(4,425)</u>	<u>(4,466)</u>	<u>(65)</u>	<u>(52)</u>	<u>(4,490)</u>	<u>(4,518)</u>	<u>(3,581)</u>	<u>(4,252)</u>
Total expenses	<u>\$ 30,291</u>	<u>\$ 36,352</u>	<u>\$ 5,758</u>	<u>\$ 7,205</u>	<u>\$ 36,049</u>	<u>\$ 43,557</u>	<u>\$ 263,740</u>	<u>\$ 242,258</u>

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

Year ended December 31, 2016 (with summarized totals for 2015)

(In thousands)

Boy Scouts of America

	<u>2016</u>	<u>2015</u>
Cash Flows from Operations:		
Change in net assets	\$ (34,537)	\$ (25,506)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operations:		
Depreciation and amortization	18,619	17,665
Net realized and unrealized losses (gains) on investments	(44,678)	2,079
Interest and dividends reinvested	(942)	(754)
Contributions to the permanently restricted endowment	(222)	(314)
Net losses on disposal of land, buildings, and equipment	1,447	133
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	2,764	(7,968)
(Increase) decrease in pledges receivable	(1,786)	5,415
(Increase) in other receivables	(168)	(175)
(Increase) in inventories	(8,925)	(5,329)
(Increase) in prepaid charges and other assets	(4,707)	(2,797)
Increase (decrease) in account payable/accrued liabilities/gift annuities	5,286	(3,376)
Increase (decrease) increase in unearned fees and subscriptions	11,850	(7)
Increase in insurance reserves	<u>28,081</u>	<u>15,374</u>
Net cash and cash equivalents used by operations	<u>(27,918)</u>	<u>(5,560)</u>
Cash Flows from Investing:		
Additions to land, buildings, and equipment	(26,403)	(24,948)
Contributions restricted for capital expenditures and debt service	(12,390)	(17,946)
Net sales of investments	86,627	55,348
(Increase) in securities lending payable	<u>(10,215)</u>	<u>(14,969)</u>
Net cash and cash equivalents provided by (used in) investing activities ..	<u>37,619</u>	<u>(2,515)</u>
Cash Flows from Financing:		
Net (payments) borrowings on line of credit financing	(6,000)	44,000
Repayment of debt	(5,463)	(51,955)
Contributions to the permanently restricted endowment	222	314
Contributions restricted for capital expenditures	<u>12,390</u>	<u>17,946</u>
Net cash and cash equivalents provided by financing activities	<u>1,149</u>	<u>10,305</u>
Increase in cash and cash equivalents	10,850	2,230
Cash and cash equivalents, beginning of year	<u>44,683</u>	<u>42,453</u>
Cash and cash equivalents, end of year	<u>\$ 55,533</u>	<u>\$ 44,683</u>
Supplemental Cash Flow Information:		
Interest paid	\$ 7,462	\$ 8,050

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

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

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

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

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

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

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

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

The National Council has adopted the fair value accounting guidance issued by the Financial Accounting Standards Board (FASB). Fair value accounting guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available.

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

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

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

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

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

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

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

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

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

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

particular motivations of buyers and sellers, as well as the subjectivity inherent in the process. Although the estimated fair values represent subjective estimates, the general partner of the fund believes these estimated values are reasonable approximations of market prices. Management has obtained an understanding of the valuation methodology utilized to value the underlying assets and believes the reported net asset value of the fund is an accurate fair value of the investment.

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

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

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

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

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

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

In order to limit credit risk with respect to cash equivalents and the investment portfolio, the National Council invests in obligations of the United States government, mutual funds, and other marketable securities. These investments are held by diverse, high-quality financial institutions. The National Council grants unsecured credit to local councils and others for merchandise sales and insurance coverage within established guidelines for creditworthiness. These transactions make up the majority of accounts receivable.

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

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

Collections. The National Scouting Museum in Irving, Texas, possesses artifacts, fine art, and multimedia archives last appraised in March 2012 at approximately \$60,000. The museum also houses collections of Scouting memorabilia, objects, and archival documents. In conformity with accounting policy generally followed by museums, these collections are not recognized as assets in the Consolidated Statement of Financial Position; however, costs associated with insuring and maintaining these collections have been expensed. During 2016, no major additions or disposals of collections 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 United States of America generally accepted accounting principles (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Income Tax Status. The National Council and its other affiliates, Learning for Life, the Learning for Life Foundation, the Boy Scouts of America National Foundation, BSA Asset Management, LLC, and Arrow WV, Inc., are exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and have been classified as organizations that

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

are not private foundations. Each of the partners of the Partnership is responsible for reporting its allocable share of the partnership's income or loss on its individual tax returns.

Income from certain activities (primarily magazine advertising income, sponsorships, and net revenue from sales of livestock) not directly related to the National Council's tax-exempt purpose is subject to taxation as unrelated business income. As of December 31, 2016, the National Council has a cumulative net operating loss of approximately \$36,761. 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, 2016.

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, 2016, 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 2015. 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, 2015, from which the summarized information was derived. PricewaterhouseCoopers LLP issued an unmodified opinion on those financial statements.

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements. ASU 2016-02 will require lessees to recognize most leases on their statement of financial position as liabilities, with corresponding "right-of-use" assets. The standard is effective for annual reporting periods in fiscal years that begin after December 15, 2018. We are currently evaluating the magnitude and other potential impacts on the National Council's financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenues from Contracts with Customers (Topic 606)* and has modified the standard thereafter. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASU No. 2014-09 is effective for annual reporting periods in fiscal years that begin after December 15, 2017. We are currently evaluating the magnitude and other potential impacts on the National Council's financial statements.

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

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

Note 2. Investments

At December 31, 2016, investments comprised the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term investment funds and treasury bills	\$ 160	\$ 10,954	\$ 0	\$ 11,114
Investment of cash/non-cash collateral in investment trust	0	14,913	0	14,913
Debt securities				
Government (includes \$1,981 of securities on loan).....	0	53,055	0	53,055
Corporate (includes \$8,785 of securities on loan).....	0	75,676	0	75,676
Other.....	<u>0</u>	<u>40,369</u>	<u>0</u>	<u>40,369</u>
Total debt securities	0	169,100	0	169,100
Equity securities				
Common stocks—domestic (includes \$3,518 of securities on loan).....	28,370	3,882	0	32,252
Common stocks—foreign (includes \$307 of securities on loan).....	<u>61,795</u>	<u>4,909</u>	<u>0</u>	<u>66,704</u>
Total equity securities	<u>90,165</u>	<u>8,791</u>	<u>0</u>	<u>98,956</u>
Investments measured at net asset value ¹				<u>451,204</u>
Total investments	<u>\$ 90,325</u>	<u>\$203,758</u>	<u>\$ 0</u>	<u>\$745,287</u>

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

No transfers between any of the levels occurred in 2016.

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

The National Council uses the Net Asset Value (NAV) to determine the fair value of all underlying investments which: (a) do not have a readily determinable fair value and (b) prepare their investee's financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments by major category as of December 31, 2016:

2016						
Type	Strategy	NAV in Funds	# of Funds	Remaining Life	\$ Amount of Unfunded Commitments	Timing to Drawdown Commitments
Private Equity (Limited Partnership)	Private equity funds invest in companies not listed publicly and startup companies to earn high rate of return. The strategy allocates between middle market corporate finance focused funds and venture capital focused funds	\$ 42,556	41	1 to 10 years	\$ 12,811	1 to 5 years
Collective Trust	Collective trust fund is like a mutual fund but it only sells to institutional investors. CTF funds cover broad strategies including but not limited to U.S. equity, Non U.S. equity, U.S. investment grade debt, U.S. treasury debt, high yield debt and global REITS	347,936	22	N/A	N/A	N/A
Private Real Estate (Limited Partnership)	Private real estate fund utilizing core strategy to generate income while maintain low risk profile by focusing on gateway cities and other large cities. Investments include residential, industrial, retail and office sectors to diversify portfolio.	38,824	2	N/A	N/A	N/A
High Yield (Limited Partnership)	The limited partnership focus mainly on U.S. high yield market and has small exposure to bank loans.	21,888	2	N/A	N/A	N/A
Total		<u>\$ 451,204</u>	<u>67</u>		<u>\$ 12,811</u>	

The Private Equity funds have no redemption terms. The Private Real Estate funds have a 45-day notice period and quarterly redemption. Most Collective Trust funds may be redeemed daily except the ACWI ex U.S. CTF fund that can typically be redeemed twice a month. High Yield Limited Partnership funds can be redeemed monthly with a 10-business day notice.

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

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

Net investment income on the Consolidated Statement of Revenues, Expenses, and Other Changes in Net Assets includes \$11,211 of interest and dividends, \$38,246 of net realized gains, and \$5,233 of unrealized gains in the fair value of investments less \$1,881 in investment manager expenses. Included within the change in net assets attributed to noncontrolling interests is net investment income pertaining to the local councils' limited partner interest within the Partnership which for 2016 includes \$2,862 of interest and dividends, \$6,079 of net realized gains, and \$3,510 of unrealized gains in the fair value of investments less \$747 in investment manager expenses.

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

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

As of December 31, 2016, the market value of securities on loan to approved brokers was \$14,591. Collateral received for securities on loan was invested in the State Street Navigator Securities Lending Prime Portfolio. Total collateral of \$14,913, received for securities on loan at December 31, 2016, is held by State Street on behalf of the National Council. Income associated with the securities lending program amounted to \$89 for 2016, and is included in net investment income. The following table summarizes the securities loaned and the related collateral as of December 31, 2016:

Securities Loaned and the Related Collateral

Securities	Fair Value	Fair Value of Collateral
Government obligations	\$ 1,981	\$ 2,022
Corporate obligations	8,785	8,968
Common stocks—domestic	3,518	3,600
Common stocks—foreign	307	323
Total investments purchased with cash collateral	<u>\$ 14,591</u>	<u>\$ 14,913</u>

Investments Purchased with Collateral

State Street Navigator Securities Lending Prime Portfolio	<u>\$ 14,913</u>
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Risk Factors

Currency/foreign exchange risk. The National Council may hold investments denominated in currencies other than the U.S. dollar, the National Council's functional currency. In such instances, there is exposure to currency risk, as the value of the investments denominated in other currencies will fluctuate due to changes in exchange rates. To the extent that these investments create risk in respect of movements in foreign exchange rates, the National Council may hedge this risk, in a cost-effective manner, to the extent possible. As of December 31, 2016, there are no foreign currency hedges.

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

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

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

Note 3. Endowment

Endowment net asset composition and changes in composition by type of fund as of and for the year ended December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance December 31, 2015	\$ 159,604	\$ 8,766	\$ 81,863	\$ 250,233
Investment return:				
Interest and dividends	4,404	94	1,496	5,994
Realized and unrealized investment gains	14,389	1,248	4,962	20,599
Investment manager fees	<u>(603)</u>	<u>(31)</u>	<u>(276)</u>	<u>(910)</u>
Net investment return	18,190	1,311	6,182	25,683
Contributions	509	367	222	1,098
Spending allocation	(12,032)	3,157	(4,005)	(12,880)
Net assets released from restriction ...	0	(2,375)	0	(2,375)
Endowment funding for GLIP	(27,000)	0	0	(27,000)
Endowment payable to GLIP	(15,773)	0	0	(15,773)
Other (net)	<u>1,655</u>	<u>(2,417)</u>	<u>0</u>	<u>(762)</u>
Balance December 31, 2016.....	<u>\$ 125,153</u>	<u>\$ 8,809</u>	<u>\$ 84,262</u>	<u>\$ 218,224</u>

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:

- 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

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

to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the National Council must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The National Council invests its endowment assets in the Partnership. Under the Strategic Investment Policy, the endowment assets are invested in a manner that is intended to produce the highest total long-term return, consistent with prudent investment practices, sufficient to cover the maximum annual spending rate plus an allowance for inflation. The National Council expects its endowment funds, over time, to provide an average annual, nominal rate of return of approximately 7.15 percent. After inflation, expected to average 2.00 percent annually, the average real rate of return is expected to be 4.5 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 National Council considered the long-term expected return on its endowment.

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

Note 4. Pledges Receivable

Included in pledges receivable are the following:

Unconditional promises to give before discount	\$ 93,351
Less discount	<u>(28,029)</u>
Net unconditional promises to give (before allowance).....	65,322
Less allowance	<u>(120)</u>
Net unconditional promises to give (after allowance)	<u>\$ 65,202</u>
Amounts due in:	
Less than one year	\$ 7,600
One to five years	29,343
More than five years	<u>56,408</u>
Total undiscounted pledges	<u>\$ 93,351</u>

Pledges are evaluated for collectability and assigned a discount rate related to the risk of uncollectable amounts. The discount rates for valuing 2016 pledges ranged from 0.92 to 4.75 percent.

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

Note 5. Land, Buildings, and Equipment

At December 31, 2016, land, buildings, and equipment comprised the following:

National office, less accumulated depreciation of \$18,567	\$ 10,498
High-adventure bases, less accumulated depreciation of \$28,388	53,432
National Distribution Center, less accumulated depreciation of \$6,612	3,931
Summit Bechtel Family National Scout Reserve, less accumulated depreciation of \$29,859	364,335
Furniture, equipment, and software, less accumulated depreciation and amortization of \$79,090	<u>42,837</u>
Total land, buildings, and equipment, less accumulated depreciation and amortization of \$162,516	<u>\$ 475,033</u>

Depreciation and amortization expense was \$18,619 in 2016.

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

Gifts-in-kind in 2016 totaled \$322. This is a non-cash transaction; however, it has not been reported separately within the supplemental section on the Consolidated Statement of Cash Flows.

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

Note 6. Notes Payable

Notes payable consists of the following at December 31, 2016:

	<u>2016 Principal Payment</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding at December 31, 2016</u>
Revolving \$75,000 line of credit (0.15% to 0.20% fee for unused credit)	6,000	1.25% + LIBOR	2017	55,000
2010 Bond issuance (Series B) of \$50,000	1,210	3.22% fixed	2020	44,235
2012 Bond issuance of \$175,000	4,208	2.94% fixed	2022	159,835
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)	<u>45</u>	3.00% fixed	2016	<u>0</u>
Total	<u>\$ 11,463</u>			<u>\$ 259,070</u>

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

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

The organization's entire bond proceeds have been used for development of the Summit. All of the bonds are senior obligations of the organization and required collateral of the National Council's unrestricted gross revenues and the pledges pertaining to the project. The bond agreements include the standard covenants and events of default, including limitations on incurring additional indebtedness, a requirement to maintain a minimum ratio of certain cash and pledge amounts to debt, and a requirement to maintain a minimum ratio of unrestricted net assets to debt. At December 31, 2016, the National Council was in compliance with these debt covenants.

Covenants, collateral, and other terms for the \$75,000 line of credit are as follows: The non-usage fee as amended is 0.15 percent per annum. The interest rate on amounts utilized is LIBOR plus 1.25 percent on funds used for greater than 90 days or prime rate of 3.75 percent for funds used less than 90 days.

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

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

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

Aggregate maturities of notes payable as amended for each of the years subsequent to December 31, 2016, are as follows:

2017	\$ 9,333
2018	10,753
2019	10,929
2020	80,097
2021 and thereafter	<u>147,958</u>
Total.....	<u>\$ 259,070</u>

Interest incurred, capitalized, expensed, and paid during the year ending December 31, 2016, were:

Interest incurred	\$ 7,475		
Interest capitalized	<u>0</u>	Interest paid	\$ 7,462
Interest expensed	\$ 7,475		

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 2016 for this program were \$12,823, and insurance losses and costs were \$68,341 net of recoveries. On the Consolidated Statement of Revenues, Expenses, and Other Changes in Net Assets, which includes the stated insurance losses and costs total, is \$16,023 of insurance losses and costs from other insurance programs. Similarly, \$665 is included in premiums revenue from other insurance programs.

The insurance reserves of \$180,721 stated on the Statement of Financial Position at December 31, 2016, include \$177,321 established by the National Council as a reserve for estimated self-insured losses and loss adjustment expenses of this program, based on an independent actuarial estimate of ultimate insurance losses. The remaining reserves apply primarily to directors' and officers' liability insurance and workers' compensation insurance.

The program contained \$167,001 of investments, receivables, other assets, and \$177,327 of liabilities and reserves for a net deficit of \$10,326 as of December 31, 2016. Net assets of this insurance program are reported as board-designated net assets in the accompanying Consolidated Statement of Financial Position.

At December 31, 2016, the National Council had provided standby letters of credit totaling \$63,313 for the benefit of insurance companies in conjunction with the assumed deductible portion of the program.

Note 8. Credit Arrangements

At December 31, 2016, the National Council has provided a \$1,100 irrevocable letter of credit for the benefit of an insurance company to guarantee payments in conjunction with a self-insured workers' compensation program. In addition, the National Council has an import letter of credit of \$10,000 in order to guarantee payments in conjunction with Supply Group international purchases. As of December 31, 2016, the National Council had a total of three import letters of credit outstanding of \$5,616. 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 2024. Rental commitments for Scout shop leases are contingent on future sales levels. Real estate leases are renewable at the option of the National Council. Total rental expense for all operating leases for the year ended December 31, 2016, amounted to \$12,269. The estimated minimum rental commitments under operating leases that have initial or remaining non-cancellable terms as of December 31, 2016, are as follows (as of December 31 for each year):

2017	\$ 8,773
2018	6,980
2019	5,885
2020	3,446
2021	593
2022 and after	<u>691</u>
Total minimum payments required	<u>\$ 26,368</u>

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

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

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

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

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

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

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

Note 10. Unrestricted Net Assets

At December 31, 2016, unrestricted net assets with a controlling interest comprised the following:

General operations	\$ (21,756)
Board-designated:	
General endowment	125,153
Properties	243,253
Retirement Benefits Trust (Note 13)	131,594
Insurance Programs	(8,898)
Other	<u>78,776</u>
Total board-designated net assets	<u>569,878</u>
Total unrestricted net assets, controlling interest	<u>\$ 548,122</u>

The amounts above include \$26,254 of net realized gains and unrealized changes in the fair value of investments earned on unrestricted net assets attributed to controlling interests during 2016. Unrestricted net assets attributed to noncontrolling interests represent the local councils' ownership in the Partnership. Total unrestricted net assets have changed as follows:

	Controlling <u>Interest</u>	Noncontrolling <u>Interest</u>	Total <u>Unrestricted</u>
Net assets as of December 31, 2014	\$ 628,285	\$ 135,029	\$ 763,314
Change in net assets	<u>(35,457)</u>	<u>19,609</u>	<u>(15,848)</u>
Net assets as of December 31, 2015	592,828	154,638	747,466
Change in net assets	<u>(44,706)</u>	<u>4,471</u>	<u>(40,235)</u>
Net assets as of December 31, 2016.....	<u>\$ 548,122</u>	<u>\$ 159,109</u>	<u>\$ 707,231</u>

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

Note 11. Restricted Net Assets

At December 31, 2016, restricted net assets comprised the following:

Permanently restricted net assets:

John W. Watzek Jr. (income supports general operations)	\$ 10,119
National Scouting Museum (income supports museum operations)	6,586
Waite Phillips Scholarship (income supports Philmont scholarships)	6,226
Cooke Eagle Endowment (income supports Eagle Scout scholarships)	5,309
Genevieve and Waite Phillips (income supports maintenance of Philmont)	5,054
DeWitt-Wallace Foundation (income supports leadership programs)	3,170
Kenneth McIntosh (income supports Scouting around the world)	3,003
High adventure (income benefits high-adventure program)	2,575
Scoutmaster Recognition (income supports scholarships for outstanding Scoutmasters)	2,482
Southern Region Trust Fund (income supports Southern Region)	2,466
Steve Fossett High-Adventure Base Endowment (income supports high-adventure bases) ...	1,721
Hall Scholarship (income supports Eagle Scout scholarships)	1,672
Sonia S. Maguire (income supports Philmont camperships)	1,647
Mortimer L. Schiff (income supports professional training and development)	1,450
Augustus F. Hook Jr. (income supports professional staff in Indiana)	1,449
Thomas J. Watson (income supports general operations)	1,428
Genevieve Phillips (income maintains Philmont Villa and grounds)	1,395
Summerfield Endowment (income supports general operations)	1,353
Northeast Region Main Trust Fund (income supports Northeast Region).....	1,341
Other	<u>23,816</u>
Total permanently restricted net assets	84,262

Temporarily restricted net assets:

Arrow WV (contributions and income supports the Summit)	79,618
Other	<u>45,534</u>
Total temporarily restricted net assets	125,152
Total restricted net assets	<u>\$ 209,414</u>

The restricted net asset totals include \$7,636 of net realized gains and unrealized changes in the fair value of investments earned on permanently and temporarily restricted net assets during 2016.

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

Note 12. Fees

During 2016, fees comprised the following:

Registration and license fees	\$ 59,471
National service fees from local councils	8,147
High-adventure bases	36,725
The Summit	2,944
Other	<u>6,959</u>
Total fees	<u>\$ 114,246</u>

Note 13. Retirement Benefits Trust

The Retirement Benefits Trust (the “Trust”), a grantor trust, is funded at the discretion of the National Council by payments from local councils, the National Council, and by investment income. In 2016, neither the National Council nor the local councils made payments to the Trust. Net investment gains for the Trust in 2016 equaled \$10,592, and at December 31, 2016, the Trust’s net assets were \$131,594.

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 2016, \$15,500 from the Trust was used to supplement the qualified defined benefit plan.

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

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

During 2016, the National Council’s total expense for the employees’ insurance coverage of the benefits covered by the Welfare Benefits Trust was \$8,409. This is included in the cost of benefits for Supply operations, Magazine publications, and the respective functional areas included in the Consolidated Statement of Functional Expenses.

Note 15. Benefits

The National Council offers a “non-qualified” defined benefit retirement plan (the “non-qualified plan”) to ensure that all employees receive retirement benefits on a comparable basis, notwithstanding limitations imposed upon qualified retirement plans by the tax laws. The National Council also sponsors a “qualified” elective thrift plan where one-half of National Council employee contributions are matched by the National Council, subject to certain limits. The National Council’s pension expense for the non-qualified retirement plans equals the amount of its contributions paid or accrued, such amounts being determined by the administrator of the plans. The National Council 2016 expense related to the non-qualified retirement plan (Note 13) was \$2,096, and the National Council expense in 2016 related to the thrift plan was \$1,484.

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

Note 16. Defined Benefit Retirement Plan

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

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

The overall number of employees contributing to the plan decreased in correlation with an overall decrease in employees from 5,232 in 2015 to 5,113 in 2016 with each employee contributing 2 percent of his or her salary, subject to certain IRS limitations. The National Council and local councils each contributed an amount equal to 7 percent of an employee's salary in 2016 and 2015. The National Council's employer contribution for 2016 and 2015 was \$4,495 and \$4,375, respectively. These amounts represent in excess of 5 percent of total contributions to the plan in each year.

Total employer contributions to the plan, including local councils, were \$19,413 for 2016 and \$19,193 for 2015. Including employees' contributions, total contributions for 2016 and 2015, respectively, were \$24,960 and \$24,677. For the years ended December 31, 2016 and 2015, the plan had net assets of \$1,145,987 and \$1,106,298, respectively.

The National Council and local councils contribute such amounts as necessary, on an actuarial basis, to provide the plan with assets sufficient to meet the benefits paid to the plan's members and to meet the funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Pension Protection Act of 2006 (PPA). Under a provision in the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act passed in 2010, the Boy Scouts of America retirement plan was given a temporary exemption until 2017 of funding requirements and benefit restrictions enacted by the PPA. However, in 2014 a Congressional amendment was added to ERISA which provided the Boy Scouts of America retirement plan with a permanent exemption from PPA. The actuarial present value of accumulated plan benefits, based on an annual interest rate of 7 percent and the PPA-prescribed mortality tables for each plan year, for the years ending December 31, 2016 and 2015, was \$1,178,825 and \$1,116,124, respectively. As of December 31, 2016, the pension plan is believed to be at least 80 percent funded with contributions exceeding the minimum funding requirements of ERISA.

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