

2008 REPORT OF THE TREASURER

2008 was indeed a challenging year for the Boy Scouts of America. The National Council of the Boy Scouts of America faced many challenges—some brought on by external factors and some internal. Through it all, the Boy Scouts continued to deliver an exciting and valuable program to young people in 2008, with youth members and Explorers registered in approximately 2,979,000 individual programs. In addition, adult leaders providing support to these youth were registered in approximately 1,165,000 individual programs. An individual may be simultaneously registered in more than one program. Over 53,000 Scouts and Scouters attended national high-adventure bases. The National Council is well positioned to continue its support of the 302 local Boy Scout councils.

Investment portfolios represent a significant portion of the assets managed by the National Council. Turmoil in the investment markets had a significant impact on our investment portfolios during 2008. It is important to note that management and oversight of investment portfolios is in the hands of capable and experienced volunteers and staff, supplemented by professional consultants and investment managers.

The National Council did not deviate from its strategic approach to investments during 2008, although it constantly monitors its positions and the associated risks. We continue to believe that this approach is prudent and best for the long-term needs of Scouting.

At the same time during 2008, the National Council reorganized in order to focus its resources more effectively on two primary goals: 1) to enhance local councils' ability to succeed; and 2) to enhance the Boy Scouts' brand. The National Council also used significant resources—both time and money—in preparation for the 100th Anniversary Celebration of Scouting in America, which will occur in 2010. In addition, a major effort was conducted to locate a permanent "home" for the conduct of Scouting's national jamboree. Negotiations are currently under way for the selected site and for the funding of the project.

The following discusses sources, uses, and stewardship of the National Council's resources during 2008.

Revenues, Expenses, and Other Changes in Net Assets

Unrestricted Net Assets:

Unrestricted net assets include general operations and other unrestricted net assets, and they decreased \$173,555,000 during 2008. The investment market played a major part in this decrease. General operations comprise most day-to-day activities and generated a surplus of \$1,110,000 during 2008. General operating surpluses are important for two reasons. First, they demonstrate fiscal

responsibility. Adequate resources are available to satisfy all obligations for day-to-day activities. Second, they allow special initiatives which might not otherwise be possible. The 100th Anniversary Celebration and capital improvements at the high-adventure bases are examples of how surpluses are used to enhance our programs.

Other unrestricted net assets comprise funds previously appropriated by the Board, such as for endowment, land, buildings and equipment, and special programmatic and administrative initiatives. Also included are funds related to the Retirement Benefits Trust (RBT), to the General Liability Insurance Program (GLIP), and to self-funding events, such as a world jamboree or Top Hands. During 2008, other unrestricted net assets decreased by \$174,665,000. Investment losses generated by portfolios supporting the unrestricted endowment, the RBT, and the GLIP account for the majority of the decrease in other unrestricted net assets.

Revenues. Fees decreased \$5,540,000 from 2007 to 2008. Though registration and licensing fees were down slightly for 2008, revenues for 2007 included \$8,471,000 associated with participation in the world jamboree.

Net results of Supply operations decreased \$1,991,000 from 2007. Sales were flat and margins were lower.

Magazine publications' net operating results decreased by \$1,192,000 from 2007 to 2008 due primarily to a decline in advertising sales.

Net investment gain (loss) fell from \$42,954,000 in 2007 to a loss of \$146,005,000 during 2008. The total return for investments held in the unrestricted endowment was a loss of 27.7 percent during 2008 compared with a gain of 8.4 percent during 2007. Endowment, RBT, and GLIP investments are overseen by a committee of the Board that also oversees restricted investment portfolios.

Expenses. Total expenses increased from \$142,796,000 during 2007 to \$153,946,000 during 2008. Program services expenses increased from \$129,225,000 to \$137,399,000 while supporting services expenses increased from \$13,571,000 in 2007 to \$16,547,000 in 2008. Program services expenses increased across several areas due to the restructuring of the organization to place more emphasis on serving local councils and as a result of a conscious decision to self-insure a higher level of risk in the GLIP. The increase in supporting services expenses is related to a reduction in force associated with the reorganization.

Board actions during 2009. At its February 2009 meeting, the National Executive Board appropriated the aforementioned \$1,110,000 surplus generated from general operations along with \$2,086,000 in remainder funds from prior appropriations as follows: \$1,160,000 for program development and program marketing initiatives, \$536,000 for administrative initiatives, and \$1,500,000 for 100th Anniversary Celebration 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. During 2008, net assets restricted by donors decreased by \$18,369,000 to a total of \$65,048,000. During 2008, \$3,922,000 of temporarily restricted net assets was used for donor-specified purposes, compared with \$2,245,000 used during 2007.

Total Net Assets:

Overall, during 2008 the National Council's net assets decreased \$191,924,000. In 2007, they increased \$39,001,000. During both 2007 and 2008, 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 which support, among other things, the GLIP and the RBT. Investment gains were \$46,719,000 during 2007 and a loss of \$171,915,000 during 2008.

Financial Condition, Liquidity, and Capital Resources

Cash and cash equivalents decreased by \$20,159,000 during 2008. \$5,965,000 of cash was used by operations during 2008. The National Council has no debt other than short-term obligations in the ordinary course of business. Management believes that cash generated from operations, together with liquidity provided by existing cash balances, will be

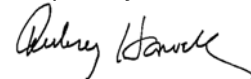
sufficient to satisfy its liquidity requirements during the next 12 months.

Capital is required to expand, improve, or replace the National Council's high-adventure facilities, its distribution center and retail stores (Scout shops), and the rest of its infrastructure in order to maintain a high level of service to its constituents. During 2008, the National Council added \$11,304,000 to its properties.

These capital investments were funded from existing cash balances. Investment purchases and sales are primarily driven by the decisions of investment managers in fulfilling their investment mandates.

The National Council remains in solid financial condition, thanks to the efforts of the National Executive Board, Advisory Council, other dedicated volunteers, and staff who make Scouting what it is. A strong National Council helps to make sure the Scouting program remains effective and true to its mission.

Respectfully,



Aubrey B. Harwell Jr.
Treasurer

March 18, 2009

AUDIT OPINION

AUDIT COMMITTEE

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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, 2008, 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 2007 financial statements, and in our report dated March 14, 2008, 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.

As discussed in Notes 1 and 2 to the consolidated financial statements, effective January 1, 2008, the Boy Scouts of America changed the manner in which it accounts for uncertain tax positions and changed the manner in which it accounts for fair value measurements.

PricewaterhouseCoopers LLP

March 18, 2009

CONSOLIDATED BALANCE SHEET

At December 31,	(In thousands)	2008	2007
Assets			
Cash and cash equivalents		\$23,772	\$43,931
Investments, at fair value including collateral for securities on loan of \$36,867 (2007—\$65,629) (Note 2)		519,692	725,114
Accounts receivable, less allowance of \$122 (2007—\$121)		18,111	13,939
Other receivables		2,415	3,046
Inventories, less provision for obsolescence of \$1,905 (2007—\$294)		53,844	51,828
Land, buildings, and equipment, net (Note 4)		80,523	77,126
Other		16,646	15,312
Total assets		\$715,003	\$930,296
Liabilities and Net Assets			
Accounts payable and accrued liabilities		37,105	42,044
Unearned fees and subscriptions		34,675	33,532
Insurance reserves (Note 7)		68,176	62,252
Payable upon return of securities loaned (Note 2)		36,867	65,629
Total liabilities		176,823	203,457
Local councils' minority interest in limited partnership		3,265	-
Net assets:			
Unrestricted (Note 9):			
General operations		27,048	38,756
Board designated		442,819	604,666
Total unrestricted		469,867	643,422
Temporarily restricted (Note 10)		15,077	10,600
Permanently restricted (Note 10)		49,971	72,817
Total net assets		534,915	726,839
Total liabilities and net assets		\$715,003	\$930,296

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, 2008 (with comparative totals for 2007)	(In thousands)	Unrestricted (Note 9)	Temporarily Restricted (Note 10)	Permanently Restricted (Note 10)	Total 2008	Total 2007
Revenues:						
Fees (Note 5)		\$79,761			\$79,761	\$85,301
Supply operations—Sales		124,229			124,229	123,407
Cost of sales and expenses		(104,890)			(104,890)	(102,077)
		19,339			19,339	21,330
Magazine publication—Sales		17,820			17,820	18,297
Cost of production and expenses		(15,795)			(15,795)	(15,080)
		2,025			2,025	3,217
Retirement Benefits Trust—Contributions from local councils (Note 11)		10,797			10,797	10,463
Contributions and bequests		3,792	\$8,797	\$2,666	15,255	10,659
Other—Primarily trading post sales		11,664			11,664	7,818
Cost of sales and expenses		(5,105)			(5,105)	(3,710)
		6,559			6,559	4,108
Total revenues before net investment gain (loss)		122,273	8,797	2,666	133,736	135,078
Net investment gain (loss)		(146,005)	(398)	(25,512)	(171,915)	46,719
Total revenues (losses)		(23,732)	8,399	(22,846)	(38,179)	181,797
Net assets released from restrictions:						
Donor restrictions satisfied		3,922	(3,922)			
Expenses:						
Program services:						
Field operations		39,368			39,368	35,696
Human resources and training		11,026			11,026	9,950
Program development and delivery		51,754			51,754	53,453
Program marketing		9,981			9,981	6,187
World Scout Bureau fees		1,344			1,344	1,328
Insurance programs—Losses and costs (Notes 7 and 8)		29,986			29,986	28,924
Premiums		(6,060)			(6,060)	(6,313)
		23,926			23,926	22,611
Total program services		137,399			137,399	129,225
Supporting services:						
Management and general		16,067			16,067	13,287
Fundraising		480			480	284
Total supporting services		16,547			16,547	13,571
Total expenses		153,946			153,946	142,796
Change in net assets including local councils' minority interest		(173,756)	4,477	(22,846)	(192,125)	39,001
Less: local councils' minority interest in limited partnership loss		(201)	-	-	(201)	-
Change in net assets		(173,555)	4,477	(22,846)	(191,924)	39,001
Net assets, beginning of year		643,422	10,600	72,817	726,839	687,838
Net assets, end of year		\$469,867	\$15,077	\$49,971	\$534,915	\$726,839

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Years ended December 31, 2008 and 2007

(In thousands)

PROGRAM SERVICES

	<u>Field Operations</u>		<u>Human Resources and Training</u>		<u>Program Development and Delivery</u>		<u>Program Marketing</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Salaries	\$17,082	\$16,374	\$4,462	\$4,788	\$14,244	\$13,927	\$4,769	\$2,719
Benefits	5,129	4,485	1,435	1,243	3,573	3,489	1,086	647
Travel	3,793	3,102	789	762	1,027	1,067	464	420
Office expense and occupancy	6,957	6,466	1,042	562	4,572	4,347	1,813	628
Depreciation and amortization	1,330	1,283	288	295	2,425	2,430	364	145
World jamboree						7,886		
Insurance losses and costs premiums								
Net insurance programs								
All other expenses	5,098	3,986	3,203	2,499	23,825	18,441	1,980	1,979
Allocated expenses ¹	(21)		(193)	(199)	2,088	1,866	(495)	(351)
Total expenses	\$39,368	\$35,696	\$11,026	\$9,950	\$51,754	\$53,453	\$9,981	\$6,187

PROGRAM SERVICES

	<u>World Scout Bureau Fees</u>		<u>Insurance Programs</u>		<u>Total Program Services</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Salaries					\$40,557	\$37,808
Benefits					11,223	9,864
Travel					6,073	5,351
Office expense and occupancy					14,384	12,003
Depreciation and amortization					4,407	4,153
World jamboree						7,886
Insurance losses and costs premiums			\$29,986	\$28,924	29,986	28,924
Net insurance programs			(6,060)	(6,313)	(6,060)	(6,313)
All other expenses	\$1,344	\$1,328			23,926	22,611
Allocated expenses ¹					23,926	22,611
Total expenses	\$1,344	\$1,328	\$23,926	\$22,611	\$137,399	\$129,225

SUPPORTING SERVICES

	<u>Management and General</u>		<u>Fundraising</u>		<u>Total Supporting Services</u>		<u>Total Expenses</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Salaries	\$14,300	\$12,872	\$319	\$193	\$14,619	\$13,065	\$55,176	\$50,873
Benefits	3,180	3,063	100	46	3,280	3,109	14,503	12,973
Travel	886	839	29	13	915	852	6,988	6,203
Office expense and occupancy	1,927	1,369	7	1	1,934	1,370	16,318	13,373
Depreciation and amortization	1,483	1,667	1	1	1,484	1,668	5,891	5,821
World jamboree								7,886
Insurance losses and costs premiums							29,986	28,924
Net insurance programs							(6,060)	(6,313)
All other expenses	3,854	2,713	24	30	3,878	2,743	23,926	22,611
Allocated expenses ¹	(9,563)	(9,236)			(9,563)	(9,236)	39,328	30,976
Total expenses	\$16,067	\$13,287	\$480	\$284	\$16,547	\$13,571	(8,184)	(7,920)
							\$153,946	\$142,796

¹Certain 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, 2008 and 2007	(In thousands)	2008	2007
Cash Flows from Operations:			
Change in net assets		\$(191,924)	\$39,001
Adjustments to reconcile change in net assets to net cash provided by operations:			
Depreciation and amortization		7,822	7,705
Net losses (gains) on sales of securities and unrealized changes in the fair value of investments		190,900	(24,058)
Interest and dividends reinvested		(8,313)	(9,238)
Contributions to the permanently restricted endowment		(2,666)	(1,043)
Contributions restricted for purchases of fixed assets		(286)	(1,151)
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable		(4,172)	302
Decrease in other receivables		631	179
(Increase) in inventories		(2,016)	(9,923)
(Increase) decrease in other assets		(1,334)	3,155
(Decrease) increase in accounts payable and accrued liabilities		(1,674)	3,017
Increase (decrease) in unearned fees and subscriptions		1,143	(5,627)
Increase in insurance reserves		5,924	1,309
Net cash (used) provided by operations		(5,965)	3,628
Cash Flows from Investing:			
Additions to properties		(11,304)	(8,313)
Proceeds from sale of investments		1,272,439	1,041,992
Purchases of investments		(1,249,604)	(1,057,685)
(Decrease) increase in securities lending payable		(28,762)	18,642
Proceeds from sale of property and other		85	117
Net cash provided (used) in investing activities		(17,146)	(5,247)
Cash Flows from Financing:			
Contributions to the permanently restricted endowment		2,666	1,043
Contributions restricted for the purchase of fixed assets		286	1,151
Net cash provided by financing activities		2,952	2,194
(Decrease) increase in cash and cash equivalents		(20,159)	575
Cash and cash equivalents, beginning of year		43,931	43,356
Cash and cash equivalents, end of year		\$23,772	\$43,931
The accompanying notes are an integral part of these consolidated financial statements.			

NOTES TO 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 . . . ”

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 expansion of membership, fundraising, communications, administration, insurance, employee benefits, investment management, and human resources recruiting and training.

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 Commingled Endowment Fund, L.P., and the National Boy Scouts of America Foundation. 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 and act as endowment; are intended to help defray future health costs for National and local council employees and their retirees; are invested in property, plant, and equipment; are used in the general liability insurance program (Note 7); or are designated for use in 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, and accounts payable. Cash, accounts receivable, and accounts payable are deemed to be stated at their fair values. Investments are reported at fair value (Note 2). Carrying values of pledges receivable approximate fair values based upon the timing of future expected cash inflows.

Inventories. Inventories of merchandise, printing stock, and supplies are carried at the lower of average cost or market.

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 is provided over the

Note 1. Summary of Significant Accounting Policies (Continued)

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, three to 10 years; and furniture, fixtures, and other equipment, three 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.

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 (see Note 11) are recorded as revenue in the period that the contribution is receivable.

Pledges and contributions are recognized as revenues in the year in which an unconditional promise to give is received. They are recorded at their estimated fair values, and allowances are provided for amounts estimated to be uncollectible. Restricted pledges and contributions which 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 recorded as board-designated net assets as no time restriction is assumed for their use. Pledges receivable are discounted to the extent they represent multiple-year receivables. 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. 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. 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 coverages 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

Note 1. Summary of Significant Accounting Policies (Continued)

and as expenses or as additions to land, buildings, and equipment. Amounts recorded as contributed services are not material and it is not practicable to estimate the fair value of all donated services received.

Collections. The National Council has paintings and artifacts in various museums and National Council-owned buildings. The largest collection resides at the National Scouting Museum in Irving, Texas, which houses collectibles appraised at approximately \$45,000,000. The last appraisal was conducted in June 2006. Costs associated with acquisition and maintenance of these collections have been expensed. During 2008, 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 affiliates, Learning for Life, the Learning for Life Foundation, and the National Boy Scouts of America Foundation, are exempt from income tax under Section 501(c)(3) of the Internal

Note 1. Summary of Significant Accounting Policies (Continued)

Revenue Code and have been classified as organizations that are not private foundations. However, income from certain activities (primarily magazine advertising income 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, 2008, the National Council has a cumulative net operating loss of approximately \$23,481,000. In accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," management has determined that it is more likely than not that the net operating loss will not be realized and therefore has provided a full valuation allowance against any deferred tax asset. Each of the partners of Boy Scouts of America Commingled Endowment Fund, L.P. is responsible for reporting its allocable share of the partnership's income or loss on their individual tax returns.

Nature of Comparative

Totals for 2007. 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, 2007, from which the summarized information was derived. PricewaterhouseCoopers LLP issued an unqualified opinion on those financial statements.

Recent Accounting Pronouncements.

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*, which provides guidance on how to measure and account for various tax positions. The National Council has adopted FIN 48, and determined no material unrecognized tax benefits or liabilities exist as of December 31, 2008. The adoption of FIN 48 did not impact the National Council's financial position or results of operations. If applicable, the National Council will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of December 31, 2008, the National Council had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The National Council

does not anticipate any significant changes to unrecognized income tax benefits over the next year.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The National Council adopted SFAS 159 effective January 1, 2008. The adoption of SFAS 159 did not have a material impact on the National Council's financial statements.

Note 2. Investments

At December 31, 2008, investments comprised the following:	
	Fair Value
Money market	\$6,366,000
Fixed income	
Government (includes securities lending collateral of \$8,167,000)	69,867,000
Corporate (includes securities lending collateral of \$7,797,000)	54,259,000
Common/Collective Trusts*	52,505,000
Other	22,852,000
Total fixed income	199,483,000
Equities	
Common stocks—domestic (includes securities lending collateral of \$17,161,000)	188,941,000
Common stocks—foreign (includes securities lending collateral of \$3,742,000)	98,611,000
Real Estate Partnerships	25,550,000
Other	741,000
Total equities	313,843,000
Total investments	\$519,692,000

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

For 2008, net investment income includes \$21,801,000 of interest and dividends, \$192,404,000 of net realized losses and unrealized changes in the fair value of investments, and \$1,312,000 in investment manager expenses.

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

Note 2. Investments (Continued)

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, 2008, the market value of securities on loan to approved brokers was \$36,223,000. Collateral received for securities on loan was invested in the State Street Navigator Securities Lending Prime Portfolio. Total collateral of \$36,867,000, received for securities on loan at December 31, 2008, is held by State Street on behalf of the National Council. Income associated with the securities lending program amounted to \$499,000 for 2008, and is included in net investment income. The following table summarizes the securities loaned and the related collateral:

Securities Loaned and the Related Collateral as of December 31, 2008		
	Fair Value	Fair Value of Collateral
Securities		
Common stocks—foreign	\$3,530,000	\$3,742,000
Common stocks—domestic	17,163,000	17,161,000
Corporate obligations	7,606,000	7,797,000
Government obligations	7,924,000	8,167,000
Total investments purchased with cash collateral	\$36,223,000	\$36,867,000
Investments Purchased with Collateral		
State Street Navigator Securities Lending Prime Portfolio		\$36,867,000

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“SFAS 157”). SFAS 157 provides guidance for using fair value to measure assets and liabilities. The National Council adopted SFAS 157 effective January 1, 2008. The adoption of SFAS 157 did not have a material impact on the National Council’s financial statements.

SFAS 157 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 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

Note 2. Investments (Continued)

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, 2008.

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 which 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 who 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.

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,

Note 2. Investments (Continued)

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, 2008, investments comprised the following levels of assets:

Level 1	\$75,471,000
Level 2	414,974,000
Level 3	29,247,000
Total	\$519,692,000

During 2008, Level 3 investments changed as follows:

Balance, December 31, 2007	\$28,431,000
Purchases	4,625,000
Sales	(369,000)
Amortized (premium)	(9,000)
Realized (losses)	(148,000)
Unrealized (losses)	(3,283,000)
Balance, December 31, 2008	\$29,247,000

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.

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

The National Council's endowment consists of approximately 85 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.

Endowment net asset composition and changes in composition by type of fund as of and for the year ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, December 31, 2007	\$278,740,000	\$4,695,000	\$72,817,000	\$356,252,000
Investment return:				
Interest and dividends	9,621,000	300,000	2,347,000	12,268,000
Realized and unrealized investment gains (losses)	(89,980,000)	(804,000)	(24,652,000)	(115,436,000)
Investment manager fees	(763,000)	-	(245,000)	(1,008,000)
Net investment return (loss)	(81,122,000)	(542,000)	(22,550,000)	(104,214,000)
Contributions	2,164,000	65,000	2,648,000	4,877,000
Spending allocation	(11,173,000)	1,950,000	(2,962,000)	(12,185,000)
Net assets released from restriction		(2,102,000)		(2,102,000)
Other (net)	(1,363,000)	7,000	18,000	(1,338,000)
Balance, December 31, 2008	\$187,246,000	\$4,073,000	\$49,971,000	\$241,290,000

Note 3. Endowment (Continued)

**Investing and
Expenditure of
Endowment Funds:**

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. Land, Buildings, and Equipment

At December 31, 2008, land, buildings, and equipment comprised the following:

National office, less accumulated depreciation of \$11,621,000	\$14,410,000
High-adventure bases, less accumulated depreciation of \$16,231,000	37,076,000
National Distribution Center, less accumulated depreciation of \$4,281,000	5,108,000
Regional service centers, less accumulated depreciation of \$2,384,000	4,875,000
Furniture, equipment, and software, less accumulated depreciation and amortization of \$54,153,000	19,054,000
Total land, buildings, and equipment, less accumulated depreciation and amortization of \$88,670,000	<u>\$80,523,000</u>

Depreciation and amortization expense was \$7,822,000 in 2008.

Note 5. Fees

During 2008, fees comprised the following:

Registration and license fees	\$40,238,000
National service fees from local councils	7,773,000
High-adventure	24,261,000
Other	7,489,000
Total fees	<u>\$79,761,000</u>

Note 6. Credit Arrangements

At December 31, 2008, the National Council had provided a \$450,000 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

\$10,000,000 import letter of credit to guarantee payments in conjunction with Supply Group international purchases. Additional letters of credit are discussed in Note 7.

Note 7. General Liability Insurance Program

The National Council has a general liability insurance program which operates primarily for the benefit of local councils.

The program is partially self-insured with deductible features as follows: \$1,000,000 per incident and, annually, a \$9,000,000 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 2008 for this program were \$6,060,000 and losses and costs were \$23,396,000.

The insurance reserves of \$68,176,000 at December 31, 2008, include \$64,760,000 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.

As a result of the favorable condition of the general liability insurance program, the National Executive Board approved a 2008 distribution of \$4,000,000 to be allocated among

local councils and the National Council. This distribution was made from the \$77,119,000 of investments and other assets designated to this insurance program as of December 31, 2008. Net assets of this insurance program are reported as board-designated net assets in the accompanying balance sheet. At December 31, 2008, the National Council had provided irrevocable letters of credit totaling \$43,923,000 for the benefit of insurance companies in conjunction with the assumed deductible portion of the program. The letters of credit are collateralized by assets equal to 110 percent of their amounts.

Note 8. Health, Life, and Other Welfare Insurance Programs

The National Executive Board currently offers health, life, and other welfare insurance programs which operate for the benefit of employees of local councils and the National Council and their dependents and retirees and their dependents. The 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 2008, the National Council's total expense for these benefits was \$12,859,000. A total of \$6,627,000 was contributed by the National Council from the Retirement Benefits Trust to the Welfare Benefits Trust to subsidize the cost of retiree insurance coverage. This amount is included in "insurance losses and costs." The remaining \$6,232,000 represents costs for employees' insurance

coverage. This amount 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 9. Unrestricted Net Assets

At December 31, 2008, unrestricted net assets comprised the following:

General operations	\$27,048,000
Board-designated:	
General endowment	187,246,000
Properties	80,523,000
Retirement Benefits Trust (Note 11)	111,695,000
General liability insurance program (Note 7)	13,342,000
Other	50,013,000
Total board-designated net assets	442,819,000
Total unrestricted net assets	\$469,867,000

Note 10. Restricted Net Assets

At December 31, 2008, restricted net assets comprised the following:

Permanently restricted net assets:	
John W. Watzek Jr. (income supports general operations)	\$6,917,000
Regional trust funds (income supports regional Scouting programs)	3,940,000
Waite Phillips Scholarship (income supports Philmont scholarships)	3,703,000
Cooke Eagle Endowment (income supports Eagle Scout scholarships)	3,176,000
Genevieve and Waite Phillips (income supports maintenance of Philmont)	3,008,000
National Scouting Museum (income supports museum operations)	2,383,000
DeWitt-Wallace Foundation (income supports leadership programs)	2,192,000
Kenneth McIntosh (income supports Scouting around the world)	1,582,000
High-adventure (income benefits high-adventure program)	1,532,000
Scoutmaster Recognition (income supports scholarships for outstanding Scoutmasters)	1,416,000
Sonia S. Maguire (income supports Philmont camperships)	1,064,000
Hall Scholarship (income supports Eagle Scout scholarships)	1,068,000
Steve Fossett High-adventure Base Endowment (income supports high-adventure bases)	1,000,000
Belcher Eagle Fund (income supports Eagle Scout scholarships)	1,000,000
Mortimer L. Schiff (income supports professional training and development)	990,000
Thomas J. Watson (income supports general operations)	982,000
Augustus F. Hook Jr. (income supports professional staff in Indiana)	949,000
Genevieve Phillips (income maintains Villa Philmonte and grounds)	848,000
Milton H. and Adele R. Ward (income supports local councils)	787,000
A. Ward Fund (income supports youth leader scholarships to serve at high-adventure bases)	774,000
Ward Fund No. 3 (income supports Scoutreach recognition)	767,000
Other	9,893,000
Total permanently restricted net assets	49,971,000
Temporarily restricted net assets	15,077,000
Total restricted net assets	\$65,048,000

The amounts above include \$27,548,000 of net realized losses and unrealized changes in the fair value of investments earned on permanently and temporarily restricted net assets during 2008.

Note 11. Retirement Benefits Trust

The National Executive Board currently chooses to subsidize the cost of medical and life insurance benefits for retired employees of local councils and the National Council. These subsidies are currently provided through the Retirement Benefits Trust (the "Trust"), a grantor trust. The aforementioned benefits are provided under plans that require retiree contributions.

The Trust is funded, at the discretion of the National Council, by payments

from local councils and the National Council and by investment income. In 2008, the National Council's required contribution to the Trust was \$3,096,000 and the local councils' required contribution to the Trust was \$10,976,000. At December 31, 2008, the Trust's net assets were \$111,695,000. 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 (\$6,627,000

was used for this purpose in 2008); (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.

Note 12. Benefits

The National Council of the Boy Scouts of America participates in a "qualified" defined benefit retirement plan covering National and local council employees with at least one year of service. Coverage under this plan is at the option of the employee.

The National Council expects that the plan will continue without interruption. 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. In 2008, the National Council expense related to the qualified

retirement plan was \$638,000 and the expense related to the non-qualified retirement plan (Note 11) was \$1,782,000. The National Council expense in 2008 related to the thrift plan was \$1,481,000.

Note 13. Commitments and Contingencies

The National Council occupies various Scout shops and other office space under noncancelable operating leases expiring at various dates through 2012. Rental commitments for Scout shop leases are contingent on future sales levels. Real estate leases are renewable at the option of the National Council. The estimated minimum rental commitments under operating leases that have initial or remaining noncancelable terms in excess of one year as of December 31, 2008, are as follows:

Year ending December 31,	
2009	\$8,249,000
2010	6,197,000
2011	4,704,000
2012	2,200,000
2013	640,000
After 2013	16,000
Total minimum payments required	<u>\$22,006,000</u>

Total rental expense for all operating leases for the year ended December 31, 2008, amounted to \$8,593,000.

The National Council has been named as a beneficiary of several estates which 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.

The National Council is subject to certain legal actions and claims arising in the ordinary course of business. Based upon the nature of and management's understanding of the facts and circumstances which give rise to such actions and claims, management believes that such litigation and claims will be resolved without material effect on the National Council's financial position or results of operations.