

National Capital Area Council,
Boy Scouts of America

Audited Financial Statements
and Supplemental Information

*Years ended December 31, 2017 and 2016
with Report of Independent Auditors*

National Capital Area Council,
Boy Scouts of America

Audited Financial Statements
and Supplemental Information

Years ended December 31, 2017 and 2016

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Report of Independent Auditors

Board of Directors
National Capital Area Council, Boy Scouts of America
Bethesda, Maryland

We have audited the accompanying financial statements of National Capital Area Council, Boy Scouts of America ("the Council") which comprise the statements of financial position as of December 31, 2017 and 2016 and the related statements of activities, changes in net assets, cash flows and functional expenses for years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control over financial reporting. 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 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 financial statements referred to above present fairly, in all material respects, the financial position of National Capital Area Council, Boy Scouts of America as of December 31, 2017 and 2016 and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The 2017 fund detail consisting of the Operating fund, the Capital fund and the Endowment fund presented on pages 3-8 is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual funds and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style with large loops and flourishes.

Vienna, Virginia
June 1, 2018

National Capital Area Council, Boy Scouts of America

Statements of Financial Position with Supplemental Information

As of December 31, 2017 and 2016

	Operating Fund	Capital Fund	Endowment Fund	Total All Funds	
				2017	2016
Assets					
Cash and cash equivalents	\$ 2,668,681	\$ 192,128	\$ 276,291	\$ 3,137,100	\$ 4,652,317
Restricted cash	1,227,000	-	-	1,227,000	994,172
Pledges receivable, net	464,089	64,635	673,024	1,201,748	1,504,313
Accounts receivable	182,773	-	-	182,773	207,699
Inventories	230,134	-	-	230,134	196,111
Prepaid expenses and other assets	158,130	-	266,327	424,457	739,836
Investments	-	-	11,785,252	11,785,252	9,619,542
Debt issuance cost, net	-	-	-	-	129,131
Donated land held for sale	-	-	-	-	213,582
Land, buildings and equipment, net	-	30,913,974	-	30,913,974	30,106,606
Total assets	\$ 4,930,807	\$ 31,170,737	\$ 13,000,894	\$ 49,102,438	\$ 48,363,309
Liabilities and net assets					
Liabilities:					
Accounts payable and accrued expenses	\$ 688,893	\$ 9,381	\$ 815	\$ 699,089	\$ 811,300
Custodian accounts	1,227,000	-	-	1,227,000	994,172
Deferred revenue:					
Activity revenue	119,344	-	-	119,344	613,545
Camping program	118,379	-	-	118,379	69,911
Other	75,870	-	-	75,870	17,802
Notes payable and line of credit	-	-	-	-	1,529,770
Total liabilities	2,229,486	9,381	815	2,239,682	4,036,500
Net assets:					
Unrestricted	1,801,181	26,142,301	4,045,864	31,989,346	29,276,764
Temporarily restricted	900,140	5,019,055	1,450,652	7,369,847	8,150,242
Permanently restricted	-	-	7,503,563	7,503,563	6,899,803
Total net assets	2,701,321	31,161,356	13,000,079	46,862,756	44,326,809
Total liabilities and net assets	\$ 4,930,807	\$ 31,170,737	\$ 13,000,894	\$ 49,102,438	\$ 48,363,309

See accompanying notes to the financial statements.

National Capital Area Council, Boy Scouts of America

Statements of Activities with Supplemental Information

Years ended December 31, 2017 and 2016

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Endowment Fund</u>	<u>Total All Funds</u>	
				<u>2017</u>	<u>2016</u>
Changes in unrestricted net assets					
Public support and revenue:					
Direct public support:					
Friends of Scouting, net	\$ 1,270,561	\$ -	\$ -	\$ 1,270,561	\$ 1,169,792
Special events	1,632,817	-	-	1,632,817	1,617,626
Less cost of direct benefits to donors	<u>(249,873)</u>	-	-	<u>(249,873)</u>	<u>(276,033)</u>
Special events, net	1,382,944	-	-	1,382,944	1,341,593
Foundations, estates and trusts, net	116,189	-	-	116,189	63,906
Other contributions	<u>241,058</u>	<u>6,345</u>	<u>350</u>	<u>247,753</u>	<u>163,047</u>
Total direct public support	3,010,752	6,345	350	3,017,447	2,738,338
Indirect public support:					
United Way and other support	<u>218,477</u>	-	-	<u>218,477</u>	<u>179,919</u>
Total indirect public support	218,477	-	-	218,477	179,919
Other revenue:					
Sale of supplies (less cost of goods sold of \$16,144 in 2017 and \$13,027 in 2016)	21,568	-	-	21,568	7,615
Product sales	3,330,955	-	-	3,330,955	3,274,282
Less cost of goods sold	(910,115)	-	-	(910,115)	(905,003)
Commissions paid to units	<u>(1,117,330)</u>	-	-	<u>(1,117,330)</u>	<u>(1,135,275)</u>
Product sales, net	1,303,510	-	-	1,303,510	1,234,004
Investment return, net of fees	216,574	119,509	1,136,177	1,472,260	752,296
Camping fees	3,036,831	-	-	3,036,831	3,089,825
Activity revenue	1,504,282	-	-	1,504,282	674,340
Other revenue	<u>800,762</u>	<u>1,487,577</u>	<u>2</u>	<u>2,288,341</u>	<u>873,842</u>
Total other revenue	<u>6,883,527</u>	<u>1,607,086</u>	<u>1,136,179</u>	<u>9,626,792</u>	<u>6,631,922</u>
	10,112,756	1,613,431	1,136,529	12,862,716	9,550,179
Net assets released from restrictions	<u>546,139</u>	<u>1,702,781</u>	-	<u>2,248,920</u>	<u>2,078,073</u>
Total public support and revenue	\$ 10,658,895	\$ 3,316,212	\$ 1,136,529	\$ 15,111,636	\$ 11,628,252

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National Capital Area Council, Boy Scouts of America

Statements of Activities with Other Financial Information (Continued)

	Operating Fund	Capital Fund	Endowment Fund	Total All Funds	
				2017	2016
Expenses:					
Program services	\$ 9,180,495	\$ 1,602,573	\$ 9,337	\$ 10,792,405	\$ 9,709,506
Support services:					
Management and general	497,412	86,829	506	584,747	564,450
Fundraising	779,225	136,024	792	916,041	919,183
Total support services	1,276,637	222,853	1,298	1,500,788	1,483,633
Unallocated payments to BSA National organization	105,861	-	-	105,861	105,861
Total expenses	10,562,993	1,825,426	10,635	12,399,054	11,299,000
Change in unrestricted net assets	95,902	1,490,786	1,125,894	2,712,582	329,252
Changes in temporarily restricted net assets					
Public support and revenue:					
Direct public support:					
Friends of Scouting, net	534,890	-	-	534,890	484,668
Capital campaign, net	-	721,886	-	721,886	290,825
Other	177,597	-	3,156	180,753	44,986
Total direct public support	712,487	721,886	3,156	1,437,529	820,479
Investment return	10,185	7,462	13,349	30,996	9,350
Net assets released from restriction	(546,139)	(1,702,781)	-	(2,248,920)	(2,078,073)
Change in temporarily restricted net assets	176,533	(973,433)	16,505	(780,395)	(1,248,244)
Changes in permanently restricted net assets					
Direct public support, net	-	-	603,760	603,760	82,629
Change in permanently restricted net assets	-	-	603,760	603,760	82,629
Change in total net assets	\$ 272,435	\$ 517,353	\$ 1,746,159	\$ 2,535,947	\$ (836,363)

See accompanying notes to the financial statements.

National Capital Area Council, Boy Scouts of America

Statements of Changes in Net Assets with Other Financial Information

As of December 31, 2017 and 2016

	Operating Fund	Capital Fund	Endowment Fund	Total All Funds	
				2017	2016
Net assets - beginning of year					
Unrestricted	\$ 2,862,436	\$ 24,008,891	\$ 2,405,437	\$ 29,276,764	\$ 28,999,512
Temporarily restricted	723,607	5,992,488	1,434,147	8,150,242	9,398,486
Permanently restricted	-	-	6,899,803	6,899,803	6,765,174
Total net assets	<u>3,586,043</u>	<u>30,001,379</u>	<u>10,739,387</u>	<u>44,326,809</u>	<u>45,163,172</u>
Change in net assets					
Unrestricted	95,902	1,490,786	1,125,894	2,712,582	329,252
Temporarily restricted	176,533	(973,433)	16,505	(780,395)	(1,248,244)
Permanently restricted	-	-	603,760	603,760	82,629
	<u>272,435</u>	<u>517,353</u>	<u>1,746,159</u>	<u>2,535,947</u>	<u>(836,363)</u>
Transfers between funds	(1,157,157)	642,624	514,533	-	-
Adjustments to net assets					
Unrestricted	-	-	-	-	(52,000)
Permanently restricted	-	-	-	-	52,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets - end of year					
Unrestricted	1,801,181	26,142,301	4,045,864	31,989,346	29,276,764
Temporarily restricted	900,140	5,019,055	1,450,652	7,369,847	8,150,242
Permanently restricted	-	-	7,503,563	7,503,563	6,899,803
Total net assets	<u>\$ 2,701,321</u>	<u>\$ 31,161,356</u>	<u>\$ 13,000,079</u>	<u>\$ 46,862,756</u>	<u>\$ 44,326,809</u>

See accompanying notes to the financial statements.

National Capital Area Council, Boy Scouts of America
Statements of Cash Flows with Supplemental Information

Years ended December 31, 2017 and 2016

	Operating Fund	Capital Fund	Endowment Fund	Total All Funds	
				2017	2016
Cash flows from operating activities					
Change in total net assets	\$ 272,435	\$ 517,353	\$ 1,746,159	\$ 2,535,947	\$ (836,363)
Transfers between funds	(1,157,157)	642,624	514,533	-	-
Adjustments to reconcile change in net assets and transfers between funds to net cash (used in) provided by operating activities					
Depreciation	-	1,325,419	-	1,325,419	1,291,535
Amortization/write-off of debt issuance cost	-	129,131	-	129,131	6,795
Contributions restricted for long term investment	-	-	(603,760)	(603,760)	(82,629)
Net gain on the sale of land	-	(1,316,627)	-	(1,316,627)	-
Change in provision for uncollectible pledges and unamortized discount	(7,858)	(25,408)	(25,617)	(58,883)	18,147
Change in fair value of investments	-	-	(1,382,126)	(1,382,126)	(631,930)
Change in assets:					
Pledges receivable	(163,415)	475,842	49,021	361,448	2,233,464
Accounts receivable	24,926	-	-	24,926	(47,301)
Inventories	(34,023)	-	-	(34,023)	(27,718)
Prepaid expenses and other assets	331,886	-	(16,507)	315,379	(330,575)
Change in liabilities:					
Accounts payable and accrued expenses	(28,351)	(84,587)	727	(112,211)	321,336
Custodian accounts	232,828	-	-	232,828	(87,898)
Deferred revenue	(387,665)	-	-	(387,665)	488,690
Net cash (used in) provided by operating activities	<u>\$ (916,394)</u>	<u>\$ 1,663,747</u>	<u>\$ 282,430</u>	<u>\$ 1,029,783</u>	<u>\$ 2,315,553</u>

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National Capital Area Council, Boy Scouts of America

Statements of Cash Flows with Other Financial Information (Continued)

	Operating Fund	Capital Fund	Endowment Fund	Total All Funds	
				2017	2016
Cash flows from investing activities					
Purchase of fixed assets	\$ -	(2,159,137)	\$ -	\$ (2,159,137)	\$ (1,074,282)
Purchase of investments	-	-	(1,278,334)	(1,278,334)	(1,630,721)
Proceeds from the sale of fixed assets	-	1,556,559	-	1,556,559	-
Proceeds from the sale of land	-	-	494,750	494,750	484,681
Net cash used in investing activities	-	(602,578)	(783,584)	(1,386,162)	(2,220,322)
Cash flows from financing activities					
Contributions to be held permanently	-	-	603,760	603,760	82,629
Principal payments on notes payable	-	(1,529,770)	-	(1,529,770)	(1,296,330)
Net cash (used in) provided by financing activities	-	(1,529,770)	603,760	(926,010)	(1,213,701)
Change in cash and cash equivalents	(916,394)	(468,601)	102,606	(1,282,389)	(1,118,470)
Cash and cash equivalents, beginning of year	4,812,075	660,729	173,685	5,646,489	6,764,959
Cash and cash equivalents, end of year	<u>\$ 3,895,681</u>	<u>\$ 192,128</u>	<u>\$ 276,291</u>	<u>\$ 4,364,100</u>	<u>\$ 5,646,489</u>
Cash and cash equivalents:					
Cash	\$ 2,668,681	\$ 192,128	\$ 276,291	\$ 3,137,100	\$ 4,652,317
Restricted cash	<u>1,227,000</u>	<u>-</u>	<u>-</u>	<u>1,227,000</u>	<u>994,172</u>
	<u>\$ 3,895,681</u>	<u>\$ 192,128</u>	<u>\$ 276,291</u>	<u>\$ 4,364,100</u>	<u>\$ 5,646,489</u>
Supplemental disclosure of cash flows information					
Interest paid	<u>\$ -</u>	<u>\$ 47,147</u>	<u>\$ -</u>	<u>\$ 47,147</u>	<u>\$ 75,021</u>

See accompanying notes to the financial statements.

National Capital Area Council, Boy Scouts of America

Statement of Functional Expenses

Year ended December 31, 2017

	Supporting Services			Total Supporting Services	Payments to National Organization	Total Expenses
	Program Services	Management & General	Fundraising			
Expenses:						
Employee compensation						
Salaries	\$ 3,775,678	\$ 291,161	\$ 419,470	\$ 710,631	\$ -	\$ 4,486,309
Employee benefits	660,454	50,931	73,375	124,306	-	784,760
Payroll taxes	348,188	26,850	38,683	65,533	-	413,721
Employee related expense	<u>421</u>	<u>32</u>	<u>47</u>	<u>79</u>	-	<u>500</u>
Total employee compensation	4,784,741	368,974	531,575	900,549	-	5,685,290
Other expenses						
Professional fees	256,543	69,650	64,224	133,874	-	390,417
Supplies	1,007,411	4,521	15,514	20,035	-	1,027,446
Telephones	64,436	4,043	5,825	9,868	-	74,304
Postage and shipping	25,562	2,224	11,510	13,734	-	39,296
Occupancy	824,754	28,157	40,938	69,095	-	893,849
Rent and maintenance of equipment	308,414	6,213	8,997	15,210	-	323,624
Printing and publications	34,375	1,513	60,482	61,995	-	96,370
Travel/transportation	448,466	20,543	29,619	50,162	-	498,628
Conferences and training	782,894	7,049	11,054	18,103	-	800,997
Specific assistance to individuals	14,747	-	-	-	-	14,747
Recognition awards	361,271	17,757	53,011	70,768	-	432,039
Interest and related expenses	47,147	-	-	-	-	47,147
Insurance	329,261	25,932	29,548	55,480	-	384,741
Other expenses	106,597	4,171	18,980	23,151	-	129,748
Payments to BSA National organization	-	-	-	-	105,861	105,861
Total other expenses	<u>4,611,878</u>	<u>191,773</u>	<u>349,702</u>	<u>541,475</u>	<u>105,861</u>	<u>5,259,214</u>
Expenses before depreciation	9,396,619	560,747	881,277	1,442,024	105,861	10,944,504
Depreciation and amortization	<u>1,395,786</u>	<u>24,000</u>	<u>34,764</u>	<u>58,764</u>	-	<u>1,454,550</u>
Total functional expenses	<u>\$ 10,792,405</u>	<u>\$ 584,747</u>	<u>\$ 916,041</u>	<u>\$ 1,500,788</u>	<u>\$ 105,861</u>	<u>\$ 12,399,054</u>

See accompanying notes to the financial statements.

National Capital Area Council, Boy Scouts of America

Statement of Functional Expenses

Year ended December 31, 2016

	<u>Supporting Services</u>			Total Supporting Services	Payments to National Organization	<u>Total Expenses</u>
	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>			
Expenses:						
Employee compensation						
Salaries	\$ 3,614,373	\$ 276,181	\$ 397,975	\$ 674,156	\$ -	\$ 4,288,529
Employee benefits	613,234	46,858	67,523	114,381	-	727,615
Payroll taxes	327,516	25,026	36,062	61,088	-	388,604
Employee related expense	<u>14,339</u>	<u>1,096</u>	<u>1,579</u>	<u>2,675</u>	-	<u>17,014</u>
Total employee compensation	4,569,462	349,161	503,139	852,300	-	5,421,762
Other expenses						
Professional fees	196,863	65,621	65,621	131,242	-	328,105
Supplies	1,000,662	4,648	11,654	16,302	-	1,016,964
Telephones	71,135	4,963	6,617	11,580	-	82,715
Postage and shipping	31,431	2,418	14,507	16,925	-	48,356
Occupancy	723,831	23,603	39,339	62,942	-	786,773
Rent and maintenance of equipment	172,543	7,933	17,849	25,782	-	198,325
Printing and publications	46,386	(1,189)	73,742	72,553	-	118,939
Travel/transportation	376,227	21,377	29,927	51,304	-	427,531
Conferences and training	156,865	10,017	21,585	31,602	-	188,467
Specific assistance to individuals	21,916	-	-	-	-	21,916
Recognition awards	327,419	21,261	76,539	97,800	-	425,219
Interest and related expenses	75,021	-	-	-	-	75,021
Insurance	302,751	24,643	24,643	49,286	-	352,037
Other expenses	390,598	4,027	8,054	12,081	-	402,679
Payments to BSA National organization	-	-	-	-	105,861	105,861
Total other expenses	<u>3,893,648</u>	<u>189,322</u>	<u>390,077</u>	<u>579,399</u>	<u>105,861</u>	<u>4,578,908</u>
Expenses before depreciation	8,463,110	538,483	893,216	1,431,699	105,861	10,000,670
Depreciation and amortization	<u>1,246,396</u>	<u>25,967</u>	<u>25,967</u>	<u>51,934</u>	-	<u>1,298,330</u>
Total functional expenses	<u>\$ 9,709,506</u>	<u>\$ 564,450</u>	<u>\$ 919,183</u>	<u>\$ 1,483,633</u>	<u>\$ 105,861</u>	<u>\$ 11,299,000</u>

See accompanying notes to the financial statements.

National Capital Area Council, Boy Scouts of America

Notes to Financial Statements

Years ended December 31, 2017 and 2016

Note A - Nature of Operation and Significant Accounting Policies

Nature of Operation

The National Capital Area Council, Boy Scouts of America (the Council) is headquartered in Bethesda, Maryland, and operates in the District of Columbia, 16 counties in Maryland and Virginia and the U.S. Virgin Islands, and direct service units and members in North and South America. The Council is a not-for-profit organization devoted to promoting, within the territory covered by the charter from time to time granted it by the Boy Scouts of America, Inc. National Council (National Council) and in accordance with the Congressional Charter, Bylaws, and Rules and Regulations of the National Council, the Scouting program of promoting the ability of boys and young men and women to do things for themselves and others, training them in Scoutcraft, and teaching them patriotism, courage, self-reliance, and kindred virtues, using the methods which are now in common use by the Boy Scouts of America.

The Council's programs are classified as follows:

Lion – Lion is a family-oriented program. A youth and parent or caring adult partner join Scouting together. A group of six to eight children and their adult partners meet in a group called a den. Dens will meet approximately twice per month. They have fun participating in den meetings and outings while making memories together.

Tigers - One-year, family-oriented program for a group of teams, each consisting of a first-grade (or 7-year-old) child and an adult partner (usually a parent). A Tiger den is part of the Cub Scout pack.

Cub Scouting - Family- and community-centered approach to learning citizenship, compassion, and courage through service projects, ceremonies, games, and other activities promoting character development and physical fitness.

Boy Scouting - With the Scout Oath and Scout Law as guides, and the support of parents and religious and neighborhood organizations, Scouts develop an awareness and appreciation of their role in their community and become well-rounded young men through the advancement of the program. Scouts progress in rank through achievements, gain additional knowledge and responsibilities, and earn merit badges that introduce a lifelong hobby or a rewarding career.

Varsity Scouting - Program for young men ages 14–17 that provides options for those who are looking for rugged high adventure or challenging sporting activities and still want to be a part of a Scouting program that offers the advancement opportunities and values of the Boy Scouts of America. There are five fields of emphasis: advancement, high-adventure sports, personal development, service, and special programs and events. This program was discontinued by the National Council on December 31, 2017.

National Capital Area Council, Boy Scouts of America

Notes to Financial Statements (Continued)

Note A - Summary of Significant Accounting Policies (Continued)

Nature of Operation (continued)

Venturing - Provides experiences to help young men and women, ages 14—or 13 with completion of the eighth grade—through 20, become mature, responsible, caring adults. Young people learn leadership skills and participate in challenging outdoor activities, including having access to Boy Scout camping properties, a recognition program, and Youth Protection training.

The Council's website address is www.ncacbsa.org.

Federal Income Tax Status

The Council is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code), under Group Ruling number 1761 issued by the National Council, as a charitable organization whereby only unrelated business income, as defined by Section 509(a)(1) of the Code, is subject to federal income tax. Management has concluded that the Council has maintained its exempt status. Additionally, management has concluded that there are no uncertain tax positions as of December 31, 2017.

Basis of Accounting

The financial statements of the Council have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Fund Accounting

The accounts of the Council are maintained using fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund to facilitate the preparation of the financial statements in the three-funds-plus-total-of-all-funds format, required by the National Council.

Subsequent Events

The Council has evaluated subsequent events for disclosure and recognition through June 1, 2018, the date on which these financial statements were available to be issued. All material subsequent events have been disclosed as of that date.

Prior to publishing these financial reports, the Council released a statement on a change in a chartered partner of the Boys Scouts of America. Please see Note P - Subsequent Events, for additional footnote disclosure.

Basis of Presentation

The financial statements of the Council are presented in accordance with the uniform accounting system prescribed by the Boy Scouts of America Local Council Accounting Manual. The manual is in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) used for not-for-profit organizations.

National Capital Area Council, Boy Scouts of America

Notes to Financial Statements (Continued)

Note A - Summary of Significant Accounting Policies (Continued)

Basis of Presentation (continued)

These standards require the Council to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted net assets - represents resources which have met all applicable restrictions and/or resources generated by other sources.

Temporarily restricted net assets - represents resources recognized as restricted support until such a time when all associated restrictions have been met.

Permanently restricted net assets - represents resources that contain a stipulation that permanently restricts the use of such funds but allows earnings from the funds to be used in a certain manner.

Use of Estimates

The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts and pledges receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments. The carrying amount of long-term debt approximates fair value, because the interest rate on this instrument fluctuates with the market rates offered to the Council for debt with similar terms and maturities.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Council considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Restricted cash is shown on the statements of financial position that relates to certain custodial accounts where cash is held by the Council on behalf of other organizations.

Concentration of Credit Risk

Throughout the year, the Council may have cash and cash equivalents held by financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) coverage limit. Management believes these amounts are not subject to any significant risk.

Inventories

Trading post inventory is recorded at the lower of cost (first-in, first-out method) or market. Cost is determined by the most recent purchase date.

National Capital Area Council, Boy Scouts of America

Notes to Financial Statements (Continued)

Note A - Summary of Significant Accounting Policies (Continued)

Pledges Receivable

Unconditional promises to give are recorded as revenue in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Pledges receivable that are expected to be collected within one year are reported net of any estimated uncollectible amounts. Pledges receivable expected to be collected beyond one year are discounted to present value using the interest rate in effect the year the pledge is received. The Council uses the allowance method to determine uncollectible, unconditional pledges receivable. The allowance is based on experience and analysis of specific promises made. The unamortized discount and allowance are reflected as reductions to pledges receivable in the statements of financial position.

Land, Building and Equipment, net

Land and land improvements, buildings, and equipment are stated at cost or, if donated, at the estimated fair value on the date of donation. The threshold for qualifying an item for capitalization is \$5,000. Depreciation is calculated over the estimated useful life of the related asset using the straight-line method.

Investments

Investments consist of a single investment in the BSA Commingled Endowment Fund, LP. The Council accounts for investments in accordance with U.S. GAAP which requires that investments with readily determinable fair values be measured at fair value in the statements of financial position. Interest, dividends, realized and unrealized gain and loss on investments, net of fees, are recorded as investment return in the statements of activities. Realized gains and losses are determined on a specific identification basis.

Donated Services

No amounts are reflected in the financial statements for donated services from volunteers since no objective basis is available to measure the value of such services; however, a substantial number of volunteers donate significant amounts of time to assist in the operations of the Council. During 2017 and 2016, skilled services of \$55,000 were received relating to video production and recorded in other contributions in the statements of activities.

Other Revenue

Camping fees, activity revenue, product sales, scout shop sales and other revenue are recognized as revenue when the event, activity or sale occurs.

Contributions

Contributions received are recorded as an increase in unrestricted, temporarily restricted or permanently restricted net assets based on donor restrictions. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction. If a restriction is fulfilled in the same fiscal year in which the contribution is received, the contribution is reported as unrestricted.

National Capital Area Council, Boy Scouts of America

Notes to Financial Statements (Continued)

Note A - Summary of Significant Accounting Policies (Continued)

Deferred Revenue

Deferred revenue relates to program activities occurring after the Council's year end. Consequently, receipts and disbursements relating to those program activities are deferred and reported in the fiscal year the activity is conducted.

Expense Allocation

The costs of providing programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses which are not directly attributable to one function are allocated between program services, management and general and fundraising based on a time study prepared by management. The time study allocates services based on the number of employees involved, the amount of time spent, the percentage of their salary associated with that time and estimates made by the Council's management. In accordance with the National Council, payment of the charter fee to the National Council is not allocated as a functional expense.

Contingency

In the course of providing the many outdoor programs that the Council supports, injuries, which are generally insured, occur. Currently, there are no threatened or existing legal actions that represent a significant exposure to the Council.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

Note B - Pledges Receivable

Pledges receivable consist of various pledges for Friends of Scouting and other activities. At December 31, pledges are comprised as follows:

	<u>2017</u>	<u>2016</u>
Receivable within one year	\$ 1,177,915	\$ 1,051,326
Receivable in one to five years	<u>154,414</u>	<u>642,451</u>
	1,332,329	1,693,777
Discount to present value	(1,865)	(3,481)
Allowance for uncollectible amounts	<u>(128,716)</u>	<u>(185,983)</u>
Pledges receivable, net	<u>\$ 1,201,748</u>	<u>\$ 1,504,313</u>

National Capital Area Council, Boy Scouts of America

Notes to Financial Statements (Continued)

Note C - Related Party Transactions

The statements of financial position include approximately \$7,575 and \$259,000 in outstanding pledges as of December 31, 2017 and 2016, respectively, from pledges made by members of the Council's Board of Directors. The Council recognized approximately \$303,669 and \$362,000 in related contribution revenue from Board members for the years ended December 31, 2017 and 2016, respectively. From time to time the Council may engage in business transactions with organizations who are represented on the Council's Board of Directors. These business arrangements are conducted in the normal course of business.

As discussed in Note G - Investments, the Council invests in the BSA Commingled Endowment Fund, LP, which is managed by an affiliated organization of the Boy Scouts of America, Inc., BSA Asset Management, LLC.

The Council is an affiliated organization of the Boy Scouts of America, Inc. and is subject to the rules and regulations of the Boy Scouts of America, Inc. In accordance with an affiliation agreement between the Council and the Boy Scouts of America, Inc., certain expenses are paid to the Boy Scouts of America, Inc. in the forms of periodic dues and an annual charter fee to support its activities. These expenses totaled \$105,861 during the years ending December 31, 2017 and 2016.

Note D - Land, Buildings and Equipment

Land, buildings and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Buildings	\$ 24,817,217	\$ 22,725,813
Land and land improvements	18,070,485	17,991,120
Furniture and fixtures	1,757,560	1,589,252
Motor vehicles	617,648	601,648
Construction-in-progress	-	416,309
Total	<u>45,262,910</u>	<u>43,324,142</u>
Less accumulated depreciation	<u>(14,348,936)</u>	<u>(13,217,536)</u>
Land, building and equipment, net	<u>\$ 30,913,974</u>	<u>\$ 30,106,606</u>

The estimated useful lives of assets are as follows:

Land improvements	15-30 years
Building	15-60 years
Furniture and fixtures	5 or 7 years
Vehicles	3 or 5 years

During the year ended December 31, 2017, a total land value of \$1,556,559 was sold. This resulted in a net gain on sale of \$1,316,627 which is recognized in the statements of activities as Other Revenue.

National Capital Area Council, Boy Scouts of America

Notes to Financial Statements (Continued)

Note E - Endowment and Life Endowment Program

Endowment Fund

The Boy Scout Accounting Manual policy is to recognize interest and dividend income, net of expenses earned by the Endowment Fund as unrestricted income in the Operating Fund. However, the Council has elected to limit the income transferred to the Operating Fund each year to an annually approved amount, up to 5% of a three year rolling average, to pay for operations and leave the remaining income in the Endowment Fund, if any.

The amount of Endowment Fund income transferred to the Operating Fund for years ended December 31, 2017 and 2016 was \$263,176 and \$258,544, respectively. The amount of Endowment Fund income transferred to the Capital Fund for years ended December 31, 2017 and 2016 was \$160,753 and \$178,776, respectively.

Note F - Retirement Plans

The Boy Scouts of America, Inc. sponsors a defined benefit multi-employer plan, Boy Scouts of America Pension Trust, Boy Scouts of America Retirement Plan for Employees (the Plan) Employer Identification Number 22-1576300, that covers eligible employees of the Boy Scouts of America, Inc. and chartered councils, including this Council, and is administered by the Boy Scouts of America, Inc.. The Plan covers all employees who have completed one year of service and who have agreed to make contributions. Eligible employees contribute 2% of compensation and the Council contributes an additional 7% to the Plan. Other than contributions for eligible employees the Council has no other commitments or obligations to the Plan. The Council paid no surcharges in 2017 and 2016 to the Plan. Pension expense (excluding the contributions made by employees) for the years ended December 31, 2017 and 2016 was \$221,716 and \$221,695, respectively, and covered current service cost. Council contributions do not exceed 5% of aggregate contributions made by all participants in the Plan.

The actuarial information for the multi-employer plan as of February 1, 2017 indicates that it is in compliance with the Employment Retirement Income Security Act of 1974 (ERISA) regulations regarding funding and the Plan's net assets available for benefits exceed the present value of both vested and non-vested accumulated benefits. The assumed rate of return used in determining the actuarial value of present accumulated benefits was 7.00% as of both February 1, 2017 and 2016. The aggregate method is the cost method used in the estimated actuarial valuation; amortization of gains and losses is over seven years; and the amortization of past or prior service cost is seven years. The actuarial valuation includes all plan amendments as of February 1, 2017.

Total plan assets at January 31, 2017 and 2016 were \$1,371,002,356 and \$1,205,724,412, respectively. The actuarial present value of accumulated plan benefits at January 31, 2017 and 2016 was \$1,199,713,882 and \$1,178,825,215, respectively.

National Capital Area Council, Boy Scouts of America

Notes to Financial Statements (Continued)

Note F - Retirement Plans (Continued)

The Council also provides a 403(b) defined contribution plan, which provides retirement benefits for substantially all of its employees. The Council contributes an amount equal to 6% of each eligible employee's semi-monthly compensation for each pay period once they have accumulated a year of service time. Total contributions to the plan were \$150,036 and \$136,226 for the years ending December 31, 2017 and 2016, respectively.

During 2017, the National Council announced a new 403(b) defined contribution plan that will be available to all Council employees. This plan will be effective starting January 1, 2019. As a result, the Council announced their intention to terminate the 403(b) defined contribution plan effective December 31, 2018.

Note G - Investments

As of December 31, 2017 and 2016, the Council held investments, at fair value, as follows:

	2017	2016
BSA Commingled Endowment Fund, LP	\$ 11,785,252	\$ 9,619,542
Total investments	\$ 11,785,252	\$ 9,619,542

Investment return, net of fees, is comprised of the following for the year ended December 31, 2017:

	Operating Fund	Capital Fund	Endowment Fund	Total all Funds
Interest and dividends	\$ 100,483	\$ 57,078	\$ 25,545	\$ 183,106
Realized and unrealized gain on investments, net	126,276	69,893	1,185,957	1,382,126
Investment return	226,759	126,971	1,211,502	1,565,232
Investment fees	-	-	(61,976)	(61,976)
Investment return, net	\$ 226,759	\$ 126,971	\$ 1,149,526	\$ 1,503,256

Investment return, net of fees, is comprised of the following for the year ended December 31, 2016:

	Operating Fund	Capital Fund	Endowment Fund	Total all Funds
Interest and dividends	\$ 103,580	\$ 66,993	\$ 6,503	\$ 177,076
Realized and unrealized gain on investments, net	160,761	111,905	359,264	631,930
Investment return	264,341	178,898	365,767	809,006
Investment fees	-	-	(47,360)	(47,360)
Investment return, net	\$ 264,341	\$ 178,898	\$ 318,407	\$ 761,646

National Capital Area Council, Boy Scouts of America

Notes to Financial Statements (Continued)

Note H - Fair Value Measurement

The Council's classifications for assets and liabilities measured at fair value on a recurring basis are subject to the fair value measurement disclosures and are based on the framework established in the Fair Value Measurement and Disclosure accounting guidance. The framework is based on the inputs in the valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Council's significant assumptions.

The three levels of the hierarchy are as follows :

Level 1 - Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Council has the ability to access. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, for substantially the full period, for the asset or liability and market corroborated inputs.

Level 3 - Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The Council recognizes transfers between levels of the fair value hierarchy at the end of the period in which circumstances occur causing changes in the availability of fair value inputs.

Investments

The Council's investments at fair value at December 31, 2017 and 2016 by fair value hierarchy category in accordance with U.S. GAAP, are shown below:

<u>Class of Security</u>	<u>2017</u>	<u>2016</u>	<u>Level</u>
BSA Commingled Endowment Fund, LP (a)	<u>\$ 11,785,252</u>	<u>\$ 9,619,542</u>	2
Total investments, at fair value	<u>\$ 11,785,252</u>	<u>\$ 9,619,542</u>	

The fair value of the assets above are valued at their net asset value as a practical expedient, utilizing the net asset valuations provided by the General partner for the Limited Partnership or fund manager for the Institutional Bond Fund, when the net asset valuations of the investments are calculated in a manner consistent with U.S. GAAP and the Council can redeem at net asset value at the measurement date.

National Capital Area Council, Boy Scouts of America

Notes to Financial Statements (Continued)

Note H - Fair Value Measurement (Continued)

Investments (continued)

(a) The Council invests in the BSA Commingled Endowment Fund, LP (see Note C - Related Party Transactions for further discussion regarding the BSA Commingled Endowment Fund, LP). The assets of the BSA Commingled Endowment Fund, LP are managed so as to provide the highest total return consistent with prudent investment practices, providing for long-term returns sufficient to cover the return requirements of a 5% total return spending formula. Safety and preservation of capital are paramount considerations. Target asset allocation of the BSA Commingled Endowment Fund, LP is 30% U.S. equity, 26% non-U.S. equity, 12% equity real estate, 20% investment grade debt and 12% high yield debt. The partnership agreement provides that any partner may request a withdrawal of all or any portion of their capital account once each month with 10 days notice. In the event any partner is deemed to have requested, during a single calendar year, in excess of 99% of its capital account, in its sole discretion the General Partner may make such distribution up to 99% of the partner's capital account and retain the remaining 1% for 45 days after the end of the calendar month in which the partner's request for withdrawal is effective in order to allow time to determine whether any adjustments to the capital accounts are necessary in light of available financial information. As of December 31, 2017 and 2016, there are no unfunded commitments.

Beneficial Interests

Beneficial interests in charitable gift annuities held by others (recorded in prepaid expenses and other assets) are classified as Level 3 assets as their fair values are derived from inputs to the valuation methodology that are unobservable for the asset and are based on actuarial assumptions such as mortality rates and the applicable federal rate for charitable gifts. These assumptions are significant to the valuation. The following table summarizes changes in the beneficial interests in charitable gift annuities:

Balance at January 1, 2016	\$ 269,922
Distributions	<u>(20,102)</u>
Balance at December 31, 2016	249,820
Additions	<u>16,507</u>
Balance at December 31, 2017	<u>\$ 266,327</u>

Non-recurring Measurement

Fair value for pledges receivable is assessed on a non-recurring basis in the year multi-year commitments are received. During the years ended December 31, 2017 and 2016 pledges receivable evaluated on a non-recurring basis at a Level 3 fair value were \$57,500 and \$0, respectively.

Note I - Beneficial Interests in Charitable Gift Annuities

The Council has been named as the beneficiary of charitable annuities. The Council does not serve as the trustee for these arrangements. These items are reflected in prepaid expenses and other assets in the statements of financial position and had an estimated fair value of approximately \$266,000 and \$250,000 at December 31, 2017 and 2016, respectively.

National Capital Area Council, Boy Scouts of America

Notes to Financial Statements (Continued)

Note J - Notes Payable

On April 1, 2006, the Council issued a thirty year note to a financial institution for \$10,000,000 to fund construction projects for camps Goshen and Snyder. Wachovia granted the Council this loan through the Virginia Small Business Financing Authority (VSBFA) Adjustable Note Revenue Bonds program. VSBFA has the authority to issue its revenue bonds for the purpose of lending the proceeds of the sale of such bonds to eligible businesses. U.S. Bank National was the Trustee for this transaction. Costs associated with the issuance of the bonds were paid by the Council and capitalized. These costs are being amortized over the term of the bonds.

During 2010, \$4,000,000 of the \$10,000,000 in notes payable was paid and the remaining \$6,000,000 of the notes payable were refinanced with TD Bank. The note payable is collateralized by the Council's building.

At the beginning of 2017, the Council had a notes payable remaining balance of \$1,529,770. During 2017, the remaining balance of the outstanding notes payable was paid in full. The interest rates on these notes were 69% of (LIBOR + 1.9%), 3.69%, and 3.35% during the years ended December 31, 2017 and 2016 before the notes payable were paid in full.

Note K - Lines of Credit

The Council has a \$1,500,000 line of credit that is available to be used to issue standby letters of credit for Maryland unemployment and other borrowing needs. As of December 31, 2017 and 2016 there was \$0 outstanding on this line of credit. The interest rate on the line of credit was approximately 2% for the years ending December 31, 2017 and 2016. As of December 31, 2017 and 2016, approximately \$31,000 was used to issue a standby letter of credit for Maryland unemployment. No amounts were drawn under this standby letter of credit during 2017 and 2016. Total credit available was approximately \$1,469,000 at December 31, 2017 and 2016.

Note L - Net Assets Released from Restrictions

Net assets were released from temporary donor restrictions by incurring expenses for activities in accordance with the restricted purposes or expiration of time restrictions specified by the donors as follows for the year ended December 31:

	2017	2016
<i>Time restriction:</i>		
Friends of Scouting	\$ 484,668	\$ 526,352
<i>Purpose restriction:</i>		
Program specific support	61,471	32,304
Capital Campaign	1,702,781	1,519,417
Net assets released from restriction	\$ 2,248,920	\$ 2,078,073

National Capital Area Council, Boy Scouts of America

Notes to Financial Statements (Continued)

Note M - Temporarily Restricted and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following as of December 31:

	<u>2017</u>	<u>2016</u>
<i>Time restriction:</i>		
Available for future periods	\$ 696,688	\$ 494,668
<i>Purpose restriction:</i>		
Capital Campaign	4,844,684	5,913,539
Wetlands	758,678	628,745
Camping	311,988	203,183
Camperships	96,346	94,760
Scoutreach Programs	34,029	27,056
Various funds	<u>627,434</u>	<u>788,291</u>
	<u>\$ 7,369,847</u>	<u>\$ 8,150,242</u>

Permanently restricted net assets as of December 31 are restricted as follows:

	<u>2017</u>	<u>2016</u>
<i>Purpose restriction:</i>		
Endowment funds	<u>\$ 7,503,563</u>	<u>\$ 6,899,803</u>

Note N - Rental Income

The Council leases space to the National Council for the Scout Shop. The Council receives 8% of the total sales up to \$750,000, and 13% of the total sales above \$750,000 as rental income based on the sales produced by the Maryland and Virginia Scout Shops. Rental income related to these leases, which are included in scout Shop sales in the statements of activities, was \$413,410 and \$430,721 for the years ended December 31, 2017 and 2016, respectively.

Note O - Commitments and Contingencies

The Council leases office space in Springfield, Virginia under a non-cancelable operating lease agreement. The Council entered into a new, non-cancelable lease for this office space which commenced March 1, 2014 and expires on February 28, 2024. The Council also leases the use of office equipment, which expires on September 22, 2019. Future minimum lease payments under the non-cancelable lease agreement noted above are as follows:

2018	\$ 129,600
2019	124,300
2020	104,000
2021	106,600
2022	109,233
Thereafter	<u>130,700</u>
	<u>\$ 704,433</u>

National Capital Area Council, Boy Scouts of America

Notes to Financial Statements (Continued)

Note O - Commitments and Contingencies (Continued)

Rental expense under these leases were approximately \$127,467 and \$124,900 for the years ending December 31, 2017 and 2016, respectively.

Note P - Subsequent Events

On May 8, 2018, The Church of Jesus Christ of Latter-day Saints (the "Church") and the National Office of the Boy Scouts of America made a joint statement that, effective January 1, 2020, the Church would no longer be a chartered partner of the Boy Scouts of America. Council management anticipates that there could be a decrease in the future contributions; however, at this time, the Council is unable to estimate an amount of the potential decrease.