BOY SCOUTS OF AMERICA®

Local Council Guide to the 2020 Audit

Special COVID-19 Resources Issue

New Disclosures for 2020!

Table of Contents

Introduction

December 2020

The National Council Finance Support Committee is pleased to present the *Local Council Guide to the 2020 Audit ("the Guide")*. **This information is being provided for educational purposes only, and readers should not act upon the information before consulting their state-licensed professionals.** Due to its technical nature, this document is targeted mainly at local council auditors, audit committee members, senior accounting staff, and other council leadership possessing financial expertise. The Guide contains recent accounting and auditing standards that may affect the 2020 financial statements as well as examples and illustrations that clarify the requirements under generally accepted accounting principles (GAAP), generally accepted auditing standards (GAAS), and the National Council's financial reporting standards. Although the Guide attempts to cover events, transactions, and disclosures common to many local councils, it is not intended to be all-inclusive and thus might not reflect your council's specific situation. Therefore, users should carefully consider all information contained herein and its applicability during the audit. We hope the Guide answers some of the questions and minimizes confusion over what is expected when performing a financial statement audit of a local council of the Boy Scouts of America.

2020 has been a year of significant challenges for our Scouting family. The coronavirus (COVID-19) pandemic is causing enormous consequences across the globe, and we know many local councils are experiencing uncertainty and concern for the future. Among the many effects of COVID-19, local councils may face accounting and financial reporting challenges. By providing nonauthoritative, illustrative examples and explanations, we hope this Guide enables your council to meet some of these challenges to help you *be prepared* for the audit of your 2020 financial statements.

COVID-19 Resources

The Paycheck Protection Program (PPP)

Overview:
The PPP, which is a part of the $2 trillion CARES Act (Coronavirus Aid, Relief and Economic Security Act), is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. Administered by the U.S. Small Business Administration (SBA), the PPP consisted of two "rounds" of loan disbursements. Round 1 started on April 3, 2020, when $349 billion was loaned out in the first two weeks. Round 2 started April 27, when an additional $310 billion was authorized. Many local councils applied for and received PPP loans. A total of $522 billion has been loaned under the program. The PPP closed on August 8, 2020.

PPP Details:

- To qualify for the loan, an organization must meet the existing statutory and regulatory definition of a "small business concern" under section 3 of the Small Business Act, 15 U.S.C. 632 (generally 500 or fewer employees, with exceptions).
- SBA will forgive loans if all employee retention criteria are met, and the funds are used for eligible expenses.
- Loan will be fully forgiven if the funds are used for payroll costs, interest on mortgages, rent, and utilities (at least 60% of the forgiven amount must have been used for payroll).
- PPP closed Aug 8, 2020. SBA no longer accepting PPP applications from participating lenders.
- PPP loans have an interest rate of 1%.
- Loans issued prior to June 5 have a maturity of 2 years. Loans issued after June 5 have a maturity of 5 years.
- Loan payments will be deferred for six months.
- No collateral or personal guarantees are required.
- Neither the government nor lenders will charge small businesses any fees.

PPP Loan Forgiveness:

- Based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease.
- Borrowers have up to 24 weeks after the loan disbursement date (not to extend beyond December 31, 2020) to spend the proceeds.
- Borrowers can use the 24-week period to restore their workforce levels and wages to the pre-pandemic levels required for full forgiveness.

Local Council Accounting for PPP Loans

AICPA issues guidance on accounting for forgivable PPP loans

In June, the AICPA issued guidance on accounting for Paycheck Protection Program (PPP) loans in its Technical Question and Answer (TQA) 3200.18, *Borrower Accounting for a Forgivable Loan Received Under the Small Business Administration Paycheck Protection Program*. The TQA covers nongovernmental entities (which include businesses and not-for-profit entities). Please be sure to share this information with your council's audit committee, accounting staff, and auditors.

Local councils have two options under the TQA:

Option 1

Initially record the PPP loan proceeds as long-term debt (following FASB Accounting Standards Codification (ASC) Topic 470, *Debt*) and reclassify the amount forgiven to other income upon legal release by the lender. This was the methodology suggested in a communication to local councils in April, prior to the AICPA guidance. Following are example journal entries under Option 1:

Upon initial receipt of the PPP loan proceeds:

Dr. Cash – Fund 1	$XXX	
Cr. Long-term notes payable – Fund 1		$XXX

Upon forgiveness and legal release of the debt:

Dr. Long-term notes payable – Fund 1	$XXX	
Cr. Other income – Fund 1		$XXX

Note: Interest would need to be accrued on the debt in accordance with FASB ASC 835-30. Those journal entries have not been presented here.

Option 2

Treat the proceeds as a *conditional contribution* (following FASB ASC 958-605) and initially recognize the amount received as a refundable advance (liability*). This option may be chosen if the council chooses not to follow FASB ASC 470, expects to meet the PPP's eligibility criteria, and concludes that the PPP loan represents, in substance, a grant that is expected to be forgiven. The council would then reduce the refundable advance and recognize the contribution once the conditions of release have been explicitly waived or *substantially met* ***. Following are example journal entries under Option 2:

Upon initial receipt of the PPP loan proceeds:

Dr. Cash – Fund 1	$XXX	
Cr. Refundable advance* – Fund 1		$XXX

Upon satisfaction of the conditions of release:

Dr. Refundable advance* – Fund 1	$XXX	
Cr. Government grants/Fees** – Fund 1		$XXX

Note: Option 2 does not require accrual of interest (amounts received but not forgiven would subject to interest, however).

*The refundable advance could be an "other" current liability (2789) or other noncurrent liability (2901) depending on when the council expects to satisfy the conditions necessary for legal release of the obligation.

**Government grants/Fees is account 5001 in PeopleSoft® Financials.

***If your council has not recognized contribution/grant revenue because approval of the forgiveness application by your lender and SBA has not been received by year-end, but you feel as though you have met all the requirements for loan forgiveness, be sure to discuss with your council's audit committee and auditors what constitutes "*substantially met*" for purposes of recognizing the revenue. Possible options here would include:

a. recognizing revenue *at one point in time* when the loan forgiveness application is submitted (incurrence of qualifying costs and then the steps of assembling and submitting the forgiveness application are the conditions or barriers to entitlement).

b. recognizing revenue *in stages* over the covered period based on incurrence of qualifying costs, adjusted for any decreases in FTEs and/or salary/wages (incurrence of qualifying costs is the condition/barrier to entitlement).

Where should the PPP proceeds be classified in the statement of cash flows?

The classification within the statement of cash flows requires some judgment, and determination might include consideration of how the funds will be used. Since the PPP loan is a forgivable loan, it could be considered a loan advance, and therefore the original loan proceeds would be classified as a *financing activity*.

Many councils may argue that since the loan proceeds will be used for operations and related expenses are recorded in operations, the proceeds should be recorded within *operating activities*. Either way is a reasonable approach for the portion of the loan that is forgiven. If there is portion of the loan that is not forgiven and repaid, the proceeds and payments would be best reflected as *financing activities*.

We recommend that you discuss this matter with your audit committee and auditors to determine the right solution for your council.

Councils with material PPP loans should adequately disclose their accounting policy for such loans and the related impact to the financial statements (see Appendix B for examples).

GAAP Relief

In order to give immediate relief to certain entities as a result of the widespread, adverse economic effects caused by the COVID-19 pandemic, on June 3, 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities*. This Accounting Standards Update defers the effective dates of the new *revenue recognition* and *leases* standards for certain entities (including local councils) that had not issued their financial statements (or made them available for issuance) as of June 3, 2020.

Most local councils adopted the FASB's new revenue recognition guidance (ASC Topic 606; ASU 2014-09) in 2019. If your council had not issued (or made available for issuance) its 2019 audited financial statements by June 3, 2020, and elected to follow ASU 2020-05, you may apply the provisions FASB ASC 606 to your 2020 audited financial statements.

ASU 2020-05 also grants a one-year effective date delay for certain stakeholders applying the new leases standard (FASB ASC Topic 842). For local councils, this means that the effective date

of the new *Leases (Topic 842)* standard (FASB ASU 2016-02) would be pushed back to 2022 (from 2021).

You can read more about FASB ASC Topics 606 and 842 in the following pages.

PeopleSoft® Financials v. 9.1

All local councils are using PeopleSoft Financials software for GL and AP. The software can produce GAAP-compliant financial statements (except for notes to the financial statements, a template of which can be downloaded from the Council Funding and Finance website: https://www.scouting.org/council-support/finance-impact/local-council-financial-audits. **Note**: The local council PeopleSoft Financials software has been updated to conform to the provisions of FASB ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The updates are incorporated into the *Statement of Activities and Changes in Net Assets—Audit, Statement of Financial Position—Audit,* and *Statement of Functional Expenses.* See Appendix A of this Guide for examples.

Most local councils are also using PeopleSoft's Asset Management System to manage their fixed assets. See page 31 for a discussion of the general ledger chart of accounts and account structure.

New for 2020

Accrued PTO

Eligible local council employees may be able to carry over up to ten days' paid-time-off (PTO) to 2021. Be sure to review you council's vacation policy and make the appropriate accruals at year-end.

Still Relevant (and Required)

Negative Cash Balances

If, at year-end, the council has a negative cash balance in any fund (but a positive overall cash balance), the negative balance **must** be reclassified to a **noncurrent** interfund loan account and evaluated for presentation as current or noncurrent (i.e., debit cash, credit interfund loan and debit interfund loan, credit cash; the interfund loan accounts should balance). **If the council classifies an interfund payable as current, it must possess both the ability and intent to settle the liability within one year of the balance sheet date**. Representation of this "ability and intent" may be requested by auditors in the management representation letter (see page B-33 for a sample representation letter). If total cash is negative at year-end, the negative balance(s) must be reclassified to a current liability account and listed as "bank overdraft" (or Accounts Payable), depending on the cause for the negative cash balance, on the audited financial statements. For additional information, see page 53.

No Provision for Uncollectible Pledges to be Presented in the Statement of Activities and Changes in Net Assets

All contribution revenue should be presented on the face of the Statement of Activities and Changes in Net Assets **as a single line item**, net of any provision calculated by the fundraising subsidiary ledger. This is the standard presentation used in the Statement of Activities and Changes in Net Assets—Audit found in the menu of PeopleSoft nVision reports. The *Contributions Received* section of the FASB ASC states that contributions received shall be measured at their fair values (ASC 958-605-30-2). Unconditional promises to give that are expected to be collected in less than one year may be measured at *net realizable value* because that amount results in a reasonable estimate of *fair value* (ASC 958-605-30-6). Because local councils record current promises to give at net realizable value, this means that upon *initial recognition* of these contributions receivable (in 2020), there would be **no allowance or provision for uncollectible accounts presented in the financial statements**. (Note: Do not confuse this with a discount on multiyear gifts—those rules have not changed.)

If contributions receivable carried over from a prior year are deemed uncollectible in the current year, the council would recognize in its financial statements a bad debt expense or loss per ASC 958-310-35-7 (to be classified as a fundraising expense in the statement of functional expenses [this will require an adjustment to be recorded; debit bad debt expense and credit contributions receivable]).

Statement of Cash Flows

Cash Received with a Donor-Imposed Restriction That Limits Its Use to Long-Term Purposes:

When a local council reports cash received with a donor-imposed restriction that limits its use to long-term purposes, an adjustment is necessary for the statement of cash flows to reconcile beginning and ending cash and cash equivalents. Too often, we see local councils include these receipts in cash flows from operating activities. This is incorrect and not in accordance with GAAP. For a detailed discussion of this and related issues, see page 29.

Notes to Audit Committee Meetings

Please include in the notes to the audit committee meetings an acknowledgment of any BSA deficiencies noted in the 2019 audited financial statements and steps taken in the current year to correct them. Include a copy of those notes with the annual audit package you submit to the National Council.

Special Events—Clarification

In prior years, we have noticed that some local councils have been improperly recording certain special fundraising events (e.g., Friends of Scouting dinners) as annual giving campaigns, with the cost of direct benefit to participants (meals, cost of facilities rental, etc.) buried in operating expenses. BSA policy requires that these direct costs offset revenues, with gross and net amounts displayed on the face of the statement of activities and changes in net assets. A detailed discussion of this topic can be found on page 43.

The Codification – a Reminder

FASB Accounting Standards Codification (FASB ASC)—Plain English references to the ASC in the financial statements are allowed and encouraged by the BSA. For example, a fair value footnote like this: "Under FASB ASC 820-10-35-18, the Council is required to use …" could instead be worded as: "The fair value measurement topic of the FASB ASC requires …"

Issuance of New Accounting Standards—New accounting standards are now issued by the Financial Accounting Standards Board through Accounting Standards Updates (ASUs) to the FASB Accounting Standards Codification (ASC). The FASB does not consider the updates authoritative on a stand-alone basis; they become authoritative when incorporated into the ASC.

Recently Issued Accounting Standards Affecting Your 2020 Financial Statements

NEW!

Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842, Effective Dates for Certain Entities)(ASU 2020-05)—This accounting standard defers the effective dates of the new revenue recognition (ASU 2014-09) and leases (ASU 2016-02) standards. See page 4 under *GAAP Relief* for a discussion of this ASU.

Revenue from Contracts with Customers (Topic 606) (ASU 2014-09)— Most local councils adopted this ASU in 2019. If your council did not issue (or make available for issuance) its 2019 audited financial statements by June 3, 2020 and has elected to follow ASU 2020-05 (see above and page 4), you may apply the provisions FASB ASC 606 to your 2020 audited financial statements. For local councils included in this group, the FASB ASC 606 guidance from last year's Guide has been preserved and is presented below.

ASU 2014-09 (Topic 606) effectively eliminates the previous transaction-specific and industry-specific revenue recognition guidance and replaces it with a principles-based approach for determining an entity's revenue recognition policies. At the heart of the new revenue recognition standard is the concept that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services.

BSA Interpretation: This new standard does not cover all revenue streams—only those that result from exchange transactions. Here's a list of some local council revenue streams that are not subject to the new rules:

- Contributions (including in-kind gifts)
- Split-interest agreements
- Event sponsorships

- Rent revenue (including rent revenue from National Scout Shops)
- Investment return
- Insurance contracts

Contributions are not exchange transactions (they are nonreciprocal transfers) and are covered by a separate subtopic of the FASB ASC (958-605).

Split-interest agreements, such as charitable remainder trusts and charitable gift annuities, are also nonreciprocal transfers and are covered by FASB ASC 958-30.

Event sponsorships result in minimal benefit to the sponsor (as long as they don't advertise the sponsor's product or service) so payments to the council are considered to be contributions.

Rent revenue, including rents received from the national organization for NDC-owned Scout Shops, is covered under the *Leases* topic of the FASB ASC.

Investment return and *insurance contracts* are excluded from ASU 2014-09.

What *is* covered by the new revenue recognition standard?
For local councils, here are some of the revenue streams covered by ASU 2014-09:

- **Scout Shop and Trading Post sales** (for council-owned Scout Shops)
- **Product sales** (popcorn, peanuts, etc.)
- **Camping and activity revenue**
- **Special fundraising event revenue**—the exchange component

The good news here is that, for the most part, *current practices will not change as a result of FASB ASU 2014-09...*however…you must be able to show your auditor that you have carefully considered the new standard's effect on all of your exchange transaction revenue streams. The only way to do this is to apply the standard's provisions to each revenue source, one by one.

FASB ASU 2014-09 outlines a five-step process for recognizing revenue from exchange transactions:

1. *Identify the contract with the customer—can be written, oral, or implied.*
2. *Identify the performance obligations in the contract.*
3. *Determine the transaction price.*
4. *Allocate the transaction price to the performance obligations in the contract.*
5. *Recognize revenue when (or as) the council satisfies a performance obligation.*

Let's apply this process to each of the council revenue streams listed above:

Scout Shop and Trading Post sales—For Scout Shop and Trading Post (TP) sales and most retail transactions, application of the five-step process is straightforward. Identification of the contract (step 1) is obvious—the Scout Shop/TP offers to sell merchandise in exchange for money, to customers who want to buy it. According to ASU 2014-09, a contract must be approved, create an enforceable right and obligation, have commercial substance, and collection must be probable. All of these elements are met at checkout. The performance obligation (step 2) is the purchase of the good. The transaction price (step 3) is already established (and usually attached to the product). As each item is individually priced, no allocation (step 4) is necessary. Finally, revenue is recognized (step 5) as the customer pays and takes possession of the merchandise. The sales transactions are recorded in the point-of-sale system, and then in the council's general ledger via a data interface or manual journal entry.

Special note: Because some Scout Shop/TP merchandise is sold with a *right of return*, you will need to estimate a liability at year end, offset by sales revenue, for probable customer returns. For most councils, this will likely be immaterial to the financial statements.

Product sales—Much of the guidance contained in the Scout Shop sales topic above can be applied to product sales as they are retail transactions. For Trail's End popcorn sales, however, the sales process differs in that BSA units generally place their orders online through the Trail's End website and delivery occurs at predetermined times and locations. In addition, BSA units are (usually) allowed to purchase popcorn "on account" with payment due at a later date. As a part of the contract identification element of ASU 2014-09 (step 1), the council is required to assess the probability of collecting these accounts receivable in order to determine whether there is a substantive transaction between the council and the unit—a condition necessary for revenue recognition under the new rules. In making this collectability assessment, the council will need to exercise judgment and consider all facts and circumstances, including its knowledge of the customer. The performance obligation (step 2) is delivery of the product, the transaction price is established by the council (step 3), and each item is individually priced so no allocation of the transaction price (step 4) is required. Revenue recognition (step 5) should occur when the product has been delivered. Local councils can use reports from their Trail's End online accounts to record gross sales, cost of product, unit commissions, inventory, and accounts receivable. One important thing to note here is that many BSA units have the right to return to the council any unsold product. For local councils that offer to do this, they will set a product return-by date prior to year-end to ensure that the annual popcorn campaign is complete by that time. Should your council's popcorn campaign carry over into the new year and *probable* product returns exist at year end, you will need to accrue a liability for estimated returns. The debit would reduce sales revenue.

Camping and Activity revenue—Here, the contract element (step 1) is much the same as with Scout Shop and product sales, however, the performance obligation (step 2) is delivery of the program rather than delivery of a product. For resident camps, fees are set by the local council (step 3) and include program supplies, meals, lodging, recognition items,

staffing, and facility costs. As is customary, these items are never separately priced and are therefore considered to be one performance obligation (step 4). Note: some councils will offer "early bird" discounts on camp fees paid before a certain date. In this situation, the discount is factored into the transaction price. Some special camp programs do incur additional fees (shooting sports, for example), which are separately priced. BSA *activities* may involve program supplies, recognition items, and meals, and are also considered to be one performance obligation. Fees collected in advance of delivery of the camp or activity are initially recognized as liabilities (deferred revenue) and are only recognized (step 5) after delivery of the program has occurred. The BSA local council general ledger is set up to accommodate this process.

Special fundraising event revenue: Local council special events, such as FOS dinners and golf tournaments, present a special accounting challenge because revenue received from them is part contribution and part exchange transaction. The exchange portion of the transaction (which *is* covered by ASU 2014-09) is measured at the fair value of the direct donor benefit (e.g., the meal or round of golf). The contribution component (excluded from ASU 2014-09) is the excess of the total proceeds received (or event fee, if fixed) over the fair value of the direct donor benefit. Steps 1 through 3 of the five-step revenue recognition process outlined in ASU 2014-09 are essentially the same as they are for camps and activities, except that donors understand that a portion of the total proceeds/event fee represents a contribution to the council. The performance obligation (step 2) is delivery of the dinner or round of golf, for example, which is usually accompanied by a presentation. The event fee or "ticket price", if applicable, is set by the council (step 3). FASB ASU 2014-09 requires allocation of the transaction price (step 4) to the performance obligation(s). For special events, that means that the portion of the event fee attributable to the fair value of the meal or round of golf (i.e., the donor benefit) would need to be separately identified from the contribution portion and disclosed in the financial statements (Note: this is a new requirement, which we will discuss later).

Currently, special event fees collected by the council in advance of its delivery are initially recognized as liabilities (deferred revenue) and recognized as special event revenue after delivery of the event (step 5). For special event fees received *before* year-end for an event to occur *after* year-end, most councils follow AICPA guidance where the inherent contribution is conditioned on the event taking place and is therefore treated as a refundable advance along with the exchange transaction component.

Disclosures required by ASU 2014-09

The new standard requires local councils to disclose sufficient information to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

See Appendix B for sample footnote disclosures under ASU 2014-09. All sample footnote disclosures will be available for download in Microsoft Word format on the BSA Council Support website here.

Even though sample footnote disclosures will be made available to you in the 2020 *Guide*, take a look at the following disclosure requirements to see where you are going to need to "fill in the blanks". Under ASU 2014-09, councils should disclose qualitative (narrative) and quantitative (numeric) information about all of the following:

- *Contracts with customers*:
  - Revenue recognized from contracts with customers should be separately disclosed from other sources of revenue.

Note: We believe that the council's statement of activities sufficiently segregates revenue from Scout Shop sales, product sales, and camps and activities from other revenue sources. For special event revenues, however, you will need to separate the contribution component from the exchange component and disclose it in the footnotes. This is a new requirement.

  - Impairment losses on receivables from contracts (e.g., bad debts on popcorn receivables) should be disclosed separately from impairment losses on other contracts.

- *Disaggregation of revenue*:
  - The revenue from these contracts should be sufficiently *disaggregated* into categories that help to inform financial statement users about how they are affected by economic factors. We believe that the presentation of these revenue streams in the council's statement of activities largely meets this requirement. As discussed above, disaggregation of the exchange and contribution components of special event revenue will need to be accomplished on the face of or in the footnotes to the financial statements. Trading post revenue included in camps and activity revenue should also be separately disclosed in the footnotes. See Appendix B for sample disclosures.

- *Contract balances*:
  - Disclosures are required for the opening and closing balances of receivables (popcorn A/R) and contract liabilities (deferred revenue from camps and activities and special events) from contracts with customers, if not otherwise separately disclosed.
  - Revenue recognized during the year that was included in the contract liability (deferred revenue) balance at the *beginning of the year* should be disclosed.

- *Performance obligations*—Disclosures should include a description of all of the following:
  - When the council satisfies its performance obligations (upon shipment, on delivery, etc.).
  - Significant payment terms.
  - Nature of the goods the council has promised to transfer.
  - Obligations for returns and refunds.
  - Types of warranties and related obligations.

- *Transaction price allocated to the remaining performance obligations*—Council disclosures should include:
    - The aggregate amount of the transaction price allocated to the performance obligations that are *unsatisfied* as of the end of the year.
    - An explanation of when the council expects to recognize the revenue disclosed in the preceding point above (can be a narrative or numeric disclosure).

Note: Local councils that have not issued nor are conduit bond obligors for public-traded securities (i.e., most, if not all local councils) may elect *not* to provide the disclosures under this bullet point. If a council *is* subject to this disclosure, it only applies to contracts having a duration of *greater than one year.* Therefore, this disclosure would apply to certain camps and activities, and special events for which the council has collected fees more than one year in advance of their occurrence as of the reporting date. Philmont or a National Scout Jamboree are some examples of situations where a council might collect fees more than a year in advance of their occurrence.

- *Significant judgments used in applying this accounting standard*:
    - Councils should explain the judgments used in determining the timing of satisfaction of performance obligations. For local councils, performance obligations are generally satisfied at a point in time (rather than over a period of time). One exception would be for resident camps, which may occur over a one or two-week period. Although these technically occur over a period of time, they are completed within the reporting period. For Scout Shop sales and product sales, performance obligations are satisfied on delivery of the goods. Performance obligations for camps and activities and special events are satisfied after delivery of the program or event. A council that has issued or is a conduit obligor for publicly traded securities must also include an explanation of the significant judgments made in evaluating *when* the customer obtains control of promised goods or services.

    - Councils should explain the judgments used in determining the transaction price and amounts allocated to performance obligations. As discussed earlier, the only transaction price allocation by local councils involves allocation of special event fees to the fair value of the direct benefit to the donor (e.g., a meal or round of golf).

Transition guidance

We don't anticipate that adoption of ASU 2014-09 is going to have a material effect on local council financial statements, however choosing the right path can make the change easier. Two methods are available to councils for transitioning to the new guidance: The first method requires restatement of comparative periods presented, with expedients available to lighten the burden of a full restatement. The second method avoids restating prior periods, but still requires a cumulative effect adjustment in 2020 beginning net assets. For most councils, we anticipate there will be no adjustment to beginning net assets required.

***Fair Value Measurement (Topic 820) Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13)*—** Effective for local council 2020 financial statements, the amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement:

Removals

The following disclosure requirements were removed from Topic 820:

1. The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy
2. The policy for timing of transfers between levels
3. The valuation processes for Level 3 fair value measurements
4. For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period.

Modifications

The following disclosure requirements were modified in Topic 820:

1. In lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities.
2. For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly.
3. The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.

BSA Interpretation: ASU 2018-13 eases some of the disclosure requirements for nonpublic entities including local councils, particularly with respect to Level 3 fair value measurements. Please be sure to discuss with your auditors and audit committee the effect, if any, of this ASU on your council's 2020 financial statements.

***Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)(ASU 2018-08)*—** Effective for local councils in 2019 (the FASB did not defer the effective date of ASU 2018-08) this accounting standard is meant to help not-for-profit entities evaluate whether transactions should be accounted for as contributions or as exchange transactions and, if the transaction is identified as a contribution, whether it is conditional or unconditional. Each of these transaction types follows different guidance in the FASB ASC—contributions follow Topic 605 and exchange transactions follow Topic 606 (which we explored previously).

Contribution or exchange transaction?

Distinguishing between exchange transactions and contributions is of particular significance to organizations that receive grants. ASU 2018-08 clarifies how an organization determines whether a *resource provider* (i.e., the provider of the grant—a foundation or government agency) is receiving *commensurate value* in return for the grant. If the resource provider *does* receive comparable (commensurate) value from the grant recipient (the local council, for example), then the transaction is an exchange transaction and would follow the guidance under ASU 2014-09 (FASB ASC Topic 606). If no commensurate value is received by the grant maker, the transfer is a contribution. ASU 2018-08 stresses that the value received by the general public as a result of the grant is not considered to be *commensurate value* received by the provider of the grant (government agency or foundation) thus making the transaction nonreciprocal (in other words, a contribution). As a result of this new ASU, not-for-profit organizations will account for more grants/contracts/agreements as contributions and rather than exchange transactions. Here are some examples to help illustrate the concept:

- A foundation provides a $5,000 grant to a local council to provide the Scouting program to economically disadvantaged youth living in an urban area. In this situation, the benefit to the public as a result of the council's efforts does *not* constitute commensurate value received by the foundation. The payment is a contribution to the local council.

- A local government agency provides a $5,000 grant to a local council to conduct a study on academic performance by youth enrolled in the Scouting program compared with that of youth not enrolled in the program and requires the council to provide its findings in a written report to the government agency. The $5,000 represents the fair value of the study and report. The transaction is accounted for as an exchange transaction because the government agency has received comparable value in return for the study and report by the council.

Indicators to help in the evaluation of exchange transactions vs. contributions:

Exchange	Contribution
The intent of both parties is to exchange goods and services of comparable value.	Council solicits $ from the resource provider with no intent to provide comparable value to resource provider.
Both parties agree on the $ amount to be transferred in exchange for goods and services of comparable value.	Resource provider has complete control over the $ amount transferred to the council.
Contract provides for penalties in addition to $ already transferred for failure to perform.	Penalties for failure to comply with the contract terms are limited to $ already transferred and return of any unspent funds.

Conditional or unconditional?
You have just received a grant from a foundation and determined that it is indeed a contribution. Can you book it or not? You know that you are only supposed to book *unconditional* contributions but how can you be sure? ASU 2018-08 offers guidance in determining whether a contribution is *conditional.* According to the standard, to be conditional, an agreement contains some kind of *barrier* that must be overcome *and* a right of return of assets (for a cash/property grant) or right to release a promisor's obligation (for a pledge). In plain English, that means you must accomplish something (overcome a hurdle—must be measurable) before you are entitled to the assets, and you have to give it back (or cancel the pledge) if you don't. For example, a council might receive a $50,000 grant conditioned on sending a *specified number* (measurable) of economically disadvantaged youth to summer camp. If the specified level of service is not achieved, then the money must be returned to the resource provider. If a *conditional* cash/property grant (contribution) is received, it should be initially recorded as a refundable advance (liability). It becomes unconditional when the *barrier* (the condition) has been overcome. If the conditional grant is a promise to give, it should not be recorded in the general ledger. Note: Conditional gifts/grants should not be confused with donor-imposed restrictions. A donor restriction on a contribution contains a stipulation on how or when contributed assets should be used. It does not specify a barrier that must be overcome before the recipient is entitled to the assets.

Disclosures required by ASU 2018-08
ASU 2018-08 does not impose any new recurring disclosures.

Not-for-Profit Entities (Topic 958)—Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14)— The amendments in this update are the result of a five-year FASB project to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. The FASB's Not-for-Profit Advisory Committee (NAC) and other stakeholders indicated that existing standards for financial statements of NFPs are sound but could be improved to provide more useful information to donors, grantors, creditors, and other users of financial statements. This update is the result of the FASB's efforts in the first of two phases of its project.

A second phase of the project is expected to address more protracted issues surrounding whether and how to define the term *operations* and align measures of operations (or financial performance) as presented in a statement of activities with measures of operations in a statement of cash flows. That will allow the FASB to coordinate its Phase 2 considerations for NFPs with related research activities on financial performance reporting by business entities.

BSA Interpretation: Prior to the issuance of ASU 2016-14, nonprofit financial reporting rules

remained virtually unchanged for more than 20 years. The FASB decided to re-examine existing standards for financial statement presentation by not-for-profit (NFP) entities and found that the current net asset classification model—unrestricted, temporarily restricted, and permanently restricted—no longer made sense considering the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which allows spending from underwater endowment funds (i.e., how can an endowment fund be permanently restricted if you allow invasion of the original gift amount?). The FASB also found that NFP financial statements lacked adequate information on *liquidity and availability of funds* (i.e., resources available to an organization to pay its bills on time), restrictions placed on resources by an entity's board of directors (board designations), cost allocation, and cash flows, among other things. A summary of all the provisions of ASU 2016-14 affecting local councils follows:

BSA Executive Summary—ASU 2016-14

- Reduce three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to two—*net assets with donor restrictions* and *net assets without donor restrictions*—and present amounts for each class at the end of the period on the face of the statement of financial position and changes in each class for the period on the face of the statement of activities and changes in net assets.

- Provide enhanced disclosures about *liquidity*:
    - *Qualitative information* that communicates how an NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date (this means a narrative).
    - *Quantitative information* (numeric values) that communicates the availability of an NFP's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions. Note: This disclosure could be on the face of the statement of financial position or the notes, or a combination of the two. The BSA recommends footnote disclosure of this information.

Special note: The COVID-19 pandemic has negatively affected liquidity for all local councils. Local council contributions under the National Council plan of reorganization (as applicable to your council) may also affect liquidity. In light of this, special care should be taken in preparing this disclosure for your 2020 financial statements. Also remember, liquidity disclosures must contemplate the financial statements taken as a whole. This means consideration of *all funds*, not just the Operating Fund.

- Provide enhanced disclosures about:
    - Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources *without* donor-imposed restrictions as of the end of the period.

- Composition of net assets *with* donor restrictions and how those restrictions affect the use of resources.
- Underwater endowment funds, which include required disclosures of (1) an NFP's policy concerning appropriation from underwater endowment funds *(whether or not underwater endowment funds exist at the balance sheet date)* and any actions taken during the period (for existing underwater endowment funds), (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions. Note: This is a change from previous practice, which required a reduction of net assets without donor restrictions for deficiencies in endowment funds (see page 9).
- Method(s) used to allocate costs among program and support functions (in the statement of functional expenses).

- Report investment returns *net of investment expenses* (external and direct internal)—Note: This is required, not optional. By requiring all NFPs to report investment returns under the same rules, the FASB believes that comparability of investment returns is improved across all NFPs. Disclosure of investment expenses is no longer required.

- Continue to present on the statement of cash flows the net amount for operating cash flows using either the *direct* or *indirect method* of reporting (PeopleSoft produces a statement of cash flows using the *indirect method*). If the *direct method* is used, presentation or disclosure of the reconciliation of changes in net assets to net cash provided (used) by operating activities is no longer required. We don't anticipate this will affect many councils.

- In the absence of explicit donor stipulations, use the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the option to release the donor-imposed restriction over the estimated useful life of the acquired asset). Although we do not anticipate that many councils will be affected by this provision of the ASU, if your council is affected, you should have released any remaining restrictions on applicable fixed assets as of January 1, 2018 (absent any donor-restrictions to the contrary).

***Statement of Cash Flows – Restricted Cash (Topic 230) (ASU 2016-18) (a consensus of the FASB Emerging Issues Task Force)*—**Effective for fiscal years beginning after December 15, 2018. The amendments in this ASU require that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as *restricted cash* or *restricted cash equivalents.* Entities will also be required to

reconcile such total to amounts on the statement of financial position and disclose the nature of the restrictions.

BSA Interpretation: Local councils are required to segregate restricted cash (usually donor-restricted for the purchase of long-lived assets) from unrestricted cash on the statement of financial position. Often, the restricted cash is recorded in a noncash asset account. If there were transfers between the unrestricted and restricted cash (noncash asset) accounts during the year, they would appear as operating, investing, or financing activities, or a combination thereof, in the statement of cash flows. Under the new guidance, restricted and unrestricted cash (and equivalents) should be combined when reconciling the beginning and ending balances on the statement of cash flows. Transfers between restricted and unrestricted cash accounts will **not** be reported as cash flows. Councils will continue to record contributions of cash restricted for long-term purposes as cash inflows from financing activities (FASB ASC 230-10-45-14). Early application of this ASU is permitted.

Financial Instruments – Overall Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825-10) (ASU 2016-01)**—**Effective for fiscal years beginning after December 15, 2018. Allows an NFP to choose, on an investment-by-investment basis, to report an equity investment without a readily determinable fair value, that does not qualify for the practical expedient fair value in accordance with FASB ASC 820-10-35-59, at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issue. The FASB ASU requires additional disclosures about those investments.

BSA Interpretation: The "practical expedient" above refers to estimation of the fair value of an investment using its net asset value per share, or NAV. So, if a council has an equity investment (ownership interest) that is not permitted (under accounting rules) to be valued at NAV and does not have a readily determinable fair value (because perhaps there is no active market for it), then it can be measured at its original cost less impairment plus or minus some other changes. We anticipate that local councils will be largely unaffected by this ASU.

On the Horizon: Recently Issued Accounting Standards Updates to Affect Local Council Financial Statements for Years After 2020

Effective for fiscal years beginning after December 15, 2020.

Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities

***for Contributed Nonfinancial Assets (ASU 2020-07)*—** Effective for local councils in 2022, the amendments in this Update apply to NFPs that receive contributed nonfinancial assets. Contribution revenue may be presented in the financial statements using different terms (for example, gifts, donations, grants, gifts-in-kind, donated services, or other terms). The amendments address presentation and disclosure of contributed nonfinancial assets. The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets.

BSA interpretation: The FASB issued new rules on contributions of nonfinancial assets, also known as *gifts-in-kind.* Gifts-in-kind can include contributions of fixed assets (such as real estate and equipment), materials and supplies, and even recognized contributed services. Under the new ASU, nonprofits (including local councils) must present gifts-in-kind as a separate line item in the statement of activities, apart from gifts of cash and other financial assets. In addition to this presentation requirement, the gifts-in-kind must be further broken down into categories (fixed assets, supplies, contributed services, etc.) in the notes to the financial statements. For each category of contributed nonfinancial assets recognized in the financial statements, further footnote disclosures are required under the ASU, including whether the gifts-in-kind were sold or used, among other disclosures. The BSA is currently working toward updating PeopleSoft Financials to reflect the FASB changes.

***Leases - (Topic 842) (ASU 2016-02)*—**Initially effective for fiscal years beginning after December 15, 2019, this standard is now deferred until 2022. ASC 842 requires that assets and liabilities arising under leases are recognized in the statement of financial position. A lessee will be required to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term.

BSA Interpretation: **Start planning now!** This ASU basically requires that all leases with a term of greater than 12 months be capitalized, meaning that the council records an asset and a corresponding liability for the future lease payments. Under the current rules, leases must be analyzed to determine whether they are "capital" (and treated as just described) or "operating" (nothing gets recorded on the balance sheet, and payments are treated as rent expense). Councils that lease vehicles will see a big change in their financial statements because many vehicle leases are structured as operating leases under the current rules. Under the **new** rules, the vehicles (or right-of-use assets) will need to be recorded on the balance sheet along with a liability for the lease payments. **Special note**: If your council has outstanding debt when the new rules become effective (currently January 1, 2022), these additional lease liabilities may affect debt covenants in loan instrument(s). Also, leases

existing as of the effective date of this ASU will **not** be grandfathered out of its provisions. Therefore, those leases will require careful analysis to determine capitalizable amounts. The **BSA recommends taking an inventory now of all leases outstanding while considering future leasing needs and planning a meeting to discuss them with your auditor, attorney, and lenders, if applicable.**

Reminder: Accounting Procedure for Underwater Endowment Funds! This is a reminder that **under ASU 2016-14, donor-restricted endowment funds for which the fair value of the fund at the reporting date is less than either the original gift amount or the amount required to be maintained by the donor or by law (underwater endowment funds), will reduce net assets with donor restrictions.** Under the previous rules, the "underwater" portion of endowment funds was shown as a reduction of unrestricted net assets (called net assets without donor retrictions under ASU 2016-14).

Be Prepared …

IRS Form 990

It is never too early to start preparing for the 2020 Form 990 or 990-EZ. Use information obtained during the budgeting and audit-planning/wrap-up processes to help identify and quantify program service accomplishments; documents such as an annual report, event rosters, or sign-up lists could provide helpful information regarding accomplishments. Review the council's 2019 Form 990, Part VI (Governance, Management, and Disclosure), Section B, Lines 10 through 15b, for any "no" answers to policy questions. It is never too late for the council to adopt and implement these good governance policies. We strongly recommend that you review and **provide to your tax preparer** documentation related to completing Form 990, available on the Finance Impact Department website **here**. If the council is a member of the Boy Scouts of America Asset Management (BSAAM), you will receive a Form K-1, which should be used in preparation of Form 990. In addition, there are specific state filings of applicable tax returns associated with your investment within the BSAAM. The K-1 may generate Unrelated Business Income (UBIT) to the council that may be taxable. This would require the council to file Form 990-T with the IRS and possibly pay a tax on the income. The 990-T is due at the same time as Form 990, and any tax due is due in full at the time of filing.

Post-Audit Fieldwork Requirements

Note: After audit fieldwork is completed, ensure that you and your accounting specialist review any proposed audit adjustments. If you agree with them, have the accounting specialist make the adjustments to the general ledger. Print the basic financial statements and any other statements requested by the auditors. When you receive a draft copy of the audited financial statements, be sure to compare it with the council's internal financial statements to ensure that they match. Pay attention to net assets, and ensure that they agree by amount, classification (i.e., *with donor restrictions* and *without donor restrictions*), and fund. The next step will be to schedule a meeting with the council's audit committee to review and discuss the

proposed audit adjustments (using financial statement captions for description) and the draft audited financial statements. The council's independent auditors should be present at this meeting. If the audit committee accepts the draft financial statements, it will recommend them to the executive board. Minutes of the meeting should be taken contemporaneously and approved, evidenced by signatures of the audit committee chair and the Scout executive.

Audit Committee Meetings

Your council's audit committee should schedule meetings with the auditor at least twice during the audit process—once during the planning stage (prior to fieldwork) and once prior to the final presentation of the audited financial statements to the council executive board. The council is required to submit to the National Council the signed minutes of this meeting and the audited financial statements and other documents. If the audit committee reviews Form 990 or 990-EZ prior to filing, an additional meeting may be required.

Local Council Requirements

Each local council may receive a letter titled Communicating Internal Control Related Matters Identified in an Audit (AU-C 265, previously referred to as SAS 115/management letter). This communication provides recommendations and suggestions for improvements within certain areas of the council. Should the auditor note an internal control deficiency, this deficiency will be classified as either a significant deficiency or a material weakness. These types of deficiencies are required to be communicated by the auditor to the board and management. The auditor may also include items in this letter not considered material or significant and otherwise classified as other control deficiencies that are more advisory in nature. In this letter, we are looking for suggestions on how the council can improve its internal controls and any other issues that the auditor may have observed during the audit. In the event there are no material weaknesses noted during the audit, a letter is required stating such. A copy of the "Communicating Internal Control Related Matters Identified in an Audit" letter should be provided to the chair of the audit committee, council president, council treasurer, and Scout executive. An auditor may provide a letter outlining recommendations and suggestions for improvements. These comments are important and may help a council resolve an issue before it becomes a **significant deficiency or material weakness. Should you receive such a letter, please submit a copy to the National Council with the other required documents.**
Prior to the acceptance of the audited financial statements by the executive board, make sure the council has entered any audit adjustments, generated the internal financial statements, and compared them to the audited financial statements to ensure they match.
Each local council's audited financial statements must be sent to the National Council by July 31 of each year. In planning the engagement, please keep this deadline in mind. **Audited financial statements must be presented to the local council's executive board and accepted before being sent to the National Council.**

There are several items that are due to the National Council by July 31, 2021:

- One copy of the audited financial statements

- One copy of the Communicating Internal Control Related Matters Identified in an Audit letter (AU-C Section 265 **previously termed an SAS 115/management letter)**
- One copy of the management letter response addressing all advisory comments
- One copy of IRS Form 990 (by July 31 or upon timely filing)

To reduce costs and help support the BSA Sustainability Project, all the above documents can be submitted to the National Council at: audits.990@scouting.org

Sections of this Guide marked with ✓ indicate requirements for "BSA-compliant" audited financial statements. Note: Another document available to help the council achieve compliance is *the Local Council Audit Self-Review Form*. A copy of the Self-Review Form can be found on the Finance Impact website here.

We strive for all local councils to have BSA-compliant audited financial statements. In the spirit of continuous improvement, noncompliant statements become the focus of area and regional leadership.

National Council Finance Support Committee
Boy Scouts of America

Thank You!

A special thank you is given to the members of the Auditor Referral Program and National Council Finance Support Committee who contributed their time and expertise to this project. The Audit Referral Program is being offered by the National Council to offer local councils the opportunity to work with qualified audit firms that will provide the highest-quality audit while striving to keep costs low by leveraging efficiencies achieved from working with several councils.

Members of the Auditor Referral Program
Wipfli LLP
Michelle Swoboda – CPA, Partner
1502 London Road, Suite 200
Duluth, MN 55812
(218)722-4705
mswoboda@wipfli.com
www.wipfli.com

Auditing Matters

Revenue Recognition
Because of the new (for those local councils that did not adopt ASU 2014-09 last year) revenue

recognition standard, local councils should expect revenue accounts to receive renewed attention in the coming audit season. This may mean additional testing of cutoff procedures to obtain sufficient evidence that revenue is recorded in the correct accounting period. To help auditors understand local council revenue streams and how that revenue is recognized, be sure to provide them (and your audit committee!) with a copy of this Guide.

Recently Issued Auditing Standards to Affect Local Council 2020 Audits

SAS No. 141, *Amendment to the Effective Dates of SAS Nos. 134–140*—This statement is effective in 2020 and defers the effective dates of SASs 134–140 for one year (to 2021):

- SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended

  Special note: SAS No. 134 significantly changes the form of the auditor's report by placing the auditor's opinion near the beginning of the report (rather than at the end), followed by a "Basis for Opinion" section. SAS No. 134 also describes the contents of the "Basis for Opinion" section, which is now required for all reports, not just those with modified opinions.

- SAS No. 135, *Omnibus Statement on Auditing Standards — 2019*

- SAS No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, as amended

- SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*

- SAS No. 138, *Amendments to the Description of the Concept of Materiality*

- SAS No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*

- SAS No. 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*

Early implementation is permitted. SAS No. 141 lifts the prohibition against early implementation to enable those firms that choose to proceed with implementation sooner than the delayed effective date to do so. Be sure to ask your auditors if they intend to implement SASs 134–140 early (in 2020)!

When preparing to implement, it is important to recognize that this is not just adopting a new reporting model; various amendments to other AU-C sections may have performance implications for early in the audit. For example, SAS No. 134 amends AU-C Section 260, *The*

Auditor's Communication With Those Charged With Governance, to require the auditor to communicate significant risks identified by the auditor as part of the overview of the planned scope and timing of the audit communication. **The AICPA's Auditing Standards Board (ASB) recommends SASs No. 134–140 be implemented concurrently.** SASs No. 134–140 are interrelated, as the ASB amended or conformed to the auditor reporting model adopted in SAS No. 134 with the issuance of the subsequent SASs. The effective dates of SASs No. 134–140 were aligned so that these SASs would be implemented as a suite, primarily to accommodate the amendments to the auditor reporting model.

You can read more about SAS No. 141 and the related auditor reporting standards in a *Journal of Accountancy* article here.

On the Horizon: Recently Issued Auditing Standards to Affect Local Council Audits for Years After 2020

Effective for fiscal years ending December 31, 2021.

SAS Nos. 134–140 all become effective in 2021 unless implemented early. See pages 23 – 24 for more information.

Audit Communications

AU-C Section 210 (source SAS 122), *Terms of Engagement*, will affect language contained in the *engagement letter* you receive from your auditors for the audit of the council's 2020 financial statements. The elements required in SAS No. 108 (of the pre-clarified auditing standards) are essentially unchanged. There were, however, two new requirements in 2011 under AU-C Section 210:

1. Identification of the financial reporting framework (e.g., U.S. GAAP or IFRS)
2. A reference to the form of report expected to be issued accompanied by a statement that the actual report might have to be different

Many engagement letters, by audit firm practice, already refer to a reporting framework, so this requirement may not change anything for the council. See page B-29 for a sample engagement letter.

AU-C Section 260, *The Auditor's Communication With Those Charged With Governance* (supersedes SAS No. 114). The clarified SAS does not change or expand extant SAS No. 114 (AU section 380) in any significant respect. AU-C Section 260 will change next year however, as SAS

No. 134 amends it to *require the auditor to communicate significant risks identified by the auditor as part of the overview of the planned scope and timing of the audit*.

This standard relates to communication with those individuals in the organization charged with governance and is commonly known as the **SAS 114 Letter** or **AU-C Section 260 Letter** (see page B-36 for an example). Remember, this is the letter that reports audit adjustments, among other items, so be sure that steps taken to correct these misstatements are included in the council's audit committee meeting minutes.

AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit* (supersedes SAS No. 115). This was formerly known as the **SAS 115 Letter** or **Management Letter** (see page B-40 for an example).
The clarified SAS makes explicit the following requirements that are implied in extant SAS No. 115 (AU section 325):

• The requirement to determine whether, based on the audit work performed, the auditor has identified one or more deficiencies in internal control.
• The requirement to include specific matters in a written communication stating that no material weaknesses were identified during the audit that are similar to those in the written communication of significant deficiencies and material weaknesses.

The clarified SAS adds the following requirements that were not included in extant SAS No. 115 (AU section 325):

> • The requirement to communicate, in writing or orally, only to management other deficiencies in internal control identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention. The ASB does not view this new requirement as a difference between extant AU section 325 and the clarified SAS because auditor judgment is the sole determinant regarding whether a deficiency, other than a material weakness or a significant deficiency, is of sufficient importance to communicate to management.

Likewise, extant AU section 325 did not preclude the auditor from communicating other internal control matters to management if the auditor believes it is important to do so.

> • The requirement to include in the written communication an explanation of the potential effects of the significant deficiencies and material weaknesses identified. The ASB believes management and those charged with governance need this information to enable them to take appropriate remedial action. Further, the ASB does not believe this requires additional effort by the auditor because the potential effects would have been considered as part of the evaluation of the severity of the deficiency. The clarified SAS includes guidance addressing that the potential effects need not be quantified.

The most common deficiencies identified by auditors in SAS 115 (AU-C Section 265) letters for local councils relate to auditors preparing various aspects of local council financial statements, including entries to record investment and fixed asset activity, year-end accruals, and footnotes. Many of these deficiencies are categorized by auditors as material weaknesses because the local council's lack of ability to perform these functions indicates that there is a reasonable possibility that the council's system of internal controls will not detect, prevent, or correct a material misstatement in its financial statements. Another common deficiency noted in smaller councils has to do with a lack of segregation of duties.

Note: The BSA will accept a combination SAS 114/115 letter.

Local Councils and Service Organizations

Statement on Standards for Attestation Engagements (SSAE) No. 18, *Attestation Standards: Clarification and Recodification*—The AICPA has replaced the audit standard known as SSAE No. 16 with a new standard effective for report dates on or after May 1, 2017. This new standard, known as SSAE No. 18, is designed to address concerns over the clarity, length, and complexity of many other AICPA standards. This statement recodifies the "AT" (attest) section numbers designated by SSAE Nos. 10—17, using the identifier "AT-C" (with the "C" standing for "clarified"). AT-C Section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting,* is the clarified AT section pertinent to service organization audits, falling under SSAE 18.

It is important to note that SSAE 18 combines several prior SSAEs that were not related to SSAE 16. SSAE 16 was specific to SOC 1 (Service Organization Control) reports, which deal with the controls at a service organization that impact financial reporting of the customers of the service organization. By contrast, SSAE 18 refers to many different types of attestation reports, not just SOC 1 reports. SSAE 18 also adds another level of detail by addressing *subservice organizations*, which are service organizations used by service organizations. Under SSAE 18 a service organization should:

1. Identify all subservice organizations used in providing the services
2. Include a description of any subservice organization controls (referred to as Complementary Subservice Organization Controls) that the service organization relies on to provide the primary services to its customers

Many customers and other stakeholders have referred to SOC 1 reports as "SSAE 16" reports. Since there will now be many different reports produced under SSAE 18, it is necessary to begin referring to these attestation reports by their proper name (such as SOC 1, SOC 2, etc.) and not by the standard that is used to produce them.

As many councils continue to use service organizations for payroll, credit card, and bookkeeping functions, it is important that the council provide certain information to its auditor relating to internal controls within the scope of using a service organization. As you are aware, the

National Service Center serves as a data center that provides applications and technology that enable local councils to process financial transactions. In this capacity, the National Service Center acts as a service organization for local councils (known as *user entities*). Similarly, PrimePay (IOIPay) processes payroll for local councils and transmits data that is included in their general ledgers. Other activities affected by SSAE No. 18 include credit card processing, pension plan processing (IRC § 403(b) and 457 plans), insurance claims processing, investment fund accounting, and trust and custody operations, to name a few. In SSAE No. 18, an auditor who audits the financial statements of a user entity is known as a user auditor. In auditing a user entity's financial statements, the user auditor needs to obtain evidence to support assertions in the user entity's financial statements that are affected by information provided by the service organization. One way for the user (local council) auditor to do this is to obtain a copy of the service auditor's report (SOC1 – Type I) on the fairness of the presentation of the description, the suitability of the design of the controls, and, in certain engagements, the operating effectiveness of the controls (SOC1 – Type II). These reports, including the description of the system, can be used by all the user auditors to obtain information about the controls at the service organization that are relevant to the user entities' internal control over financial reporting. Be sure to discuss SSAE No. 18 with your auditor in advance of fieldwork in connection with the 2019 audit. A copy of the **National Council's** most recent service auditor's report is located on the "Audit" tab on the **S.E. Only** page on MyBSA. Prime Pay's (**IOIPay)** most recent service auditor's report can be obtained by calling PrimePay Customer Service at 888-697-0021. Councils using **Jitasa** can request a copy of their SOC report from Steve.Doud@jitasagroup.com and customers of **WorldPay/Vantiv System** can request a copy of their SOC report from michael.porter@worldpay.com.

Internal Controls

Internal controls that are written, approved, communicated, and monitored are one important defense against fraud. **It is important to have the council's internal control policies and procedures well-documented, as the auditor will use his or her understanding of those controls to develop audit procedures**. Other sample policies can be found on the Finance Impact Department website **here**.

Code of Ethics

The Boy Scouts of America encourages all local councils to adopt a code of ethics. See page 66 for a sample code.

Required Financial Statements

Required Statements

The Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) includes unique standards relating to general-purpose external financial statements for a not-for-profit entity (NFP). An NFP should follow the industry-specific guidance and all effective

provisions of the FASB ASC unless the specific provision explicitly exempts the NFP or its subject matter precludes such applicability. FASB ASC 958-205-45-4 specifies that a complete set of financial statements should include a statement of financial position, a statement of activities (the BSA calls it a statement of activities and changes in net assets), a statement of functional expenses, a statement of cash flows, and accompanying notes to the financial statements.

BSA Policy

Three-Fund Presentation

The BSA requires that local council audited financial statements are presented in the three-funds-plus-total-of-all-funds format with prior-year comparative amounts displayed. Preferably, prior-year amounts should be displayed by fund and in total; however, presentation of only a prior-year totals column will be acceptable. See page 53 for an explanation of the financial statement presentation requirements for interfund loans and transfers.

Statement of Financial Position

A statement of financial position should focus on the organization as a whole and should report the amounts of its total assets, total liabilities, and total net assets, including *net assets with donor restrictions* and *net assets without donor restrictions* for each fund. A statement of financial position, including accompanying notes to financial statements, provides relevant information about liquidity, financial flexibility, and the interrelationship of an NFP's assets and liabilities. That information generally is provided by aggregating assets and liabilities that possess similar characteristics into reasonably homogenous groups that include the effects of donor-imposed restrictions as well as other contractual restrictions (ASC 958-210-45-4). See Appendix A for a sample report.

Statement of Activities and Changes in Net Assets

A statement of activities (the BSA calls it a statement of activities and changes in net assets) should focus on the organization as a whole and should report the amount of the change in net assets for the period. The statement should report the changes in net assets with donor restrictions, changes in net assets without donor restrictions, and changes in total net assets (ASC 958-220-45) for each fund. See Appendix A for a sample report.

Statement of Cash Flows

The statement of cash flows provides relevant information about an organization's cash receipts and cash payments during a period. The statement classifies these receipts and payments as resulting from investing, financing, or operating activities. Two methods can be used to prepare the statement of cash flows: the direct method (ASC 230-10-45-25) and the indirect (or reconciliation) method (ASC 230-10-55-1). Currently, the general ledger software used by the local councils generates a statement of cash flows using the indirect method.

Therefore, the National Council will accept from local councils an audited statement of cash flows using the same (indirect) method. It is important to note that a statement of cash flows prepared using the *direct* method separately reports support and revenue collected and cash paid to suppliers (for program costs, for example) and employees. Entities are encouraged to provide further breakdowns of operating cash receipts and payments that they consider meaningful. The FASB has acknowledged that the direct method is preferable. In time, we may see it becoming the required method for local councils.

Statement of Cash Flows—Requirements

The Statement of Cash Flows should be in a comparative format and should show all funds. Per ASC 230-10-45-14, **receipts from contributions and investment return that by donor stipulation are restricted for the purposes of acquiring, constructing, or improving property, plant, equipment, or other long-lived assets or establishing or increasing a permanent endowment or term endowment are cash inflows from financing activities.** An adjustment to reconcile the change in net assets to net cash provided (or used) by operating activities would be required for these items. Per ASC 230-10-50, noncash investing and financing activities and interest and income taxes (unrelated business income tax) paid are required to be disclosed.

Treatment of Restricted Cash in the Statement of Cash Flows

Local councils are required to segregate restricted cash (usually donor-restricted for the purchase of long-lived assets) from unrestricted cash on the statement of financial position. Often, the restricted cash is recorded in a noncash asset account. If there were transfers between the unrestricted and restricted cash (noncash asset) accounts during the year, they would appear as operating, investing, or financing activities, or a combination thereof, in the statement of cash flows. **Under the new guidance (ASU 2016-18), restricted and unrestricted cash (and equivalents) should be combined when reconciling the beginning and ending balances on the statement of cash flows**. Transfers between restricted and unrestricted cash accounts will **not** be reported as cash flows. Councils will continue to record contributions of cash restricted for long-term purposes as cash inflows from financing activities (FASB ASC 230-10-45-14).

Statement of Functional Expenses

To help donors, creditors, and other stakeholders in assessing a council's service efforts,—including the costs of its services and how it uses resources,—all NFPs shall report information about all expenses in one location—on the face of the statement of activities, as a schedule in the notes to financial statements, or in a separate financial statement—as discussed in 958-205-45-6. The relationship between functional classification and natural classification for all expenses shall be presented

in an analysis that disaggregates functional expense classifications, such as major classes of program services and supporting activities, by their natural expense classifications, such as salaries, rent, electricity, supplies, interest expense, depreciation, awards and grants to others, and professional fees. To the extent that expenses are reported by other than their natural classification (such as salaries included in cost of goods sold or facility rental costs of special events reported as direct benefits to donors), they shall be reported by their natural classification in the functional expense analysis. For example, salaries, wages, and fringe benefits that are included as part of the cost of goods sold on the statement of activities shall be included with other salaries, wages, and fringe benefits in the functional expense analysis. Note: this new requirement could result in a difference between total expenses reported on the statement of functional expenses and total expenses reported on the statement of activities and changes in net assets. This can be overcome by manually adding an "adjustments" line to the audited statement of functional expenses, followed by an adjusted total expenses line, which would then agree with the statement of activities and changes in net assets. This is an acceptable presentation for BSA purposes. External and direct internal investment expenses that have been netted against investment return should not be included in the functional expense analysis.

NEW REQUIREMENT!

UPDATED FORMAT—STATEMENT OF FUNCTIONAL EXPENSES

We have updated the format of the *PeopleSoft Financials* statement of functional expenses to conform to the AICPA *Not-for-Profit Section* guidance for FASB ASU 2016-14—*Presentation of Financial Statements of Not-for-Profit Entities*. The AICPA model includes certain costs, such as cost of goods sold and cost of direct donor benefits, within the functional matrix. Although the AICPA does not set generally accepted accounting principles (only the FASB does that), its functional expense model has become widely accepted. See Appendix A for a sample.

Note: The BSA is a voluntary health and welfare organization and will continue to present information about expenses in a separate statement of functional expenses. This statement aggregates all council expenses (regardless of the fund in which they are recorded) into three functional categories: program service, management and general, and fundraising. Expenses are charged directly to functional categories based on usage codes (called class codes in PeopleSoft Financials) assigned to general ledger account numbers (the last two digits are discussed later in this Guide). If the expense relates to more than one functional category (usage/class code 99), it is allocated using percentages derived from a local council time study and/or other rational, systematic methodology. The council should review these methods with its auditors. **We suggest**

councils conduct a time study at least every three years or sooner if significant staff or program changes have occurred. This process should reflect the amount of time that the professional staff members spend on various responsibilities. A sample worksheet for conducting a time study is available on page A-7.

Chart of Accounts

To help you, the auditor, better understand the systems in place at local councils, the following illustrates the account structure in PeopleSoft Financials:

PeopleSoft uses a 10-digit account number (called a **chartfield string**) consisting of four segments separated by hyphens and defined as follows:

In the example above, the chartfield string equates to donor- restricted, "other direct" contribution revenue in the Operating Fund (Fund 1). Let's break down these components:

- **Fund—**This is limited to a 1 (Operating Fund), 2 (Capital Fund), or 3 (Endowment Fund).

- **Base Account—**The base account is limited to four digits with the first digit denoting the type of account, e.g., asset, liability, revenue, expense, etc., as shown in the following table:

Account Range	Type of Account	Natural Balance
1000 Series	Asset	Debit
2000 Series	Liability	Credit
3000 Series	Net Asset	Credit
4000, 5000, and 6000 Series	Support and Income	Credit
7000, 8000, and 9000 Series	Expense	Debit

- **Project Code**—This is a three- to eight-digit number, defined by the local council and used to identify everything from activities, special events, and camps to program service accomplishments, purpose restrictions, and construction projects. Revenue and expense accounts can be aggregated by cost center for internal reporting purposes. Project codes can also be used in revenue and expense accounts associated with camps, activities, etc., for which the council may receive fees and incur expenses well in advance of their occurrence. In such cases, it is possible to defer recognition of these amounts in the statement of activities and changes in net assets (and show them in the

statement of financial position). Note: Because software that interfaces with the general ledger (e.g., fundraising, membership, and SellWise) is currently limited to a 10-digit account number, councils are advised to limit project codes to three digits.

- **Class Code—**This two-digit code is used to facilitate internal financial reporting (e.g., camping and activities reports) and to prepare the statement of functional expenses. The class code is also used to identify net asset classes (e.g., with or without donor restrictions) and donor restrictions on contributions. **For a complete discussion of the chart of accounts, see chapter 3 of the PeopleSoft BSA User Guide. The PeopleSoft Master Chart of Accounts can be viewed there as well.**

Year-End Close

Closing Date

The Boy Scouts of America recommends that councils close their year-end books by the 10th business day in January of the following year, and no later than January 31. Under no circumstances should the books be kept open for bank statements, audit adjustments, etc. You can use audit adjustments at any time during the new fiscal year to make modifications. These transactions will appear in detail with a journal source AA.

The Closing Process

In PeopleSoft general ledger, all revenue accounts close to the appropriate net asset accounts. This is completed in the year-end close process and occurs in a separate **period 999**.
The result is that all accounts are updated and opened with either zero balances (for revenue, expense, reclassification, and net asset adjustment accounts [nominal accounts]) or a new beginning balance (for statement of financial position accounts [real accounts]) when appropriate. **After the year-end close is completed, council and audit adjustments are still possible**.

Local council and audit adjustments cannot be made directly to net asset accounts. If adjustments to net asset accounts are required, they should be made using the *net asset adjustment* accounts. Entries to these accounts appear at the bottom of the last page of the statement of activities and changes in net assets under the heading *Adjustments to Net Assets*. For more information, see chapter 7 of the *PeopleSoft BSA User Guide*.

Accounting Policies

Fund Accounting

Background

The FASB Codification *Presentation of Financial Statements* subtopic for not-for-profit entities indicates:

> *"Reporting by fund groups is not a necessary part of external financial reporting; however, this Subtopic does not preclude providing disaggregated information by fund groups."* (ASC 958-205-45-3)

The BSA's Use of Three Funds

The BSA has determined that the segregation of assets, liabilities, and net assets into separate accounting entities associated with specific activities, donor-imposed restrictions, or objectives is a meaningful practice that it chooses to continue. The BSA's executive board members, staff, and contributors have become accustomed to reading the financial statements in this format. For this and other reasons, the BSA will continue to use three funds to segregate activities. Each statement must also include a total-of-all-funds column.

The Three Funds

The three funds used in the BSA accounting system are:

- **Operating Fund (Fund 1).** This fund is a combination of the Unrestricted Current Fund and the Restricted Current Fund.
- **Capital Fund (Fund 2).** This fund is the same as the Plant (or Land, Building, and Equipment) Fund.
- **Endowment Fund (Fund 3).** This fund is self-explanatory.

BSA Policy ✓

It is a requirement of the BSA that local council audited financial statements be presented in the three-funds-plus-total-of-all-funds format with prior-year comparative amounts displayed. Preferably, prior-year amounts should be displayed by fund and in total; however, presentation of just a prior-year totals column will be acceptable. See page 53 for an explanation of the financial statement presentation requirements for interfund loans and transfers.

Sample Reports

See Appendix A for samples of the four statements required by the Boy Scouts of America; except for the statement of functional expenses, they are in the prescribed fund accounting format.

Consolidated Financial Statements

Overview

BSA Policy ✓

Consolidated financial statements are required if the council has an economic interest in and control of a second entity (e.g., trust fund, foundation, camp corporation, etc.) through the replacement of board members or financial ownership of the entity. Therefore, councils with separate foundations, trusts, or other controlled entities must report on a consolidated basis (ASC 810-10-45-1) with all intercompany balances and transactions eliminated in the "totals" column.

National Service and Charter Fees

Accounting Guidance

Regarding service and charter fees described above, ASC 958-720-45-26 explains:

> *"Payments to related* local and national NFPs shall be reported by their functional classification to the extent that is practicable and reasonable to do so, and the necessary information is available, even if it is impossible to allocate the entire amount of such payments to functions. Payments to affiliates that cannot be allocated to functions should be treated as a separate supporting service, reported on a statement of activities as a separate line item and labeled 'unallocated payments to local (or national) organizations.'"*
>
> *Note: For IRS Form 990 purposes, Payments to affiliates is included in Part IX, *Statement of Functional Expenses*, and is required to be allocated to the functional categories. This will create a difference between the BSA system-generated financial statements and the tax return.

BSA Policy ✓

Therefore, the Boy Scouts of America shall continue its policy of not including the national service fee and charter fee expenses as allocated expenses in the Statement of Functional Expenses.

Each local council is required to remit annually to the National Council a service fee, which is based on a percentage of Total Support & Revenue from two years prior. The fee is used to cover the costs related to providing administrative, technical, and other support to local councils, excluding IT-related support. The type of support varies from year to year

and from council to council. Councils are also required to pay an annual charter fee ($100) to the National Council to continue to operate as local councils of the Boy Scouts of America. The BSA does not include payments to the National Council (an affiliated organization) as expenses to be allocated within the statement of functional expenses. Instead, they are shown as a separate line item on the statement of activities and changes in net assets after *Total functional expenses* and before *Total expenses*.

Contributions

In 2019, local councils adopted the provisions of FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (FASB ASC Topic 958).* This new accounting standard is meant to help not-for-profit entities evaluate whether transactions should be accounted for as contributions or as exchange transactions and, if the transaction is identified as a contribution, whether it is conditional or unconditional. Each of these transaction types follows different guidance in the FASB ASC—contributions follow Topic 605 and exchange transactions follow Topic 606.

ASC 958-605 and subsections, *Accounting for Contributions Received and Contributions Made*, establish accounting standards for contributions and apply to all entities that receive or make contributions. Generally, contributions received, including unconditional promises to give, are recognized as revenues in the period received at the fair value of the assets or services received or promised, or the fair value of liabilities satisfied. Contributions arising from unconditional promises to give that are expected to be collected within one year of the financial statement date may be measured at their *net realizable value*.* Contributions of unconditional promises to give with payments due in future periods should be reported in the "net assets with donor restrictions" category unless explicit donor stipulations or circumstances surrounding the receipt of the promise make it clear that the donor intended it to be used to support current period activities (ASC 958-605-45-5). By specifying future payment dates, it is reasonable to assume that donors wish to support the activities in each period in which a payment is scheduled. Receipts of unconditional promises to give cash in future years generally increase net assets with donor restrictions. ASC 958-605-30 discusses the initial measurement of contributions received at fair value. ASC 820 establishes a framework for measuring fair value.

* Unconditional promises to give that are expected to be collected in less than one year may be measured at net realizable value because that amount results in a reasonable estimate of fair value (ASC 958-605-30-6). This means that, upon initial recognition of these contributions receivable, there would be no allowance or provision for uncollectible accounts recorded. ASC 958-310-35 discusses the subsequent measurement of receivables. If, upon subsequent measurement, the fair value of a contribution receivable decreases because of changes in the quantity or nature of assets expected to be received, ASC 958-310-45-3 requires that decrease to be reported as an expense or loss in the net asset class in which the net assets are represented.

Present value of future cash flows is one valuation technique for measuring the fair value of contributions arising from unconditional promises to give cash (ASC 958-605-55-22).** The present value of unconditional promises to give should be measured using a discount rate that is consistent with the principles for present value measurement discussed in ASC 820-10-55-5. In conformity with ASC 835-30-25-11, the discount rate should be determined at the time the pledge is initially recognized and should not be revised subsequently unless the council has elected to measure the promise to give in conformity with the "Fair Value Option" subsections of ASC 825-10. Discounts on contributions receivable that are measured at present value should be amortized between the date the promise to give is initially recognized and the date the cash is received. In conformity with ASC 958-310-35-6, the interest method should be used to amortize the discount. Amortization of the discount results in contribution revenue. Per ASC 958-310-45-1, contributions receivable should be reported net of the discount if measuring the pledge at present value. The discount should be separately disclosed by reporting it as a deduction from pledges receivable either on the face of the statement of financial position or in the notes to the financial statements.

**In an AICPA Financial Reporting Whitepaper, *Measurement of Fair Value for Certain Transactions of Not-for-Profit Entities,* we are reminded that ASC 820-10-55-5 states that "A fair value measurement of an asset or a liability using a present value technique captures all of the following elements from the perspective of market participants at the measurement date:

a) An estimate of future cash flows for the asset or liability being measured.
b) Expectations about possible variations in the amount and timing of certain cash flows representing the uncertainty inherent in the cash flow.
c) The time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (that is, a risk-free interest rate). For present value computations denominated in nominal U.S. dollars, the yield curve for U.S. Treasury securities determines the appropriate risk-free interest rate.
d) *The price for bearing the uncertainty inherent in the cash flows (that is, a risk premium).*
e) Other factors that market participants would consider in the circumstances.

f) For a liability, the nonperformance risk relating to that liability, including the reporting entity's (that is, the obligor's) own credit risk."

Contributions made, including unconditional promises to give, are recognized as expenses in the period made at their fair values.

Conditional promises to give, whether received or made, are recognized when they become unconditional; that is, when the conditions are substantially met. ASU 2018-08 offers guidance in determining whether a contribution is *conditional.* According to the standard, to be conditional, an agreement contains some kind of *barrier* that must be overcome *and* a right of return of assets (for a cash/property grant) or right to release a promisor's obligation (for a pledge). In plain English, that means you must accomplish something (overcome a hurdle—must be measurable) before you are entitled to the assets, and you have to give it back (or cancel the pledge) if you don't.

Contributions of services are recognized only if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The fair value of contributed services that create or enhance nonfinancial assets should be estimated based on (a) the fair value of the services received or (b) the fair value of the assets created. In many councils, volunteers make up a substantial part of the workforce in certain situations; as such, unless these services meet the definition above, the council will not record contributions for services. Examples of contributed services that should be recorded are contributed services provided by medical, legal, and accounting professionals.

For **contributions of long-lived assets** (materials, equipment, buildings, etc.), the council should obtain the donor-assessed value of the assets as well as any donor stipulations (time or purpose). The council should not provide a value of donated assets, and the assets should be valued at the fair value on the date of receipt.

To accurately prepare and file **Form 990**, the council should provide a schedule of any noncash services or goods recorded within the books and records of the council, as these amounts are reported differently on Form 990.

Net Asset Classes and Donor-Imposed Restrictions

Classes of Net Assets

As a result of ASU 2016-14, net assets now fall into two classes:

- Net assets with donor restrictions
- Net assets without donor restrictions

Net Assets With Donor Restrictions

The part of net assets of a not-for-profit entity that is subject to **donor-imposed restrictions** (donors include other types of contributors, including makers of certain grants).

Donor-Imposed Restrictions

A donor stipulation (donors include other types of contributors, including makers of certain grants) that specifies a use for a contributed asset that is more specific than broad limits resulting from the following:

a. The nature of the not-for-profit entity (NFP)
b. The environment in which it operates
c. The purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association.

Some donors impose restrictions that are temporary in nature, for example, stipulating that resources may be used only after a specified date, for particular programs or services, or to acquire buildings and equipment. Other donors impose restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity. Laws may extend those limits to investment returns from those resources and to other enhancements (diminishments) of those resources. Thus, those laws extend donor-imposed restrictions.

Implicit Donor-Imposed Restrictions

Donor restrictions can be explicit in the gift instrument with specific directions for use and restrictions, or they can be implicit through the fundraising campaign conducted by the council. For example, if the council is conducting a capital campaign to build a new camp building, any gifts to the campaign would carry a temporary donor restriction for that purpose even though the donor did not specifically declare a restriction in a gifting document. Many councils advertise planned giving (such as the BSA's Pooled Income Fund and Charitable Gift Annuity programs) under an "Endowment" heading and containing language such as "perpetual support" that would lead a potential donor to believe that his or her gift will be used to fund the council's endowment. This is a good example of an implicit perpetual restriction.

Net assets with donor restrictions is essentially a combination of what used to be known as *temporarily restricted net assets* and *permanently restricted net assets*. So why did the FASB (and others) see a need to change the terminology? The short answer is because of UPMIFA (the Uniform Prudent Management of Institutional Funds Act), which has been enacted in all states in the U.S. except Pennsylvania (see page 59). UPMIFA allows for spending from underwater (donor-restricted) endowment funds, which are, by definition, restricted in perpetuity (formerly called *permanently* restricted). If an organization can spend from an underwater endowment fund, then is it really *permanently restricted*? Since UPMIFA blurred the line between the terms *temporarily* and *permanently* restricted, the FASB decided to eliminate them entirely.

Accounting for Donor-Imposed Restrictions

The terminology may have changed as a result of ASU 2016-14, but the nature of donor-imposed restrictions has not. Donor restrictions continue to be temporary (purpose or time) or perpetual in nature. **Therefore, the local council chart of accounts and accounting procedures for donor-restricted contributions and resulting net assets have not changed as a result of the implementation of ASU 2016-14** (with minor exceptions). Purpose and time restrictions (and satisfactions thereof) still need to be tracked. Reclassification of net assets (upon satisfaction of temporary donor-restrictions) still must occur. Local councils may continue to use the same general ledger accounts for these entries knowing that they will be properly classified and presented in the "audit version" financial statements produced by PeopleSoft Financials software (see pp. A-2 through A-6).

BSA Policy ✓

Although donor-restricted contributions that are temporary in nature are typically reported as support that increases net assets with donor restrictions, per ASC 958-605-45-4, they may be reported as support within net assets without donor restrictions if the restrictions are met in the same reporting period, the policy is followed consistently, and the policy is disclosed.

Net Assets Without Donor Restrictions

The part of net assets of a not-for-profit entity that is not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

Board-Designated Net Assets

Net assets without donor restrictions subject to self-imposed limits by action of the governing board. Board-designated net assets may be earmarked for future programs, investment, contingencies, purchase or construction of fixed assets, or other uses. Some governing boards may delegate designation decisions to internal management. Such

designations are considered to be included in board-designated net assets.

Board-Designated Endowment Fund

An endowment fund created by a council's governing board by designating a portion of its net assets without donor restrictions to be invested to provide income for a long but not necessarily specified period (sometimes called funds functioning as endowment or quasi-endowment funds). In rare circumstances, a board-designated endowment fund also can include a portion of net assets with donor restrictions. For example, if an NFP is unable to spend donor-restricted contributions in the near term, then the board sometimes considers

Split-Interest Agreements

Some donors enter into trust or other arrangements under which not-for-profit organizations share benefits with other beneficiaries. Donors to the BSA's Pooled Income Fund and Charitable Gift Annuity programs, for example, designate local councils as remainder beneficiaries. During their lifetimes, the donors or others chosen by the donor receive distributions of income (and sometimes capital gains for a Charitable Gift Annuity). Upon the death of the donors, the remainder interests in each case transfer to the local council. In both the Pooled Income Fund and Charitable Gift Annuity programs, donors may choose to restrict (for a particular purpose or in perpetuity) the local council's use of the remainder assets or give it the immediate right to use its interest without restriction. Both programs are administered by the BSA Foundation on behalf of the Boy Scouts of America National Council.

Pooled Income Fund

The BSA **Pooled Income Fund** is divided into units, and contributions of many donors' gifts are pooled and invested as a group. The FASB ASC glossary defines a pooled income fund as a trust in which donors are assigned a specific number of units based on the proportion of the fair value of their contributions to the total fair value of the pooled income fund on the date of the donor's entry into the pooled income fund. The donor (or donor's designated beneficiary or beneficiaries) is paid the income (defined by the agreement) earned on the donor's assigned units. Per the Pooled Income Fund agreement, upon the death of the donor, the value of the units is to be transferred to the local council. Per ASC 958-30-30-11, since the assets are held by a third party (the National Council), the council records a noncurrent asset called a beneficial interest in its statement of financial position.

The other side of the entry is recorded as contribution revenue, which should be classified as within net assets with donor restrictions unless

the donor has given the immediate right to use the assets without restriction per ASC 958-30-45-1. **The council should recognize the agreement in its financial statements upon notification of its existence.** Each year, the assets held in the Pooled Income Fund are subsequently measured in conformity with ASC 958-30-35-10 pursuant to ASC 958-605-35-3. The change in value of the beneficial interest in the fund should be classified depending on the original classification of the contribution revenue. Annually, the BSA Foundation, serving as administrator for the BSA National Council, provides to local councils the fair value of their beneficial interests in the Pooled Income Fund.

Charitable Gift Annuity

The BSA **Charitable Gift Annuity** is a contract between the BSA National Council and a donor in which the donor contributes assets to the BSA in exchange for a promise to pay an amount quarterly to the donor or others chosen by the donor for their lifetimes. The payout amount depends on the age of the beneficiaries. The older the beneficiary, the larger their payment. Payments are guaranteed by the general assets of the Boy Scouts of America. As with the BSA Pooled Income Fund (see above), the council recognizes a beneficial interest in the assets received from the donor. The recognition and measurement principles and presentation and disclosure requirements for beneficial interests in Charitable Gift Annuities are the same as for Pooled Income Funds.

Per ASC 958-30-30-8, under remainder interest agreements (as is the case with pooled income fund and charitable gift annuities), the present value of the future payments to be made to other beneficiaries can be estimated directly based on the terms of the agreement. Future distributions will be received by the not-for-profit only after obligations to other beneficiaries are satisfied. In those cases, the fair value of the contribution may be estimated based on the fair value of the assets contributed by the donor less the fair value of the payments to be made to other beneficiaries.

Fair Value Issues

Beneficial interests in BSA Pooled Income Fund and Charitable Gift Annuity split-interest agreements use significant unobservable inputs (level 3) in estimating fair value due to their unique features, including <u>no active market for selling them</u>. Beneficial interests may have inputs into the valuation technique at level 2 <u>and</u> level 3; however, market returns for similar assets would be considered a level 2 input while all other unobservable market inputs into the present value technique would be level 3 inputs. Since there are significant inputs at both level 2 and level 3, the overall measurement of the beneficial interest would **likely be level 3 in the hierarchy**. Beneficial interests use a recurring

Disclosure ✓

fair value measurement and should therefore be included in the tabular disclosure as well as in the level 3 roll forward. A description of the inputs and the information used to develop the inputs should also be disclosed each year.

Note: There are numerous types of split-interest agreements. For information on those not covered in this Guide, please contact the Member Care Contact Center at 972-580-2489.

United Way

Local councils may have two sources of United Way support: (1) allocations from the general pool and (2) donor designations. Upon written notification from a United Way, a contribution receivable and contribution revenue should be recorded for each category of support. A United Way allocation letter may be conditional; if so, a contribution is not booked until the condition is removed. Because United Way support serves as a conduit through which donor contributions "flow" to local councils, it is presented under an Indirect support heading in local council financial statements.

Revenue Recognition

New Accounting Standard!

In 2019, most local councils adopted the provisions of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. As discussed on page 4, ASU 2020-05 offers a one-year deferral option (to 2020) of the provisions ASU 2014-09 for entities that meet certain criteria. If your council falls into this group and you elected to defer adoption of this standard to 2020, you will adopt its provisions this year.

ASU 2014-09 effectively eliminates the previous transaction-specific and industry-specific revenue recognition guidance and replaces it with a principles-based approach for determining an entity's revenue recognition policies. At the heart of the new revenue recognition standard is the concept that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The new ASU only covers exchange transactions and does not apply to contributions, split-interest agreements, investment and insurance contracts, and leases. For local councils, here are some of the revenue streams that are covered by ASU 2014-09:

- **Special fundraising event revenue—the exchange component**
- **Scout Shop and Trading Post sales** (for council-owned Scout Shops)
- **Product sales** (popcorn, peanuts, etc.)
- **Camping and activity revenue**

Special Fundraising Events ✓

The new revenue recognition standard requires additional disclosures in your 2020 financial statements for special events.

Background/ Accepted Practices

Although not specifically defined in the FASB ASC, special fundraising events are generally interpreted to be **fundraising activities that include elements of both contributions and exchange transactions**. Fundraising activities are defined as "… activities undertaken to induce potential donors to contribute money, securities, services, materials, facilities, other assets, or time" (FASB ASC glossary). An exchange transaction is a reciprocal transfer in which each party receives and sacrifices approximately equal value. Per the IRS, fundraising events "… include dinners ... sports events … and similar events not regularly carried on that are conducted for the primary purpose of raising funds."

FOS Dinners

Because an annual "Friends of Scouting" dinner contains both an exchange element (the value of the meal and entertainment provided to the participant) and a contribution element (the excess of the contribution over the value of the meal and entertainment), it meets the definition of special fundraising event (described above) and should be accounted for with the cost of direct benefit to participant netted with revenue as shown below (see "Presentation"). **Special events such as FOS Dinners should not be accounted for as annual giving campaigns with costs included in operating expenses rather than offsetting special event revenues. Whether an organization chooses to call a fundraising activity an "ask event" or a "special event" is inconsequential in determining how to account for it. If both the exchange and contribution elements are present, the activity is a special event.**

Revenue Recognition

As discussed above, revenue received from local council special events, such as FOS dinners and golf tournaments, is part contribution and part exchange transaction. The exchange portion of the transaction (covered by ASU 2014-09) is measured at the fair value of the direct donor benefit (e.g., the meal or round of golf). The contribution component (excluded from ASU 2014-09) is the excess of the total proceeds received for special events over the fair value of the direct donor benefit. In special events, donors understand that a portion of the total proceeds (event fee, if applicable) represents a contribution to the council. The performance obligation is delivery of

the dinner or round of golf, for example, which is usually accompanied by a presentation. The event fee or "ticket price", if applicable, is set by the council. FASB ASU 2014-09 requires allocation of the transaction price to the performance obligation(s). For special events, that means that the portion of the event fee attributable to the fair value of the meal or round of golf (i.e., the donor benefit) would need to be separately identified from the contribution portion and disclosed in the financial statements (Note: this is a new requirement, which we will discuss later).

Special note regarding COVID-19 and Special Fundraising Events: In this era of COVID-19, some councils have been conducting "virtual" special events where participants pay for their own greens fees, entry fees, meals, etc., that otherwise would have been included in the "cost of direct benefit to participant" component of net special event revenue. As a result, there very well may not be an exchange component to the total special event revenue received (it would be all contribution revenue). Even if the sole purpose of the event is to raise money, does it meet the definition of "special fundraising event" if there is no exchange component? This is an unusual situation that warrants discussion with your audit committee and auditors as to how to best present in the council's financial statements.

Currently, special event fees collected by the council in advance of its delivery are initially recognized as liabilities (deferred revenue) and recognized as special event revenue after delivery of the event. For special event fees received *before* year-end for an event to occur *after* year-end, most councils follow AICPA guidance where the inherent contribution is conditioned on the event taking place and is therefore treated as a refundable advance along with the exchange transaction component.

Financial Statement Presentation

GAAP requires the reporting of the gross amounts of revenues and expenses from special events and other fundraising activities that are ongoing major or central activities, but it permits (does not require) reporting net amounts if the receipts and related costs result from special events that are peripheral or incidental activities (ASC 958-220-45-19). Examples of this presentation can be found on sample financial statements provided within this guide or within the FASB ASC (958-220-55-10).

BSA Practice

Most special events conducted by councils are peripheral and incidental to the programs of the BSA. However, it will continue to be the practice of the Boy Scouts of America to report gross revenues

from special events. Currently, the local council system-generated statement of activities and changes in net assets combines the contribution and exchange components of special event gross revenue on the face of the financial statement. ASU 2014-09 requires that the exchange and contribution components of special event gross revenue be disaggregated from the total. This disaggregation can occur on the face of the statement of activities and changes in net assets or in the notes to the financial statements. Both methods are acceptable. See Appendix B for sample footnote disclosures. If disclosed on the face of the statement of activities and changes in net assets, the following presentation would be acceptable:

NEW!

Contributions	$XXXX
Special event revenue	XXXX
Special fundraising events—gross	**XXXX**
Less cost of direct benefit to participants*	XXXX
Special fundraising events—net	**$XXXX**

*This line item would include the cost of meals, greens fees, etc. All other costs that do not directly benefit the donor (for example, postage and printing) would be reported as expenses in the statement of functional expenses.

Although not the preferable presentation, an acceptable alternative to the above would be to show a parenthetical presentation on the face of the statement of activities and changes in net assets as follows: **Special fundraising events (net of cost of direct benefit to participants of $XXXX)**. This presentation would require additional footnote disclosure to disaggregate the exchange and contribution components of special event inflows.

Income from Sales of Supplies and Product Sales

Accounting Guidance

The statement of activities shall report the gross amounts of revenues and expenses (ASC 958-225-45-14).

GAAP explains in part (ASC 958-720-45-20 and 21):
The way that costs related to sales of goods and services are displayed depends on whether the sales constitute a major or central activity of the organization or a peripheral or incidental activity. For example, a museum that has a store that is a major or central activity should

report and display separately the revenues from its sales and the related cost of sales. Cost of sales is permitted to be reported immediately after revenues from sale of merchandise, and may be followed by a descriptive subtotal, or it may be reported with other expenses.

Sale of Supplies

Revenue Recognition

Scout Shop and Trading Post sales—For Scout Shop and Trading Post (TP) sales and most retail transactions, identification of the contract is obvious—the Scout Shop/TP offers to sell merchandise in exchange for money, to customers who want to buy it. According to ASU 2014-09, a contract must be approved, create an enforceable right and obligation, have commercial substance, and collection must be probable. All of these elements are met at checkout. The performance obligation is the purchase of the good. The transaction price is already established (and usually attached to the product). As each item is individually priced, no allocation is necessary. Finally, revenue is recognized as the customer pays and takes possession of the merchandise. The sales transactions are recorded in the point-of-sale system, and then in the council's general ledger via a data interface or manual journal entry.

Special note: Because some Scout Shop/TP merchandise is sold with a *right of return*, you will need to estimate a liability at year end, offset by sales revenue, for probable customer returns. For most councils, this will likely be immaterial to the financial statements.

Financial Statement Presentation

Although the sale of goods or products in a council is peripheral to the delivery of the Scouting program, the BSA will continue its practice of reporting, **on the face of the statement of activities and changes in net assets,** gross revenues from the sale of supplies as follows**:**

BSA Practice

Sale of supplies—gross	**XXXX**
Less cost of goods sold	**XXXX**
Sale of supplies—net	**XXXX**

Although not the preferable presentation, an acceptable alternative to the above would be to show a parenthetical presentation on the face of the statement of activities and changes in net assets as follows: Sale of supplies (net of cost of goods sold of $XXXX).

Note to councils with National Scout Shops: Your contract with your National Scout Shop requires that it remit to you rent based on a

percentage of its gross sales. This revenue should never be recorded in *Sale of supplies—gross*. Councils should instead appropriately record the revenue in the general ledger, account number 1-6903-XXX-90, *Income from rents.*

Product Sales

Revenue Recognition

Much of the guidance contained in the Scout Shop sales topic above can be applied to product sales as they are retail transactions. For Trail's End popcorn sales, however, the sales process differs in that BSA units generally place their orders online through the Trail's End website and delivery occurs at predetermined times and locations. In addition, BSA units are (usually) allowed to purchase popcorn "on account" with payment due at a later date. As a part of the contract identification element of ASU 2014-09, the council is required to assess the probability of collecting these accounts receivable in order to determine whether there is a substantive transaction between the council and the unit—a condition necessary for revenue recognition under the new rules. In making this collectability assessment, the council will need to exercise judgment and consider all facts and circumstances, including its knowledge of the customer. The performance obligation is delivery of the product, the transaction price is established by the council, and each item is individually priced, so no allocation of the transaction price is required. Revenue recognition should occur when the product has been delivered. Local councils can use reports from their Trail's End online accounts to record gross sales, cost of product, unit commissions, inventory, and accounts receivable. One important thing to note here is that many BSA units have the right to return to the council any unsold product. For local councils that offer to do this, they will set a product return-by date prior to year-end to ensure that the annual popcorn campaign is complete by that time. Should your council's popcorn campaign carry over into the new year and *probable* product returns exist at year end, you will need to accrue a liability for estimated returns. The debit would reduce sales revenue.

Financial Statement Presentation

The BSA will continue to report gross revenues from product sales as follows:

Product sales—gross	**XXXX**
Less cost of goods sold	**XXXX**
Less commissions paid to units*	**XXXX**
Product sales—net	**XXXX**

A note regarding commissions paid to units: Regardless of whether the local council remits a check to the unit, records a credit in the unit custodial account, or allows the unit to retain (from gross sales proceeds collected) its commissions earned, the BSA requires the above presentation on the face of the statement of activities and changes in net assets.

May also read:** ***Less commissions earned and retained by units if appropriate under the circumstances.

Although not the preferable presentation, an acceptable alternative to the above would be to show a parenthetical presentation on the face of the *Statement of Activities and Changes in Net Assets* as follows: ***Product sales (net of cost of goods sold of $XXXX and commissions paid to units of $XXXX).***

Camping and Activity Revenue

Revenue Recognition

Local councils conduct mission-focused experiences such as Day Camps, Day Hikes, Weekend Overnights, Camporees, and Summer Camps where the performance obligation is delivery of the program rather than delivery of a product. For resident camps, fees are set by the local council and include program supplies, meals, lodging, recognition items, staffing, and facility costs. As is customary, these items are not separately priced and are therefore considered to be one performance obligation. Activities such as the National Scout Jamboree may include a transportation component in the transaction price. Some special camp programs do incur additional fees (shooting sports, for example), which are separately priced. BSA *activities* such as Wood Badge may involve program supplies, recognition items, and meals, and are also considered to be one performance obligation. Fees collected in advance of delivery of the camp or activity are initially recognized as liabilities (deferred revenue) and are only recognized after delivery of the program has occurred. The BSA local council general ledger is set up to accommodate this process.

Deferred Revenues and Expenses

Reporting

Generally accepted accounting principles and the Boy Scouts of America require these items to be shown in the assets and liabilities sections, respectively, in the statement of financial position.

Background

Deferred revenues and expenses are council cash receipts and disbursements, respectively, that relate to activities, special events, and camping events that are scheduled to occur in a future year. For special event fees received *before* year- end for an event to occur *after* year-end, most councils follow AICPA guidance where the inherent contribution is conditioned on the event taking place and is therefore treated as a refundable advance along with the exchange transaction component. When the council conducts the activity or event, it may then recognize the cash receipts as revenue and the related cash disbursements as expenses in the statement of activities and changes in net assets.

Investments and Investment Return

Background

The BSA has historically recorded in the Operating Fund (Fund 1) investment return (income) without donor/legal restrictions earned on Endowment Fund (Fund 3) investments.

BSA Policy

It is the policy of the Boy Scouts of America that investment return without donor/legal restrictions should be recorded in the fund group that will use it. Investment return without donor/legal restrictions from all fund groups should be recorded in the Operating Fund unless donor or legal restrictions or board policies or directives dictate otherwise.

Gains (Losses)

Generally, realized gains and losses on investments should be recorded in the same fund where the assets are recorded. Note: Realized gains and losses result from the actual sale or other disposition of assets (stocks, bonds, real estate, etc.).

Here's How It Works

The following examples illustrate how a local council would record in the Operating Fund investment return received from the Endowment Fund in conformity with BSA policy: If the council budgets investment return from endowment on a monthly or quarterly basis but only takes cash distributions from the Endowment Fund account annually, for example, you should accrue the investment return periodically as follows:

Dr. Interfund loan to Fund 3* (1-1600-XXX-00)	$XXX	
Cr. Investment return from Endowment – Fund 1		$XXX
Dr. Investment return from Endowment – Fund 3	$XXX	
Cr. Interfund loan from Fund 1 (3-1600-XXX-00)		$XXX

To accrue investment return from endowment for ____, 201X

*Note: Ideally, there should be no interfund loan balance in Fund 3 at year-end. There should never be a balance in "Interfund loan from Fund 3".

When a cash distribution directly to the Operating Fund is received, the following entry would be recorded:

Dr. Cash – Fund 1	$XXX	
Cr. Interfund loan to Fund 3		$XXX

To record wire transfer from XYZ Investment Company endowment account.

When the monthly (for example) endowment account statement is received, a cash distribution to the council would be recorded as a debit to *Interfund loan from Fund 1* (3-1600-XXX-00), thereby bringing the interfund loan accounts back into balance.

If the council takes regular, periodic distributions from the Endowment Fund and budgets for the investment return accordingly, the following entry would be recorded (check or wire transfer received directly in Fund 1):

Dr. Cash – Fund 1	$XXX	
Cr. Investment return from endowment – unrestricted		$XXX

To record 1st Q distribution from XYZ Investment Company

The above could be recorded as a general journal entry (in the event of a wire transfer) or as part of the daily cash-receipting process (if a check was received and entered in the point-of-sale system).

When the council receives its periodic endowment investment account statement(s), the following would be included in its entry to summarize the activity therein:

Dr. Investment return – Fund 3	$XXX	
Cr. Long-term investments – Fund 3		$XXX

To record activity per XYZ Investment Company statement, 1st Q 2020

No Double-Dipping

The amount of the distribution, which was recorded as investment return in the Operating Fund, is charged against investment return in the Endowment Fund, thereby preventing double-recording of the income (i.e., "double-dipping").

Remember: Endowment Fund distributions in excess of investment return earned during the year are recorded as transfers of net assets without donor restrictions from the Endowment Fund to the Operating Fund.

Spending Policy

The actual amount of the annual cash distribution(s) from the council's endowment fund(s) depends on its board-approved endowment spending policy or, for trust funds, the provisions set forth in the trust instrument. All councils that have endowment funds are encouraged to have such a policy. An example of a typical spending policy follows:

The council has a policy of appropriating for distribution each year 4 percent (for example purposes) of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the council considered the long-term expected return on its endowment. Accordingly, over the long term, the council expects the current spending policy to allow its endowment to grow at an average of 1.5 percent annually (for example).

This is consistent with the council's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Important note to councils with trust funds—The council's spending policy with respect to these funds must follow the requirements set forth in the trust instrument(s). These trusts are governed by your state's trust laws. Any deviation from these requirements could place the council in jeopardy. If this applies to you, we strongly recommend that you consult legal counsel before adopting a spending policy.

Endowment fund spending rates in excess of 7 percent are considered to be imprudent. Depending on the structure of a local council's Endowment Fund, state law may define a maximum spending rate above which would create a rebuttable presumption of imprudence. Board-approved spending rates of less than 4 percent may not be adequate to support the operating needs of the council. When the investment committee determines a spending rate (and/or calculates the dollar amount) and the board approves it, trustees or money managers will be directed to issue periodic distributions to the council from the endowment fund(s).

For budgeting purposes, and especially during volatile markets, we suggest that councils and their investment advisors actively re-evaluate estimates of future-year market performance in order to formulate the most accurate investment return budget amounts.

BSA Policy ✓

It is important for the council to reconcile the endowment fund investment statements to the general ledger on a regular basis. **Should the reconciliation reveal that cash distributions to the Operating Fund from the endowment fund(s) exceed the amount of investment return earned on the endowment fund(s) (as defined above), the difference would be accounted for as a *transfer.***

Accounting Guidance

ASC 958-220-45-14 explains:

Net Presentation Now Required

> *To help explain the relationships of an NFPs ongoing major or central operations and activities, a statement of activities generally shall report the gross amounts of revenues and expenses. However, investment return (related to total return investing and not programmatic investing) shall be reported net of external and direct internal investment expenses. An NFP may present the amounts of net investment return from portfolios that are managed differently or derived from different sources as separate, appropriately labeled line items on the statement of activities. For example, if an NFP has net investment return generated from operating cash, it may present that separately from net investment return generated from its endowment. In addition, if appropriately labeled, an NFP may present the amounts of net investment return appropriated for spending separate from net investment return in excess of amounts appropriated for spending.*

Investments—Additional Guidance

The Investments—Debt and Equity Securities subtopic of the FASB Codification (ASC 958-320 and subsections) requires the following:

- Investments in equity securities with readily determinable fair values and all investments in debt securities should be reported at fair value with gains and losses included in the statement of activities and changes in net assets.

- Certain disclosures must be made about all investments held by not-for-profit organizations and the return on those investments. This is normally covered in the notes section of the council's audited financial statements. (See ASC 958-320-50 for more information.)

- If a donor-restricted endowment fund is an underwater endowment fund, the accumulated losses shall be included together with that fund in net assets with donor restrictions. An NFP shall disclose the required information in accordance with ASC 958-205-50-2.

Interfund Loans

Interfund loans are to be recorded on a single line in the asset section of the statement of financial position. The total of all three funds should be zero (FASB ASC 958-210-45-2). See the sample statement of financial position in Appendix A. An important note regarding negative cash balances in one fund where positive cash balances exist in other funds: Such balances **must** be reclassified as interfund balances (current or long-term, depending on facts and circumstances). Otherwise the fund(s) presenting the positive balance(s) will be overstating its (their) cash position(s). **Important: If the local council classifies an interfund payable as "current," it must possess both the ability and intent to settle the liability within one year of the balance sheet date**.

Transfers

Transfers are movements of net assets without donor restrictions between funds. **All transfers should have a supporting board resolution and disclosure in the financial statements**. The transfers to/from each fund (3900 series) should equal zero when added together. **The transfer line on the statement of activities and changes in net assets should appear on a line that is between the beginning net assets and ending net assets of each fund (see example in Appendix A).** Transfers should **NEVER** show above the increase/decrease in unrestricted net assets line.

Net Assets

The council's net assets **by fund and by restriction** in PeopleSoft Financials must match the audited financial statements!

Retirement and Health Care Plans

Defined Benefit Plan

The Boy Scouts of America has a defined benefit retirement plan, administered by the National Council, which covers eligible employees of the National Council and local councils. The plan name is *Boy Scouts of America Master Pension Trust – Boy Scouts of America*

Retirement Plan for Employees. Note: this plan was frozen for all employees effective August 1, 2020. Here are the plan details as of December 31, 2020:

Eligibility. From January 1, 2020 through July 31, 2020, grandfathered employees who had at least 15 years of vesting service, and whose age plus vesting service equaled 60 or more as of December 31, 2018, participated in the plan. Employees who did not meet the definition of grandfathered were non-grandfathered. Non-grandfathered employees participating in the plan continued to accrue vesting service but no longer contributed to the plan after December 31, 2018, which was the date when their accrued benefit in the plan was frozen. During 2020, the plan was frozen to grandfathered employees effective August 1, 2020, thereby freezing the plan for all BSA employees.

Employee and Employer Contributions. Grandfathered employees contributed 4.25% of their compensation to the plan up to August 1, 2020, when the plan was frozen. Local councils contribute 7.75% of the employee's compensation to the BSA retirement program.

Service. Employees are fully vested in the plan when they have five years of vesting service; the first year of employment is counted for vesting service. Credited benefit service is the number of years the employee has been a member of the plan and is used in the retirement formula, with a 35-year maximum.

A letter is provided annually to the local council from the National Council concerning the retirement plan. A copy of this letter should be provided to your auditor. See the sample footnote on page B-24.

Defined Contribution Plan

The Boy Scouts of America also offers a 403(b) defined contribution plan, the BSA Match Savings Plan, to all eligible employees of the National Council and local councils. The plan is administered by Fidelity Investments. From January 1, 2020 through July 31, 2020, contributions made by grandfathered employees were matched by the council at 50% ($.50 for every $1 contributed) up to 6% of pay for a total potential match of 3%. For non-grandfathered employees, the council made automatic contributions of 1.75% (even if the employee made no contributions) and also matched 100% of their contributions up to 6% of pay. Effective August 1, 2020, the BSA Match Savings plan was amended for all eligible employees, (grandfathered and non-grandfathered). From August 1, 2020 and beyond, contributions made by all eligible BSA employees are matched by the council at 50% ($.50 for every $1 contributed) up to 6% of pay for a total potential match of 3%.

Health Care Plan

Eligible local council employees are also covered under a health care plan provided by the National Council, where the local council pays a portion of the cost for employees with the employees paying the remaining portion and any additional premiums for their dependents.

Net Assets Released From Restriction (Reclassifications)

Overview

Reclassifications of net assets—that is, simultaneous increases in one net asset class and decreases in another—shall be made if any of the following events occur:

a. The NFP fulfills the purposes for which the net assets were restricted.

b. Donor-imposed restrictions expire with the passage of time or with the death of a split-interest agreement beneficiary (if the net assets are not otherwise restricted).

c. A donor withdraws, or court action removes, previously imposed restrictions.

d. A donor imposes restrictions on net assets without donor restrictions. For example, a donor may make a restricted contribution that is conditioned on the NFP restricting a stated amount of its net assets without donor restrictions. Such restrictions that are not reversible without donor consent result in a reclassification of net assets without donor restrictions net assets to net assets with donor restrictions.

Two Methods

A council may choose to "release" donor-restricted contribution revenue (for example, restricted as to time) ratably during the accounting year by moving a portion of the revenue from a revenue account in the *with donor restrictions* net asset class to one in the *without donor restrictions* net asset class as time passes.

By Revenue

If a council records a donor-restricted contribution (restricted for time; for example, United Way allocations) for which some (or all) of the restriction will expire during the **current year**, it may release the restriction by simply debiting the donor-restricted contribution revenue account and crediting the *without donor restrictions* contribution revenue account.

By Net Asset

If, however, a year-end close has occurred since the donor-restricted contribution was booked, then it is necessary to release the net assets generated from this contribution upon satisfaction of the donor stipulation. Local council net asset accounts in the *with donor restrictions* class are related to the donor-restricted contribution revenue accounts (Friends of Scouting, United Ways, etc.) that close

into them. Net asset reclassification accounts are related (numerically) to the *with donor restrictions* net asset accounts. See the *PeopleSoft Master Chart of Accounts*, which is contained in the *PeopleSoft BSA User Guide*, for a complete listing of net asset and net asset reclassification accounts.

Net Asset Accounts

- Each fund may contain net assets with donor restrictions and net assets without donor restrictions. Only the Capital and Endowment funds may contain donor-restricted net assets with perpetual restrictions.

- Each fund should show the beginning net assets for each class of net assets, ending net assets by classification, and changes in each net asset class.

- Any adjustments to net assets (as with transfers; see above) appear between the beginning and ending net assets in the statement of activities and changes in net assets.

The BSA will not allow any direct audit adjustments to net asset accounts, thus ensuring their integrity. However, if an adjustment is necessary, it may be made using the *net asset adjustment accounts* provided in the chart of accounts, which will display the requested adjustment on December statements, and the final adjustments will occur in the year-end close procedure.

Endowment Funds and UPMIFA

ASC 958-205-05 and subsections provide guidance on the net asset classification of donor-restricted endowment funds for nonprofit organizations subject to a version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) enacted by the state in which the organization operates. **UPMIFA does not apply to trust funds managed by banks and trust companies as required by the *Rules and Regulations of the Boy Scouts of America* for special funds. If the council's endowment trust fund substantially conforms to the Model Form, UPMIFA would <u>not</u> apply to endowments held therein.** The Boy Scouts of America strongly recommends that all local councils consult with their lawyers, trustees, investment advisors, and auditors to determine which of the council's endowment funds, if any, would be subject to UPMIFA and therefore subject to the provisions of ASC 958-205-05. The staff position also expands disclosures about an organization's endowment funds (both donor-restricted and board-designated), regardless of the applicability of UPMIFA.

Disclosure Requirements Under ASU 2016-14

ASC 958-205-50-1A requires an NFP to disclose information to enable users of financial statements to understand all of the following about its endowment funds (**both donor restricted, and board designated**):

a. Net asset classification (for example, net assets with donor restrictions or net assets without donor restrictions)
b. Net asset composition (for example, board-designated endowment funds or donor-restricted endowment funds)
c. Changes in net asset composition
d. Spending policies
e. Related investment policies.

ASC 958-205-50-1B requires that, **at a minimum**, an organization shall disclose the following information for each period for which the organization presents financial statements:

a. A description of the governing board's interpretation of the law or laws that underlie the NFP's net asset classification of donor-restricted endowment funds, <u>including its interpretation of the ability to spend from underwater endowment funds.</u>

b. A description of the organization's policy or policies for the appropriation of endowment assets for expenditure (its endowment spending policy or policies), <u>including its policy, and any actions taken during the period, concerning appropriation from underwater endowment funds.</u>

c. A description of the NFP's investment policies, including all of the following:

   i. Return objectives and risk parameters
   ii. How the return objectives relate to the NFP's endowment spending policy or policies
   iii. The strategies employed for achieving return objectives

d. The composition of the organization's endowment by net asset class at the end of the period, in total and by type of endowment fund, <u>showing donor-restricted endowment funds separately from board-designated endowment funds</u>.

e. A reconciliation of the beginning and ending balance of the NFP's endowment, in total and by net asset class, including, at a minimum, all of the following line items that apply:

   i. Investment return, <u>net</u>
   ii. Contributions
   iii. Amounts appropriated for expenditure

iv. Other changes

ASC 958-205-50-1C requires that if an NFP is subject to a donor restriction or applicable laws that its governing board interprets as requiring the maintenance of purchasing power for donor-restricted endowment funds, the NFP shall periodically adjust the disclosed amount that is required to be maintained either by the donor or by law to reflect that interpretation to maintain the purchasing power of the endowment fund in perpetuity. Under those circumstances, unless a donor provides an amount or an index, an NFP shall use the inflation (deflation) index (or indexes) that it deems most relevant for adjusting that amount (for example, the Consumer Price Index or the Higher Education Price Index).

Per ASC 958-205-50-2A, for each period for which a statement of financial position is presented, an NFP shall disclose each of the following, in the aggregate, for all underwater endowment funds:

a. The fair value of the underwater endowment funds
b. The original endowment gift amount or level required to be maintained by donor stipulations or by law that extends donor restrictions
c. The amount of the deficiencies of the underwater endowment funds ((a) less (b)).

In the following example, (see also sample footnote disclosure on page B-21), the local council's board of directors interpreted its state's enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

NEW!

Note X. Endowment

Interpretation of Relevant Law

The Council is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Directors appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Council's Board of Directors has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Council considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Council has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, the Council

considers the following factors in deciding to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the Council.

NEW!
Disclosure for Local Councils Located in Pennsylvania (Pennsylvania has not enacted UPMIFA)

Note X. Endowment

Interpretation of Relevant Law

The Commonwealth of Pennsylvania has not adopted the *Uniform Management of Institutional Funds Act* (UMIFA) or the *Uniform Prudent Management of Institutional Funds Act (UPMIFA*). Rather, the *Pennsylvania Uniform Principal and Income Act* ("Pennsylvania Act") governs the investment, use, and management of the Council's endowment funds. The Pennsylvania Act does not require the preservation of the fair value of a donor's original gift as of the gift date of a donor-restricted endowment fund, absent explicit donor stipulations to the contrary. However, based on its interpretation of the Pennsylvania Act and relevant accounting literature, the Council considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Pennsylvania Act allows a nonprofit to elect to appropriate for expenditure between 2 and 7 percent of the endowment's fair value, determined at least annually and averaged over a period of three or more preceding years.

Note: If the council's state has adopted UPMIFA, we highly recommend that you consult with your council's lawyers, investment advisors, independent auditors, and others to assess the effect of UPMIFA and this pronouncement on the council's financial statements and operations.

Be sure to see complete endowment fund and other disclosure examples in Appendix B to this Guide. If you have questions regarding this or other audit and accounting matters, please contact the Member Care Contact Center at 972-580-2489.

Fair Value Measurement

The *Fair Value Measurement* standard (ASC 820-10 and subsections) defines fair value as follows:

- "Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or the liability. The definition of fair value focuses on an *exit* price, not the price that would be paid to *buy* the asset or received to assume the liability.

This is particularly important when local councils receive noncash property such as equipment or real estate or contributed services for the construction of fixed assets (for example, at summer camp as the result of a capital campaign). Donor restrictions on the use of noncash property can significantly affect its fair value. For example, a donated parcel of land restricted for a particular use with the restriction legally incorporated into the deed (i.e., the restriction would transfer to a third party if sold) would have a very limited market and limited market value. A donated piece of equipment restricted for a specific use but with no restriction on the use of proceeds if sold could be valued using a "highest and best use" premise. ASC 820 also affects councils involved in split-interest agreements.

Valuation Approaches and Techniques

ASC 820 states that an NFP should use valuation techniques that are appropriate under the circumstances, maximizing the use of relevant observable inputs (the assumptions that market participants would use in pricing the asset or liability) and minimizing the use of unobservable inputs. Three widely used valuation approaches are the market approach, the cost approach, and the income approach. A council should use valuation techniques consistent with one or more of those approaches to measure fair value. ASC also discusses present value techniques to measure fair value (to value multi-year gifts, for example). Valuation techniques should be applied consistently, however, a change in valuation technique or its application is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances.

Three-Level Hierarchy

ASC 820 emphasizes that fair value is a market-based measurement and not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability (inputs). The fair value hierarchy in ASC 820 categorizes into three levels the inputs to the valuation techniques used to measure fair value:

Level 1

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Publicly traded securities at major exchanges would fit into this category.

Level 2

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

  a. Quoted prices for similar assets or liabilities in active markets.

  b. Quoted prices for identical or similar assets or liabilities in markets that are not active.

  c. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, and credit spreads).

  d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

  A Level 2 example would be a plain-vanilla fixed-for-floating interest-rate swap, where its components are observable data points like the London Interbank Offered Rate (Libor).

Level 3

- Level 3 inputs are unobservable inputs for the asset or liability.

  - Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability on the measurement date. In developing unobservable inputs, the NFP need not undertake exhaustive efforts to obtain information about market participant assumptions, however, the NFP should consider all information about market participant assumptions that is reasonably available.

A Level 3 example would be a beneficial interest in a perpetual trust.

Reports and Subsidiary Ledgers

Statements and Reports Available to the Auditor

For a complete discussion and listing of GL and AP reports and queries, please see chapter 8 of the *PeopleSoft BSA User Guide*.

Fundraising Reports

If the council is using the fundraising software supported by the National Service Center, Blackbaud CRM, fundraising reports should be printed immediately after all pledges and payments for the current fiscal year have been entered into the system. Pledges and payments received in the council office or postmarked by December 31 shall be counted in that fiscal year's transactions. The fundraising software can be used to record transactions for a prior or future period in the appropriate general ledger account.

Payroll Reports

All local councils use an outside service provider to handle their payroll and payroll tax needs. *PrimePay* (*IOIPay)* is the recommended provider, although a few councils use other services. The *PrimePay (IOIPay)* software interfaces with and updates the BSA general ledger. Reports from *PrimePay* (*IOIPay)* that may be useful during the audit include:

- **Payroll Reconciliation**. Tax, direct deposit, checks, vendor check, and banking information.
- **Current Check Listing**. Check number, department, employee SSN, employee name, and check amount.
- **Payroll Register**. Employee information, description of earnings, deductions, taxes withheld, and check number.
- **Deduction Register**. Employee ID, employee name, current amount withheld, YTD amount, and arrears balance.
- **Combined Register**. Employee information, current period, month-to-date, quarter-to-date, and year-to-date.
- **Quarterly Reports and Annual Reports**. Form 941 and worksheets, and Forms W-2 and W-3.

Fixed Asset Reports	For information regarding the PeopleSoft Asset Management System and a description of reports available to the auditor, please see chapter 13 of the *PeopleSoft BSA User Guide*.
SellWise Point-of-Sale	If the council uses SellWise point-of-sale software, the Inventory Valuation Report will show the value of the store inventory at average cost at the end of an accounting period. It is a "custom list" listing all inventory items, balance on hand, price, current cost, average cost, department, and extended totals, based on selections made by the user.

Culture of the BSA

It is important that the auditor understand the culture of the Boy Scouts of America. The culture of the Boy Scouts of America includes the following elements:

BSA Mission

- The corporation shall promote, within the territory covered by the charter from time to time granted it by the Boy Scouts of America and in accordance with the Congressional Charter, Bylaws, and Rules and Regulations of the Boy Scouts of America, 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.

Note: This is the mission statement that should be used when preparing the council's IRS Form 990.

National Council

- The headquarters is in Irving, Texas.
- The National Council develops the programs of the Boy Scouts of America.
- The Boy Scouts of America includes a subsidiary corporation to administer Learning for Life.
- The National Council is divided into four regions:
    - Northeast Region
    - Southern Region
    - Central Region
    - Western Region

- Regions are divided into areas. Program support is delivered to the local councils in each area.

Local Councils

- There are approximately 250 local councils.
- The local council is chartered by the National Council to deliver the program of the Boy Scouts of America and administer the Learning for Life program.
- Each local council is incorporated as a not-for-profit corporation in the state in which it is located. Articles of incorporation and bylaws are filed with the state.
- Each local council is recognized by the Internal Revenue Service as a 501(c)(3) organization covered under a group exemption by the National Council.
- A local council may subdivide into service areas, districts, and subdistricts. These subdivisions are administrative groupings created to carry out the mission of the council.

Performance and Development System

Compensation is tied to performance. Salary increases are based on the performance rating and contribution of each individual. Performance increases include annual salary increases, promotion increases for moves to a higher-grade job, and development increases for milestones and increased responsibility within the same grade. Managers use their own discretion (within budget constraints) to grant increases that reward and recognize performance. Managers distinguish performance by providing high performers with higher increases, average performers with average increases, and poor performers with little or no increase. To assist councils in establishing increase budgets, a labor market increase projection is provided with the benefits bulletin each September for the upcoming year.

Scout executive compensation, benefits, and perquisites are governed under IRS code regarding not-for-profit organizations. For this reason, all salary, benefits, and perquisites increases and changes must be authorized and approved in writing by the council president. All documentation must be retained as part of the board documents for the council.

Business Expense Reimbursements

Local councils are encouraged to adopt an accountable plan for expense reimbursements. An accountable plan is an employee reimbursement allowance arrangement or a method for reimbursing employees for business expenses that complies with IRS regulations. Under an accountable plan, the reimbursement of certain business expenses is not taxable to the employee if three basic requirements are met: a business connection; substantiation; and return of excess amounts, all in a timely manner. The monthly business expenses for the Scout executive are to be approved by the council president or designee.

Program Service

Scouting is the primary program of the Boy Scouts of America. The Scouting program is classified as follows:

- Lion Scouts is a program for boys and girls who are in kindergarten.
- Tiger Scouts is a program for boys and girls who are in the first grade or age 7.
- Cub Scouting is a program for boys and girls who have completed the first grade or are ages 8 to 10.
- Scouts BSA is a year-round program for youth 11-17 years old that provides fun, adventure, learning, challenge, and responsibility to help them become the best version of themselves.
- Venturing is a program for young men and women ages 14 to 20.
- Learning for Life is a character education program designed to support schools and community- based organizations in their efforts to prepare youth to successfully handle the complexities of our contemporary society. Learning for Life includes the following types of participation:

    - Exploring—Coed career-based program for youth 14 through 20 years of age.

    - Groups—Classroom-based program with character-building curriculum for boys and girls in kindergarten through 12th grade.

- All Markets is a program that operates as part of the Boy Scout program and provides program activities for youth who do not have access to Scouting through more traditional Scouting programs. The program ensures that Scouting is provided to all youth and adults regardless of color, race, religion, gender, ethnic background, disability, economic status, or citizenship.

NEW!

Families can choose to sign up their sons and daughters who are ages 5-10 for Cub Scouts. Chartered organizations may choose to establish a new girl pack, establish a pack that consists of girl dens and boy dens or remain an all-boy pack. Cub Scout dens will be single gender — all boys or all girls. Using the same curriculum as the Boy Scout program, Scouts BSA launched in February 2019, enabling all eligible youth ages 11-17, to earn the Eagle Scout rank. Scouts BSA units are single-gender – all girl troops or all boy troops. This unique approach allows the organization to maintain the integrity of the single-gender model while also meeting the needs of today's families.

Camping

Many councils own property for conducting a camping program. Not all camping programs are conducted on council-owned property.

- Boy Scout summer camps are usually conducted on council-owned property.

- Cub Scout day camps may be conducted in a variety of locations.

Code of Ethics

The executive board should formally adopt a code of ethics with which all board members, staff, and volunteers are familiar and to which they adhere. The following Statement of Values and Code of Ethics was developed and provided by the Independent Sector (a not-for-profit organization of which the BSA is a member) as an encouragement to all not-for-profit organizations to set aside time in their board meetings to discuss in detail all aspects of an ethical code. It may be used as a model in your council.

Below is the Statement of Values and Code of Ethics for councils of the Boy Scouts of America:

The values of this council include:

- Commitment to the public good.
- Accountability to the public.
- Commitment beyond the law.
- Respect for the worth and dignity of individuals.
- Inclusiveness and social justice.
- Respect for pluralism and diversity.
- Transparency, integrity, and honesty.
- Responsible stewardship of resources
- Commitment to excellence and to maintaining the public trust.

All staff, board members, and volunteers of the council act with honesty, integrity, and openness in all their dealings as representatives of the council. The council promotes a working environment that values respect, fairness, and integrity.

The organization has an active governing body that is responsible for setting the mission and strategic direction of the council, and for the oversight of the finances, operations, and policies of the council. The governing body:

- Ensures that its board members have the requisite skills and experience to carry out their duties and that all members understand and fulfill their governance duties, acting for the benefit of the organization and its public purpose.

- Has a conflict-of-interest policy that ensures that any conflicts of interest or the appearance thereof are avoided or appropriately managed through disclosure or other means.

- Is responsible for hiring, firing, and regularly reviewing the performance of the Scout executive and ensures that the compensation of the Scout executive is reasonable and appropriate.

- Ensures that the council conducts all transactions and dealings with integrity and honesty.

- Ensures that the council promotes working relationships with board members, staff, volunteers, and program beneficiaries that are based on mutual respect, fairness, and openness.

- Ensures that the council is fair and inclusive in its hiring and promotion policies and practices for all board, staff, and volunteer positions.

- Ensures that policies of the council are in writing, clearly articulated, and officially adopted.

- Ensures that the resources of the council are responsibly and prudently managed.

- Ensures that the council has the capacity to carry out its programs effectively.

- Is knowledgeable of and complies with all laws, regulations, and applicable international conventions.

Stewardship of Resources

The council manages its funds responsibly and prudently with the following considerations:

- It spends a reasonable percentage of its annual budget on programs in pursuance of its mission.

- It spends an adequate amount on administrative expenses to ensure effective accounting systems, internal controls, competent staff, and other expenditures critical to professional management.
- The council compensates staff reasonably and appropriately.

- It spends a reasonable percentage of its annual budget on fundraising costs, recognizing the variety of factors that affect fundraising costs.

- The council does not accumulate operating funds excessively.
- The council prudently draws from endowment funds consistent with donor intent and to support the public purpose of the council.
- The council ensures that all spending practices and policies are fair, reasonable, and appropriate to fulfill the mission of the council.
- It presents financial reports that are factually accurate and complete in all material respects.

Public Information

The council provides comprehensive and timely information to the public, the media, and all stakeholders, and is responsive in a timely manner to reasonable requests for information. All information about the council will fully and honestly reflect the policies and practices of the council. Basic information about the council, such as Form 990 and the audited financial statements, will be posted on the council's website or otherwise made available to the public. All solicitation materials accurately represent the council's policies and practices and will reflect the dignity of program beneficiaries. All financial, organizational, and program reports will be complete and accurate in all material respects.

Program Effectiveness

The council regularly reviews program effectiveness and has mechanisms to incorporate lessons learned into future programs. The council is committed to improving program and organizational effectiveness and develops mechanisms to promote learning from its activities and the field. The council is responsive to changes in its field of activity and to the needs of its constituents.

Raising Funds

The council is truthful in its solicitation materials. The council respects the privacy concerns of individual donors and expends funds consistent with donor intent. The council discloses important and relevant information to potential donors. In raising funds from the public, the council will respect the rights of donors, as follows:

- To be informed of the council's mission, the way resources will be used, and the capacity to use donations effectively for their intended purposes.

- To be informed of the identity of those serving on the council's executive board and to expect the board to exercise prudent judgment in its stewardship responsibilities.
- To have access to the council's most recent financial reports.
- To be assured their gifts will be used for the purposes for which they were given.
- To receive appropriate acknowledgment and recognition.
- To be assured that information about their donations is handled with respect and with confidentiality to the extent provided by the law.
- To be informed whether those seeking donations are volunteers, employees of the council, or hired solicitors.
- To have the opportunity for their names to be deleted from mailing lists.
- To feel free to ask questions when donating and to receive prompt, truthful, and forthright answers.

Communicating Internal Control-Related Matters Identified in an Audit (formerly called the SAS 115/management letter)

Letter Requirements

Generally accepted auditing standards require auditors to communicate reportable control deficiencies (significant deficiencies or material weaknesses) they identify during the audit (AU-C Section 265). There is no audit requirement to communicate "management points," that is, observations and suggestions regarding the organization's activities that go beyond internal control-related matters. Such comments may deal with operational or administrative efficiencies and other items of perceived benefit to the organization. Authoritative literature contains very little discussion about and no required format for, or illustrations of, management letters.

However, AU-C Section 265 (formerly SAS No. 115) notes that auditors are not precluded from communicating to a client on a variety of matters.

Format

The flexibility of not having a fixed format for a management letter is a major advantage to the auditor. This allows the auditor to design a format to meet the individual needs of the local council, although there are certain required elements that must be included within the letter. The specific objectives and purpose of the management letter will vary based on individual audits, *but the general objectives are to improve communications between the auditor and the council and to add value to the audit.*

BSA Policy

It is a requirement of the National Council, Boy Scouts of America, that the audits of local councils include an SAS 115 letter for use by management and officers of the corporation. The BSA will accept a combination SAS 114/115. Sample letters can be found in Appendix B.

Management Letter Response

A written response, addressing each of the advisory comments of the SAS 115 letter, is **required** to be submitted to the National Council. This is required even if there were no advisory comments in the management letter. This document should be drafted by council

management and reviewed by the audit committee. Upon approval by the audit committee, the response to the management letter should be presented to the executive board and approved.

The Auditor's Communication with Those Charged With Governance ***(formerly called the SAS 114 Letter)***

This standard relates to communication with those individuals in the organization charged with governance. In local councils, this would be the audit committee and executive board of directors. **Note: Next year (2021) SAS No. 134 becomes effective and amends AU-C Section 260 to require the auditor to communicate significant risks identified by the auditor as part of the overview of the planned scope and timing of the audit communication**. Currently, AU-C Section 260 does not change or expand SAS No. 114 in any significant respect. SAS No. 114 added requirements (to SAS No. 61) to communicate: (1) an overview of the planned scope and timing of the audit* (often outlined in the *engagement letter*; see page B-29), and, (2) representations the auditor is requesting from management. It also provides additional guidance on the communication process, including the forms and timing of communication. Significant findings from the audit should be in writing when, in the auditor's professional judgment, oral communication would not be adequate. Other communications may be oral or in writing. SAS No. 114 requires the auditor to determine the appropriate people in the entity's governance structure with whom to communicate particular matters. That person may vary depending on the nature of the matter to be communicated. It also requires the auditor to evaluate the adequacy of the two-way communication between the auditor and those charged with governance. Other items to be communicated by the auditor include management's judgments and accounting estimates, audit adjustments, and uncorrected misstatements. The SAS 114 letter will also communicate information regarding any new accounting policies adopted by the council, any disagreements with management, major issues discussed prior to the audit, and difficulties encountered during the audit. A sample letter can be found in Appendix B. A copy of the SAS 114 letter is **required** to be submitted to the National Council.

*Important note regarding the audit committee's involvement in the audit: The audit committee should meet *at least two times during the audit process*. One meeting should be held *prior to the start of fieldwork* to discuss with the auditor the scope and timing of audit procedures, among other matters. A second meeting should occur *after fieldwork* to review the results of the audit including the audited financial statements and other BSA- and GAAP-required documents such as the SAS 114 letter described above. For more information regarding the audit committee and its role in the audit process, please visit the Finance Impact website at www.scouting.org/financeimpact. Go to the Council Financial Management section and select Fiscal Documents to view the *Audit Committee Guidebook*.

Management Representation Letter ✓

This communication should be carefully reviewed by the Scout executive as it outlines key representations made from management to the auditor throughout the audit process. Although a sample management letter is provided within this document, auditors often will prepare this letter from a different source for management's signature.

Audit Committee Meeting Minutes ✓

As indicated above, the audit committee should meet at least twice during the audit process and minutes should be taken at all meetings. The minutes must list those in attendance, those absent, and actions taken, and have the signature of the audit committee chair and Scout executive. Please include in the notes to the audit committee meetings an acknowledgment of any BSA deficiencies noted in the 2019 audited financial statements and steps taken in the current year to correct them.

Appendix A—Sample Financial Statements

Statement Samples

Samples of the following statements are included in this section. The sample financial statements represent actual BSA system-generated financial statements and are presented to illustrate the BSA's requirements regarding financial statement presentation.
Note: The following sample financial statements do not contain any PPP loan transactions or amounts. Some amounts presented in the following financial statements may contain small rounding errors. It is expected that the council's audited financial statements will be free of any such errors. Due to space constraints, abbreviations have been used in the following statements for certain headings and line items. Complete descriptions should be used in the council's audited financial statements.

- Statements of Financial Position
- Statements of Activities and Changes in Net Assets
- Statements of Functional Expenses
- Statements of Cash Flows

Employee Time Study

Page A-7 contains a sample worksheet used to capture information obtained as a result of an employee time study. The time study relates to the statement of functional expenses. See discussion on pages 26 and A-8.
Note: The sample time study worksheet is not a BSA system-generated report.

Local Council **Boy Scouts of America**

Statements of Financial Position

December 31, 2020 and 2019

	Operating Fund		Capital Fund		Endowment Fund		Total of All Funds	
	2020	2019	2020	2019	2020	2019	2020	2019
Current assets:								
Cash	6,166,338	7,035,430		0			6,166,338	7,035,430
Short-term investments			13,072,858	19,672,941	2,667		13,075,525	19,672,941
Accounts and notes receivable	254,877	384,238			114,598	149,435	369,475	533,673
Contributions receivable	186,551	590,705	854,780	858,804	58,533	1,765,175	1,099,865	3,214,683
Inventory	44,864	55,904					44,864	55,904
Interfund loans	0	0	0	0	0	0	0	0
Deferred activity expense	12,970	37,010					12,970	37,010
Deferred camp expense		12,441						12,441
Deferred special event expens	1,650	8,596					1,650	8,596
Prepaid expenses	90,976	99,495	91,267	69,030			182,243	168,526
Total current assets	6,758,226	8,223,819	14,018,905	20,600,775	175,798	1,914,610	20,952,929	30,739,203
Noncurrent assets:								
Contributions receivable	1,235,011	-1	705,443	1,210,207	4,488,501	2,058,700	6,428,955	3,268,907
Unallocated asset acquisitior								
Land, buildings and equipmer			47,720,043	39,152,555			47,720,043	39,152,555
Long-term investments			18,971	28,229	70,565,225	75,617,088	70,584,196	75,645,317
Other noncurrent assets	26,000	0	4,995,467	4,995,467	199,055	212,591	5,220,523	5,208,058
Total noncurrent assets	1,261,011	-1	53,439,924	45,386,458	75,252,782	77,888,380	129,953,717	123,274,837
Total assets	**8,019,237**	**8,223,819**	**67,458,829**	**65,987,233**	**75,428,579**	**79,802,989**	**150,906,646**	**154,014,041**
Current liabilities:								
Accounts payable	201,736	217,461	581,263	54,032			782,999	271,494
Accrued expenses	488,449	891,124	233,077	0			721,526	891,124
Taxes and benefits withheld	309	24					309	24
Custodial accounts	1,448,907	1,671,408	140,585	140,585			1,589,492	1,811,993
Deferred activity revenue	30,319	20,908					30,319	20,908
Deferred camp revenue	9,899	8,690					9,899	8,690
Deferred special event revenu								
Other deferred revenue	42,867	35,338	10,000				52,867	35,338
Other current liabilities	28,496	28,552					28,496	28,552
Total current liabilities	2,250,982	2,873,504	964,926	194,618			3,215,907	3,068,122
Total noncurrent liabilities								
Total liabilities	**2,250,982**	**2,873,504**	**964,926**	**194,618**			**3,215,907**	**3,068,122**
Net assets:								
Without donor restrictions	4,473,761	4,271,284	48,883,342	40,673,751	18,287,678	19,164,424	71,644,780	64,109,459
With donor restrictions	1,294,495	1,079,030	17,610,561	25,118,865	57,140,902	60,638,565	76,045,958	86,836,460
Total net assets	5,768,256	5,350,314	66,493,903	65,792,615	75,428,579	79,802,989	147,690,738	150,945,919
Total liabilities and net assets	**8,019,237**	**8,223,819**	**67,458,829**	**65,987,233**	**75,428,579**	**79,802,989**	**150,906,646**	**154,014,041**

Local Council | Boy Scouts of America

Statements of Activites and Changes in Net Assets

Years Ending December 31, 2020 and 2019

	Operating Fund		Capital Fund		Endowment Fund		Total of All Funds	
	2020	2019	2020	2019	2020	2019	2020	2019
Changes in net assets without donor								
Support and revenue:								
Direct support:								
Direct mail	0	0	0	0	0	0	0	0
Friends of Scouting	2,033,864	1,705,244	0	0	0	0	2,033,864	1,705,244
Project sales	0	0	0	0	0	0	0	0
Capital campaign	0	0	815,493	145,140	0	0	815,493	145,140
Special events - gross	1,135,724	1,360,881	0	0	0	0	1,135,724	1,360,881
Less cost of direct benefit	(337,934)	(391,962)	0	0	0	0	(337,934)	(391,962)
Net special events	797,791	968,919	0	0	0	0	797,791	968,919
Legacies and bequests	0	0	0	111,159	0	0	0	111,159
Foundations and trusts	481,920	594,332	0	0	0	0	481,920	594,332
Other direct support	172,932	243,947	83,352	63,119	12,838	18,725	269,122	325,791
Total direct support	**3,486,506**	**3,512,441**	**898,845**	**319,418**	**12,838**	**18,725**	**4,398,190**	**3,850,585**
Indirect support:								
Associated organizations	0	0	0	0	0	0	0	0
United Way	888,514	919,716	0	0	0	0	888,514	919,716
Unassociated organizations	0	0	0	0	0	0	0	0
Other indirect	0	0	0	0	0	0	0	0
Government fees and grants	0	0	0	0	0	0	0	0
Total indirect support	**888,514**	**919,716**	**0**	**0**	**0**	**0**	**888,514**	**919,716**
Total support	**4,375,020**	**4,432,157**	**898,845**	**319,418**	**12,838**	**18,725**	**5,286,704**	**4,770,301**
Revenue:								
Sale of supplies - gross	3,863	4,246	0	0	0	0	3,863	4,246
Less cost of goods sold	(1,938)	(2,104)	0	0	0	0	(1,938)	(2,104)
Net sale of supplies	1,925	2,142	0	0	0	0	1,925	2,142
Product sales - gross	4,056,014	4,082,613	0	0	0	0	4,056,014	4,082,613
Less cost of goods sold	(1,061,607)	(1,046,773)	0	0	0	0	(1,061,607)	(1,046,773)
Less commissions paid to units	(1,399,065)	(1,313,226)	0	0	0	0	(1,399,065)	(1,313,226)
Net product sales	1,595,342	1,722,614	0	0	0	0	1,595,342	1,722,614
Investment return - net	2,400,336	1,642,988	1,492,611	1,794,719	(3,423,488)	(2,577,910)	469,460	859,796
Camping	559,879	1,040,533	0	0	0	0	559,879	1,040,533
Activities	713,306	1,333,125	0	0	0	0	713,306	1,333,125
Other revenue	638,885	584,644	11,977	1,663,354	0	0	650,862	2,247,998
Total revenue	**5,909,673**	**6,326,046**	**1,504,588**	**3,458,073**	**(3,423,488)**	**(2,577,910)**	**3,990,773**	**7,206,209**
Net assets released from restrictions:								
Satisfaction of program restrictions	689,873	946,936	8,528,047	7,590,598	(169,768)	0	9,048,152	8,537,534
Expiration of time restrictions	374,725	863,148	0	0	0	0	374,725	863,148
Satisfaction of equipment acquisition restrictions								
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	0	0	(982,224)	(1,111,378)	2,606,504	2,241,412	1,624,280	1,130,034
Total net assets released from restriction	**1,064,598**	**1,810,083**	**7,545,823**	**6,479,220**	**2,436,736**	**2,241,412**	**11,047,156**	**10,530,715**
Total support and revenue	**11,349,291**	**12,568,287**	**9,949,256**	**10,256,711**	**-973,914**	**-317,773**	**20,324,633**	**22,507,225**
Expenses and losses:								
Program services	9,493,150	10,696,817	1,368,598	1,426,162	49,500	49,500	10,911,248	12,172,479
Support services:								
Fundraising	1,005,529	1,014,603	162,041	81,996	6,786	6,786	1,174,356	1,103,385
Management and general	566,108	571,069	39,258	36,030	16,314	13,014	621,680	620,114
Total support services	1,571,637	1,585,673	201,299	118,026	23,100	19,800	1,796,036	1,723,499
Total functional expenses	11,064,787	12,282,489	1,569,897	1,544,188	72,600	69,300	12,707,284	13,895,977
Charter and national service fee	82,028	82,028	0	0	0	0	82,028	82,028
Loss on disposal of fixed assets	0	0	0	18,446	0	0	0	18,446
Total expenses and losses	**11,146,815**	**12,364,517**	**1,569,897**	**1,562,634**	**72,600**	**69,300**	**12,789,312**	**13,996,451**
Incr (decr) in net assets without donor restrictions	**202,476**	**203,770**	**8,379,359**	**8,694,077**	**(1,046,514)**	**(387,073)**	**7,535,322**	**8,510,774**

Changes in net assets with donor restrictions:								
Support and revenue:								
Direct support:								
Direct mail	0	0	0	0	0	0	0	0
Friends of Scouting	468,253	54,375	0	0	0	0	468,253	54,375
Project sales	0	0	0	0	0	0	0	0
Capital campaign	0	0	12,519	3,118,394	0	0	12,519	3,118,394
Special events - gross	15,000	31,500	0	0	0	0	15,000	31,500
Less cost of direct benefit	0	0	0	0	0	0	0	0
Net special events	15,000	31,500	0	0	0	0	15,000	31,500
Legacies and bequests	142	0	0	0	855,472	919,376	855,614	919,376
Foundations and trusts	830	7,765	0	0	0	0	830	7,765
Other direct Support	503,023	517,564	25,000	0	466,530	564,295	994,553	1,081,859
Total direct support	**987,247**	**611,204**	**37,519**	**3,118,394**	**1,322,003**	**1,483,671**	**2,346,769**	**5,213,268**
Indirect support:								
Associated organizations	0	0	0	0	0	0	0	0
United Way	292,815	320,350	0	0	0	0	292,815	320,350
Unassociated organizations	0	0	0	0	0	0	0	0
Other indirect	0	0	0	0	0	0	0	0
Government fees and grants	0	0	0	0	0	0	0	0
Total indirect support	**292,815**	**320,350**	**0**	**0**	**0**	**0**	**292,815**	**320,350**
Investment revenue - net	0	0	0	0	(2,382,930)	4,500,671	(2,382,930)	4,500,671
Net assets released from restriction	**(1,064,598)**	**(1,810,083)**	**(7,545,823)**	**(6,479,220)**	**(2,436,736)**	**(2,241,412)**	**(11,047,156)**	**(10,530,715)**
Total support and revenue	**215,465**	**(878,530)**	**(7,508,303)**	**(3,360,826)**	**(3,497,663)**	**3,742,930**	**(10,790,502)**	**(496,426)**
Increase (decrease) in net assets with donor rest	**215,465**	**(878,530)**	**(7,508,303)**	**(3,360,826)**	**(3,497,663)**	**3,742,930**	**(10,790,502)**	**(496,426)**
Increase (decrease) in total net assets	**417,941**	**(674,760)**	**871,056**	**5,333,251**	**(4,544,177)**	**3,355,857**	**(3,255,180)**	**8,014,348**
Net assets, beginning of year:								
Without donor restrictions	**4,271,284**	**4,064,622**	**40,673,751**	**32,136,836**	**19,164,424**	**16,619,055**	**64,109,459**	**52,820,513**
With donor restrictions	**1,079,030**	**1,957,559**	**25,118,865**	**28,479,691**	**60,638,565**	**59,673,808**	**86,836,460**	**90,111,058**
Total net assets, beginning of year	**5,350,314**	**6,022,181**	**65,792,615**	**60,616,527**	**79,802,989**	**76,292,863**	**150,945,919**	**142,931,571**
Board authorized transfers	**0**	**2,893**	**(169,768)**	**(157,163)**	**169,768**	**154,270**	**0**	**0**
Adjustments to Net Assets:								
Without donor restrictions	**0**	**0**	**0**	**0**	**0**	**2,778,172**	**0**	**2,778,172**
With donor restrictions	**0**	**0**	**0**	**0**	**0**	**(2,778,172)**	**0**	**(2,778,172)**
Total adjustments to net assets	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net assets, end of year:								
Without donor restrictions	4,473,761	4,271,284	48,883,342	40,673,751	18,287,678	19,164,424	71,644,780	64,109,459
with donor restrictions	1,294,495	1,079,030	17,610,561	25,118,865	57,140,902	60,638,565	76,045,958	86,836,460
Total net assets, end of year	**5,768,256**	**5,350,314**	**66,493,903**	**65,792,615**	**75,428,579**	**79,802,989**	**147,690,738**	**150,945,919**

Local Council | **Boy Scouts of America**

Statement of Functional Expenses

Year Ending December 31, 2020

Funds 1-3

Expenses	Program Services	Management & General	Fundraising	Product Sales Cost of Sales	Cost of Direct Benefits to Donors	Total Expenses 2020	Total Expenses 2019
Employee compensation:							
Salaries	5,121,884	310,540	567,400			5,999,824	6,113,919
Employee benefits	933,254	66,669	122,228			1,122,150	1,187,303
Payroll taxes	443,226	30,079	54,958			528,263	504,892
Employee related	21,083	1,582	2,890			25,556	36,655
Total Employee Compensation	6,519,447	408,870	747,477		-	7,675,793	7,842,770
Other expenses:							
Professional fees	506,599	115,610	136,089			758,298	481,415
Program and other Supplies	657,542	2,708	37,495			697,745	1,078,951
Telephone and communications	62,007	3,183	5,817			71,007	71,041
Postage and shipping	10,178	546	19,467			30,191	32,006
Occupancy	875,615	36,885	67,734			980,234	1,121,209
Rental and maintenance of equipment	134,656	5,316	9,861			149,833	183,722
Publications and media	57,878	3,313	25,108			86,299	110,919
Travel	275,106	16,675	50,111			341,892	539,244
Conferences and meetings	64,712	3,676	20,451			88,839	317,529
Specific assistance to individuals	278,739	-	-			278,739	404,513
Recognition and awards	45,626	1,212	11,471			58,310	111,643
Cost of products sold & unit commissions				2,460,672		2,460,672	2,359,999
Cost of goods sold - scout shop & trading posts	19,258					19,258	59,809
Cost of direct benefit to donors					337,934	337,934	391,962
Interest	-	-	-			-	-
Insurance	339,532	2,775	5,070			347,377	384,926
Depreciation and amortization	901,723	22,232	40,620			964,575	988,618
Other	181,887	(1,322)	(2,415)			178,151	227,474
Total other expenses	4,411,059	212,810	426,879	2,460,672	337,934	7,849,353	8,864,977
Total functional expenses	10,930,506	621,680	1,174,356	2,460,672	337,934	15,525,147	16,707,747
Expenses included with revenue on the statement of activities:							
Cost of products sold & unit commissions				(2,460,672)		(2,460,672)	(2,359,999)
Cost of goods sold - scout shop & trading posts	(19,258)					(19,258)	(59,809)
Cost of direct benefit to donors					(337,934)	(337,934)	(391,962)
Total expenses included in the expense section on the statement of activities	10,911,248	621,680	1,174,356	-	-	12,707,284	13,895,977

Local Council | Boy Scouts of America

Statements of Cash Flows

Years Ending December 31, 2020 and 2019

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2020	2019	2020	2019	2020	2019	2019	2018
Cash flows from operating activities								
Change in total net assets	417,941	(674,760)	871,056	5,333,251	(4,544,177)	3,355,857	(3,255,180)	8,014,348
Adjustments to reconcile change in net asset to net cash provided (used) by operating activities from January 1 through this period.								
Depreciation			964,575	970,172			964,575	970,172
Realized/unrealized (gains) losses on sale of fixed assets			-	1,631,500			-	1,631,500
Realized/unrealized (gains) losses on sale of investments	(310)	-	11,746	9,300	3,879,424	(3,781,969)	3,890,860	(3,772,670)
Adjustments for changes in assets and liabilities								
Accounts and notes receivable	129,361	(95,658)	-	8,000	34,837	(5,851)	164,198	(93,509)
Contributions receivable	(830,858)	509,856	508,788	(658,095)	(723,159)	(389,071)	(1,045,229)	(537,311)
Inventory	11,040	8,063	-	-	-	-	11,040	8,063
Deferred activity expense	24,040	117,316	-	-	-	-	24,040	117,316
Deferred camp expense	12,441	-	-	-	-	-	12,441	-
Deferred special event expense	6,946	(3,651)	-	-	-	-	6,946	(3,651)
Prepaid expenses	8,519	15,126	(22,237)	18,108	-	-	(13,717)	33,234
Other assets	(26,000)	1,095	-	1,297,266	13,536	(26,125)	(12,464)	1,272,236
Accounts payable	(15,725)	(256,842)	527,231	(1,495,325)	-	-	511,506	(1,752,167)
Accrued expenses	(402,675)	514,887	233,077	-	-	-	(169,598)	514,887
Taxes and benefits withheld	285	-	-	-	-	-	285	-
Other liabilities	(56)	2,162	-	(33,100)	-	-	(56)	(30,938)
Custodian accounts	(222,501)	194,221	-	-	-	-	(222,501)	194,221
Deferred activity revenue	9,412	(280,506)	-	-	-	-	9,412	(280,506)
Deferred camp revenue	1,209	(15,203)	-	-	-	-	1,209	(15,203)
Deferred special event revenue	-	-	-	-	-	-	-	-
Other deferred revenue	7,529	(9,420)	10,000	-	-	-	17,529	(9,420)
Contributions restricted for long-term purposes	-	-	-	(1,500,000)	-	-	-	(1,500,000)
Income reinvested for long-term purpose	-	-	-	-	-	-	-	-
Net cash provided/(used) by operating activities	**(869,402)**	**26,686**	**3,104,235**	**5,581,075**	**(1,339,539)**	**(847,159)**	**895,294**	**4,760,602**
Cash flows from investing activities								
Proceeds from sale of investments	310	-	-	1,986	3,352,400	2,957,256	3,352,710	2,959,242
Purchase of investments	-	-	(2,488)	-	(2,179,962)	(2,264,357)	(2,182,450)	(2,264,357)
Proceeds from sale of property and equipment			1,000,000	2,000,000			1,000,000	2,000,000
Purchase of property and equipment			(10,532,063)	(11,103,963)			(10,532,063)	(11,103,963)
Net cash provided/(used) by investing activities	**310**	**-**	**(9,534,550)**	**(9,101,977)**	**1,172,438**	**692,899**	**(8,361,802)**	**(8,409,078)**
Cash flows from financing activities								
Proceeds from borrowing	-	-	-	-	-	-	-	-
Curtailments of borrowing	-	-	-	-	-	-	-	-
Net asset adjustments	-	-	-	-	-	-	-	-
Contributions restricted for long-term purposes	-	-	-	1,500,000	-	-	-	1,500,000
Transfers IN	-	2,893	(169,768)	(157,163)	169,768	154,270		
Transfers OUT	-	-	-	-	-	-		
Net of transfers	-	2,893	(169,768)	(157,163)	169,768	154,270	-	-
Proceeds from interfund loans	-	(0)	-	0	-	-		
Curtailments of interfund loans	-	-	-	-	-	-		
Net of inter-fund loans	-	(0)	-	0	-	-	-	-
Net cash provided/(used) by financing activities	**-**	**2,893**	**(169,768)**	**1,342,838**	**169,768**	**154,270**	**-**	**1,500,000**
Net Inc (Dec) in cash and temporary cash investments	(869,092)	29,578	(6,600,082)	(2,178,065)	2,666	10	(7,466,508)	(2,148,476)
Cash and temporary cash investments								
Beginning of year	7,035,430	7,005,851	19,672,941	21,851,005	-	-	26,708,370	28,856,856
End of year	6,166,338	7,035,430	13,072,858	19,672,941	2,667	-	19,241,863	26,708,370

Employee Time Study

Use this worksheet to allocate a council employee's time to the categories listed. See the guidelines on the next page. Also see the *Local Council Accounting Manual* for more information on time analysis.

Employee _____

Instructions

- This time study covers the two-week period indicated below.
- Use the definitions on the next page as guidelines.
- Exclude absences due to illness, holidays, vacations, etc.
- Report time in each category to the nearest half-hour.
- Total the hours across by day and down by column heading.

Day	*Date*	*Program*	*Management*	*Fundraising*	*Total*
Monday					
Tuesday					
Wednesday					
Thursday					
Friday					
Saturday					
Sunday					
Monday					
Tuesday					
Wednesday					
Thursday					
Friday					
Saturday					
Sunday					
Totals					

Functional Expense Category Definitions

Use the following descriptions to determine the proper allocation of your time.

Program Services Services to chartered organizations, units, volunteer leaders, camping (year-round and summer), activities, leadership training, recruiting, organizing new units and conservation of established ones, health and safety, advancement, unit money-earning projects, district committee meetings, roundtables, community relations, meetings and training related to the program and field service in general, and direct supervision of the above.

Management Only the following items are included as management activities:

- Nonprogram executive direction, meetings on overall council management, and personnel administration
- Accounting, auditing, budgeting, legal services, and administrative reporting (annual reports, announcements of board meetings, etc.)
- Office management, purchasing, and maintenance of membership records

Any time that the Scout executive or other professional spends supervising camps, activities, and other program services should be categorized as program services.

Fundraising Only time spent on the following should be categorized as fundraising:

- Participation in and direction of an FOS or capital campaign, recruitment, and training of workers for same, processing of prospect lists, etc.
- Solicitation of grants, project sales, or bequests
- Participation in and direction of publicity for fundraising and meetings with prospective contributors

Appendix B—Sample Notes to Financial Statements

Sample Notes to Financial Statements

Note: The following sample disclosures are nonauthoritative and should serve only as examples. Each council must make its own determination as to disclosures. You should seek professional advice in making any disclosures particular to your council.

LOCAL COUNCIL INC., BOY SCOUTS OF AMERICA
NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization
The _____Council, Boy Scouts of America ("the Council") operates in City, State, including the counties of _____, and _____. The Council has ___ camping facilities located within its service area. The Council also maintains control of a trust fund with a corporate trustee, which was established for the benefit of the Council [as applicable]. The Council is an independent 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 and in accordance with the Congressional Charter, Bylaws, and Rules and Regulations of the Boy Scouts of America, the Scouting programs of promoting the ability of boys and girls, 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. In addition to support for organizational and programmatic Scouting activities, the National Council of the Boy Scouts of America (the "National Council") provides components of the Council's employee benefit plans (see Note __) and liability insurance programs (see Note __) as well as components of the Council's technology, software, and other items. The Council delivered Scouting to _____ youth members in 2020. Scouting programs include the following:

Lion Scouts—A fun introduction to the Scouting program for kindergarten-age youth eager to get going! Lions do adventures with their adult partners and other Lions every month. This program introduces youth and their families to Scouting and the outdoors as it builds a foundation of character. A Lion den is part of the Cub Scout pack.

Tiger Scouts—One-year, family-oriented program for a group of teams, each consisting of a first grade (or 7-year-old) boy or girl 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.

Scouts BSA— Scouts BSA is a year-round program for youth 11-17 years old that provides fun, adventure, learning, challenge, and responsibility to help them become the best version of themselves.

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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Learning for Life—Program that enables young people to become responsible individuals by teaching positive character traits, career development, leadership, and life skills so they can make ethical choices and achieve their full potential.

Families can choose to sign up their sons and daughters who are ages 5-10 for Cub Scouts. Chartered organizations may choose to establish a new girl pack, establish a pack that consists of girl dens and boy dens or remain an all-boy pack. Cub Scout dens will be single gender — all boys or all girls. Using the same curriculum as the (now) former Boy Scouting program, Scouts BSA launched in February 2019, enabling all eligible youth ages 11-17, to earn the Eagle Scout rank. Scouts BSA is single gender – all-girl troops or all-boy troops. This unique approach allows the organization to maintain the integrity of the single-gender model while also meeting the needs of today's families.

The Council's website address is _____.

Principles of Consolidation (as applicable)
The Council has voting control over and an economic interest in the Trust Fund, which results in the accounts of the Trust Fund being consolidated with those of the Council in the accompanying consolidated financial statements. All intercompany balances and transactions have been eliminated in the consolidation. The Council and the Trust Fund are hereinafter collectively referred to as the "Council."

Fund Accounting
To ensure observance of limitations and restrictions placed on the use of available resources, the accounts of the Council are maintained in accordance with the principles of fund accounting. Under such principles, resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. The accounts of the Council are maintained in three self-balancing fund groups according to their nature and purposes as follows:

General Operating Fund – The general operating fund is used to account for the Council's operating activities.

Capital Fund – The capital fund is used to account for property, buildings, equipment, and legally restricted cash that is to be expended for property, buildings, and equipment and related debt payments. Also, included in this fund are investments either restricted or designated for capital repair and improvements where the income is either designated or restricted for those particular items. Revenues and expenses related to the capital fundraising campaign are also included in this fund.

Endowment Fund – The endowment fund is normally used to account for amounts of gifts and bequests accepted with legal restrictions based on donor stipulation that the principal be maintained intact in perpetuity, until the occurrence of a specified event or for a specified period, and that investment return thereof be expended either for general purposes or for purposes specified by the donor. Investment funds with and without donor restrictions are also included in the endowment fund.

Certain donor-restricted net assets have been restricted by donors to be maintained by the Council in perpetuity.

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The consolidated financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, Not-for-Profit Entities, Presentation of Financial Statements. During 2018, the Council adopted the provisions of Accounting Standards Update ("ASU") 2016-14: Not-for-Profit-Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities, which improves the current net asset classification and the related information presented in the consolidated financial statements and notes about the Council's liquidity, financial performance, and cash flows.

Prior Year Summarized Comparative Information (If the Council elects this presentation)

The consolidated financial statements and certain notes include certain prior year summarized comparative information in total, but not by fund balance. Such information does not always include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, such information should be read in conjunction with the Council's consolidated financial statements as of and for the year ended December 31, 2019, from which the summarized comparative information was derived.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Council considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Restricted Cash (if applicable)

At December 31, 2020 and 2019, restricted cash consists of cash received from donor contributions restricted for capital projects. The funds are placed into a separate bank account and as payments are made for the capital projects, operating funds are reimbursed through restricted cash.

Concentration of Credit Risk

The Council maintains its cash and cash equivalents in financial institution accounts, which may, at times, exceed the federally insured limit of $250,000 set by the Federal Deposit Insurance Corporation. The Council has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash held in such institutions.

Accounts Receivable

Accounts receivable are recorded primarily for popcorn (product) sales and are reported at net realizable value if the amounts are due within one year. An allowance for doubtful accounts is based on an analysis of expected collection rates determined from experience. No allowance for doubtful accounts was considered necessary as of December 31, 2020 and 2019.

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund Loans

The Council records interfund loans on a single line in the asset section of the statement of financial position and classifies them as current or long-term based on the intended repayment date of the loan. The total of all three interfund loan accounts must be zero in the *Totals* column of the statement of financial position.

Inventories

Inventories, which consist primarily of Scouting supplies, are stated at the lower of average cost or net realizable value.

Land, Buildings, and Equipment and Related Depreciation

Purchased property and equipment are stated at cost. Maintenance and repairs are charged to operations when incurred. Betterments and renewals of $XXXX or more are capitalized. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in the change in net assets.

Depreciation of property and equipment and amortization of leasehold improvements are computed using the straight-line method based on the shorter of the estimated useful lives or lease terms of the assets as follows:

Assets	Estimated Useful Lives
Land improvements	10 – 40 years
Buildings and leasehold improvements	2 – 50 years
Furniture, fixtures, and equipment	3 – 20 years

Donations of property and equipment are recorded as contributions at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose based on its fair value. Assets donated with explicit restrictions regarding their use, absent donor stipulations regarding how long those donated assets must be maintained, are recorded as net assets with donor restrictions. The Council reports expirations of donor restrictions when the donated or acquired assets are placed into service as instructed by the donor. The Council reclassifies net assets with donor restrictions that are temporary in nature to net assets without donor restrictions at that time.

Construction in Progress

Construction in progress is stated at cost and consists primarily of costs incurred in the construction of building improvements. No provision for depreciation is made on construction in progress until the assets are complete and placed into service.

Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded during the years ended December 31, 2020 and 2019.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments with readily determinable fair values are measured at fair value in the statements of financial position. The fair value of investments in the BSA Commingled Fund have been calculated using the net asset value (NAV) of the Council's ownership in the partners' capital. Interest, dividends, realized and unrealized gains and losses on investments, net of fees, are recorded as investment return in the (consolidated) statements of activities and changes in net assets. Realized gains and losses are determined on a specific identification basis. Realized and unrealized gains and losses, interest, and dividends on investments are recorded as net assets without donor restriction unless such amounts are restricted by the donor or by law. Investments received as gifts are recorded at the estimated fair value at the date of the gift. Investments are classified based on their original maturities. Investments with original maturities of less than 12 months are classified as short-term investments.

Revenue Recognition

Revenue from Exchange Transactions: The Council recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Council records the following exchange transaction revenue in its (consolidated) statements of activities and changes in net assets for the years ending December 31, 2020 and 2019:

Scout Shop and Trading Post sales (as applicable)—The Council operates a Scout Shop in its Service Center and various Trading Posts at its summer camp(s), which sell Scouting-related merchandise on a retail basis to customers. The performance obligation is the delivery of the good to the customer. The transaction price is established by the Council based on retail prices suggested by the suppliers. As each item is individually priced, no allocation of the transaction price is necessary. The Council recognizes revenue as the customer pays and takes possession of the merchandise. Some merchandise is sold with a right of return. If probable customer returns exist at the end of an accounting period, the Council estimates and records in its financial statements a liability for such returns, which offsets revenue. No liability for probable customer returns was considered necessary as of December 31, 2019 and 2018.

Product sales (as applicable)—To help Scout packs and troops raise the money they need to fund programs and activities throughout the year, the Council participates in the Trail's End Popcorn program. Scout packs and troops purchase popcorn from the Council, which they then resell to customers. The Scout packs and troops earn a commission of _____% on each sale they make, which may be used to offset the price of the popcorn they purchase from the Council (if applicable). The popcorn sale also helps the Council raise money in support of its programs. Popcorn sales to Scout units start in the fall of each year, with the units placing their orders online through the Trail's End website. The price the Scout unit pays for the popcorn is established by the Council, and each item is individually priced, so no allocation of the transaction price is required. Many BSA units are allowed to purchase popcorn "on account" with payment due at a later date. Per FASB ASU 2014-09, the Council is required to assess the probability of collecting these accounts receivable in order to determine whether there is a substantive transaction between the council and the unit. In making this collectability assessment, the Council exercises judgment and considers all facts and circumstances, including its knowledge of the customer. The Council uses the Trail's End website to track and manage unit accounts receivable. With popcorn sales, the performance obligation is delivery of the product, which is fulfilled by the Council at predetermined times and locations. Revenue recognition occurs when the product has been delivered. The Council presents separately in its (consolidated) statements of activities and changes in net assets gross revenues from popcorn sales, cost of goods sold, and unit commissions (retained by or paid to the unit). Scout

units have the right to return to the Council any unsold product, subject to a return-by date of (_____). As of December 31, 2020 and 2019, no probable popcorn returns existed. Accordingly, no liability for probable customer returns was considered necessary.

Camping and Activity revenue— The Council conducts program-related experiences such as Day Camps, Day Hikes, Weekend Overnights, Camporees, and Summer Camps where the performance obligation is delivery of the program. Fees for camps and activities are set by the Council. For resident camps, fees include program supplies, meals, lodging, recognition items, staffing, and facility costs. As is customary, these items are not separately priced and are therefore considered to be one performance obligation. Activities such as the National Scout Jamboree may include a transportation component in the transaction price. Some special camp programs do incur additional fees (shooting sports, for example), which are separately priced. BSA activities such as Wood Badge may involve program supplies, recognition items, and meals, and are also considered to be one performance obligation. Fees collected in advance of delivery of the camp or activity are initially recognized as liabilities (deferred revenue) and are only recognized in the statements of activities after delivery of the program has occurred.

Special fundraising event revenue: The Council conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event— the exchange component, and a portion represents a contribution to the Council. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Council. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the special events, which ultimately benefit the donor rather than the Council, are recorded as costs of direct donor benefits in the (consolidated) statement of activities and changes in net assets. The performance obligation is delivery of the event, which is usually accompanied by a presentation. The event fee is set by the Council. FASB ASU 2014-09 requires allocation of the transaction price to the performance obligation(s). Accordingly, the Council separately presents in its [(consolidated) statements of activities and changes in net assets or notes to financial statements] the exchange and contribution components of the gross proceeds from special events. Special event fees collected by the Council in advance of its delivery are initially recognized as liabilities (deferred revenue) and recognized as special event revenue after delivery of the event. For special event fees received before year-end for an event to occur after year-end, the Council follows AICPA guidance (if this is the case) where the inherent contribution is conditioned on the event taking place and is therefore treated as a refundable advance along with the exchange component.

Other Revenue: Other revenue consists primarily of rent revenue (if this applies to your council) and is recognized on a monthly basis as earned.

Contributions Receivable

Unconditional promises to give (pledges) that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management's assessment of many factors, including when the receivable is expected to be collected, the creditworthiness of the other parties, the Council's

past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivables collectability. Amortization of the discounts is included in support from contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. An allowance for uncollectible pledges is recorded when the Council determines, based on historical experience and collection efforts, that a contribution receivable (carried over from a prior year) is uncollectible. As of December 31, 2020 and 2019, contributions receivable were net of an allowance for uncollectible pledges of $X,XXXX (if applicable to your council).

Donated Materials and Services

Donated land, buildings, equipment, investments, and other noncash donations are recorded as contributions at their fair market value at their date of donation. The Council reports the donations in the net assets without donor restrictions category, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets must be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported in the net assets with donor restrictions category. Per FASB ASU 2016-14 and absent explicit donor stipulations about how long those long-lived assets must be maintained, the Council reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Council. Some members of the Council have donated significant amounts of time to the Council in furthering its programs and objectives. However, no amounts have been included in the consolidated financial statements for donated member or volunteer services since they did not meet the criteria for recognition (if this is the case for your council).

Functional Expenses

The costs of providing the Scouting program and supporting services have been summarized on the (consolidated) statement of activities and changes in net assets on a functional basis. Most expenses can be directly attributed to the program or supporting functions. Certain categories of expenses are attributed to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses in this category include occupancy, depreciation, office expenses, insurance, salaries and wages of support personnel, including the Scout executive's, accounting, information technology personnel, and payroll taxes. The basis of allocation of these expenses is the result of a time study of staff performed every _____ year(s). The percentage of time allocated to each of the programs and the supporting functions is based on the average of the results of three separate studies and is applied to the expenses that are allocated. In accordance with the policy of the National Council of the Boy Scouts of America (the "National Council"), the payment of the charter fee to the National Council is not allocated as a functional expense. The consolidated financial statements report expenses by function in the (consolidated) statement of functional expenses.

Advertising Costs

Advertising costs are expensed when incurred.

Custodial Accounts

Custodial accounts represent amounts held by the Council as custodian for registration fees for member units, amounts on deposit for affiliated Scouting associations for their future use, and amounts on deposit by member

units for purchases of uniforms and supplies (if applicable to your council).

Income Taxes

The Council is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from

federal and state income taxes. The trust fund is a 509(a)(3) Type II supporting organization. The Council is subject to federal income tax on any unrelated business taxable income. The Council evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts. No uncertain tax positions were identified by the Council as of December 31, 2020 and 2019.

The Council's policy is to classify income tax penalties and interest as interest expense in its consolidated financial statements. During the years ended December 31, 2020 and 2019, respectively, the Council incurred no penalties and interest. The Council's and trust fund's Federal Return of Organizations Exempt from Income Tax (Forms 990) for 2017, 2018, and 2019 are subject to examination by the IRS, generally for the three years after they were filed. As of the date of this report, the Council's 2020 return had not yet been filed (if this is the case).

Fair Value Measurement

The FASB established a framework for measuring fair value and disclosing fair value measurements to financial statement users. Fair value is the price that would be received to sell an asset or paid to transfer a liability (referred to as the "exit price") in an orderly transaction between market participants in the principal market, or if none exists, the most advantageous market, for specific assets or liabilities at the measurement dates. The fair value should be based on assumptions that market participants would use, including consideration of nonperformance risk.

In determining fair value, the Council uses various valuation approaches. The FASB established 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 inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Council. Unobservable inputs are inputs that reflect the Council's assumptions about assumptions market participants would use in pricing the assets or liabilities developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets to which the Council has access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in inactive markets; inputs other than quoted market prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The availability of observable inputs can vary and is affected by a wide variety of factors, including, for example, the type of asset or liability, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Council in determining fair value is greatest for instruments categorized in Level 3.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant rather than an organization-specific measure. Therefore, even when market assumptions are not readily available, the Council's own assumptions are set to reflect those that the Council believes market participants would use in pricing the asset or liability at the measurement date.

Paycheck Protection Program

During the year, the Council received proceeds under the Paycheck Protection Program "PPP" administered by a Small Business Administration (SBA) approved partner. Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for forgivable loans to qualifying organizations as long as the organization maintains its payroll levels and uses the proceeds for eligible purposes, including payroll, benefits, rent, and utilities, over a "covered period" (eight or 24 weeks, not to extend beyond December 31, 2020) . Up to 100% of a loan is forgivable. The forgiveness amount will be reduced if the organization terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two or five years at an interest rate of 1%, with a deferral of payments for 10 months after then end of the covered period. The Council intends to use PPP loan proceeds for purposes consistent with the PPP and apply for forgiveness within 10 months of the end of the covered period. See Note 21.

The Council expects to meet the PPP's eligibility criteria, and concludes that the PPP loan represents, in substance, a grant that is expected to be forgiven [if this is the case]. Accordingly, the Council has initially recorded the loan as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. The Council has interpreted the condition(s) of the grant to be [the approval of the forgiveness application by the lender and SBA, upon receipt of which the Council will recognize the amount forgiven as grant revenue] OR [the incurrence of eligible expenditures, adjusted for any decrease in full time equivalents and or salary/wage limitations, during a covered period of either 8 or 24 weeks and the submission of the forgiveness application, at which time the Council will recognize as grant revenue the amount expected to be forgiven per the application] OR [the incurrence of eligible expenditures, adjusted for any decrease in full time equivalents and or salary/wage limitations, during the covered period of either 8 or 24 weeks, over which time the Council will recognize grant revenue in stages].

Note: If the Council interprets the PPP loan to be forgivable debt (and not a refundable grant/conditional contribution), then modify the above disclosure accordingly. We expect that most councils will elect to treat the PPP loan proceeds as a refundable grant.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Pronouncements Adopted

Effective January 1, 2020, [If your council elected to defer adoption of ASU 2014-09] -or- In 2019, [if your Council adopted ASU 2014-09 last year] the Council adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. Results for reporting the years ending December 31, 2020 and 2019 (if chosen) are presented under FASB ASC Topic 606. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued financial statements.

During the year, the Council adopted the provisions of FASB ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.* The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. Adoption of this pronouncement had no effect on the Council's current or previously issued financial statements.

In 2019, the Council adopted the provisions of FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). This accounting standard is meant to help not-for-profit entities evaluate whether transactions should be accounted for as contributions or as exchange transactions and, if the transaction is identified as a contribution, whether it is conditional or unconditional. ASU 2018-08 clarifies how an organization determines whether a resource provider is receiving commensurate value in return for a grant. If the resource provider does receive commensurate value from the grant recipient, the transaction is an exchange transaction and would follow the guidance under ASU 2014-09 (FASB ASC Topic 606). If no commensurate value is received by the grant maker, the transfer is a contribution. ASU 2018-08 stresses that the value received by the general public as a result of the grant is not considered to be commensurate value received by the provider of the grant. There was no material impact to the financial statements as a result of adoption. Accordingly, no adjustment to opening net assets was recorded.

In 2019, the Council adopted the provisions of FASB ASU 2016-18, *Statement of Cash Flows (Topic 230)*. This ASU requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statement of cash flows. The amendments in the ASU do not provide a definition of restricted cash or restricted cash equivalents. The Council has applied the provisions of ASU 2016-18 to retrospectively to all periods presented with no effect on net assets or previously issued financial statements.

Effective for the Council in 2019, FASB ASU 2016-01, *Financial Instruments – Overall Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825-10)* allows an NFP to choose, on an investment-by-investment basis, to report an equity investment without a readily determinable fair value, that does not qualify for the practical expedient fair value in accordance with FASB ASC 820-10-35-59, at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issue. The FASB ASU requires additional disclosures about those investments. Adoption of this accounting pronouncement had no effect on the Council's financial statements.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standards

The following accounting pronouncements were recently issued by the FASB:

In order to give immediate relief to certain entities as a result of the widespread, adverse economic effects caused by the COVID-19 pandemic, on June 3, 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities*. This Accounting Standards Update defers the effective dates of FASB ASC Topics 606 and 842 to fiscal years beginning after December 15, 2019 and December 15, 2021, respectively, for certain entities that had not issued their financial statements (or made them available for issuance) as of June 3, 2020.

Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07)— Effective for local councils in 2022, the amendments in this Update apply to nonprofit organizations that receive contributed nonfinancial assets. Contribution revenue may be presented in the financial statements using different terms (for example, gifts, donations, grants, gifts-in-kind, donated services, or other terms). The amendments address presentation and disclosure of contributed nonfinancial assets. The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the consolidated statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the consolidated statement of activities and changes in net assets and the consolidated statement of cash flows will be substantially unchanged from the existing lease accounting guidance. In 2020, the FASB delayed the effective date for nonpublic entities to fiscal years beginning after December 15, 2021. Early adoption is permitted. The Council is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, which changed the previous guidance for net asset classification, governing board designations, investment return, underwater endowment funds, expenses, liquidity, and presentation of operating cash flows. ASU 2016-14 reduced the required number of classes of net assets from three to two: *net assets with donor restrictions* and *net assets without donor restrictions*. ASU 2016-14 also requires not-for-profit entities to provide enhanced disclosures about the amounts and purposes of governing board designations and appropriations. ASU 2016-14 requires not-for-profits to report investment return net of external and direct internal investment expenses. The requirement to disclose those netted expenses was eliminated. ASU 2016-14 requires not- for-profit entities to disclose the aggregate fair value of underwater endowment funds as well as the aggregate original gift amounts to be maintained. ASU 2016-14 also requires an NFP to disclose its interpretation of the ability to spend from underwater endowment funds including its policy, and any actions taken during the period, concerning appropriation from underwater endowment funds. All underwater endowment funds are classified as part of net assets with donor restrictions rather than as a charge to unrestricted net assets as per the previous rules. In the absence of explicit donor restrictions, ASU 2016-14 requires not-for-profit entities to use the placed-in-service approach to account for capital gifts. The option to use the over-time approach has been eliminated. ASU 2016-14 requires expenses to be reported by nature in addition to function and include an analysis of expenses by both nature and function. The methods used by not-for-profit entities to allocate costs among program and support

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

functions must be disclosed. ASU 2016-14 requires not-for-profit entities to provide both qualitative and quantitative information on management of liquid available resources and the ability to cover short-term cash needs within one year of the balance sheet date. For statements of cash flows, ASU 2016-14 eliminates the requirement to present or disclose the indirect method of reconciliation if the entity decides to use the direct method. ASU 2016-14 was effective for annual reporting periods beginning after December 15, 2017. The Council adopted the provisions of ASU 2016-14 in 2018.

NOTE 2—LIQUIDITY AND AVAILABILITY OF FUNDS

The Council's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are as follows:

	2020	**2019**
Cash—Operating Fund	$X,XXX	$X,XXX
Contributions receivable—Operating Fund	X,XXX	X,XXX
Accounts receivable—Operating Fund	X,XXX	X,XXX
Total financial assets as of year end	X,XXX	X,XXX
Appropriation from quasi-endowment for		
general expenditure in subsequent year	X,XXX	X,XXX
Total financial assets available to meet general		
expenditures within the next 12 months	**$X,XXX**	**$X,XXX**

The Council's endowment funds consist of donor-restricted endowments and a quasi-endowment. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. As described in Note X, the quasi-endowment has a spending rate of X percent. $X,XXX and $X,XXX of appropriations from the quasi-endowment will be available within the next 12 months as of December 31, 2020 and 2019, respectively.

As part of the Council's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Council invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the Council has committed lines of credit in the amount of $XXX,XXX, which it could draw upon. Additionally, the Council has a quasi-endowment of $XX million. Although the Council does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary. However, both the quasi-endowment and donor-restricted endowments contain investments with lock-up provisions that would reduce the total investments that could be made available (see Note X for disclosures about investments).

Special note: Local council contributions under the National Council plan of reorganization could [significantly] impact financial assets available to meet general expenditures within the next 12 months. Be sure to discuss with your council's audit committee and auditors the effect this may have on this and other disclosures in your council's December 31, 2020 audited financial statements.

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

NOTE 3—FUND BALANCE TRANSFERS

Certain cash transfers between funds were made during the year to properly report all funds on a basis consistent with executive board designations and the Council's accounting policies.

NOTE 4—ACCOUNTS RECEIVABLE (if applicable)

Accounts receivable consist primarily of amounts due from Scout units on popcorn sales and totaled $XXXX and $XXXX as of December 31, 2020 and 2019, respectively. Allowances for doubtful accounts [on prior year receivables] are established based on prior collection experiences and current economic factors, which, in management's judgment, could influence the ability of customers to repay the amounts. No allowance for doubtful accounts was deemed necessary as of December 31, 2020 and 2019.

NOTE 5—CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following as of December 31, 2020 and 2019:

	2020	**2019**
United Way	$X,XXX	$X,XXX
Friends of Scouting	X,XXX	X,XXX
Foundations	X,XXX	X,XXX
Other - without donor restrictions	X,XXX	X,XXX
Restricted to capital campaign	X,XXX	X,XXX
Restricted to Endowment Fund	X,XXX	X,XXX
Total	**$X,XXX**	**$X,XXX**
Contributions receivable due in less than one year:	**$X,XXX**	**$X,XXX**

Allocations from United Way of $XXX and $XXX (designated for general operating purposes for the first three months of 2020 and 2019, respectively) have been recorded in the consolidated financial statements since the amounts were pledged in 2020 and 2019, respectively. The Council has been notified of an additional allocation from United Way in 2020 of approximately $XXX. The revenue from the additional allocation will be recorded when a firm commitment is received.

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

NOTE 6—LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment in the Capital Fund, consist of the following at December 31, 2020 and 2019:

	2020	**2019**
Land	$X,XXX	$X,XXX
Land improvements	X,XXX	X,XXX
Buildings and leasehold improvements	X,XXX	X,XXX
Furniture, fixtures, and equipment	X,XXX	X,XXX
Construction in progress	X,XXX	X,XXX
	$X,XXX	**$X,XXX**
Less: accumulated depreciation	X,XXX	X,XXX
Net book value—land, buildings, and equipment	**$X,XXX**	**$X,XXX**

As of December 31, 2020, construction in progress consisted primarily of various renovations to _____as well as various costs associated with the development of a new _____. These projects are expected to be completed during 2021, with the exception of the development of a new _____, which does not yet have an expected completion date. The costs are being funded through operating cash, investments, and donor contributions.

As of December 31, 2019, construction in progress consisted primarily of various renovations to _____ as well as various costs associated with the development of a new _____. These projects are expected to be completed during 2020, with the exception of the development of a new _____, which does not yet have an expected completion date. The costs are being funded through operating cash, investments, and donor contributions.

NOTE 7—INVESTMENTS

Investments at December 31, 2020 and 2019 are composed of the following:

	2020	**2019**
Money market account	$X,XXX	$X,XXX
BSA Commingled Fund	X,XXX	X,XXX
Corporate common stock	X,XXX	X,XXX
Total investments	**$X,XXX**	**$X,XXX**

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with various investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported on the financial statements.

NOTE 7—INVESTMENTS (CONTINUED)

The following schedule summarizes the investment return in the consolidated statement of activities and changes in net assets for the years ended December 31, 2020 and 2019:

	2020	2019
Interest	$X,XXX	$X,XXX
Dividends	X,XXX	X,XXX
Net realized gains	X,XXX	X,XXX
Net unrealized gains	X,XXX	X,XXX
Trustee and other fees	(X,XXX)	(X,XXX)
Total investment return, net	**$X,XXX**	**$X,XXX**

The above investment return is classified in the 2020 and 2019 (consolidated) statement of activities and changes in net assets as follows:

	2020	2019
Investment return recorded:		
Within net assets with donor restrictions	$X,XXX	$X,XXX
Within net assets without donor restrictions	X,XXX	X,XXX
Total investment return, net	**$X,XXX**	**$X,XXX**

Income from interest and dividends on investments and realized and unrealized gains and losses on the sales of investments ("investment return, gains, and losses") are recorded initially in the Endowment Fund. Distributions of investment return and net realized gains from the Endowment Fund are recorded as income by the Operating and Capital funds in the period in which the distributions are made in accordance with the Council's spending policy (Note 15).

NOTE 8—BENEFICIAL INTEREST IN PERPETUAL TRUST

The Council has been named as the beneficiary of a perpetual trust administered by an external, corporate trustee. The Council has the irrevocable right to receive a portion of the income earned on the trust assets in perpetuity. The Council's beneficial interest in the trust, at fair value, totaled approximately $XXX and $XXX, at December 31, 2020 and 2019, respectively.

NOTE 9—LINE OF CREDIT

The Council has a line of credit with a financial institution that is subject to certain financial and nonfinancial covenants. The line of credit includes a collateral trigger that grants the financial institution a first perfected security interest in the Endowment Fund assets without donor restrictions in the event that financial covenants are not met. The maximum borrowing capacity under the line of credit was $XXX,XXX as of December 31, 2020 and 2019. The line of credit had a balance of $0 as of December 31, 2020 and 2019. The line of credit matures in July 202X and bears interest at the 90-day Libor rate plus ____% with an interest rate floor of _____%. The interest rate was ____% and ____% as of December 31, 2020 and 2019, respectively. Interest payments are due monthly with

NOTE 9—LINE OF CREDIT (CONTINUED)

principal and interest due upon maturity. Total interest expense was $X for the years ended December 31, 2020 and 2019. The Council intends to renew the line of credit upon maturity in the ordinary course of business.

NOTE 10—DEFERRED REVENUE

The activity and balances for deposits and deferred revenue from contracts with customers are shown in the following table:

	Camps	Activities	Special Events	Other	Total
Balance at December 31, 2018	$X,XXX	$X,XXX	$X,XXX	$X,XXX	**$X,XXX**
Revenue recognized	(X,XXX)	(X,XXX)	(X,XXX)	(X,XXX)	**(X,XXX)**
Payments received for future performance obligations	X,XXX	X,XXX	X,XXX	X,XXX	**X,XXX**
Balance at December 31, 2019	X,XXX	X,XXX	X,XXX	X,XXX	**X,XXX**
Revenue recognized	(X,XXX)	(X,XXX)	(X,XXX)	(X,XXX)	**(X,XXX)**
Payments received for future performance obligations	X,XXX	X,XXX	X,XXX	X,XXX	**X,XXX**
Balance at December 31, 2020	**$X,XXX**	**$X,XXX**	**$X,XXX**	**$X,XXX**	**$X,XXX**

NOTE 11—SPECIAL EVENT REVENUE (if this presentation is chosen)

Gross receipts from special fundraising events recorded by the Council consist of exchange transaction revenue and contribution revenue. As a result of adopting FASB ASU 2014-09 during 2019 [or 2020, if applicable], the Council is required to separately present the components of this revenue.

	2020	2019
Contributions	$X,XXX	$X,XXX
Special event revenue	X,XXX	X,XXX
Special fundraising events - gross	**$X,XXX**	**$X,XXX**

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

NOTE 12—FAIR VALUE MEASUREMENT

The following provide fair value measurement information for financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019:

						2020				
		Assets Measured at Net Asset Value (a)		**Level 1**		**Level 2**		**Level 3**		**Total**
Description										
Money market	$		$	XXX	$		$		$	XXX
BSA Commingled Fund		XXX								XXX
Corporate common stock				XXX						XXX
Total investments	**$**	**XXX**	**$**	**XXX**	**$**	**-**	**$**	**-**	**$**	**XXX**
Beneficial interest in perpetual trust	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**XXX**	**$**	**XXX**

						2019				
		Assets Measured at Net Asset Value (a)		**Level 1**		**Level 2**		**Level 3**		**Total**
Description										
Money market	$		$	XXX	$		$		$	XXX
BSA Commingled Fund		XXX								XXX
Corporate common stock				XXX						XXX
Total investments	**$**	**XXX**	**$**	**XXX**	**$**	**-**	**$**	**-**	**$**	**XXX**
Beneficial interest in perpetual trust	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**XXX**	**$**	**XXX**

Note: The tables above are for illustration purposes only. Check with your auditor to determine the appropriate level of classification for the council's investment portfolio.

a. Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient, which is a reasonable estimate of fair value, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

NOTE 12— FAIR VALUE MEASUREMENT (CONTINUED)

The following table reconciles the Council's beginning to ending balance of its beneficial interest in a perpetual trust measured at fair value using significant unobservable inputs (Level 3) during the years ended December 31, 2020 and 2019:

Beneficial interest in perpetual trust:	2020		2019
Balance, beginning of year	$XXX		$ XXX
Changes in fair value of trust assets	XXX		XXX
Balance, end of year	**$XXX**		**$XXX**

Quantitative Information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

The following tables represent the council's Level 3 assets, the valuation techniques used to measure the fair value of the assets, the significant unobservable inputs, and the ranges of values for those inputs.

As of December 31, 2020				
Assets	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Beneficial interest in perpetual trust	$XXX	Present value of future cash flows	Fair value of assets contributed to trust	N/A

As of December 31, 2019				
Assets	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Beneficial interest in perpetual trust	$XXX	Present value of future cash flows	Fair value of assets contributed to trust	N/A

Note: The tables above are for illustration purposes only. Check with your auditor to determine the appropriate level of classification for the council's investment portfolio.

NOTE 12— FAIR VALUE MEASUREMENT (CONTINUED)

Following is information regarding the Council's investments in entities that calculate net asset value (NAV) per share or its equivalent for the years ended December 31, 2020 and 2019:

2020

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
BSA Commingled Endowment Fund L.P. (a)	$XXX	-	monthly	10 bus. days prior to EOM for dist. at EOM
Total	**$XXX**	**$ -**		

2019

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
BSA Commingled Endowment Fund L.P. (a)	$XXX	-	monthly	10 bus. days prior to EOM for dist. at EOM
Total	**$XXX**	**$ -**		

Note: The tables above are for illustration purposes only. Check with your auditor to determine the appropriate level of classification for the council's investment portfolio.

(a) *BSA Commingled Endowment Fund, LP ("BSA Fund"*)—The purpose of the BSA Fund is to serve as a high-quality, low-cost alternative for the BSA, BSA local councils, and qualified affiliates to invest their endowment funds. As such, the BSA Fund is a permanent fund, with safety and preservation of capital primary considerations. Accordingly, the BSA Fund's asset allocation is sufficiently diversified to maintain risk at a prudent level with a long-term target return sufficient to cover a 4.5 percent annual spending rate plus fund expenses plus an allowance for inflation, while preserving the buying power of the corpus. BSA Asset Management, LLC is the General Partner.

The partnership agreement provides that any partner may request a withdrawal of all or any portion of its capital account monthly. The partner must request a withdrawal 10 business days prior to the end of the month to receive the proceeds at the end of that month. Requests submitted less than 10 business days prior to month end are handled on a best-efforts basis by the General Partner. In the event any partner properly requests or is deemed to have requested, during any year, withdrawals exceeding 99 percent of its capital account, in its sole discretion the General Partner may make such distribution up to 99 percent of the partner's capital account and retain the remainder 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. If, after completion of the annual audit, any distribution to or withdrawal by a partner is determined to be excessive, then the amount of such excess is to be reimbursed to the BSA Fund by the affected partner(s).

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

NOTE 13—NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

	2020							
		Operating Fund		Capital Fund		Endowment Fund		Total
Subject to expenditure for a specific purpose:								
Scouting activities	$	X,XXX	$	-	$	-	$	X,XXX
Learning for Life		X,XXX		-		-		X,XXX
All Markets		X,XXX		-		-		X,XXX
United Way designation		X,XXX		-		-		X,XXX
Building and equipment maintenance:								
ABC Lodge		-		X,XXX		-		X,XXX
Smith Scout Ranch		-		X,XXX		-		X,XXX
Council Service Center		-		X,XXX		-		X,XXX
Total purpose restrictions		X,XXX		X,XXX		-		X,XXX
Subject to the passage of time:								
Friends of Scouting		X,XXX		-		-		X,XXX
Perpetual in nature:								
Capital improvements		-		X,XXX		-		X,XXX
Land use restrictions		-		X,XXX		-		X,XXX
Total perpetual in nature		-		X,XXX		-		X,XXX
Endowment:								
Subject to endowment spending policy								
and appropriation:								
General use		-		-		X,XXX		X,XXX
Program activities		-		-		X,XXX		X,XXX
Total subject to endowment spending policy								
and appropriation		-		-		X,XXX		X,XXX
Subject to appropriation and expenditure when								
a specific event occurs:								
Capital improvement projects		-		-		X,XXX		X,XXX
Program activities		-		-		X,XXX		X,XXX
Total subject to appropriation and								
expenditure when a specific event occurs		-		-		X,XXX		X,XXX
Total net assets with donor restrictions	**$**	**X,XXX**	**$**	**X,XXX**	**$**	**X,XXX**	**$**	**X,XXX**

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

NOTE 13—NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

	2019							
		Operating Fund		Capital Fund		Endowment Fund		Total
Subject to expenditure for a specific purpose:								
Scouting activities	$	X,XXX	$	-	$	-	$	X,XXX
Learning for Life		X,XXX		-		-		X,XXX
All Markets		X,XXX		-		-		X,XXX
United Way designation		X,XXX		-		-		X,XXX
Building and equipment maintenance:								
ABC Lodge		-		X,XXX		-		X,XXX
Smith Scout Ranch		-		X,XXX		-		X,XXX
Council Service Center		-		X,XXX		-		X,XXX
Total purpose restrictions		X,XXX		X,XXX		-		X,XXX
Subject to the passage of time:								
Friends of Scouting		X,XXX		-		-		X,XXX
Perpetual in nature:								
Capital improvements		-		X,XXX		-		X,XXX
Land use restrictions		-		X,XXX		-		X,XXX
Total perpetual in nature		-		X,XXX		-		X,XXX
Endowment:								
Subject to endowment spending policy								
and appropriation:								
General use		-		-		X,XXX		X,XXX
Program activities		-		-		X,XXX		X,XXX
Total subject to endowment spending policy								
and appropriation		-		-		X,XXX		X,XXX
Subject to appropriation and expenditure when								
A specific event occurs:								
Capital improvement projects		-		-		X,XXX		X,XXX
Program activities		-		-		X,XXX		X,XXX
Total subject to appropriation and								
Expenditure when a specific event occurs		-		-		X,XXX		X,XXX
Total net assets with donor restrictions	**$**	**X,XXX**	**$**	**X,XXX**	**$**	**X,XXX**	**$**	**X,XXX**

The Council owns two parcels of land with perpetual use restrictions imposed by the donors. One parcel must be used as the Council's headquarters in perpetuity and the other must be used strictly as a Scout camp.

NOTE 14—NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during 2020 and 2019 by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors as follows:

	2020	2019
Satisfaction of program restrictions:		
All Markets	$X,XXX	$X,XXX
Learning for Life	X,XXX	X,XXX
Camping	X,XXX	X,XXX
Total satisfaction of program restrictions	X,XXX	X,XXX
Expiration of time restrictions – Friends of Scouting	X,XXX	X,XXX
Appropriation from donor endowment in satisfaction		
of donor and legal restrictions	X,XXX	X,XXX
Total net assets released from restriction	**$X,XXX**	**$X,XXX**

NOTE 15—ENDOWMENT FUND

The Council's endowment includes both donor-restricted endowment and funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Council is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Directors appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Council's Board of Directors has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Council considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Council has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, the Council considers the following factors in deciding to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the Council.

NOTE 15—ENDOWMENT FUND (CONTINUED)

Endowment net assets consisted of the following at December 31, 2020:

	2020					
		Without Donor Restrictions		With Donor Restrictions		Total
Donor-restricted endowment funds, perpetual in duration—original gift amount	$	-	$	X,XXX	$	X,XXX
Donor-restricted endowment funds—program services		-		X,XXX		X,XXX
Board-designated endowment funds		X,XXX		-		X,XXX
Board-designated capital funds		X,XXX		-		X,XXX
Donor-restricted capital funds		-		X,XXX		X,XXX
Donor-restricted capital funds, perpetual		X,XXX		-		X,XXX
In duration—original gift amount		X,XXX		-		X,XXX
Total endowment net assets	**$**	**X,XXX**	**$**	**X,XXX**	**$**	**X,XXX**

Changes in endowment net assets for the year ended December 31, 2020:

	2020					
		Without Donor Restrictions		With Donor Restrictions		Total
Endowment net assets—beginning of year	$	X,XXX	$	X,XXX	$	X,XXX
Investment return:						
Investment return		X,XXX		X,XXX		X,XXX
Net realized and unrealized gains		X,XXX		X,XXX		X,XXX
Total investment returns		X,XXX		X,XXX		X,XXX
Donor-restricted endowment funds, perpetual in duration—original gift amount		-		X,XXX		X,XXX
Board designation		X,XXX		-		X,XXX
Appropriation of endowment assets for expenditure		(X,XXX)		(X,XXX)		(X,XXX)
Endowment net assets—end of year	**$**	**X,XXX**	**$**	**X,XXX**	**$**	**X,XXX**

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

NOTE 15—ENDOWMENT FUND (CONTINUED)

Endowment net assets consisted of the following at December 31, 2019:

	2019					
		Without Donor Restrictions		With Donor Restrictions		Total
Donor-restricted endowment funds, perpetual in duration—original gift amount	$	-	$	X,XXX	$	X,XXX
Donor-restricted endowment funds—program services		-		X,XXX		X,XXX
Board-designated endowment funds		X,XXX		-		X,XXX
Board-designated capital funds		X,XXX		-		X,XXX
Donor-restricted capital funds		-		X,XXX		X,XXX
Donor-restricted capital funds, perpetual		X,XXX		-		X,XXX
in duration—original gift amount		X,XXX		-		X,XXX
Total endowment net assets	**$**	**X,XXX**	**$**	**X,XXX**	**$**	**X,XXX**

Changes in endowment net assets for the year ended December 31, 2019:

	2019					
		Without Donor Restrictions		With Donor Restrictions		Total
Endowment net assets—beginning of year	$	X,XXX	$	X,XXX	$	X,XXX
Investment return:						
Investment return		X,XXX		X,XXX		X,XXX
Net realized and unrealized gains		X,XXX		X,XXX		X,XXX
Total investment returns		X,XXX		X,XXX		X,XXX
Donor-restricted endowment funds, perpetual in duration—original gift amount		-		X,XXX		X,XXX
Board designation		X,XXX		-		X,XXX
Appropriation of endowment assets for expenditure		(X,XXX)		(X,XXX)		(X,XXX)
Endowment net assets—end of year	**$**	**X,XXX**	**$**	**X,XXX**	**$**	**X,XXX**

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or applicable state law requires the Council to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of December 31, 2020 and 2019. The Council has interpreted the SPMIFA and applicable state trust law to permit spending from underwater endowments in accordance with prudent measures required under law.

NOTE 15—ENDOWMENT FUND (CONTINUED)

Return Objectives and Risk Parameters

The Council has adopted investment and spending policies 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 Council must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that it will earn a base return of 4.0 percent of the original principal, expressed in dollars, above the trailing three-year average of the Consumer Price Index. Asset allocations should be targeted to produce expected returns consistent with this target using long term historical returns of assets classes as a guide. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the 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 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 Council has a total return spending policy approved by the Board of Directors that allows the operating fund to receive and recognize investment earnings originating from the endowment funds. The Board of Directors approved spending policy was to distribute the unrestricted dividend, interest and realized gains at a rate of $_____ per month for the years ended December 31, 2020 and 2019, in addition to releases on donor-restricted dividend and interest earned on endowment assets during the year, which was $_____ and $_____ for the years ended December 31, 2020 and 2019, respectively. This is consistent with the Council's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 16—EMPLOYEE BENEFIT PLANS

BSA Retirement Plan for Employees

The National Council has a qualified defined benefit pension plan ("the plan") administered at the National Service Center that covers employees of the National Council and local councils, including the Local Council, Inc. The plan name is the *Boy Scouts of America Master Pension Trust – Boy Scouts of America Retirement Plan for Employees*. Effective December 31, 2018, the plan was frozen to employees with less than 15 years of vesting service, and whose age plus vesting service equaled less than 60 as of December 31, 2018 (non-grandfathered employees). From January 1, 2020 through July 31, 2020, employees with at least 15 years of vesting service and whose age plus vesting service equaled 60 or more as of December 31, 2018 (grandfathered employees) contributed 4.25 percent of compensation to the plan. Effective August 1, 2020, the plan was frozen to grandfathered employees, thereby freezing the plan for all BSA employees. The Council contributes 7.75 percent of eligible employees' compensation to the BSA retirement program. Pension expense (excluding the contributions made by employees) was approximately $XXX and $XXX in 2020 and 2019, respectively, and covered current service cost. The actuarial information for the plan as of February 1, 2020, indicates that it is in compliance with ERISA regulations regarding funding.

BSA Match Savings Plan (as applicable)

The Council participates in a defined contribution plan established by the National Council of the Boy Scouts of America. The plan name is the BSA Match Savings Plan, which covers substantially all of the employees of the

NOTE 16— EMPLOYEE BENEFIT PLANS (CONTINUED)

Council. Participants in the BSA Match Savings Plan may elect to make voluntary before-tax contributions based on a percentage of their pay, subject to certain limitations set forth in the Internal Revenue Code of 1986, as amended.

The Council matches employee contributions to the BSA Match Savings Plan up to 50 percent of contributions from each participant, limited to 6 percent of each employee's gross pay. The Council contributed approximately $XXX and $XXX to the BSA Match Savings Plan in 2020 and 2019, respectively.

Health Care Plan

The Council's employees participate in a health care plan provided by the National Council. The Council pays a portion of the cost for the employees, and the employees pay the remaining portion and the cost for any of their dependents participating in the plan. During the years ended December 31, 2020 and 2019, the Council remitted approximately $XXX and $XXX, respectively, on behalf of its employees to the National Council related to the health care plan.

NOTE 17—LEASE COMMITMENTS

Operating Leases

The Council accounts for the leases of office equipment and a Scout Shop as operating leases. Total rental expense amounted to approximately $XXX and $XXX in 2020 and 2019, respectively. These leases will expire on various dates through 2022. The following is a schedule of future minimum lease payments under these leases:

For the Year Ending December 31:	
2021	$ XXX
2022	XXX
	$ XXX

Capital Leases

The Council entered into a capital lease agreement dated [date], for the [purchase and construction of the current facilities, phone system, etc.]. The lease calls for annual payments equal to [the debt service agreement, payment amount, etc.], including interest at X.XX percent per annum, maturing [date].

Property held under capital lease obligations is as follows:

	2020	2019
Building	$ 0	$ 0
Property	0	0
Total property held under capital lease	0	0
Accumulated amortization	(0)	(0)
Property held under capital lease, net	$ 0	$ 0

NOTE 17—LEASE COMMITMENTS (CONTINUED)

Debt service requirements are as follows:

20xx	$0
20xx	0
20xx	0
20xx	0
20xx	0
Thereafter	0
Total net minimum lease payments	0
Imputed interest	(0)
Net present value of capital lease	0
Current maturity of capital lease	(0)
Long-term capital lease obligation	$0

NOTE 18—SCOUT SHOP (If your council has a National Scout Shop)

The National Council operates a Scout Shop within the XXXXXX area. The National Council manages the Scout Shop and pays the Council an 8 percent commission on gross sales up to $XXX, and 13 percent on sales greater than $XXX. The commissions earned (before expenses) by the Council during 2020 and 2019 amounted to approximately $XXX and $XXX, respectively, which are included in other revenue in the consolidated statement of activities and changes in net assets.

NOTE 19—RELATED PARTY TRANSACTIONS

The Council purchases supplies and program materials from the National Council. The Council also incurs expenses from the National Council related to certain administrative services. Total expenses to the National Council were $X,XXX,XXX and $XXX,XXX for the years ended December 31, 2020 and 2019, respectively. The accounts payable balance includes payables to the National Council of $XX,XXX and $XXX,XXX as of December 31, 2020 and 2019, respectively.

NOTE 20—DONATED MATERIALS AND SERVICES

The Council is dependent upon donated materials from diverse groups to fulfill its mission. For the years ended December 31, 2020 and 2019, donated materials recorded in the consolidated financial statements as in-kind contributions totaled $XXX,XXX and $XXX,XXX, respectively.

NOTE 21—PAYCHECK PROTECTION PROGRAM

The following example disclosure applies to councils that have chosen to account for their PPP funds as grants. We anticipate that most councils will choose this option:

[Contribution revenue recognized by year-end:]

In 2020, the Council was granted and received a $X loan under the Paycheck Protection Program "PPP" administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Council initially recorded the loan as a refundable advance

NOTE 21—PAYCHECK PROTECTION PROGRAM (CONTINUED)

and subsequently recognized grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Council has recognized $X as grant revenue for the year ended MONTH DAY, 202X, which represents 100% of the loan proceeds (if that is the case). The Council is required to repay the remaining advance (if any) of $X plus interest accrued at 1% per annum in monthly payments beginning on MONTH DAY, 202X. Principal and interest payments will be required through the maturity date, MONTH DAY, 202X.

[Contribution revenue not recognized by year-end:]
The Council was granted a $X loan under the Paycheck Protection Program "PPP" administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Council is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Council has initially recorded the loan as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Council maintains employment levels during its [eight- or 24-week] covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended MONTH DAY, 202X. The Council will be required to repay any remaining balance, plus interest accrued at 1% per annum in monthly payments beginning on MONTH DAY, 202X. Principal and interest payments will be required through the maturity date, MONTH DAY, 202X.

The following sample disclosures apply to councils that have chosen to report their Paycheck Protection Program (PPP) funds as debt. We do not expect many councils to choose this option:

On MONTH, DAY, 2020, the Council received loan proceeds in the amount of $X under the Paycheck Protection Program ("PPP"). Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for loans to qualifying organizations in amounts up to 2.5 times the organization's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two or five years at an interest rate of 1%, with a deferral of payments for 10 months after then end of the covered period. the Council intends to use PPP loan proceeds for purposes consistent with the PPP and apply for forgiveness within 10 months of the end of the covered period.

To the extent that the Council is not granted forgiveness, the Council will be required to pay interest on the PPP loan at a rate of 1% per annum. If the application for forgiveness is not made within 10 months of the end of the covered period, payments of principal and interest will be required through the maturity date of MONTH DAY, 202X. The terms of the loan provide for customary events of default, including payment defaults, breach of representation of warranties, and insolvency events. The PPP loan may be accelerated upon the occurrence of a default event.

[Loan forgiveness income not recognized:]
The Council has recorded a note payable and will record forgiveness upon being legally released from the loan obligation. No forgiveness income has been recorded for the year ended MONTH DAY, 202X. the Council is required to repay any remaining balance of $X, plus interest accrued at 1% per annum in monthly payments beginning on

NOTE 21—PAYCHECK PROTECTION PROGRAM (CONTINUED)

MONTH DAY, 202X. Principal and interest payments will be required through the maturity date of MONTH DAY, 202X.

[Loan forgiveness income recognized:]
The Council initially recorded a note payable and subsequently recorded forgiveness when the loan obligation was legally released. the Council recognized $X of loan forgiveness income for the year ended MONTH DAY, 202X. the Council is required to repay the remaining balance of $X, plus interest accrued at 1% per annum in monthly payments beginning on MONTH DAY, 202X. Principal and interest payments will be required through the maturity date of MONTH DAY, 202X.

NOTE 22—INCOME TAXES (If applicable)

The Council is subject to income taxes on unrelated business income generated by _____. The Council's provision for income taxes for the years ended December 31, 2020 and 2019 consisted of the following:

	2020	**2019**
Current income taxes:		
Federal	$X,XXX	$X,XXX
Total current income taxes	X,XXX	X,XXX
Deferred income taxes:		
Federal	X,XXX	X,XXX
Total deferred income taxes	X,XXX	X,XXX
Total income tax expense	**$X,XXX**	**$X,XXX**

(Additional tax disclosures may be required for deferred tax assets related to NOL carryforwards, etc.)

NOTE 23—CONTINGENCIES

COVID-19 Pandemic
The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The Council is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on the Council's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Council's donors, customers, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Council's financial position and changes in net assets and cash flows is uncertain and the accompanying consolidated financial statements include no adjustments relating to the effects of this pandemic.

NOTE 23—CONTINGENCIES (CONTINUED)

Note: The language below is from one council's financial report with additional language reflecting the National Council Bankruptcy. However, every council must make its own determination as to disclosures. The language below has not been "approved for use" as a template but is only an example and should be considered only as a resource. You should seek professional advice in making any disclosures particular to your council.

Litigation and Contingencies [Note: Council specific language required]
The Council has been named as a defendant or has been made aware of personal injury claims against it. The Council has and will continue to vigorously defend these actions. These claims are covered by the National Council, Boy Scouts of America's general liability insurance program ("GLIP"). At the present time, management is unable to estimate a probable outcome of these matters and accordingly no provision for liabilities, if any, has been made in the accompanying financial statements. Changes in state law could result in additional claims being asserted against the Council.

The National Council has been named as a defendant in lawsuits alleging sexual abuse, including claims for compensatory and punitive damages. Some of these claims arise out of conduct occurring on Council property and/or were committed by Council employees or volunteers, and in some cases the Council is named as a co-defendant with the National Council. The National Council has disclosed that in the event that its GLIP or its reserves are insufficient to resolve such claims, it is their opinion that the total amount of payments to resolve current and future claims could have a significant impact on the financial position or results of operations of the National Council.

The National Council provides the Council with a charter, program materials and support for administration as well as sponsoring certain benefit plans for Council employees. Since 1978 the National Council has operated a GLIP in which the Council participates. On February 18, 2020, the National Council filed for protection under chapter 11 of the United States Bankruptcy Code. The National Council continues to operate its business in the ordinary course and has received bankruptcy court approval to continue its relationship with the Councils including the benefit and insurance programs noted above. Neither the Council nor any other local council are currently parties to the bankruptcy proceeding. The National Council has sought to stay litigation against both the National Council and local councils and has proposed a plan of reorganization that would protect local councils from any further legal exposure for abuse claims arising prior to February 18, 2020. Such plan may require a yet to be determined contribution from local councils. The ability of the National Council to confirm such a plan and the size of the potential contribution from the Council is unknown. Management of the Council is unable to assess the effect, if any, the resolution of these matters by the National Council may have on the Council's operations or its financial statements.

Note: As of the original publication date of this Guide, the amounts of potential contributions by local councils under the National Council plan of reorganization were unknown. As applicable to your council, if contribution amounts (or a range of amounts) have been determined and their likelihood of occurrence is probable, be sure to discuss with your audit committee, auditors, and attorneys the potential impact this may have on this and other disclosures in your council's December 31, 2020 audited financial statements.

NOTE 24— SUBSEQUENT EVENTS – Detail if applicable.

Sample Engagement Letter

To the appropriate representative of those charged with governance of Local Council Inc.:

We are pleased to serve as the independent auditors for (the "Council") for the year ending December 31, 20XX. The purpose of this Engagement Letter (this "Letter") is to review certain details of our engagement.

Audit Services

We will audit the Council's financial statements and the related notes to the financial statements. The objective of our audit is the expression of an opinion about whether the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States. Our audit will be conducted in accordance with auditing standards generally accepted in the United States (GAAS) and will include tests of the Council's accounting records and other procedures we consider necessary to enable us to express such an opinion. We will issue a written report upon completion of our audit of the Council's financial statements. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph. If our opinion is other than unmodified, we will discuss the reasons with the Council's management and you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement. At the conclusion of our audit, we will require certain written representations from management about the financial statements and related matters.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. 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 will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Because of the inherent limitations of an audit combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there exists an unavoidable risk that some material misstatements may exist and not be detected even though our audit is properly planned and performed in accordance with GAAS. In addition, an audit is not designed to detect immaterial misstatements or violations of law or government regulations that do not have a direct and material effect on the financial statements. However, we will inform the Council's management and you of any material errors that come to our attention and any fraud, material or not, that comes to our attention. We will also inform the Council's management and you of any violations of law or government regulations that come to our attention unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements, and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to management and you internal control-related matters that are required to be communicated under professional standards.

We cannot perform management functions or make management decisions on behalf of the Council. However, we may provide advice and recommendations to assist management in performing its functions and fulfilling its responsibilities. We may advise management about appropriate accounting principles and their application, but the responsibility for the financial statements remains with management.

Management Responsibilities

Management is responsible for the financial statements and underlying financial records and for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the

preparation and fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States. Management is also responsible for making all financial records and related information available to us, for the accuracy and completeness of that information, and for providing us with (a) access to all information of which it is aware that is relevant to the preparation and fair presentation of the financial statements, (b) additional information that we may request for the purpose of the audit, and (c) unrestricted access to persons within the Council from whom we determine it necessary to obtain audit evidence.

Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud and for informing us about all known or suspected fraud affecting the Council involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the Council received in communications from employees, former employees, regulators, or others. In addition, management is responsible for identifying and ensuring that the entity complies with applicable laws and regulations.

As required by GAAS, at the close of the audit we will request from management certain written confirmation concerning oral and written representations made to us in connection with the audit in order to indicate and document the continuing appropriateness of such representations and reduce the possibility of misunderstanding.

Assistance to be supplied by the Council's personnel, including the preparation of schedules and analysis of accounts, will be discussed with you. Timely completion of this work will facilitate the completion of our engagement.

If the Council intends to reproduce or publish these financial statements or any portion thereof, whether in paper or electronic form, subsequent to anticipated year-end filings, and make reference to our firm name in connection therewith, management agrees to provide us with proofs in sufficient time for our review and written approval before printing. If in our professional judgment the circumstances require, we may withhold our approval. The Council agrees to compensate Local Council auditor for the time associated with such review.

Other Services

We may prepare (or assist in preparing) the financial statements of Boy Scout Council in conformity with accounting principles generally accepted in the United States based on information provided by management, but the responsibility for the financial statements remains with management.

Annual Information/Tax Services

Our engagement will include the preparation of the Federal Form 990, Return of Organization Exempt From Income Tax, and related state information returns or charitable renewals/registration statements. If during the course of our engagement we become aware of additional filing requirements, we will prepare those filings. Preparation of any additional filings, other returns and reports, and accounting assistance as directed by management are not part of the fees for this engagement and will be billed at our standard hourly rate.

We will use our judgment in resolving questions where the tax law is unclear or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we will resolve such questions in your favor whenever possible.

Management is responsible for assuming all management responsibilities and for overseeing these services by designating an individual, preferably within senior management, with suitable skill, knowledge, and/or experience. Management is responsible for evaluating the adequacy and results of the services performed and accepting responsibility for them.

Management is also responsible for establishing and maintaining internal controls, including monitoring ongoing activities. In addition, management has the final responsibility for the Form 990 and information returns; therefore, management should review the form and information returns carefully before they sign and file them.

If an extension of time is required to file any of your returns, any unrelated business income or excise tax that may be due with these returns must be paid with the extensions. Any amounts not paid by the filing deadline are subject to interest and late payment penalties when those amounts are actually paid. Furthermore, failure to file returns or filing returns late may subject you to filing penalties and interest.

The law also provides various penalties that may be imposed when taxpayers understate their tax liability and engage in certain related-party excess benefit transactions, prohibited investments, or taxable expenditures prohibited under the Internal Revenue Code. If you would like information on the amount or circumstances of these penalties, please contact us.

The Internal Revenue Code and regulations impose preparation and disclosure standards with noncompliance penalties on both the preparer of a return and on the organization. To avoid exposure to these penalties, it may be necessary in some cases to make certain disclosures to you and/or in the return concerning positions taken on the return that do not meet these standards. Accordingly, we will advise you if we identify such a situation, and we will discuss those annual information/tax positions that may increase the risk of exposure to penalties and any recommended disclosures with you before completing the preparation of the return. If we conclude that we are obligated to disclose a position and you refuse to permit the disclosure, we reserve the right to withdraw from the annual information/tax services portion of your engagement. Likewise, where we disagree about the obligation to disclose a position, you also have a right to choose another professional to prepare your return. In either event, you agree to compensate us for our services to the date of withdrawal. Our annual information/tax engagement with you will terminate upon our withdrawal.

The IRS permits you to authorize us to discuss, on a limited basis, aspects of your return for one year after the return's due date. Your consent to such a discussion is evidenced by checking a box on the return. Unless you tell us otherwise, we will check that box authorizing the IRS to discuss your return with us.

Please note that any person or entity subject to the jurisdiction of the United States having a financial interest in or signature or other authority over bank accounts, securities, or other financial accounts having a value exceeding $10,000 in a foreign country is required by law to report such a relationship. Filing requirements also apply to taxpayers that have direct or indirect control over a foreign or domestic entity with foreign financial accounts, even if the taxpayer does not have foreign accounts. For example, a corporate-owned foreign account would require filings by the corporations and by the individual corporate officers with signature authority. Failure to disclose the required information to the U.S. Department of the Treasury may result in substantial civil and/or criminal penalties.

If you have a financial interest in any foreign accounts, you are responsible for providing our firm with all the information necessary to prepare appropriate forms required by the U.S. Department of the Treasury. If you do not provide our firm with information regarding any interest you may have in a foreign account, we will not be able to prepare any of the required disclosure statements.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our work in connection with preparation of your Form 990 and information returns does not include any procedures designed to discover defalcations or other irregularities, should any exist. Our work in connection with preparation of your Form 990 and information returns also does not include any procedures beyond questions posed in the Client Assistance Memo designed to discover whether there have been any excess benefit transactions, self-dealing transactions, prohibited investments, or taxable expenditures, should any have occurred.

Other

Our fees will be billed as work progresses, and progress billings may be submitted. Based upon our discussions with representatives of your Council, the fee for the audit will be $----------. The fees for the preparation of IRS Form 990 and the

applicable state form will be $-----. Our fee has been determined based on our understanding obtained through discussions with you regarding your preparation for the engagement and your current business operations. To the extent we encounter circumstances outside of our expectations that warrant additional procedures and time, we will communicate that fact and advise you of options and the additional fees necessary to complete the engagement. We expect payment of our billings within 30 days after submission. Interest at the lesser of -% per month or the maximum rate permitted by law, except where prohibited by law, will be charged on the portion of your balance that is over 30 days.

This engagement includes only those services specifically described in this Letter; any additional services not specified herein will be agreed to in a separate letter. This engagement is separate and discrete from our engagement to audit any prior or future years, and any such engagements are or will be covered by a separate engagement letter. In the event you request us to, or we are required to, respond to a subpoena, court order, government regulatory inquiry, or other legal process against the Council or its management for the production of documents and/or testimony relative to information we obtained and/or prepared during the course of this or any prior engagements, you agree to compensate us for all time we expend in connection with such response, at our regular rates, and to reimburse us for all related out-of-pocket costs that we incur.

The working papers prepared in conjunction with our audit are our property and constitute confidential information. They will be retained by us in accordance with our policies and procedures. All of the Council's original records will be returned to management at the end of this engagement. Our working papers and files are not a substitute for the original records the Council should retain.

[Name] will be your audit engagement partner.

Professional and certain regulatory standards require us to be independent, in both fact and appearance. Any discussions that you have with Local Council auditor personnel regarding employment could pose a threat to our independence. Therefore, we request that you inform us immediately prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

In order for us to remain independent, professional and regulatory standards require us to maintain certain respective roles and relationships with you with respect to any nonattest services we may be asked to perform. Prior to performing such services in conjunction with our audit, management must acknowledge its acceptance of certain responsibilities.

Whenever possible, each provision of this Letter shall be interpreted in such a manner as to be effective and valid under applicable laws, regulations, or published interpretations, but if any provision is deemed prohibited, invalid, or otherwise unenforceable, such provision shall be ineffective only to the extent of such prohibition, invalidity, or unenforceability and such revised provision shall be made a part of this Letter. Further, the provisions of the foregoing sentence shall not invalidate the remainder of this Letter. This Letter shall be construed and governed in accordance with laws of the state in which the Local Council office issuing this Letter is located, as determined by the address indicated on this Letter, and proper jurisdiction and venue for any matter hereunder shall be the state or federal courts of that state.

If the above terms are acceptable to you and the services outlined are in accordance with your requirements, please return a signed copy of this Letter to us.

We look forward to our continued association with you and management and appreciate the opportunity to serve you. Please do not hesitate to call us if you have any questions about the work we are to perform or any other aspect of the services we can provide.

Local Council Auditor

Acknowledged and agreed on behalf of Local Council Inc. by

_____
[Signed]
[Name and Title]
[Date]

Sample Representation Letter for Non A-133 Audits

[Type on council letterhead]

[Firm]
[Office address]
[Office P.O. box]
[City, state, zip]

This representation letter is provided in connection with your audit[s] of the financial statements of [Name of Client], which comprise the statement[s] of financial position as of [Year End] and the related statements of activities and cash flows for the year[s] then ended, and the related notes to the financial statements for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief as of the date of this letter, the following representations made to you during your audit[s].

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated [Date of Engagement Letter].

2. The financial statements referred to above are fairly presented in conformity with GAAP.

3. We acknowledge our responsibility for 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.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of GAAP.

7. All events subsequent to the date of the financial statements and for which GAAP requires adjustment or disclosure have been adjusted or disclosed.

8. We agree with the adjusting journal entries proposed by you and which are given effect to in the financial statements.

9. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.

10. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with GAAP.

11. Material concentrations have been properly disclosed in accordance with GAAP.

12. Guarantees, whether written or oral, under which the Council is contingently liable, have been properly recorded or disclosed in accordance with GAAP.

Information Provided

13. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.

    b. Additional information that you have requested from us for the purpose of the audit.

    c. Unrestricted access to persons within the Organization from whom you determined it necessary to obtain audit evidence.

14. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

15. We have no knowledge of any allegations of fraud or suspected fraud affecting the Council involving:

    a. Management.

    b. Employees who have significant roles in internal control.

    c. Others where the fraud could have a material effect on the financial statements.

16. We have no knowledge of any allegations of fraud or suspected fraud affecting the Council's financial statements communicated by employees, former employees, regulators, or others.

17. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

18. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

19. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

    OR

    We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with GAAP.

20. We have disclosed to you the identity of the Council's related parties and all the related-party relationships and transactions of which we are aware.

21. The Council has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any material asset been pledged, except as disclosed in the notes to the financial statements.

22. The Council has identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.

23. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that near term means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial

statements that make the Organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.

24. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

25. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.

26. [Council] is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up to date.

27. [If applicable] We acknowledge our responsibility for presenting the [Identify supplementary information] in accordance with GAAP, and we believe the [Identify supplementary information], including its form and content, is fairly presented in accordance with GAAP. The methods of measurement and presentation of the [Identify supplementary information] have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Sincerely,

_____	_____
Scout executive	Accounting specialist

Sample AU-C 260, The Auditor's Communication With Those Charged With Governance (Formerly SAS No. 114 as amended by SAS No. 122) (All Nonpublic Entities)

[Current Date]

[Entity or Individual(s) Charged With Governance]
[Client Name]
[Client Address]

Dear [Entity or Individual(s) Charged With Governance]:

We have audited the financial statements of [Organization Name] (the "Organization") for the year ended [financial statement date], and have issued our report thereon dated [Auditor's Report Date]. Professional standards require that we provide you with the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States

As stated in our engagement letter dated _____, 20__, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States. Our audit of the financial statements does not relieve you or management of your responsibilities.

Supplementary Information Accompanying Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

The paragraph above assumes supplementary information will accompany the basic financial statements and the auditor has been engaged to report on that information in relation to the financial statements as a whole. If there is no supplementary information, delete this paragraph. If the supplementary information will not accompany the basic financial statements, delete the phrase "accompanying the financial statements" and change the heading of this section.

Other Information in Documents Containing Audited Financial Statements

The auditor's responsibility for other information in documents containing audited financial statements does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in a document. Our responsibility is to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. [Select from the following to complete the paragraph (these may be used together where we have reviewed some items and are aware of others we have not reviewed)]:

We have read the [give detailed description of what was read—e.g., annual report] and have found no material inconsistencies with the information appearing in the audited financial statements.

We are aware the Organization prepares an annual report that is distributed to [define distribution if known—e.g., donors] and which references our audited financial statements but does not contain those audited financial statements. We have not been requested to devote attention to the annual report.

Note to Accountant: AU-C 720 (formerly SAS No. 118) states that if other information (which may include supplementary information) is included in documents containing audited financial statements, the auditor should communicate any procedures performed relating to such information and the results of those procedures. If the auditor identifies a material inconsistency in other information that management refuses to revise or a material misstatement or act that management refuses to correct, the auditor should communicate this matter to those charged with governance.

If you have not been engaged to report on other information that will accompany the audited financial statements, add a paragraph to the supplementary information paragraph, if applicable, with a description of any procedures performed with respect to the other information (such as reading the other information) and the results of those procedures (such as whether you identified a material inconsistency with the audited financial statements).

The auditor is required to read the **other information** of which the auditor is aware because the credibility of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and other information.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to your representative, _____, in our meeting about planning matters on [Date of Discussion] in addition to our engagement letter dated _____, 20__, accepted by _____.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during (Year), except for [Describe in detail the accounting changes and the impact to the financial statements—these should also be reflected as accounting changes in the financial statements].

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was [were] [Describe sensitive estimates –] [Note: You should, at a minimum, list the items identified as significant estimates in the financial statements—inventory valuation allowances, collectibility of accounts receivable, assumptions related to pension obligations, assumptions and conclusions regarding asset impairment testing.]

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure[s] affecting the financial statements was [were]:

The disclosure of [Describe financial statement disclosure.] in Note [X] to the financial statements [Describe issues and judgments in formulating the disclosure.].

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. [Revise if any corrected misstatements were material.]

OR

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The bullet point list below summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. [Note: In communicating the effect that material uncorrected misstatements may have on the opinion in the auditor's report, the auditor should communicate them individually. Revise the previous sentence accordingly.] In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. [Revise if any corrected misstatements were material.]

- [In bullet format, describe details of each item on the attached unadjusted difference schedule in a manner that gives the audit committee adequate information to either agree or disagree with management's assertion of the immateriality of the item.]

INCLUDE ONE OF THE FOLLOWING PARAGRAPHS

We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Organization's financial reporting process.

OR

We proposed and the Organization recorded ____[number] of adjusting journal entries. [Disclose any significant adjustments we proposed as part of the audit of the financial statements.]

Disagreements With Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit [or describe in detail any disagreements].

Management Representations

We have requested certain representations from management that are included in the management representation letter dated [Date of Management Representation Letter], a copy of which accompanies this letter.

Management Consultations With Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. To our knowledge, management has not obtained any opinions from other independent accountants on the application of accounting principles generally accepted in the United States that would affect the Organization's financial statements or on the type of opinion that may be rendered on the financial statements [or describe any consultations in detail].

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors for the preceding year. However, these discussions occurred in the normal course of our professional relationship and our responses were not, in our judgment, a condition of our retention.

[Insert the following if there is a doubt about the entity's ability to continue as a going concern.]

Note ___ to the financial statements discloses all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions or events that raise substantial doubt about the Organization's

ability to continue as a going concern for a reasonable period of time, and management's plans that are intended to mitigate the adverse effects of the conditions or events. Our auditor's report includes a paragraph regarding the going concern. Our audit opinion is not modified with respect to this matter.

We appreciate the opportunity to be of service to [Organization Name].

This communication is intended solely for the information and use of the [Identify the body or individual(s) charged with governance.] and, if appropriate, management and [identify any specified governmental authorities] and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Local Council Auditor

Sample AU-C 265, Communicating Internal Control Related Matters Identified in an Audit (Formerly SAS 115) (All Nonpublic Entities)

[Report Date]

[Entity or Individual(s) Charged With Governance]
[Client Name]
[Client Address]

Dear [Entity or Individual(s) Charged With Governance]:

In planning and performing our audit of the financial statements of the Organization as of and for the year ended December 31, 20XX, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. [If the auditor wishes, he or she may include the additional statement:] In addition, because of the inherent limitations in internal control, including the possibility of management override of internal controls, misstatements due to error or fraud may occur and not be detected by such controls.

[If there are audit findings, consider the optional statement below. If not, delete.]

We did identify matters involving internal control and its operation that we have reported to management of [The Organization] in the [Month, Day Year] audit report dated [Month, Day Year].

We consider the following deficiencies in internal control to be material weaknesses:

[Describe the material weaknesses that were identified during the audit, including an explanation of their potential effects. In explaining the potential effects of the significant deficiencies and material weaknesses, the auditor need not quantify those effects. The potential effects may be described in terms of the control objectives and types of errors the control was designed to prevent, or detect and correct, or in terms of the risk(s) of misstatement that the control was designed to address. The potential effects may be evident from the description of the significant deficiencies or material weaknesses.]

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the following deficiencies in internal control to be significant deficiencies:

[Describe the significant deficiencies that were identified during the audit, including an explanation of their potential effects. In explaining the potential effects of the significant deficiencies and material weaknesses, the auditor need not quantify those

effects. The potential effects may be described in terms of the control objectives and types of errors the control was designed to prevent, or detect and correct, or in terms of the risk(s) of misstatement that the control was designed to address. The potential effects may be evident from the description of the significant deficiencies or material weaknesses.]

During our audit, we noted other matters involving internal control and its operation that we have reported below:

[Describe the other matters reported.]

[If management responds to the material weaknesses/significant deficiencies in this letter] [Organization name]'s written response(s) to the significant deficiency (or deficiencies) and material weakness(es) identified in our audit were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We appreciate the opportunity to be of service to [Organization Name].

This letter is intended solely for the information and use of management, [identify the body or individual(s) charged with governance], others within the organization, and [identify any specified governmental authorities] and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Local Council Auditor

About the Author

Ken Moran is a CPA and CGMA, licensed in North Carolina and Virginia, with over twenty years' experience in not-for-profit accounting, auditing, and taxation. Ken has worked for the National Council for over eleven years and currently serves as a senior financial analyst at the BSA Supply Division in Charlotte, NC. Before joining the National Council, Ken audited local councils while working for a large, international CPA firm, and served as CFO of the Heart of Virginia Council while running his own practice in Richmond, Virginia. Ken authors the *Local Council Guide to the Audit, Local Council Guide to IRS Form* 990, and numerous other documents focused on helping local councils, their auditors, and boards of directors navigate complex accounting, auditing, and tax issues. Ken can be reached at ken.moran@scouting.org.