BOY SCOUTS OF AMERICA®

Local Council Guide to the Audit

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Introduction

February 2024

The National Council Finance Support Committee is pleased to present the *Local Council Guide to the 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 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 your 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.

In April, 2023, the BSA emerged from Chapter 11 bankruptcy and fulfilled a commitment it made when it began its restructuring process in February 2020: to equitably compensate survivors and preserve the mission of Scouting. Local councils continue to be central to the success of this endeavor. Accordingly, look for expanded guidance on local council accounting for contributions to the BSA Settlement Trust in the Guide. We've also updated guidance on investment return, product sales, and local council participation fees (also called program fees), among other topics. By providing nonauthoritative, illustrative examples and explanations, we hope this Guide helps your council alleviate some of these concerns by allowing you to *be prepared* for the audit of your financial statements.

COVID-19 Resources

Local Council Accounting for ERC Refunds

Background

Due to an increase in ERC tax credit fraud and to protect honest business owners, the IRS won't process new employee retention credit (ERC) claims for the foreseeable future. The immediate moratorium on new ERC claims processing was announced last fall by the IRS in response to concerns raised by tax professionals, the media, and the agency about scams surrounding the pandemic-era tax credit.

- The moratorium, initially effective until at least Dec. 31, 2023, means that the IRS won't process new ERC claims for the foreseeable future.

- However, the agency will, for now, continue to process previously filed ERC claims, of which there are about 600,000, according to the IRS.

If your council is still in waiting to receive refunds under the ERC, then read on:

Many organizations have treated refunds of these credits as reductions in payroll taxes. This is incorrect. **ERC refunds should be recorded as Government grants/Fees (GL account 5001) in the PeopleSoft general ledger.**

Relevant GAAP

If your council qualifies for the ERC, it is important to consider which accounting standard governs the recognition of the revenue. As with the treatment of PPP loans (see Option 2 on page 2) we believe it is appropriate to apply FASB ASC 958-605, *Contributions Received and Contributions Made*, to the recording of this income. *Note: Be sure to discuss this treatment with your audit committee and auditors before taking any action*. Under 958-605, any advance ERC payments would be considered a conditional grant (refundable advance) until the council overcomes the barrier(s) of eligibility. The contribution/grant revenue is recognized as the barrier(s) are overcome. Because the IIJA has ended the availability of the ERC for the fourth quarter of 2021, there will be no more advance payments of the ERC, however you may have some general ledger cleanup to do before year-end if you incorrectly reduced payroll tax expense for this income.

If the barriers of eligibility have been met (we won't go into the ERC eligibility details here—talk to your locally licensed professional about that), a receivable should be recognized for the portion of the credit that has not been received, even if the forms (941X, *Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund*, for example) have not been filed. Filing any necessary forms is an administrative function and is not considered a barrier to revenue recognition. However, to accurately record the revenue and related receivable, it is important to have determined eligibility, calculated the credit, and, ideally, be in the process of filing the forms prior to recording the receivable.

Debits and Credits

The ERC is recorded as either a debit to cash or accounts receivable and a credit to Government grants/Fees (GL account 5001 in PS).

When the income is recorded, it is unrestricted, as any implied time restriction would have been met upon the due date of the receivable. Additionally, there is no purpose restriction attached to the ERC. Thus, once the conditions are met and the revenue is recognized, it is unrestricted.

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 20 for a discussion of the general ledger chart of accounts and account structure.

Updated!

Local Council Accounting for Contributions to the Settlement Trust

Note: The following information should only be considered as a resource and should not be acted upon before consulting your council's audit committee, auditors, and legal counsel. Contributions made by local councils to the Settlement Trust are similar to expenses, however we believe that due to their unusual nature (and likely material amounts), should be treated like losses. As a result, these payments should not be included in the functional expense matrix and should appear as a separate line item on the Statement of Activities and Changes in Net Assets (audit version), below the *Total functional expenses* line and above the *Total expenses and losses line.* Note: this is the same section of the report where the *Charter and national service fee* and *Loss on disposal of fixed assets* line items are presented. **Accordingly, the account number chosen to record these transactions is 9600**. Following is an example journal entry to a accrue a loss contingency for a council's contribution to the Settlement Trust. Be sure to discuss with your auditors and audit committee the timing of the following entry:

Debit 1-9600-XXX-90	**Contribution to Settlement Trust**	**$XXX**	
Credit 1-2131-XXX-00	**Accrued Expenses - Other**		**$XXX**

When payment is required, the cash is transferred to an **escrow account**, under an agreement with the Bank of New York Mellon, as escrow agent for the BSA (this has been our experience to-date with local councils—your council's situation may be different). Per the escrow agreement, "*The Escrow Account and the Escrow Property shall be the property of the Local Councils at all times until the release of the Disbursement Amount (as defined herein) from the Escrow Account in accordance with [the agreement].*" Accordingly, local councils should debit an asset account (many councils are using account 1751, *Other Current Assets*, for this purpose. Talk to your auditors about the proper account/classification for this entry). The entry to record a cash payment to the escrow account is as follows:

Debit 1-1751-XXX-00 Other Current Assets (escrow) $XXX
Credit 1-1001-XXX-00 Cash - Fund 1 $XXX

You will note that **Fund 1** has been chosen in the above example to record this transaction as that will likely apply to most councils affected. There may be circumstances where your council elects to use a different fund. This is a discussion to have with your audit committee, auditors, and legal counsel. Whichever fund is chosen, it is imperative that sufficient net assets without donor restrictions (aka "unrestricted" net assets) are available to fully cover this loss. This may require a board-approved transfer of "unrestricted" net assets from one fund to another.

Special note: If a **property sale** is required to fund the Settlement Trust, the amount of the accrual may be based on the appraised value of the property (net of other related costs). In the following example, the proceeds received from the sale represent council's contribution to the Settlement Trust, <u>even though that amount is more than the amount estimated based on the appraisal</u>. To help illustrate the accounting involved in such an arrangement, the following sample entries have been prepared. Numerical values are used for clarity. Note: In the following example, *Property A* is recorded in Fund 2 and management has elected to record the contribution to the Settlement Trust in Fund 1. <u>Your council's situation may be different</u>.

1. **Debit 2-1951-XXX-00 Fixed assets held for resale $80**
   Credit 2-XXXX-XXX-00 Fixed asset accounts (net of depreciation) $80
   To reclassify NBV of Property A to "held for resale." [Stop depreciating *Property A* assets at this point]

2. **Debit 1-9600-XXX-90 Contribution to Settlement Trust $100**
   Credit 1-2131-XXX-00 Accrued Expenses - Other $100
   To accrue Settlement Trust contribution (loss) based on the appraisal of Property A.

3. **Debit 2-1001-XXX-00 Cash – Fund 2 (net of closing costs, etc.) $120**
   Credit 2-1951-XXX-00 Fixed assets held for resale $80
   Dr/Cr Loss/Gain on Sale of Fixed Assets-Fund 2, if any (gain in this example) **$40**
   To record sale of Property A to fund Settlement Trust. Note sales price>appraised value!

4. **Debit 1-1001-XXX-00 Cash – Fund 1 $120**
   Credit 1-3900-XXX-00 Interfund Transfer from Fund 2 $120
   Debit 2-3900-XXX-00 Interfund Transfer to Fund $120
   Credit 2-1001-XXX-00 Cash – Fund 2 $120
   To record board authorized transfer of proceeds from Property A from Fund 2 to Fund 1.

5. **Debit 1-1751-XXX-00 Other Current Assets $120**
   Credit 1-1001-XXX-00 Cash – Fund 1 $120
   To record cash payment of sales proceeds to BSA escrow account.

6.	**Debit 1-2131-XXX-00**	**Accrued Expenses – Other** (adjust to zero)	**$100**	
	Credit 1-1751-XXX-00	**Other Current Assets**		**$120**
	Debit 1-9600-XXX-90	**Contribution to Settlement Trust**	**$20****	

To record contribution to Settlement Trust from escrow.

******This could be a debit or a credit and will be the difference between the cash contribution to Settlement Trust and the amount accrued in **2.**, above. In this entry, *Property A* sold for more than its appraised value and the amount accrued in **2.**, above. Accordingly, a debit is needed to balance the entry.

Note: We are aware of some transactions where an actual transfer of real property (not just the sale of the property then transfer of the proceeds) is the local council's contribution to the Settlement Trust. In some cases, the real property is recorded in the council's general ledger at much less than the property's appraised value (or not recorded at all). If this situation applies to your council, the difference between the appraised value and the book value of the property is recorded as an unrestricted gain on the transfer (see FASB ASC 720-25-25-2 and 845-10-30-1 through 30-2).

Due to the unusual nature and likely material amounts of these transactions, be prepared for extensive disclosures in the footnotes to your audited financial statements. Be sure to consult with your audit committee, auditors, and legal counsel throughout this process.

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-7 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 49.

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, 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 18.

Notes to Audit Committee Meetings

Please include in the notes to the audit committee meetings an acknowledgment of any BSA deficiencies noted in the prior year 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 33.

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 Financial Statements

***Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial instruments (ASU 2016-13)*—** Effective for local councils in 2023, this update established the *current expected credit loss* (CECL) model established by ASU 2016-13, and requires the immediate recognition of estimated expected credit losses over the life of a financial instrument, including trade receivables, net investments in leases (for lessors with sales-type or direct financing leases), and certain off-balance sheet credit exposures. The estimate of expected credit losses considers historical information as well as current and future economic conditions and events.

ASU 2016-13 does **not** cover the following:

- Investments at fair value with changes in fair value reported through the change in net assets
- Available-for-sale debt securities (covered by ASC 326-30)
- Loans receivable that are held for sale
- Contributions receivable
- Loans and receivables between entities under common control
- Operating lease receivables
- Equity method investments
- Derivatives

ASU 2016-13 does cover:

- Trade receivables*
- Loans receivable
- Held-to-maturity debt securities
- Loan commitments
- Receivables from repurchase agreements
- Net investments in sales-type and direct financing leases
- Reinsurance receivables
- Financial guarantees
- Purchased credit deteriorated assets recorded at amortized cost

Councils should record the expected lifetime credit losses for financial instruments within the scope of CECL through the allowance for credit losses account*. As a result, the financial statements will generally reflect the net amount expected to be collected on recognized assets. The allowance is measured and recorded upon the initial recognition of the "in-scope" financial instrument, regardless of whether it is originated, purchased, or acquired in a business combination.

> ***BSA Observation—**For local councils, receivables on popcorn sales will likely be the most common financial instruments subject to CECL. For these receivables, councils may use GL account 1-1270-XXX-00, *Allowance for Doubtful Accts*, to record the allowance for credit losses. A cost center may be added to the account string to help associate it with the related popcorn receivables account. Be sure to discuss with your auditors the applicability of CECL to your council's financial instruments.

Prior to the adoption of CECL, credit loss expense (or what was commonly referred to as "bad debt expense") was recognized only when it was probable that a credit loss had been incurred. Under the CECL model, an allowance is recorded at the point of initial recognition of the asset for all expected losses over the life of the asset. The CECL model requires that an entity's estimate of expected credit losses includes a measure of the expected risk of credit loss even if that risk is remote.

Disclosures under CECL

Disclosures related to credit losses are intended to enable users of financial statements to understand the credit risk inherent in a reporting entity's portfolio, how management monitors this risk, management's estimate of expected credit losses, and the changes in the estimate during the period. Required disclosures include a description of management's policy and methodology for developing the allowance for credit losses, a rollforward of the balance, an aging analysis of past due loans, and credit quality indicators. The past due loans and credit quality indicator disclosures are not required for trade receivables due in less than one year. See *Sample Notes to Financial Statements* in Appendix A of this Guide for example disclosures.

Transition guidance

CECL is effective for all not-for-profit entities for fiscal years beginning after December 15, 2022 (meaning calendar year 2023 for local councils). For entities that have not yet adopted CECL, the effective dates for standards that modify or clarify CECL (e.g., ASU 2019-04, ASU 2019-05, and ASU 2022-02) are the same as the effective date for CECL. For entities that have early adopted CECL, ASU 2022-02 is effective for fiscal years beginning after December 15, 2022.

The CECL guidance in ASC 326-20 should be applied to financial instruments that are in scope (other than certain debt securities—see above for list) using a modified retrospective approach. Local councils will be required to recognize the cumulative effect of initially applying the impairment standard as an adjustment to opening net assets in the period of initial application. The cumulative effect adjustment will represent the difference between the previous guidance and the CECL impairment model.

Special note on liquidity: The COVID-19 pandemic has negatively affected liquidity for all local councils. Local council contributions to the Settlement Trust 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 20X3 financial statements. Also remember, liquidity disclosures must include the financial statements taken as a whole. This means consideration of *all funds*, not just the Operating Fund.

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 IRS 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 prior year 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 Council Support website: **https://www.scouting.org/council-support/finance-impact/local-council-financial-audits/**. 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 following the audit year:

- 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: https://www.scouting.org/council-support/finance-impact/local-council-financial-audits/.

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 territory leadership.

Local Council Finance & Fund Development Committee
Boy Scouts of America

Thank You!

A special thank you is given to the members of the Auditor Referral Program and Local Council Finance & Fund Development Committee who contributed their time and expertise to this project. The Audit Referral Program affords local councils the opportunity to partner with qualified audit firms that will provide the highest-quality audit due to their hands-on understanding of the BSA's unique three-fund system, Peoplesoft and Blackbaud software, and local council operations, including FOS, special events, camps, and activities.

Members of the Auditor Referral Program

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Auditing Matters

Recently Issued Auditing Standards to Affect Local Council 2023 Audits

NEW! **SAS No. 143, *Auditing Accounting Estimates and Related Disclosures*—**SAS No. 143 becomes effective for audits of local council financial statements for periods ending on or after December 15, 2023. This statement addresses the auditor's responsibilities relating to accounting estimates, including fair value accounting estimates, and related disclosures in an audit of financial statements.

NEW! **SAS No. 145, *Understanding the Entity and Its Environment and Assessing the Risk of Material Misstatement*—** SAS No. 145 also becomes effective for local council calendar-year 2023 audits and expands guidance on understanding an entity's system of internal control, including addressing risks from an entity's use of information technology (IT) and determining risks of material misstatement and significant risks.

SAS No. 141, *Amendment to the Effective Dates of SAS Nos. 134–140*—This statement became effective in 2020 and deferred the effective dates of SASs 134–140 for one year (to 2021). **That means they became effective for your council's 2022 audit**:

- 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. **See page B-1 for a sample of the new report!**

- 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*

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. See sample communication on page B-10. **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: https://www.journalofaccountancy.com/news/2020/may/what-cpas-should-consider-defer-asb-reporting-standards-amid-coronavirus.html.

SAS No. 142, *Audit Evidence,* Issued: Jul-20
Effective Date: SAS No. 142 becomes effective for audits of financial statements for periods ending on or after December 15, 2022.

Summary: SAS No. 142 supersedes SAS No. 122, as amended, section 500 of the same title and amend various other AU-C sections in AICPA Professional Standards. The SAS addresses the evolving nature of business and audit services and issues that have arisen since extant AU-C section 500 was originally issued. The issues arising include the use of emerging technologies by both preparers and auditors, the application of professional skepticism, the expanding sources of information to be used as audit evidence, and more broadly, the accuracy, completeness, relevance, and reliability of audit evidence.

Audit Communications

AU-C Section 210 (source SAS 122), *Terms of Engagement*, affects language contained in the *engagement letter* you receive from your auditors. 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-3 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 changed in 2021, 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-10 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-14 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.

<u>Local Councils and Service Organizations</u>

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, *<u>Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting</u>*, 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 eric.grabowski@fisglobal.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: *http://www.scouting.org/financeimpact* .

Code of Ethics

The Boy Scouts of America encourages all local councils to adopt a code of ethics. See page 58 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 46 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.

REQUIREMENT!

Updated Format—Statement of Functional Expenses

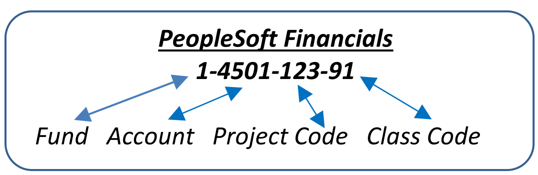
We have updated the format of the *PeopleSoft Financials* statement of functional expenses to conform to the AICPA *Not-for-Profit Section* guidance for FASB ASU 2016-14—*Presentation of Financial Statements of Not-for-Profit Entities*. The AICPA model includes certain costs, such as cost of goods sold 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 <u>cannot</u> 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 <u>external</u> 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 reports donor-restricted and board-designated endowment funds.

Accounting Policy ✓

Local council audited financial statements should 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 46 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

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.

Accounting ✓ Policy	**Local councils have a long-standing policy of not including the national service fee and charter fee expenses as allocated expenses in the Statement of Functional 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 <u>not</u> 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 <u>using a present value technique</u> 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) *<u>The price for bearing the uncertainty inherent in the cash flows (that is, a risk premium)</u>.*
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 valuation of donated assets, and the assets should be valued at the fair value on the date of receipt.

NEW!

In 2022, new rules (FASB ASU 2020-07) for **contributions of nonfinancial assets,** also known as ***gifts-in-kind***, became effective for local councils. 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 rules, nonprofits (including local councils) <u>must present gifts-in-kind as a separate line item in the statement of activities, apart from gifts of cash and other financial assets</u>. 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 rules, including whether the gifts-in-kind were sold or used, among other disclosures. PeopleSoft Financials have been updated to reflect the FASB changes.

Note: ASU 2020-07 was discussed in detail in an online seminar we presented in December 2022, titled *Local Council Accounting Update 2022*. You can access a recording of that presentation and a copy of the slide deck here: https://www.scouting.org/council-support/finance-impact/council-administration/bsa-fiscals-forum/. Click the links beside *Local Council Accounting Update 2022 – Leases & Gifts of Non-financial assets* to view the material.

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** are 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 62). 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).

Accounting 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 the long-term investment of these funds.

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 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.

Disclosure ✓

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

ASU 2014-09 effectively eliminates the previous transaction-specific and industry-specific revenue recognition guidance and replaces it with a [5-step] 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:

- **Council Participation/Program Fees**
- **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**

Participation Fees ✓

NEW!

Council Participation Fees (as applicable)— Many local councils are implementing an annual Council participation fee, which is assessed to all youth participating in Cub Scouts, Scouts BSA, Venturing, and Sea Scouts programs. The fee is collected during the unit's annual rechartering process. Many local councils have successfully transitioned to Council participation/program fees to replace the traditional Family Friends of Scouting fundraising campaigns. This allows the Council staff and volunteer time to be used in directly supporting its units and programs instead of soliciting contributions.

Identification of the contract is the paid participation/program fee (step 1 [of the FASB ASC 606, 5-step process]). The participation fee makes it possible for the Council to provide district activities, like Day Camps, Camporees, and Klondike Derbies, extensive camping adventures including family camping weekends, program resources, liability insurance (for those participating in approved Scouting activities), and youth protection—all of which are essential and integral to delivering the Scouting program. Each promised service described above is capable of being distinct. For instance, the Council could hire a consulting firm to develop program resources for members. However, the promises involve tightly integrated services that the Council needs to attract, enroll, educate, protect, and support its members, all of which are highly interrelated and dependent on other services in the contract. The Council has no history of selling individual services (i.e., program resources) to any member on a standalone basis and does not market or sell its services piecemeal. Members benefit from the services provided by the Councils as customers are able to join the BSA and participate in the Scouting program. As a result, none of these promised services are considered "distinct" on their own since they are not distinct within the context of the customer contracts. All promised services have been bundled as part of a single performance obligation, which is to attract, enroll, educate, protect, and support its members.

The Council has concluded that the single identified performance obligation is delivered as its members receive and consume benefits. This occurs ratably over the annual membership period (step 2). The transaction price is clearly indicated on the online unit recharter form [if this is the case]. As fees are separately identified on the online forms and directly associated with the performance obligation, the full transaction price is allocated to the single performance obligation (step 4). Participation Fee revenues are recognized ratably over the annual membership period (step 5) as the Council delivers its single performance obligation. Participation fees collected in advance of satisfaction of the Council's performance obligation are recorded as a contract liabilities (i.e., deferred revenues). Contract liabilities are reclassified to revenues as the revenues are earned over the annual membership period.

Special Fundraising Events

FASB ASC 606 (revenue recognition) requires additional disclosures in your financial statements for <u>special events</u>.

Background/ Accepted Practices

Although not specifically defined in the FASB ASC, special fundraising events are generally interpreted to be **<u>fundraising activities that include elements of both contributions and exchange transactions</u>**. 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) <u>and</u> 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 <u>not</u> 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 Fundraising Events

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. <u>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 A for sample footnote disclosures</u>. If disclosed on the face of the statement of activities and changes in net assets, the following presentation would be acceptable:

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

*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 <u>on the</u> 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 ✓

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

Accounting Guidance

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— Application of the five-step process is as follows: the BSA promises to transfer merchandise to customers in exchange for payment (step 1). According to ASC 606, 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 delivery of the good in exchange for the stated selling price. The transaction price (step 3) is established by the BSA/Council (and physically attached to the product). As each item is individually priced and there is only one performance obligation, the full transaction price is allocated to the single performance obligation (step 4). Finally, revenue is recognized (step 5) as the customer pays and takes possession of the merchandise. Because Scout Shop/TP merchandise is sold with a right of return, sales revenue is offset for probable customer returns which is based on historical data. 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 the delivery of the product in exchange for the stated selling price. The Council establishes the transaction price. As each item is individually priced and there is only one performance obligation, the full transaction price is allocated to the single performance obligation. 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.

NEW! Principal vs. Agent Considerations

We are aware of an arrangement with a large local council where it does not physically control the product. The council's popcorn order is shipped to a warehouse, controlled by Weaver/Trails End, who also distributes the popcorn to BSA units. Weaver sets the sales prices for the popcorn and remits to the council a residual amount [net of COGS and unit commissions, etc.]. Weaver collects the popcorn receivables to the extent of its (Weaver's) portion [the council is responsible for collecting amounts considered to be the council's portion if units have not paid]. In the preceding scenario, Weaver is responsible for fulfilling specified goods and services, setting the prices, and the council has no inventory risk.

Per FASB 606-10-55-38 An entity is an agent if the entity's performance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity (in this case, the local council) recognizes revenue in the amount of any fee or commission [not product sales and COGS!] to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

Be sure to have this discussion with your auditors to determine whether your council is acting as principal or agent in its annual popcorn transactions. If you determine that your council is principal in these transactions, the following guidance will apply:

Financial Statement Presentation

Gross revenues from product sales illustration:

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 (only for non-council-chartered units), 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

The Council conducts program-related experiences such as Day Camps, Day Hikes, Weekend Overnights, Camporees, and Summer Camps for a fee. The performance obligation is delivery of the Scouting program. For resident camps, this includes providing Scouting activities (such as outdoor survival skills, orienteering, boating safety, etc.), program supplies, meals, lodging, recognition items, staffing, and use of facilities. Each service described above may be capable of being distinct, however, the services are tightly integrated, highly interrelated, and dependent on other services in the contract. The Council has no history of selling individual services to any member on a standalone basis and does not market or sell their services piecemeal. Members benefit from the services provided by the Council as they are able to enjoy a seamless camping experience, for example, without having to pay separately for tent rental, meals, and Scouting activities.

As a result, none of these promised services are considered “distinct” on their own since they are not distinct within the context of the customer contracts. All promised services have been bundled as part of a single performance obligation, which is to provide Scouting activities, program supplies, meals, lodging, recognition items, staffing, and use of facilities.

Although the Council recognizes that revenue for activities/events lasting longer than one day should be recognized ratably over the term of the activity/event, for practical purposes the BSA has concluded that the single identified performance obligation is delivered after its members receive and consume benefits. This is at one point in time, which is after the camp or activity occurs. The Council sets the transaction price, which is clearly stated in the application for the camp, or activity. Because there is one performance obligation, the full transaction price is allocated to the single performance obligation. Note: In some cases "early bird" discounts on camp fees will be offered if paid before a certain date. In this situation, the discount is factored into the transaction price. 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.

Similarly, 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 – Clarified!

Clarification

In response to questions from local councils, auditors, and others, we will attempt to clarify the applicability of GAAP, state law, and accounting policies to current investment and investment spending policies and practices employed by local councils. We recommend that this section be read together with the *Endowment Funds and UPIMFA* section starting on page 49.

Total Return

By now, most local councils have adopted investment policies that focus on maximizing capital appreciation or "total return". That means growing the market value of the funds invested rather than focusing on generating current income, for example. Consistent with total return investing policies are spending policies that are based on a percentage of the investment portfolio's value, typically over a period of time preceding the period (year) that spending from the portfolio will occur. See page 44 for a sample local council spending policy. **It is important for your council to follow its board-approved investment spending policy**. See special note on page 44 about spending from trust funds. State law may require that you spend from these funds differently. Be sure to consult with your state-licensed legal and accounting professionals before taking action on topics discussed in this Guide.

GAAP

FASB ASU 2016-14, *Financial Statement of Not-for-Profit Entities*, introduced the term *investment return*, which combines the amounts previously described as *investment income* (e.g., interest, dividends, rents) and *net appreciation or depreciation of investments* (i.e., unrealized gains and losses—FASB ASC 958-205-50-1B before it was amended by ASU 2016-14). ASU 2016-14 also requires NFPs to report *investment return* net of external and direct internal investment expenses and no longer require disclosure of those netted expenses. The local council chart of accounts and statement of activities and changes in net assets were modified accordingly.

Special note: If your council's current year spending policy calculation results in a distribution amount that exceeds *investment return* for the year, the excess of the distribution amount over *investment return* should be treated as a transfer of net assets.

Accounting Policy

Local councils have a long-standing policy of recording investment return without donor/legal restrictions in the fund group that will use it. For most councils, this will be the Operating Fund (Fund 1).

Before we explore the "mechanics" involved with this process, however, we need to discuss the underlying GAAP and some accounting policies needed to make this happen.

A Note on Endowments and Restrictions on Investment Return

Both UPMIFA (see page 49) and GAAP (FASB ASC 958-205-45-13D and E) require investment return on donor-restricted endowment funds to be classified as an increase net assets with donor restrictions. Upon appropriation for expenditure (which can be accomplished by inclusion in a board-approved budget—see FASB ASC 958-205-45-13F), the appropriated amount is reclassified from net assets with donor restrictions to net assets without donor restrictions. Local councils, however, budget for investment return, not reclassified net assets, in the Operating Fund. Fortunately, GAAP provides a method to circumvent the process of reclassifying net assets if certain criteria are met. Read on…

Simultaneous Release

Per FASB ASC 958-220-45-24, donor-restricted investment return may be reported an <u>increase in net assets without donor restrictions if the restrictions are met in the same reporting period</u>, provided that the [council] has a similar policy for reporting contributions received (see also 958-605-45-3 through 45-5 and page 28 of this Guide), reports consistently from period to period, and discloses its accounting policy. See Sample Notes to Financial Statements (Note 1, page A-13) for an example.

Now that the necessary GAAP and accounting policies are in place, we can discuss how local councils record investment return from endowment in their operating funds.

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 ____, 20X3

*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 20X3

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 <u>transfers</u> 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, <u>for trust funds, the provisions set forth in the trust instrument</u>. 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.

Endowments Held in BSA Trust Funds

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.

Accounting 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 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 ✓

BSA Retirement Program

Employer Contributions. Local councils contribute 12% of the employee's compensation to the BSA retirement program. Prior to April 2023, local councils were invoiced by the National council on a monthly basis for the difference between the 12% and the employer contributions to the BSA Match Savings Plan (see below).

NEW! As a result of emergence from bankruptcy in April 2023, local councils are required to *separately remit amounts previously sent to the BSA Retirement Plan to the Local Council Statutory Trust* (also known as the Delaware Statutory Trust, or DST) based on the following formula: 12% of the total of the regular pay for applicable employees, less 0.50% of such pay for Pension Plan-related expenses, less the local council's employer contribution to the BSA Match Savings Plan. The LC Statutory Trust payment is due the 25th of each month. This is not a new charge but redirects contributions previously going to the Retirement Plan to this new trust. Local council Retirement Plan payments to the LC Statutory Trust (as described above) are for the prior month's activity. Local councils will see a Retirement Administration amount broken out on their monthly benefits invoices from the National Council, which will continue to cover administrative expenses of the BSA Retirement Program.

Defined Contribution Plan

The Boy Scouts of America 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. 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 <u>during the accounting year</u> 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 (see accounting policy below).

Accounting 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.

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 PeopleSoft GL software 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 not 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 <u>maintenance of purchasing power</u> 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 in Appendix A), <u>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</u> as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

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.

Disclosure for Local Councils Located in Pennsylvania (Pennsylvania has <u>not</u> 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 A 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.

<u>Valuation Approaches and Techniques</u>

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.

<u>Three-Level Hierarchy</u>

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 understands 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 sixteen National Service Territories.

Local Councils

- There are approximately 250 local councils.
- The National Council charters local councils 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 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 Scouts BSA 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.

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.

- Scouts BSA 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.

Communications

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: SAS No. 134 becomes effective in 2021 and amends AU-C Section 260 <u>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</u>**. 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-3), 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 Council Support website at **https://www.scouting.org/council-support/finance-impact/local-council-financial-audits/** and click on the *Audit Committee Guidebook*.

Management Representation Letter ✓

The Scout executive should carefully review this communication 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 20X2 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 21 and A-7.
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, 20X3 and 20X2

	Operating Fund		Capital Fund		Endowment Fund		Total of All Funds	
	20X3	20X2	20X3	20X2	20X3	20X2	20X3	20X2
Current assets:								
Cash	6,166,338	7,035,430		0			6,166,338	7,035,430
Short-term investments			12,072,858	19,672,941	2,667		12,075,525	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 expense	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	13,018,905	20,600,775	175,798	1,914,610	19,952,929	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 acquisition								
Land, buildings and equipment			47,720,043	39,152,555			47,720,043	39,152,555
ROU assets-operating leases	**100,000**						**100,000**	
ROU assets-finance leases - net			**400,000**				**400,000**	
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	1,361,011	-1	53,839,924	45,386,458	75,252,782	77,888,380	130,453,717	123,274,837
Total assets	**8,119,237**	**8,223,819**	**66,858,829**	**65,987,233**	**75,428,579**	**79,802,989**	**150,406,646**	**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
Operating lease liab-current	**50,000**						**50,000**	
Finance lease liab-current			**50,000**				**50,000**	
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 revenue								
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	2,300,982	2,873,504	1,014,926	194,618			3,315,907	3,068,122
Op lease liab-noncurrent	**50,000**						**50,000**	
Fin lease liab-noncurrent			**350,000**				**350,000**	
Total noncurrent liabilities	50,000		350,000				400,000	
Total liabilities	**2,350,982**	**2,873,504**	**1,364,926**	**194,618**			**3,715,907**	**3,068,122**
Net assets:								
Without donor restrictions	4,473,761	4,271,284	47,883,342	40,673,751	18,287,678	19,164,424	70,644,780	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	65,493,903	65,792,615	75,428,579	79,802,989	146,690,738	150,945,919
Total liabilities and net assets	**8,119,237**	**8,223,819**	**66,858,829**	**65,987,233**	**75,428,579**	**79,802,989**	**150,406,646**	**154,014,041**

Local Council								Boy Scouts of America

Statements of Activities and Changes in Net Assets

Years Ending December 31, 20X3 and 20X2

	Operating Fund		Capital Fund		Endowment Fund		Total of All Funds	
	20X3	20X2	20X3	20X2	20X3	20X2	20X3	20X2
Changes in net assets without donor restrictions:								
Support and revenue:								
Direct support:								
Contributions of cash and other financial assets:								
Direct mail	0	0	0	0	0	0	0	0
Friends of Scouting	1,983,864	1,605,244	0	0	0	0	1,983,864	1,605,244
Project sales	0	0	0	0	0	0	0	0
Capital campaign	0	0	740,493	120,140	0	0	740,493	120,140
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 contributions of cash and other financial assets	**3,436,506**	**3,412,441**	**823,845**	**294,418**	**12,838**	**18,725**	**4,273,190**	**3,725,585**
Contributions of nonfinancial assets	**50,000**	**100,000**	**75,000**	**25,000**			**125,000**	**125,000**
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
Contribution to settlement trust	1,000,000						1,000,000	
Total expenses and losses	**12,146,815**	**12,364,517**	**1,569,897**	**1,562,634**	**72,600**	**69,300**	**13,789,312**	**13,996,451**
Incr (decr) in net assets without donor restrictions	**-797,524**	**203,770**	**8,379,359**	**8,694,077**	**(1,046,514)**	**(387,073)**	**6,535,322**	**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 restrictions	**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	**(582,059)**	**(674,760)**	**871,056**	**5,333,251**	**(4,544,177)**	**3,355,857**	**(4,255,180)**	**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	**1,000,000**	**2,893**	**(1,169,768)**	**(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	47,883,342	40,673,751	18,287,678	19,164,424	70,644,780	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**	**65,493,903**	**65,792,615**	**75,428,579**	**79,802,989**	**146,690,738**	**150,945,919**

Local Council						Boy Scouts of America	

Statement of Functional Expenses

Year Ending December 31, 20X3

(with comparative totals)

Funds 1-3

Expenses	Program Services	Management & General	Fundraising	Product Sales Cost of Sales	Cost of Direct Benefits to Donors	Total Expenses 20X3	20X2
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

Statements of Cash Flows

Years Ending December 31, 20X3 and 20X2

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	20X3	**20X2**	**20X3**	**20X2**	**20X3**	**20X2**	**20X3**	**20X2**
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
ROU - operating lease assets	(100,000)							
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	-
Operating lease liability	100,000							
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			(10,432,063)	(11,103,963)			(10,432,063)	(11,103,963)
Net cash provided/(used) by investing activities	**310**	**-**	**(9,434,550)**	**(9,101,977)**	**1,172,438**	**692,899**	**(8,261,802)**	**(8,409,078)**
Cash flows from financing activities								
Proceeds from borrowing	-	-	-	-	-	-	-	-
Curtailments of finance lease liability	-	-	(100,000)	-	-	-	(100,000)	-
Net asset adjustments	-	-	-	-	-	-	-	-
Contributions restricted for long-term purposes	-	-	-	1,500,000	-	-	-	1,500,000
Transfers IN	1,000,000	2,893	(169,768)	(157,163)	169,768	154,270		
Transfers OUT	-	-	(1,000,000)	-	-	-		
Net of transfers	1,000,000	2,893	(1,169,768)	(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	**1,000,000**	**2,893**	**(1,269,768)**	**1,342,838**	**169,768**	**154,270**	**(100,000)**	**1,500,000**
Net Inc (Dec) in cash and temporary cash investments	130,908	29,578	(7,600,082)	(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	12,072,858	19,672,941	2,667	-	18,241,863	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

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, 20X3 and 20X2

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 20X3. 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) child and an adult partner (usually a parent). A Tiger den is part of the Cub Scout pack.

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

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.

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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 20X2, 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)
Restricted cash consists of cash held in escrow for [describe the arrangement—if it is in connection with the BSA Settlement Trust, consult you council's attorneys and auditors for appropriate language], and cash received from donor contributions restricted for capital projects. Cash in escrow remains the property council until [describe the condition(s)]. Cash restricted for capital projects is 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.

Receivables and Credit Policies
Accounts receivable consist primarily of noninterest-bearing amounts due for popcorn sales. The Council determines the allowance for uncollectable ["uncollectible" also is acceptable—just be consistent] accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable.

Receivables from contracts with customers are reported as accounts receivable, net in the accompanying statement of financial position. Contract liabilities are reported as deferred revenue in the accompanying statement of financial position.

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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 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. See also *Contributed Nonfinancial Assets*, below.

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, 20X3 and 20X2.

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

investments, net of external and direct internal investment expenses, 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. Investment return is 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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. [Add, if applicable: Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service.]

The Council reports donor-restricted contributions and investment return restricted by donors [including on its endowment funds (covered by UPMIFA, which extends a donor's restriction to use of the funds, including the investment return, until the funds are appropriated for expenditure by the governing board)], as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished, including appropriation for expenditure of investment return from endowment funds) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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, 20X3 and 20X2:

Council Participation Fees (as applicable)— An annual Council Participation Fee of $____ is assessed to all youth participating in Cub Scouts, Scouts BSA, Venturing, and Sea Scouts programs and collected as a part of a unit's annual re-registration, often referred to as "rechartering." Nationwide, many councils have successfully transitioned to Council participation/program fees to replace the traditional Family Friends of Scouting fundraising campaign. This allows the Council staff and volunteer time to be used in directly supporting its units and programs instead of soliciting contributions.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Identification of the contract is the paid participation/program fee. The participation fee makes it possible for the Council to provide district activities, like Day Camps, Camporees, and Klondike Derbies, extensive camping adventures including family camping weekends, program resources, liability insurance for those participating in approved Scouting activities, and youth protection—all of which are essential and integral to delivering the Scouting program. Each promised service described above is capable of being distinct. For instance, the Council could hire a consulting firm to develop program resources for members. However, the promises involve tightly integrated services that the Council needs to attract, enroll, educate, protect, and support its members, all of which are highly interrelated and dependent on other services in the contract. The Council has no history of selling individual services (i.e., program resources) to any member on a standalone basis and does not market or sell its services piecemeal. Members benefit from the services provided by the BSA as customers are able to join the BSA and participate in the Scouting program. As a result, none of these promised services are considered "distinct" on their own since they are not distinct within the context of the customer contracts. All promised services have been bundled as part of a single performance obligation, which is to attract, enroll, educate, protect, and support its members.

The Council has concluded that the single identified performance obligation is delivered as its members receive and consume benefits. This occurs ratably over the annual membership period. The transaction price is clearly indicated on the online unit recharter application [if this is the case]. As fees are separately identified on the online forms and directly associated with the performance obligation, the full transaction price is allocated to the single performance obligation (step 4). Participation fee revenues are recognized ratably over the annual membership period (step 5) as the Council delivers its single performance obligation. Participation fees collected in advance of satisfaction of the BSA's performance obligation are recorded as a contract liabilities (i.e., deferred revenues). Contract liabilities are reclassified to revenues as the revenues are earned over the annual membership period.

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. Application of the five-step process is as follows: the BSA promises to transfer merchandise to customers in exchange for payment (step 1). According to ASC 606, 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 delivery of the good in exchange for the stated selling price. The transaction price (step 3) is already established (and physically attached to the product). As each item is individually priced and there is only one performance obligation, the full transaction price is allocated to the single performance obligation (step 4). Finally, revenue is recognized (step 5) as the customer pays and takes possession of the merchandise. Because Scout Shop/TP merchandise is sold with a right of return, sales revenue is offset for probable customer returns which is based on historical data. No liability for probable customer returns was considered necessary as of December 31, 20X3 and 20X2.

Product sales (as applicable, and if the Council is acting as principal in these transactions)—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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 in exchange for the stated selling price, 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, 20X3 and 20X2, 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 for a fee. The performance obligation is delivery of the Scouting program. For resident camps, this includes providing Scouting activities (such as outdoor survival skills, orienteering, boating safety, etc.), program supplies, meals, lodging, recognition items, staffing, and use of facilities. Each service described above may be capable of being distinct, however, the services are tightly integrated, highly interrelated, and dependent on other services in the contract. The BSA has no history of selling individual services to any member on a standalone basis and does not market or sell their services piecemeal. Members benefit from the services provided by the BSA as they are able to enjoy a seamless camping experience, for example, without having to pay separately for tent rental, meals, and Scouting activities.

As a result, none of these promised services are considered "distinct" on their own since they are not distinct within the context of the customer contracts. All promised services have been bundled as part of a single performance obligation, which is to provide Scouting activities, program supplies, meals, lodging, recognition items, staffing, and use of facilities.

Although the BSA recognizes that revenue for activities/events lasting longer than one day should be recognized ratably over the term of the activity/event, for practical purposes the BSA has concluded that the single identified performance obligation is delivered after its members receive and consume benefits. This is at one point in time, which is after the camp or activity occurs. The Council sets the transaction price, which is clearly stated in the application for the camp, or activity. Because there is one performance obligation, the full transaction price is allocated to the single performance obligation. Note: In some cases "early bird" discounts on camp fees will be offered if paid before a certain date. In this situation, the discount is factored into the transaction price. 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

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Council sets the event fee. 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, 20X3 and 20X2, contributions receivable were net of an allowance for uncollectible pledges of $X,XXXX (if applicable to your council).

Contribution Revenue
Contributions, including promises to give, are considered conditional or unconditional, depending on the nature and existence of any donor or grantor conditions. A contribution or promise to give contains a donor or grantor condition when both of the following are present:

- An explicit identifying of a barrier, that is more than trivial, that must be overcome before the revenue can be earned and recognized

- An implicit right of return of assets transferred or a right of release of a donor or grantor's obligation to transfer assets promised, if the condition is not met

Conditional contributions are recognized when the barrier(s) to entitlement are overcome. Unconditional contributions are recognized as revenue when received.

Unconditional contributions or conditional contributions in which the conditions have been substantially met or explicitly waived by the donor are recorded as support with or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

See also *Contributed Nonfinancial Assets*, below.

Grant awards

Grant awards are either recorded as contributions or exchange transactions based on criteria contained in the grant award:

- Grant awards that are contributions - Grants that qualify as contributions are recorded as invoiced to the funding sources in accordance with the terms of the award. Revenue is recognized in the accounting period when the related allowable expenses or asset acquisition costs are incurred. Amounts received in excess of expenses or asset acquisitions are reflected as grant funds received in advance.

- Grant awards that are exchange transactions - Exchange transactions typically reimburse based on a predetermined rate for services performed in accordance with the terms of the award. The revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. There were no grant awards that were considered exchange transactions during the years ended December 31, 20X3 and 20X2.

Contributed Nonfinancial Assets

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).

It is the Council's policy to sell all contributed vehicles immediately upon receipt at auction or for salvage unless the vehicle is restricted for use in a specific program by the donor. No vehicles received during the period [if this is the case] were restricted for use. All vehicles were sold and valued according to the actual cash proceeds on their disposition.

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 , amounts on deposit for affiliated Scouting associations for their future use, and amounts on deposit by member units chartered outside the Council 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, 20X3 and 20X2.

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, 20X3 and 20X2, respectively, the Council incurred no penalties or interest. The Council's and trust fund's Federal Return of Organizations Exempt from Income Tax (Forms 990) for 20X0, 20X1, and 20X2 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 20X3 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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

market participants would use in pricing the asset or liability developed based on market data obtained 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.

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.

Leases

The Council is a lessee in multiple noncancelable operating and financing leases [if this is the case]. If the contract provides the Council the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. ROU assets are also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

Lease liabilities are initially and subsequently recognized based on the present value of their future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease expense (income) in the future period in which they are incurred.

ROU assets for operating leases are subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized.

ROU assets for finance leases are amortized on a straight-line basis over the lease term. Operating leases with fluctuating lease payments: For operating leases with lease payments that fluctuate over the lease term, the total lease costs are recognized on a straight-line basis over the lease term.

The Council has elected the short-term lease exemption [if this is the case] for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

The Council has elected to use the practical expedient to not separate lease and non-lease components [if this is the case] for [real estate and office equipment leases (for example)]. [Update for classes of assets - election must be applied consistently by class of leased assets.] For all other underlying classes of assets, the Council separates lease and non-lease components to determine the lease payment [if this is the case].

The Council has elected the option to use the risk-free rate [if this is the case] determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The risk-free rate option has been applied to the [building and office equipment classes of assets (for example)].

Right-of-use assets and liabilities as of December 31, 20X3 and 20X2 are presented as separate line items on the Council's [consolidated] statements of financial position.

Employee Retention Credit

During the year, the Council received advance payments [if this is the case] under the Employee Retention Credit (ERC). The ERC is a refundable credit against certain payroll taxes allowed to an eligible employer for qualifying wages, which was established by the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* and further amended
by the *Consolidated Appropriations Act (CAA)* and the *American Rescue Plan (ARP)*. The council expects to meet the ERC's eligibility requirements and considers these payments as a conditional grant. Accordingly, the council has initially recorded the payments as a refundable advance in accordance with the guidance for conditional contributions and will recognize the grant in the statement of activities when there is no longer a measurable performance or other barrier. The council has interpreted the condition(s) of the grant to be [insert condition(s) here].

Laws and regulations concerning government programs, including the ERC established by the CARES Act, are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Council's claim to the ERC, and it is not possible to determine the impact (if any) this would have upon the Council.

Accounting Pronouncements Adopted

Effective January 1, 20X3, the Council adopted the provisions of FASB ASC Topic 326, *Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13)*—This update establishes the *current expected credit loss* (CECL) model established by ASU 2016-13, which requires the immediate recognition of

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

estimated expected credit losses over the life of a financial instrument, including trade receivables, net investments in leases (for lessors with sales-type or direct financing leases), and certain off-balance sheet credit exposures. The estimate of expected credit losses considers historical information as well as current and future economic conditions and events.

FASB Topic 842 (ASU 2016-02), *Leases*. ASC 842 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 those with a lease term of twelve months or less. Leases are classified as either finance leases or operating leases. The Council elected to record in its financial statements the effect of FASB ASC 842 as of the beginning of the year of adoption, which was January 1, 20X2 [if applicable].

Accordingly, the Council has recognized the right-of-use assets and lease liabilities measured under FASB ASC 842 in its statement of financial position, and the related cumulative effect on earnings as an adjustment to net assets, as of the adoption date. Adoption of FASB ASC 842 resulted in an [increase/decrease] of $XXX,XXX to beginning net assets without donor restrictions for the year ended December 31, 20X2.

Leases (Topic 842) Discount Rate for Lessees That Are Not Public Business Entities (ASU 2021-09)— Topic 842 currently provides lessees that are not public business entities with a practical expedient that allows them to elect, as an accounting policy, to use a risk-free rate as the discount rate for all leases. The amendments in this Update allow those lessees to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. An entity that makes the risk-free rate election is required to disclose which asset classes it has elected to apply a risk-free rate. The amendments require that when the rate implicit in the lease is readily determinable for any individual lease, the lessee use that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election. The Council has adopted the provisions of FASB ASC 842 as of January 1, 20X2 and has elected to use the risk-free rate for its [building and office equipment classes of assets (for example)]. See also Note 1, *Leases.*

Effective January 1, 20X2, the Council adopted the provisions of FASB ASU 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* The amendments in this Update apply to nonprofit organizations that receive contributed nonfinancial assets (also referred to as gifts-in-kind) and address presentation and disclosure of those contributed nonfinancial assets. The term "nonfinancial assets" includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, cryptocurrency, services, and unconditional promises of those assets. Under ASU 2020-07, organizations 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 provisions of ASU 2020-07 must be applied on a retrospective basis (meaning that all periods presented in comparative financial statements must reflect the requirements of the new standard). Adoption of this standard had no effect on its net assets for the year ending December 31, 20X2.

Contribution to the Settlement Trust [If applicable. The Council may wish to describe its policy for accounting for this transaction here. Be sure to consult with your audit committee, auditors, and attorneys before taking action].

Recently Issued Accounting Standards [List any relevant accounting standards recently issued but not yet effective for your council].

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

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:

	20X3	20X2
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, 20X3 and 20X2, 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 to the Settlement Trust 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 audited financial statements.

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, 20X3 and 20X2, respectively. The Council determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable.

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

NOTE 4—ACCOUNTS RECEIVABLE (CONTINUED)

[Note: For 2023, FASB ASC 326-20-50-13 requires a rollforward of the allowance for credit losses (uncollectable accounts is acceptable terminology if used consistently). In the year of adoption, the rollforward is required to include the impact of adoption recognized as a cumulative effect adjustment as of the beginning of the period. The rollforward is not required for the prior comparative period in the year of adoption, however, is required for each period for which a statement of financial position is presented in subsequent periods.]

Changes in the allowance for uncollectable accounts for the year ended December 31, 20X3 were as follows:

		20X3
Balance - beginning of year		$X,XXX
Impact of the adoption of the new credit loss standard		X,XXX
Additions to allowance		X,XXX
Write-offs, net of recoveries		(X,XXX)
Balance – end of year		**$X,XXX**

NOTE 5—CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following as of December 31, 20X3 and 20X2:

	20X3	**20X2**
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 20X3 and 20X2, respectively) have been recorded in the consolidated financial statements since the amounts were pledged in 20X3 and 20X2, respectively. The Council has been notified of an additional allocation from United Way in 20X4 of approximately $XXX. The revenue from the additional allocation will be recorded when a firm commitment is received.

NOTE 6—LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment in the Capital Fund, consist of the following at December 31, 20X3 and 20X2:

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

NOTE 6—LAND, BUILDINGS, AND EQUIPMENT (CONTINUED)

	20X3	20X2
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, 20X3, 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 20X4, 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, 20X2, 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 20X3, 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, 20X3 and 20X2 are composed of the following:

	20X3	20X2
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.

The following schedule summarizes the investment return in the consolidated statement of activities and changes in net assets for the years ended December 31, 20X3 and 20X2:

NOTE 7—INVESTMENTS (CONTINUED)

	20X3	20X2
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 20X3 and 20X2 (consolidated) statement of activities and changes in net assets as follows:

	20X3	20X2
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 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, 20X3 and 20X2, respectively.

NOTE 9—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, 20X1	$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, 20X2	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, 20X3	**$X,XXX**	**$X,XXX**	**$X,XXX**	**$X,XXX**	**$X,XXX**

NOTE 10—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, 20X3 and 20X2. The line of credit had a balance of $0 as of December 31, 20X3 and 20X2. The line of credit matures in July 20XX 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, 20X3 and 20X2, respectively. Interest payments are due monthly with principal and interest due upon maturity. Total interest expense was $X for the years ended December 31, 20X3 and 20X2. The Council intends to renew the line of credit upon maturity in the ordinary course of business.

NOTE 11—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, 20X3 and 20X2:

						20X3				
		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**

						20X2				
		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.

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, 20X3 and 20X2:

NOTE 11— FAIR VALUE MEASUREMENT (CONTINUED)

Beneficial interest in perpetual trust:	**20X3**	**20X2**
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, 20X3				
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, 20X2				
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.

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, 20X3 and 20X2:

20X3

	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 11— FAIR VALUE MEASUREMENT (CONTINUED)

20X2

	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).

NOTE 12—**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, the Council is required to separately present the components of this revenue.

	20X3	**20X2**
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 13—NET ASSETS WITH DONOR RESTRICTIONS

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

	20X3							
		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)

	20X2							
		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 20X3 and 20X2 by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors as follows:

NOTE 14—NET ASSETS RELEASED FROM RESTRICTIONS (CONTINUED)

	20X3	20X2
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.

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

NOTE 15—ENDOWMENT FUND (CONTINUED)

Endowment net assets consisted of the following at December 31, 20X3:

		20X3				
		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, 20X3:

		20X3				
		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, 20X2:

		20X2				
		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, 20X2:

		20X2				
		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, 20X3 and 20X2. 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 investment return at a rate of $________ per month for the years ended December 31, 20X3 and 20X2, which was $________ and $_______ for the years ended December 31, 20X3 and 20X2, 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 Program - Employer Contributions. Local councils contribute 12% of the employee's compensation to the BSA retirement program. Retirement program expense (excluding the contributions made by employees) was approximately $XXX and $XXX in 20X3 and 20X2, respectively, and covered current service cost.

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 Council. Participants in the BSA Match Savings Plan may elect to make voluntary before-tax and/or Roth after-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 20X3 and 20X2, respectively.

NOTE 16— EMPLOYEE BENEFIT PLANS (CONTINUED)

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, 20X3 and 20X2, 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—LEASES

The Council leases certain office facilities and equipment at various terms under long-term non-cancelable operating lease and finance lease agreements. The leases expire at various dates through 20XX and provide for renewal options ranging from one year to five years. The Council includes in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The Council's operating lease provides for increases in future minimum annual rental payments. Additionally, the operating lease agreement requires the Council to pay real estate taxes, insurance, and repairs.

The weighted-average discount rate is based on the discount rate implicit in the lease. If the implicit rate is not readily determinable from the lease, the Council estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using the Council's applicable borrowing rates and the contractual lease term. [Local councils have the option to use a risk-free rate. The disclosure will need to be modified for the Council's specific classes of assets. The election must be applied consistently by class of leased assets.] <u>If this option is chosen, replace with the following disclosure:</u>

The weighted-average discount rate is based on the discount rate implicit in the lease. The Council has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. We have applied the risk-free rate option to the building and office equipment classes of assets [See also Note 1. This is an accounting policy statement.]

[If applicable, add disclosures based on lease contracts for Residual Values and Covenants. Include specific terms of the guarantees]:

The lease payments used to determine the lease liability and right-of-use assets include residual value guarantees we are probable of paying at the termination of the lease term.

The lease agreements also require the Council to comply with certain covenants and to maintain certain financial ratios [if this is the case]. As of December 31, 20X3, the Council was in compliance with all ratios and covenants.

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

NOTE 17—LEASES (CONTINUED)

Lease Cost		
	20X3	**20X2**
Operating lease cost	$ XXX,XXX	$ XXX,XXX
Finance lease cost:		
Interest expense	XX,XXX	XX,XXX
Amortization of right-of-use assets	XXX,XXX	XXX,XXX
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ XXX,XXX	$ XXX,XXX
Operating cash flows from finance leases	XX,XXX	XX,XXX
Financing cash flows from finance leases	XX,XXX	XX,XXX
Right-of-use assets obtained in exchange for lease liabilities		
Operating leases	$ XXX,XXX	$ XXX,XXX
Finance leases	XXX,XXX	XXX,XXX
Weighted-Average Information	**20X3**	
Weighted-average remaining lease term in years:		
Operating leases	X.00	
Finance leases	X.00	
Weighted-average discount rate:		
Operating leases	X.XX%	
Finance leases	X.XX%	
Future Minimum Lease Payments		
December 31,		
20X4	$ XXX,XXX	
20X5	XXX,XXX	
20X6	XXX,XXX	
20X7	XXX,XXX	
20X8	XXX,XXX	
Total lease payments	XXX,XXX	
Less interest	(XX,XXX)	
Present value of lease liabilities	$ XXX,XXX	

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

NOTE 18—SCOUT SHOP LEASE [If your council has a National Scout Shop]
The Council leases space in its Service Center under an operating lease [if this is the case] to the National Council, in which it operates a Scout Shop. The lease term is XX months and is renewable [if this is the case] at the end of the lease term. Lease payments by the National Council to the Council are variable, based on the following formula: 8 percent of gross Scout Shop sales up to $XXX, and 13 percent on sales greater than $XXX. Lease income (before expenses) is included by the Council in other revenue in the [consolidated] statement of activities and changes in net assets. [Note: Be sure to review your council's National Scout Shop lease contract with your attorneys and auditors to ensure you classify, account for, and disclose your council's Scout Shop lease appropriately. The following disclosures apply to operating leases. Many Council leases of this type have a lease term of twelve months or less, however some may be longer.

	20X3	**20X2**
Lease income from National Scout Shop	**$XX,XXX**	**$XX,XXX**

	20X3	**20X2**
Operating lease receivable - National Scout Shop [if applicable]	**$XX,XXX**	**$XX,XXX**

Future lease payments to be received under Scout Shop lease [if applicable]		**Year ended December 31,**
20X4	$	XX,XXX
20X5		XX,XXX
20X6		XX,XXX
20X7		-
20X8		-
Thereafter		-
Total	**$**	**$XXX,XXX**

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, 20X3 and 20X2, respectively. The accounts payable balance includes payables to the National Council of $XX,XXX and $XXX,XXX as of December 31, 20X3 and 20X2, respectively.

NOTE 20—CONTRIBUTED NONFINANCIAL ASSETS

The Council is dependent upon donated materials from diverse groups to fulfill its mission. For the years ended December 31, 20X3 and 20X2, donated materials recorded in the consolidated financial statements as in-kind contributions totaled $X,XXX,XXX and $XXX,XXX, respectively.

NOTES TO [CONSOLIDATED] FINANCIAL STATEMENTS (CONTINUED)

NOTE 20—CONTRIBUTED NONFINANCIAL ASSETS (CONTINUED)

Contributed nonfinancial assets consist of the following:

Years Ended December 31,	**20X3**	**20X2**
Building	$ XXX,XXX	$ -
Household goods	XX,XXX	XXX,XXX
Food	XX,XXX	XX,XXX
Clothing	XX,XXX	XX,XXX
Vehicles	XXX,XXX	-
Services	XX,XXX	XX,XXX
Total contributed nonfinancial assets	**$ X,XXX,XXX**	**$ XXX,XXX**

The Council recognizes contributed nonfinancial assets within revenue, including a contributed building, vehicles, household goods, food, clothing, and services. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

The contributed building will be used as the Council Service Center for general and administrative activities. In valuing the contributed building, which is located in [Metropolitan Area X], the Council estimated the fair value on the basis of recent comparable sales prices in [Metropolitan Area X]'s real estate market.

Contributed food, household goods, and clothing were utilized in the Council's activities, special events, and activities. In valuing household goods, food, and clothing, the Council estimates the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.

Contributed services recognized comprise professional services from attorneys advising the Council on various administrative legal matters. Contributed services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar legal services.

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, 20X3 and 20X2 consisted of the following:

	20X3	**20X2**
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 (as applicable)
The COVID-19 pandemic, whose effects first became known in January 2020, is continuing to have a broad and negative impact on commerce and financial markets around the world and COVID-19 variants have produced a sequence of infection spikes that require changes to how our economy operates. The United States and global markets experienced significant disruption resulting from uncertainty caused by the pandemic. The Council is closely monitoring its investment portfolio and its liquidity and is actively working to manage the continuing impact of the pandemic . The extent of the impact of COVID-19 on the Council's operational and financial performance will depend on certain developments, including the duration of the pandemic 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: The language below reflecting the National Council's bankruptcy has not been "approved for use" as a template but is only an example and should be considered only as a resource. Every council must make its own determination as to disclosures and seek professional advice in making any disclosures.

Litigation and Contingencies [Note: Council specific language required] Updated May, 2023
The Council is insured through the BSA General Liability Insurance Program ("GLIP"), which covers the National Council and all local councils on a worldwide basis. This program, which began in 1978, is composed of primary insurance and excess liability insurance provided by a number of companies. GLIP provides primary coverage with respect to claims arising out of Official Scouting Activities and responds to allegations of negligent actions by third parties that result in personal injury or property damage claims. The Council was named as a defendant or was made aware of claims alleging sexual abuse against it. A number of those claims were not formally filed against the Council and were asserted in claims forms in connection with the National Council's bankruptcy.

On February 18, 2020, the National Council filed for relief under Chapter 11 of the United States Bankruptcy Code to resolve all sexual abuse litigation against the National Council and against all local councils, including the Council, that arose prior to the date of filing. On September 8, 2022, the Bankruptcy Court entered an order confirming the Third Modified Fifth Amended Chapter 11 Plan of Reorganization, which required all local councils, including the Council, to make a substantial contribution to the Settlement Trust in exchange for such protection from sexual abuse claims. At that time, the Council committed to contribute $XXX,XXX to the Settlement Trust in accordance with the Plan of Reorganization. In return for the Council's contribution to the Settlement Trust, the Plan channels to the Settlement Trust abuse claims that arose prior to the filing date and the Council has no further liability for those claims. The National Council emerged from bankruptcy on April 19, 2023.

As applicable to your council be sure to discuss with your audit committee, auditors, and attorneys the potential impact this contribution may have on this and other disclosures in your council's audited financial statements.

NOTE 24— SUBSEQUENT EVENTS – Detail if applicable.

Appendix B—Sample Communications

NEW!
Sample Independent Auditor's Report

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements[1]

Opinion
We have audited the financial statements of Local Council, Inc., which comprise the statements of financial position as of December 31, 20X3 and 20X2, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Local Council, Inc., as of December 31, 20X3 and 20X2, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Local Council, Inc., and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters
[This section of the auditor's report is included only if the auditor is engaged to communicate key audit matters.]
Key audit matters are those matters that were communicated with those charged with governance and, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
[Description of each key audit matter in accordance with AU-C section 701, Communicating Key Audit Matters in the Independent Auditor's Report]

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Local Council, Inc.'s ability to continue as a going concern for [*insert the time period set by the applicable financial reporting framework, which for FASB-reporting entities is one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable)*].

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material

misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.
In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of XYZ Not-for-Profit Organization's internal control. Accordingly, no such opinion is expressed.[2]

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about XYZ Not-for-Profit Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information [or another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"]
[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports (refer to illustrations in the exhibit of AU-C section 720)]

Report on Other Legal and Regulatory Requirements
[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of the auditor's firm]
[City and state where the auditor's report is issued]
[Date of the auditor's report]

[1] The subtitle "Report on the Financial Statements" is unnecessary in circumstances when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

[2] In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of XYZ Not-for-Profit Organization's internal control. Accordingly, no such opinion is expressed."

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.

<u>Other</u>

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 Letter, The Auditor's Communication With Those Charged With Governance (Formerly SAS No. 114 as amended by SAS No. 122 and SAS No. 134) (All Nonpublic Entities) *Note: the following is a sample communication for education purposes only. The form and content of the communication provided by your auditors may be different*

Required Communications With Those Charged With Governance

[DATE]

The Board of Directors
Local Council, Inc.

This report is provided to ensure those charged with governance, including the Audit Committee and Board of Directors of Local Council, Inc. ("the Council") receive sufficient information regarding the scope and results of the audit that may provide them with timely observations arising from the audit that are relevant to their responsibilities in overseeing the financial reporting process for which management is responsible. These required communications relate to the financial statement audit that has been performed by Local Council Auditor LLP ("Local Council Auditor") for the years ended December 31, 202X, and other relevant information relating to Local Council Auditor's relationship with the Council. Our objective is to present certain information that is required to be communicated to those charged with governance by professional auditing standards.

If you would like any further information or would like to discuss any of the matters raised, please do not hesitate to contact [Audit Partner Name] , Partner at (XXX) XXX-XXXX.

This report is intended solely for the information and use of those charged with governance, the Audit Committee, Board of Directors, management, and others within the Council, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Local Council Auditor LLP

Responsibility for the Audit - Those charged with governance should be informed of the level of responsibility assumed by the auditor in accordance with auditing standards generally accepted in the United States of America and the nature of assurance an audit provides.

- The objective of a financial statement audit is the expression of an opinion on the financial statements. We consider the Council's internal control over financial reporting solely for the purpose of determining the nature, timing and extent of auditing procedures necessary for expressing our opinion on the financial statements. We did not express an opinion on the effectiveness of internal control over financial reporting.

- Our responsibility and management's responsibility are communicated annually in our engagement letter.

- Management is responsible for the financial statements and our audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Management is responsible for establishing and maintaining internal controls, including, monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, changes in net assets and cash flows in conformity with generally accepted accounting principles in the United States of America. 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 Local Council involving (a) management, (b) employees who have significant roles in internal control, and (c) others where fraud could have a material effect on the financial statements. Management is also responsible for identifying and ensuring that the Council complies with applicable laws and regulations.

- Our audit is designed to obtain reasonable, but not absolute, assurance of detecting errors or fraud that would have a material effect on the financial statements as well as other illegal acts having a direct and material effect on financial statement amounts. However, audits are based on the concept of selective testing of the data being examined and are, therefore, subject to the limitation that material errors or fraud or other illegal acts having a direct and material financial statement impact, if they exist, may not be detected. Also, because of the characteristics of fraud, an audit designed and executed in accordance with auditing standards generally accepted in the United States of America may not detect a material fraud. For these reasons, we cannot ensure that errors, fraud, or other illegal acts, if present, will be detected.

- We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Significant Accounting Policies and Unusual Transactions - Those charged with governance should be informed about the initial selection of and changes in significant accounting policies as well as the methods used to account for significant, unusual transactions.

- The financial statements of the Council are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations.

- Other significant accounting policies are identified in Note 1 of the financial statements.

- [Insert list of accounting standards adopted during the year as well as significant accounting policies adopted or changed during the year and methods used to account for significant, unusual transactions].

- No other new accounting policies were adopted and the application of existing policies was not changed during the year.

- We found the accounting policies as applied by management in the recording, reporting and the disclosure of transactions to be reasonable and appropriate.

Management Judgments and Accounting Estimates - Those charged with governance should be informed about the process used by management in forming particularly sensitive accounting estimates and about the basis for the auditor's conclusions regarding the reasonableness of those estimates.

✓ The most significant areas encountered during our audit that involved management judgment or application of accounting estimates are as follows:

- ✓ Collectability of receivables
- ✓ Fair value of investments
- ✓ Useful lives of capital assets
- ✓ Postretirement benefits
- ✓ Allocation of functional expenses

In connection with our audit of the financial statements for the year ended December 31, 20X3, we reviewed the methodology for establishing these estimates and we found these estimates to be reasonable. However, estimates are subject to change because of future events, and the ultimate amounts realized may differ from those provided.

The spread of the COVID-19 virus globally, including in early 20X0 through 20X3, has caused business disruption domestically in the United States, the area in which Council primarily operates [if applicable]. As a result, events have occurred, including mandates from federal, state, and local authorities leading to a reduction of the Council's activities throughout 20X2 and into 20X3 [if this is the case]. This reduction has had an adverse effect on the Council's financial condition, results of operations, and cash flows [if applicable]. While the disruption is expected to be temporary, there is considerable uncertainty around the duration of this disruption. Therefore, while the Council expects this matter to continue to temporarily impact its financial condition, the extent of the financial impact and duration cannot be reasonably estimated at this time.

[Your auditor may also include language here regarding the Council's contribution to the BSA Settlement Trust]

Audit Adjustments - Those charged with governance should be informed of all significant adjustments arising from the audit, whether or not recorded by Local Council that could individually or in the aggregate have a significant effect on the financial statements.

- There were no recorded or unrecorded audit adjustments proposed by the auditors.

- There were various entries recorded by management during the audit process, primarily consisting of donated use of facilities and the post-retirement liability.

Other Required Communications:

- Potential effect on the financial statements of any significant risks and exposures - We noted no specific significant risks or exposure, and accordingly none are disclosed.

- Material uncertainties related to events and conditions, specifically going concern issues - No extended procedures were performed relating to doubt about Local Council' ability to continue as a going concern. No material uncertainties noted or disclosed.

- Other unaudited information in documents containing audited financial statements - We are not aware of any other such documents.

- Disagreements with management - None.

- Consultation with other accountants - None.

- Difficulties encountered in performing the audit - None.

- Fraud involving senior management, or those responsible for internal controls, or causing a material misstatement of the financial statements, where the auditor determines there is evidence that such fraud may exist - None noted.

- Any illegal acts coming to the auditor's attention involving senior management and any other illegal acts, unless clearly inconsequential - None noted.

- Independence -
  - Local Council Auditor is independent with respect to Local Council.
  - We have not been asked to perform non-audit services for Local Council, except for preparation of the tax returns and related tax services.
  - Our quality control processes are established to ensure our continuing independence.
- Communication of internal control matters identified in an audit including Management Letter Comments - See separate report.

- Management Representation Letter - A copy of the required Management Representation Letter provided to the auditor can be made available upon request.

- Other Matters - None noted.

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-five years' experience in not-for-profit accounting, auditing, and taxation. Ken has worked for the National Council for over fifteen 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.