

2005 REPORT OF THE TREASURER
AND CONSOLIDATED FINANCIAL STATEMENTS



BOY SCOUTS OF AMERICA

2005 IN REVIEW

The Boy Scouts of America continued to deliver an exciting and valuable program to young people in 2005 with approximately 2,939,000 registered youth members and another 1,648,000 youth participating in Learning for Life programs. Over 45,000 Scouts and Scouters attended national high-adventure bases. Over 43,000 Scouts and Scouters participated in the 21st National Scout Jamboree, making it the largest single-site event of its kind since 1964. The National Strategic Plan: “On My Honor—Timeless Values,” continues to provide the foundation for the future of the organization. Financially, the National Council is sound and well positioned to continue its support of the 305 local Boy Scout councils.

Revenues, Expenses, and Other Changes in Net Assets

Unrestricted net assets:

General operations—General operations comprises those activities included in the Annual Budget for Consolidated General Operations and includes most day-to-day activities. General operations generated a surplus of over \$10,900,000 during 2005 compared with \$11,600,000 in 2004.

Surpluses are important for two reasons. First, they demonstrate fiscal responsibility. Adequate resources are available to satisfy all obligations. Second, they allow special initiatives which might not otherwise be possible. A traditional membership growth initiative, including such innovative programs as Good Turn for America and Soccer and Scouting, and capital improvements at the high-adventure bases are examples of how surpluses are used to enhance our programs.

Revenues—Registration fee revenues decreased \$1,200,000, or 2.8 percent, from 2004 to 2005.

High-adventure fees decreased \$1,341,000 during 2005. High-adventure attrition - to be expected during a national jamboree year - was higher than we originally anticipated. Storm-related suspension of operations at the Florida Sea Base also caused fees to fall. Indications are that 2006 attendance will be solid at all facilities.

Net results of Supply operations increased \$2,162,000 from 2004 due to the addition of several new Scout shops and incremental jamboree merchandise sales.

Magazine publications’ net operating results increased by \$208,000 from 2004 to 2005. Revenues from magazine sales increased by about 2 percent, and advertising sales increased approximately 12 percent. Production and operating costs increased about 4 percent.

Investment-related revenues included in general operations increased \$217,000. This category consists of interest income from working capital and endowment earnings allocated by the Executive Board to support general operations.

Expenses—Total operating expenses increased by \$1,841,000, or 2 percent, from 2004 to 2005.

Appropriations—The National Executive Board appropriated the 2005 surplus from general operations along with remainder funds from prior appropriations as follows: \$6,322,000 for program development and program marketing initiatives; \$1,249,000 for administrative initiatives; \$1,000,000 for the National Scouting Museum endowment; and \$2,418,000 for other initiatives.

Other unrestricted net assets—Other unrestricted net assets comprise funds previously appropriated by the Board and net assets related to self-funding events, such as a national jamboree or Top Hands. The most significant of these include the unrestricted endowment, the General Liability Insurance Program (GLIP), and the Retirement Benefits Trust.

The GLIP provides liability coverage for activities of local councils and the National Council. Losses and costs exceed premiums collected by \$12,035,000 during 2005 and by \$12,346,000 during 2004. The insurance program is funded by premiums collected from local councils, National Council operations, and investment returns from its portfolio. Overall program results during 2005, including investment returns, allowed the 14th consecutive annual distribution to the local councils and the National Council. The 2006 distribution totaled \$4,000,000. The Board appropriated its share of the 2006 distribution for legal expenses for ongoing efforts to defend our private membership rights and for the unrestricted general endowment.

Restricted net assets:

Net assets restricted by donors are either permanently restricted (endowment) and may not be spent or they are temporarily restricted and their use is restricted to a specific purpose or during a specific time period. Endowment investments are overseen by a committee of the Board that also oversees unrestricted investment portfolios. During 2005, \$3,513,000 of temporarily restricted net assets were used for donor-specified purposes, compared with \$3,884,000 used during 2004.

Total net assets:

During 2004 and 2005, a significant portion of the changes in the National Council's net assets were attributable to investment performance of the endowment and other investment portfolios which support, among other things, the liability insurance program and the Retirement Benefits Trust. Investment income was \$35,532,000 during 2005, and it was \$49,622,000 during 2004. Overall, during 2005 the National Council's net assets increased \$25,759,000. In 2004 they increased \$38,693,000. Investment policy and strategy are overseen by committees of the Board and are implemented by staff, professional investment managers, and an investment consultant.

Financial Condition, Liquidity, and Capital Resources

Cash and cash equivalents decreased by \$45,001,000 during 2005. \$19,276,000 of cash was used by operations during 2005, including approximately \$11,000,000 of net cash required to conduct the operations of the 2005 National Scout Jamboree. The National Council has no debt other than short-term obligations in the ordinary course of business. Management believes that cash generated from operations, together with liquidity provided by existing cash balances, will be sufficient to satisfy its liquidity requirements during the next 12 months.

Capital is required to expand, improve, or replace the National Council's high-adventure facilities, its distribution center and retail stores (Scout shops), and the rest of its infrastructure in order to maintain a high level of service to its constituents. During 2005, the National Council added \$7,014,000 to its properties. These capital investments were funded from existing cash balances. Investment purchases and sales are primarily driven by the decisions of investment managers in fulfilling their investment mandates.

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

Respectfully,



Aubrey B. Harwell, Jr.
Treasurer
March 16, 2006

AUDIT COMMITTEE
of the
Executive Board of the
Boy Scouts of America

Francis R. McAllister, *Chairman*

George F. Francis, III
Michael D. Harris, Esq.
General Robert T. Herres
Ronald K. Migita

Marshall M. Sloane
Randall L. Stephenson
James S. Turley
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Report of Independent Auditor

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To the Executive Board of the
Boy Scouts of America

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of revenues, expenses, and other changes in net assets, functional expenses, and cash flows present fairly, in all material respects, the financial position of the Boy Scouts of America and its subsidiaries at December 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Boy Scouts of America's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Boy Scouts of America's 2004 financial statements, and in our report dated March 11, 2005, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 16, 2006

CONSOLIDATED BALANCE SHEET

December 31, 2005 and 2004

(In thousands)

Boy Scouts of America

	<u>2005</u>	<u>2004</u>
Assets		
Cash and cash equivalents	\$ 27,840	\$ 72,841
Investments, at fair value including securities on loan of \$46,979 (2004--\$38,386) (Note 2)	621,245	561,321
Accounts receivable, less allowance of \$122 (2004--\$134)	12,642	11,429
Other receivables	3,570	4,564
Inventories, less provision for obsolescence of \$583 (2004--\$608)	40,062	34,608
Land, buildings, and equipment, net (Note 3)	77,333	77,857
Other	<u>14,249</u>	<u>15,166</u>
Total assets	<u>\$ 796,941</u>	<u>\$ 777,786</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 28,771	\$ 39,706
Unearned fees and subscriptions	29,687	39,146
Insurance reserves	68,242	63,045
Payable upon return of securities loaned (Note 2)	<u>46,979</u>	<u>38,386</u>
Total liabilities	<u>173,679</u>	<u>180,283</u>
Net assets:		
Unrestricted (Note 8):		
General operations	40,064	41,860
Board designated	<u>513,453</u>	<u>490,115</u>
Total unrestricted	553,517	531,975
Temporarily restricted (Note 9)	7,485	6,858
Permanently restricted (Note 9)	<u>62,260</u>	<u>58,670</u>
Total net assets	<u>623,262</u>	<u>597,503</u>
Total liabilities and net assets	<u>\$ 796,941</u>	<u>\$ 777,786</u>

The accompanying notes are an integral part of these statements.

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

Year ended December 31, 2005 (with comparative totals for 2004)

(In thousands)

Boy Scouts of America

	Unrestricted (Note 8)	Temporarily Restricted (Note 9)	Permanently Restricted (Note 9)	Total	
				2005	2004
Revenues:					
Fees (Note 4).....	\$ 94,647			\$ 94,647	\$ 73,494
Supply operations -- Sales	124,951			124,951	115,814
Cost of sales and expenses.....	<u>(101,838)</u>			<u>(101,838)</u>	<u>(94,863)</u>
	23,113			23,113	20,951
Magazine publications -- Sales	18,341			18,341	17,578
Cost of production and expenses	<u>(15,555)</u>			<u>(15,555)</u>	<u>(15,000)</u>
	2,786			2,786	2,578
Investment income.....	32,248	\$ 1,456	\$ 1,828	35,532	49,622
Retirement Benefits Trust -- Contributions from local councils (Note 10)	10,175			10,175	10,068
Contributions and bequests.....	3,931	2,684	1,762	8,377	3,738
Other -- Primarily trading post sales	10,958			10,958	6,768
Cost of sales and expenses.....	<u>(5,005)</u>			<u>(5,005)</u>	<u>(2,834)</u>
	5,953			5,953	3,934
Total revenues	<u>172,853</u>	<u>4,140</u>	<u>3,590</u>	<u>180,583</u>	<u>164,385</u>
Net assets released from restrictions:					
Donor restrictions satisfied	<u>3,513</u>	<u>(3,513)</u>			
Expenses:					
Program services:					
Field operations.....	36,247			36,247	33,766
Human resources and training	8,456			8,456	8,095
Program development and delivery	69,508			69,508	42,484
Program marketing.....	6,692			6,692	6,265
World Scout Bureau fees.....	1,295			1,295	1,279
Insurance programs -- Losses and costs (Notes 6 and 7)	28,510			28,510	28,243
Premiums	<u>(7,427)</u>			<u>(7,427)</u>	<u>(7,303)</u>
	21,083			21,083	20,940
Total program services.....	<u>143,281</u>			<u>143,281</u>	<u>112,829</u>
Supporting services:					
Management and general	11,317			11,317	12,622
Fundraising.....	226			226	241
Total supporting services	<u>11,543</u>			<u>11,543</u>	<u>12,863</u>
Total expenses	<u>154,824</u>			<u>154,824</u>	<u>125,692</u>
Change in net assets	21,542	627	3,590	25,759	38,693
Net assets, beginning of year	531,975	6,858	58,670	597,503	558,810
Net assets, end of year.....	<u>\$ 553,517</u>	<u>\$ 7,485</u>	<u>\$ 62,260</u>	<u>\$ 623,262</u>	<u>\$ 597,503</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Years ended December 31, 2005 and 2004

(In thousands)

Boy Scouts of America

	PROGRAM SERVICES							
	Field Operations		Human Resources and Training		Program Development and Delivery		Program Marketing	
	2005	2004	2005	2004	2005	2004	2005	2004
Salaries	\$ 15,274	\$ 14,861	\$ 4,533	\$ 4,435	\$ 12,914	\$ 12,343	\$ 3,619	\$ 3,799
Benefits	4,490	3,872	1,218	981	3,024	2,840	964	842
Travel	2,927	2,812	683	581	971	877	189	158
Office expense and occupancy	7,753	7,235	950	578	3,577	3,830	804	702
Depreciation and amortization	1,488	1,385	270	263	2,126	1,822	296	192
National jamboree					28,777			
Insurance losses and costs premiums								
Net insurance programs								
All other expenses	4,315	3,601	977	1,463	15,804	19,805	1,680	1,461
Allocated expenses ¹			(175)	(206)	2,315	967	(860)	(889)
Total expenses	\$ 36,247	\$ 33,766	\$ 8,456	\$ 8,095	\$ 69,508	\$ 42,484	\$ 6,692	\$ 6,265

PROGRAM SERVICES

	World Scout Bureau Fees		Insurance Programs		Total Program Services	
	2005	2004	2005	2004	2005	2004
	Salaries					\$ 36,340
Benefits					9,696	8,535
Travel					4,770	4,428
Office expense and occupancy					13,084	12,345
Depreciation and amortization					4,180	3,662
National jamboree					28,777	
Insurance losses and costs premiums			\$ 28,510	\$ 28,243	28,510	28,243
Net insurance programs			(7,427)	(7,303)	(7,427)	(7,303)
All other expenses	\$ 1,295	\$ 1,279	21,083	20,940	21,083	20,940
Allocated expenses ¹					1,280	(128)
Total expenses	\$ 1,295	\$ 1,279	\$ 21,083	\$ 20,940	\$ 143,281	\$ 112,829

SUPPORTING SERVICES

	Management and General		Fundraising		Total Supporting Services		Total Expenses	
	2005	2004	2005	2004	2005	2004	2005	2004
	Salaries	\$ 12,994	\$ 12,410	\$ 174	\$ 183	\$ 13,168	\$ 12,593	\$ 49,508
Benefits	3,075	2,744	41	41	3,116	2,785	12,812	11,320
Travel	739	680	11	11	750	691	5,520	5,119
Office expense and occupancy	(299)	1,012	2	2	(297)	1,014	12,787	13,359
Depreciation and amortization	1,653	2,092	1		1,654	2,092	5,834	5,754
National jamboree							28,777	
Insurance losses and costs premiums							28,510	28,243
Net insurance programs							(7,427)	(7,303)
All other expenses	1,912	717	(3)	4	1,909	721	21,083	20,940
Allocated expenses ¹	(8,757)	(7,033)			(8,757)	(7,033)	25,980	28,330
Total expenses	\$ 11,317	\$ 12,622	\$ 226	\$ 241	\$ 11,543	\$ 12,863	\$ 154,824	\$ 125,692

¹ Certain expenses have been allocated to Supply operations, Magazine publications, and Program services. The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31, 2005 and 2004

(In thousands)

Boy Scouts of America

	<u>2005</u>	<u>2004</u>
Cash Flows from Operations:		
Change in net assets	\$ 25,759	\$ 38,693
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	7,501	7,235
Net gains on sales of securities and unrealized changes in the fair value of investments	(18,132)	(34,505)
Interest and dividends reinvested	(10,084)	(7,874)
Contributions to the permanently restricted endowment	(3,702)	(242)
Contributions restricted for purchases of fixed assets	(665)	(837)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(1,213)	2,553
(Increase) decrease in other receivables	994	(173)
(Increase) in inventories	(5,454)	(5,458)
(Increase) decrease in other assets	917	(2,329)
Increase (decrease) in accounts payable and accrued liabilities	(10,935)	14,413
Increase (decrease) in unearned fees and subscriptions	(9,459)	15,849
Increase (decrease) in insurance reserves	<u>5,197</u>	<u>(3,104)</u>
Net cash provided (used) by operations	(19,276)	24,221
Cash Flows from Investing:		
Additions to properties	(7,014)	(5,852)
Proceeds from sale of investments	1,732,722	1,968,253
Purchases of investments	(1,755,837)	(1,983,062)
Proceeds from sale of property and other	<u>37</u>	<u>37</u>
Net cash used in investing activities	(30,092)	(20,624)
Cash Flows from Financing:		
Contributions to the permanently restricted endowment	3,702	242
Contributions restricted for the purchase of fixed assets	<u>665</u>	<u>837</u>
Net cash provided by financing activities	4,367	1,079
Increase (decrease) in cash and cash equivalents	(45,001)	4,676
Cash and cash equivalents, beginning of year	<u>72,841</u>	<u>68,165</u>
Cash and cash equivalents, end of year	<u>\$ 27,840</u>	<u>\$ 72,841</u>

The accompanying notes are an integral part of these statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

On June 15, 1916, the Boy Scouts of America was officially chartered by Congress with the stated purpose to promote ". . . the ability of boys to do things for themselves and others, to train them in Scoutcraft, and to teach them patriotism, courage, self-reliance, and kindred virtues. . . ." Major activities of the National Council include merchandise sales, magazine publications, and the conduct of national events. The National Council also provides local councils with program materials and support in the areas of expansion of membership, fundraising, communications, administration, insurance, employee benefits, and human resources recruiting and training.

Consolidation. The consolidated financial statements combine the accounts and results of operations and activities of the National Council of the Boy Scouts of America and its affiliates. Results of operations and activities of local councils are not included. All significant intercompany transactions have been eliminated.

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

Unrestricted net assets include "general operations" and "board designated." General operations comprise the ongoing, day-to-day activities of the National Council, including, but not limited to, merchandise sales, magazine publications, high-adventure base operations, program development, field support, and program marketing. Board-designated net assets are designated by the Executive Board of the National Council or an authorized committee of the Executive Board of the National Council and act as endowment; are intended to help defray future health costs for National and local council employees and their retirees; are invested in property, plant and equipment; are used in the general liability insurance program (Note 6); or are designated for use in specific program efforts.

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

Estimated Fair Values of Financial Instruments. Financial instruments include cash, investments, accounts and pledges receivable, and accounts payable. Cash, accounts receivable, and accounts payable are deemed to be stated at their fair values. Investments are reported at fair value, based on quoted market prices (Note 2). Carrying values of pledges receivable approximate fair values based upon the timing of future expected cash inflows.

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

Land, Buildings, and Equipment. These assets are stated at cost or, if acquired by gift, at the estimated fair market value at the date of gift. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. Estimated useful lives for financial reporting purposes are as follows: Buildings and improvements, 10 to 40 years; computer software and hardware, three to 10 years; and furniture, fixtures and other equipment, three to 10 years. Land improvements are amortized over 20 years. Leasehold improvements are amortized over the lesser of the lease term or the life of the asset.

Revenue. Registration fees are recorded as income in the applicable membership or participation period. High-adventure and jamboree fees are recorded as income in the applicable period of attendance. National service fees are paid by the local councils for administrative services provided and are recognized in the period earned.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Revenues from merchandise sales are recognized at the point of sale and are reported net of returns and allowances. Subscription and advertising revenues are reflected as earned income when publications are issued. Investment income (loss) includes interest and dividends earned during the period as well as realized and unrealized gains and losses on investments, net of investment expenses. Contributions received from local councils for the Retirement Benefits Trust (see Note 10) are recorded as revenue in the period that the contribution is receivable.

Pledges and contributions are recognized as revenues in the year in which an unconditional promise to give is received. They are recorded at their estimated fair values and allowances are provided for amounts estimated to be uncollectible. Restricted pledges and contributions which are to be utilized in the same period as donated are initially recorded as restricted revenues. Bequests are recorded when the amount and timing of receipt of funds are known. Contributions of fixed assets are recorded as board-designated net assets as no time restriction is assumed for their use. Pledges receivable are discounted to the extent they represent multiple-year receivables. Insurance premium revenue is recognized pro rata over the terms of the related policies.

Concentration of Market and Credit Risk. Market risk represents the potential loss the National Council faces due to a decrease in the value of its investments. Credit risk represents the potential loss the National Council faces due to possible nonperformance by obligors and counterparties of the terms of their contracts.

Financial instruments that potentially subject the National Council to concentrations of credit risk consist principally of cash equivalents, the investment portfolio (Note 2) and accounts receivable. In order to limit credit risk with respect to cash equivalents and the investment portfolio, the National Council invests in obligations of the United States government, mutual funds, and other marketable securities. These investments are held by diverse, high-quality financial institutions. The National Council grants unsecured credit to local councils and others for merchandise sales and insurance coverages within established guidelines for creditworthiness. These transactions make up the majority of accounts receivable.

Donated Services. A substantial number of volunteers have donated significant amounts of their time to the operations of the National Council, and numerous media organizations have provided public service advertising. Services that create or enhance nonfinancial assets (e.g., camps, buildings, etc.) or require specialized skills and are performed by people possessing those skills are recorded as contributions and as expenses or as additions to land, buildings and equipment. Amounts recorded as contributed services are not material and it is not practicable to estimate the fair value of all donated services received.

Collections. The National Council has paintings and artifacts in various museums and National Council-owned buildings. The largest collection resides at the National Scouting Museum in Irving, Texas, which houses collectibles appraised at approximately \$21,000,000. The last appraisal was conducted in October, 2001. Costs associated with acquisition and maintenance of these collections have been expensed. During 2005, no major additions or disposals of collection items occurred.

Program Services Expenses comprise:

Field Operations. Support for local councils, including but not limited to, administration of standards of performance, inspection of council campsites, assistance with long-range planning, conduct of regional training and conferences for professionals and volunteers, administration of an extensive program of local council financial support, and administration and funding of the defense of our private membership rights.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Human Resources and Training. Administration of all aspects of human resources policies, including recruiting, placement, and training of professional employees; promoting diversity; managing compensation and benefits programs; and monitoring employee relations.

Program Development and Delivery. Development of the basic program; providing camping and outdoor literature, materials, and techniques, as well as engineering service, to local councils; managing the volunteer training programs of the Boy Scouts of America and handling all national program support in the areas of health and safety, activities, program evaluation, and low-income program; developing uniforms and insignia and other program elements; operating the National Scouting Museum; operating the high-adventure bases and the national jamboree.

Program Marketing. Administration of public relations, including providing news releases, features for print and broadcast media, and internal news in the form of newsletters, fact sheets, and the annual report for the nationwide Scouting family.

World Scout Bureau Fees. Payment of fees to the World Organization of the Scout Movement in support of international enrichment programs based on an established fee for each registered, uniformed youth and adult member.

Insurance Programs. Support of the group medical, life, dental, and general liability insurance programs for local councils and the National Council.

The Use of Estimates in Preparing Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status. The National Council and its affiliates, Learning for Life and the National Boy Scouts of America Foundation, are exempt from income tax under Section 501 (c)(3) of the Internal Revenue Code and have been classified as organizations that are not private foundations. However, income from certain activities (primarily magazine advertising income and net revenue from sales of livestock) not directly related to the National Council's tax-exempt purpose is subject to taxation as unrelated business income. As of December 31, 2005, the National Council has a cumulative net operating loss of approximately \$16,445,000. In accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes", management has determined that it is more likely than not that the net operating loss will not be realized and therefore has provided a full valuation allowance against any deferred tax asset.

Nature of Comparative Totals for 2004. The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Alone, such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the National Council's financial statements for the year ended December 31, 2004, from which the summarized information was derived. PricewaterhouseCoopers LLP issued an unqualified opinion on those financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Investments

At December 31, 2005, investments comprised the following:

	<u>Fair Value</u>
Money market	\$ 19,787,000
Fixed income	
Government (includes securities lending of \$20,294,000)	120,676,000
Corporate (includes securities lending of \$3,805,000)	89,322,000
Other	<u>6,405,000</u>
Total fixed income	216,403,000
Equities	
Common stocks-domestic (includes securities lending of \$10,332,000)	316,193,000
Common stocks-foreign (includes securities lending of \$12,548,000)	<u>68,862,000</u>
Total Equities	<u>385,055,000</u>
Total investments	<u>\$ 621,245,000</u>

For 2005, investment income includes \$18,402,000 of interest and dividends, \$18,132,000 of net realized gains and unrealized changes in the fair value of investments, and \$1,002,000 in investment manager expenses.

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

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

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

As of December 31, 2005, the market value of securities on loan to approved brokers was \$45,539,000. Cash collateral received for securities on loan was invested in the State Street Navigator Securities Lending Prime Portfolio. Total collateral of \$46,979,000, received for securities on loan at December 31, 2005, is held by State Street on behalf of the National Council. Income associated with the securities lending program amounted to \$73,000 for 2005, and is included in investment income. The following table summarizes the securities loaned and the related collateral:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Investments (continued)

Securities Loaned and the Related Collateral

December 31, 2005

Securities	Fair Value	Fair Value of Cash Collateral
International Stocks	\$ 11,904,000	\$ 12,548,000
Common Stocks	10,018,000	10,332,000
Corporate Obligations	3,725,000	3,805,000
Government Obligations	<u>19,892,000</u>	<u>20,294,000</u>
	<u>\$45,539,000</u>	<u>\$46,979,000</u>
Investments Purchased with Collateral		
State Street Navigator Securities Lending Prime Portfolio		<u>\$46,979,000</u>
Total investments purchased with cash collateral		<u>\$46,979,000</u>

Note 3. Land, Buildings, and Equipment

At December 31, 2005, land, buildings and equipment comprised the following:

National office, less accumulated depreciation of \$9,349,000.....	\$ 15,393,000
High-adventure bases, less accumulated depreciation of \$12,521,000.....	34,344,000
National Distribution Center, less accumulated depreciation of \$3,351,000.....	5,946,000
Regional service centers, less accumulated depreciation of \$1,794,000.....	5,160,000
Leasehold improvements, less accumulated amortization of \$150,000.....	6,000
Furniture, equipment and software, less accumulated depreciation of \$43,159,000.....	<u>16,484,000</u>
Total land, buildings, and equipment, less accumulated depreciation and amortization of \$70,324,000.....	<u>\$ 77,333,000</u>

Depreciation and amortization expense was \$7,501,000 in 2005.

Note 4. Fees

During 2005, fees comprised the following:

Registration.....	\$ 41,740,000
National service fees from local councils.....	7,524,000
High-adventure.....	18,795,000
National jamboree.....	25,150,000
Other.....	<u>1,438,000</u>
Total fees.....	<u>\$ 94,647,000</u>

Note 5. Credit Arrangements

At December 31, 2005, the National Council had provided a \$929,000 irrevocable letter of credit for the benefit of an insurance company to guarantee payments in conjunction with a self-insured workers' compensation program. Additional letters of credit are discussed in Note 6.

Note 6. General Liability Insurance Program

The National Council has a general liability insurance program which operates primarily for the benefit of local councils. The program is partially self-insured with deductible features as follows: \$1,000,000 per incident and,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. General Liability Insurance Program (continued)

annually, a \$3,000,000 aggregate excess limit. The program is funded by payments received from the National Council, local councils, and chartered units and from investment income. Premiums received during 2005 for this program were \$7,427,000, and losses and costs were \$19,462,000.

The insurance reserves of \$68,242,000 at December 31, 2005 include \$64,039,000 established by the National Council as a reserve for estimated self-insured losses and loss adjustment expenses of this program, based on an independent actuarial estimate of ultimate losses. The remaining reserves apply primarily to life insurance and workers' compensation insurance.

As a result of the favorable condition of the general liability insurance program, the Executive Board of the National Council approved a 2006 distribution of \$4,000,000 to be allocated among local councils and the National Council. This distribution was made from the \$104,169,000 of investments and other assets designated to this insurance program as of December 31, 2005. Net assets of this insurance program are reported as board-designated net assets in the accompanying balance sheet.

At December 31, 2005, the National Council had provided irrevocable letters of credit totaling \$27,568,000 for the benefit of insurance companies in conjunction with the assumed deductible portion of the program. The letters of credit are collateralized by assets equal to 110 percent of their amounts.

Note 7. Health, Life and Other Welfare Insurance Programs

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

During 2005, total losses and costs associated with these insurance programs amounted to \$8,720,000, of which \$8,440,000 was contributed by the National Council from the Retirement Benefits Trust to subsidize the cost of retiree insurance coverage.

In addition, the National Council paid \$5,520,000 to the Welfare Benefits Trust for its employees' insurance coverage. This amount is included in the costs of benefits for Supply operations, Magazine publications and the respective functional areas included in the Consolidated Statement of Functional Expenses.

Note 8. Unrestricted Net Assets

At December 31, 2005, unrestricted net assets comprised the following:

General operations	\$ 40,064,000
Board-designated:	
General endowment	227,148,000
Properties	77,333,000
Retirement Benefits Trust (Note 10)	114,087,000
General liability insurance program (Note 6)	41,421,000
Other	<u>53,464,000</u>
Total board-designated net assets	<u>513,453,000</u>
Total unrestricted net assets	<u>\$ 553,517,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Restricted Net Assets

At December 31, 2005, restricted net assets comprised the following:

Permanently restricted net assets:

John W. Watzek, Jr. (income supports general operations).....	\$ 8,609,000
National Scouting Museum (income supports Museum operations).....	5,330,000
Regional trust funds (income supports regional Scouting programs).....	5,277,000
Waite Phillips Scholarship (income supports Philmont scholarships).....	4,903,000
Cooke Eagle Endowment (income supports Eagle Scout scholarships).....	4,138,000
Genevieve and Waite Phillips (income supports maintenance of Philmont).....	3,732,000
DeWitt-Wallace Foundation (income supports leadership programs).....	2,729,000
Kenneth McIntosh (income supports Scouting around the world).....	2,389,000
High-adventure (income benefits high-adventure program).....	2,003,000
Scoutmaster Recognition (income supports scholarships for outstanding Scoutmasters).....	1,882,000
Hall Scholarship (income supports Eagle Scout scholarships).....	1,474,000
Sonia S. Maguire (income supports Philmont camperships).....	1,369,000
Mortimer L. Schiff (income supports professional training and development).....	1,232,000
Thomas J. Watson (income supports general operations).....	1,222,000
Augustus F. Hook, Jr. (income supports professional staff in Indiana).....	1,189,000
Genevieve Phillips (income maintains Philmont Villa and grounds).....	1,138,000
Milton H. and Adele R. Ward (income supports local councils).....	1,067,000
A. Ward Fund (income supports youth leader scholarships to serve at high-adventure bases).....	1,066,000
Ward Fund No. 3 (income supports Scoutreach recognition).....	1,065,000
NESA Scholarship (income provides academic scholarships for Eagle Scouts).....	941,000
World Scouting Development (income supports Scouting around the world).....	806,000
Other.....	8,699,000
Total permanently restricted net assets.....	<u>62,260,000</u>
Temporarily restricted net assets.....	<u>7,485,000</u>
Total restricted net assets.....	<u>\$ 69,745,000</u>

The amounts above include \$2,455,000 of net realized gains and unrealized changes in the fair value of investments earned on permanently and temporarily restricted net assets during 2005.

Note 10. Retirement Benefits Trust

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

The Trust is funded, at the discretion of the National Council, by payments from local councils and the National Council and by investment income. In 2005, the National Council's required contribution to the Trust was \$2,856,000. At December 31, 2005, the Trust's net assets were \$114,087,000. In accordance with the Trust agreement, Trust funds may be used as follows: (1) to subsidize the cost of medical and life insurance benefits for retired employees of local councils and the National Council and their dependents (\$8,440,000 was used for this purpose in 2005); (2) to supplement the funding of the "qualified" defined benefit retirement plan, should the fair value of its assets fall below 125 percent of its accumulated benefit obligation; (3) to pay costs related to a "non-qualified" defined benefit retirement plan; or (4) for any other purpose deemed by the Executive Board of the National Council to be in the best interests of the Boy Scouts of America.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Benefits

The National Council of the Boy Scouts of America participates in a "qualified" defined benefit retirement plan covering National and local council employees with at least one year of service. Coverage under this plan is at the option of the employee. The National Council expects that the plan will continue without interruption. In the event the plan is terminated no assets will inure to the benefit of the National Council prior to the satisfaction of all benefit obligations to the participants. Additionally, there is a "non-qualified" defined benefit retirement plan (the "non-qualified plan"). The non-qualified plan exists to ensure that all employees receive retirement benefits on a comparable basis, notwithstanding limitations imposed upon qualified retirement plans by the tax laws. The National Council sponsors a "qualified" elective thrift plan (the "thrift" plan) where National Council employee contributions are matched by the National Council, subject to certain limits. The National Council's pension expense for the qualified and non-qualified retirement plans equals the amount of its contributions paid or accrued, such amounts being determined by the Administrator of the plans. In 2005, the National Council expense related to the qualified retirement plan was \$591,000 and the expense related to the non-qualified retirement plan (Note 10) was \$1,236,000. The National Council expense in 2005 related to the thrift plan was \$1,301,000.

Note 12. Commitments and Contingencies

The National Council occupies various Scout shops and other office space under noncancelable operating leases expiring at various dates through 2010. Rental commitments for Scout shop leases are contingent on future sales levels. Real estate leases are renewable at the option of the National Council. The minimum rental commitments under operating leases that have initial or remaining noncancelable terms in excess of one year as of December 31, 2005, are as follows:

<u>Year ending December 31,</u>	
2006	\$ 6,633,000
2007	5,203,000
2008	4,224,000
2009	2,808,000
2010	<u>697,000</u>
Total minimum payments required.....	<u>\$ 19,565,000</u>

Total rental expense for all operating leases for the year ended December 31, 2005, amounted to \$6,593,000.

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

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



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