

**SAM HOUSTON AREA COUNCIL
BOY SCOUTS OF AMERICA**



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**CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE
YEARS ENDED DECEMBER 31, 2016 AND 2015
AND INDEPENDENT AUDITOR'S REPORT**



MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
AND SUBSIDIARY

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MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Executive Committee of
**Sam Houston Area Council Boy Scouts of America
and Subsidiary**

We have audited the accompanying consolidated financial statements of Sam Houston Area Council Boy Scouts of America and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, the related consolidated statement of functional expenses for the year ended December 31, 2016, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sam Houston Area Council Boy Scouts of America and Subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Sam Houston Area Council Boy Scouts of America and Subsidiary's 2015 consolidated financial statements, and our report dated May 5, 2016, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented in the consolidated statement of functional expenses for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Milton + Melton, L.L.P.

Houston, Texas
May 3, 2017

**SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015**

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2016	2015	2016	2015	2016	2015	2016	2015
<u>ASSETS</u>								
Current Assets:								
Cash	\$ 7,005,852	\$ 6,263,813	\$ -	\$ -	\$ -	\$ -	\$ 7,005,852	\$ 6,263,813
Short-term investments	-	-	21,851,005	22,431,440	-	-	21,851,005	22,431,440
Accounts receivable	288,579	207,269	8,000	9,600	143,585	-	440,164	216,869
Contributions receivable	1,100,561	1,396,214	1,164,844	1,053,221	2,038,046	2,232,803	4,303,451	4,682,238
Inventories	63,966	65,229	-	-	-	-	63,966	65,229
Prepaid expenses	286,334	218,467	87,138	36,660	-	-	373,472	255,127
Total current assets	8,745,292	8,150,992	23,110,987	23,530,921	2,181,631	2,232,803	34,037,910	33,914,716
Noncurrent Assets:								
Contributions receivable	-	-	246,072	256,855	1,396,759	1,477,236	1,642,831	1,734,091
Property, net	-	-	32,650,262	36,262,154	-	-	32,650,262	36,262,154
Property held for sale	-	-	6,292,733	-	-	-	6,292,733	-
Long-term investments	-	-	39,514	38,029	72,528,008	71,035,966	72,567,522	71,073,995
Cash surrender value of life insurance	-	-	-	-	186,466	172,953	186,466	172,953
Other assets	1,095	13,726	-	-	-	-	1,095	13,726
Total noncurrent assets	1,095	13,726	39,228,581	36,557,038	74,111,233	72,686,155	113,340,909	109,256,919
Total Assets	\$ 8,746,387	\$ 8,164,718	\$ 62,339,568	\$ 60,087,959	\$ 76,292,864	\$ 74,918,958	\$ 147,378,819	\$ 143,171,635
<u>LIABILITIES AND NET ASSETS</u>								
Current Liabilities:								
Accounts payable	\$ 474,303	\$ 890,681	\$ 1,549,357	\$ 93,132	\$ -	\$ -	\$ 2,023,660	\$ 983,813
Accrued expenses	376,237	332,819	-	-	-	-	376,237	332,819
Payroll taxes withheld	24	426	-	-	-	-	24	426
Custodial accounts	1,477,186	1,469,840	140,585	140,585	-	-	1,617,771	1,610,425
Deferred activity income	301,412	167,962	-	-	-	-	301,412	167,962
Deferred camp income	23,893	10,986	-	-	-	-	23,893	10,986
Deferred other income	44,757	7,441	-	-	-	-	44,757	7,441
Other current liabilities	26,389	26,708	33,100	-	-	-	59,489	26,708
Total current liabilities	2,724,201	2,906,863	1,723,042	233,717	-	-	4,447,243	3,140,580
Net Assets:								
Unrestricted net assets	4,064,626	3,807,658	32,136,833	29,273,412	16,619,061	16,996,880	52,820,520	50,077,950
Temporarily restricted net assets	1,957,560	1,450,197	28,479,693	30,580,830	26,794,701	26,759,305	57,231,954	58,790,332
Permanently restricted net assets	-	-	-	-	32,879,102	31,162,773	32,879,102	31,162,773
Total net assets	6,022,186	5,257,855	60,616,526	59,854,242	76,292,864	74,918,958	142,931,576	140,031,055
Total Liabilities and Net Assets	\$ 8,746,387	\$ 8,164,718	\$ 62,339,568	\$ 60,087,959	\$ 76,292,864	\$ 74,918,958	\$ 147,378,819	\$ 143,171,635

(See Notes to Consolidated Financial Statements)

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND
CHANGES IN NET ASSETS
For the Years Ended December 31, 2016 and 2015

	<u>Operating Fund</u>		<u>Capital Fund</u>		<u>Endowment Fund</u>		<u>Total All Funds</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
CHANGES IN UNRESTRICTED NET ASSETS:								
Support and revenues:								
Direct support:								
Friends of Scouting	\$ 1,898,647	\$ 2,619,757	\$ -	\$ -	\$ -	\$ -	\$ 1,898,647	\$ 2,619,757
Capital campaign	-	-	146,394	723,981	-	-	146,394	723,981
Special events, gross	973,961	1,596,975	-	-	-	-	973,961	1,596,975
Less: Cost of direct benefit	397,150	377,221	-	-	-	-	397,150	377,221
Net special events	576,811	1,219,754	-	-	-	-	576,811	1,219,754
Foundations and trusts	813,422	667,200	-	-	-	-	813,422	667,200
Other direct	510,034	244,224	13,837	-	16,156	6,569	540,027	250,793
Total direct support	3,798,914	4,750,935	160,231	723,981	16,156	6,569	3,975,301	5,481,485
Indirect support:								
United Way	973,184	1,077,583	-	-	-	-	973,184	1,077,583
Total indirect support	973,184	1,077,583	-	-	-	-	973,184	1,077,583
Total support	4,772,098	5,828,518	160,231	723,981	16,156	6,569	4,948,485	6,559,068
Revenues (losses):								
Sale of supplies, gross	4,298	6,366	-	-	-	-	4,298	6,366
Less: Cost of goods sold	2,155	2,734	-	-	-	-	2,155	2,734
Net sale of supplies	2,143	3,632	-	-	-	-	2,143	3,632
Product sales, gross	3,925,837	3,986,653	-	-	-	-	3,925,837	3,986,653
Less: Cost of goods sold	1,066,473	1,021,759	-	-	-	-	1,066,473	1,021,759
Less: Commissions paid to units	1,356,568	1,408,883	-	-	-	-	1,356,568	1,408,883
Net product sales	1,502,796	1,556,011	-	-	-	-	1,502,796	1,556,011

(See Notes to Consolidated Financial Statements)

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND
CHANGES IN NET ASSETS (CONTINUED)
For the Years Ended December 31, 2016 and 2015

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2016	2015	2016	2015	2016	2015	2016	2015
Revenues (losses) (continued):								
Investment income	\$ 3,544	\$ 5,232	\$ 178,849	\$ 121,342	\$ 990,005	\$ 557,556	\$ 1,172,398	\$ 684,130
Spending policy allocation	2,115,372	1,644,850	948,290	714,110	(3,063,662)	(2,358,960)	-	-
Realized gain on investments	-	-	-	-	680,370	1,758,700	680,370	1,758,700
Unrealized gain (loss) on investments	-	-	1,486	19,829	997,787	(2,840,335)	999,273	(2,820,506)
Camping	961,204	1,370,389	-	-	-	-	961,204	1,370,389
Activities	930,288	906,915	-	-	-	-	930,288	906,915
Other revenue	632,667	720,428	671,488	11,067	-	-	1,304,155	731,495
Total revenues (losses)	6,148,014	6,207,457	1,800,113	866,348	(395,500)	(2,883,039)	7,552,627	4,190,766
Net assets released from restrictions (see Note 9):								
Reclass Friends of Scouting	562,522	152,677	-	-	-	-	562,522	152,677
Reclass capital campaign	-	-	3,230,308	2,244,574	-	-	3,230,308	2,244,574
Reclass special events	338,700	124,250	-	-	-	-	338,700	124,250
Reclass foundations and trusts	90,672	233,065	-	-	-	-	90,672	233,065
Reclass other direct support	4,501	14,412	-	-	-	-	4,501	14,412
Reclass United Way	368,340	409,325	-	-	-	-	368,340	409,325
Total net assets released from restrictions	1,364,735	933,729	3,230,308	2,244,574	-	-	4,595,043	3,178,303
Other reclassifications of net assets (see Note 9):								
Reclass investment income	-	-	(773,290)	(357,965)	-	-	(773,290)	(357,965)
Total other reclassifications of net assets	-	-	(773,290)	(357,965)	-	-	(773,290)	(357,965)
Total support and revenues (losses)	12,284,847	12,969,704	4,417,362	3,476,938	(379,344)	(2,876,470)	16,322,865	13,570,172
Expenses:								
Program services	10,412,704	11,070,706	1,279,985	1,304,861	103,161	100,224	11,795,850	12,475,791
Support services:								
Management and general	689,233	673,965	45,685	44,483	19,110	17,992	754,028	736,440
Fundraising	843,914	818,839	93,581	144,172	10,894	10,584	948,389	973,595
Total functional expenses	11,945,851	12,563,510	1,419,251	1,493,516	133,165	128,800	13,498,267	14,185,826
Charter and national service fees	82,028	79,785	-	-	-	-	82,028	79,785
Total expenses	12,027,879	12,643,295	1,419,251	1,493,516	133,165	128,800	13,580,295	14,265,611
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	256,968	326,409	2,998,111	1,983,422	(512,509)	(3,005,270)	2,742,570	(695,439)

(See Notes to Consolidated Financial Statements)

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND
CHANGES IN NET ASSETS (CONTINUED)
For the Years Ended December 31, 2016 and 2015

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2016	2015	2016	2015	2016	2015	2016	2015
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:								
Support and revenues:								
Direct support:								
Friends of Scouting	\$ 514,972	\$ 562,522	\$ -	\$ -	\$ -	\$ -	\$ 514,972	\$ 562,522
Capital campaign	-	-	355,881	-	-	-	355,881	-
Special events, gross	210,705	338,700	-	-	-	-	210,705	338,700
Less: Cost of direct benefit	-	-	-	-	-	-	-	-
Net special events	210,705	338,700	-	-	-	-	210,705	338,700
Foundations and trusts	42,000	120,000	-	-	-	-	42,000	120,000
Other direct	785,993	4,340	-	-	-	-	785,993	4,340
Change in split-interest agreement	173	(204,154)	-	-	-	-	173	(204,154)
Legacies and bequests	(29,923)	-	-	-	35,396	679,275	5,473	679,275
Total direct support	1,523,920	821,408	355,881	-	35,396	679,275	1,915,197	1,500,683
Indirect support:								
United Way	348,178	368,340	-	-	-	-	348,178	368,340
Total indirect support	348,178	368,340	-	-	-	-	348,178	368,340
Revenues:								
Gain on sale of property	-	-	-	7,650	-	-	-	7,650
Total revenues	-	-	-	7,650	-	-	-	7,650
Net assets released from restrictions (see Note 9):								
Reclass Friends of Scouting	(562,522)	(152,677)	-	-	-	-	(562,522)	(152,677)
Reclass capital campaign	-	-	(3,230,308)	(2,244,574)	-	-	(3,230,308)	(2,244,574)
Reclass special events	(338,700)	(124,250)	-	-	-	-	(338,700)	(124,250)
Reclass foundations and trusts	(90,672)	(233,065)	-	-	-	-	(90,672)	(233,065)
Reclass other direct support	(4,501)	(14,412)	-	-	-	-	(4,501)	(14,412)
Reclass United Way	(368,340)	(409,325)	-	-	-	-	(368,340)	(409,325)
Total net assets released from restrictions	(1,364,735)	(933,729)	(3,230,308)	(2,244,574)	-	-	(4,595,043)	(3,178,303)
Other reclassifications of net assets (see Note 9):								
Reclass investment income	-	-	773,290	357,965	-	-	773,290	357,965
Total other reclassifications of net assets	-	-	773,290	357,965	-	-	773,290	357,965
Total support and revenues (losses)	507,363	256,019	(2,101,137)	(1,878,959)	35,396	679,275	(1,558,378)	(943,665)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	507,363	256,019	(2,101,137)	(1,878,959)	35,396	679,275	(1,558,378)	(943,665)

(See Notes to Consolidated Financial Statements)

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND
CHANGES IN NET ASSETS (CONTINUED)
For the Years Ended December 31, 2016 and 2015

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2016	2015	2016	2015	2016	2015	2016	2015
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:								
Support and revenues:								
Direct support:								
Legacies and bequests	\$ -	\$ -	\$ -	\$ -	\$ 562,160	\$ 171,247	\$ 562,160	\$ 171,247
Change in split-interest agreement	-	-	-	-	39,010	-	39,010	-
Other direct	-	-	-	-	1,115,159	810,990	1,115,159	810,990
Total direct support	-	-	-	-	1,716,329	982,237	1,716,329	982,237
Total support and revenues	-	-	-	-	1,716,329	982,237	1,716,329	982,237
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	-	1,716,329	982,237	1,716,329	982,237
INCREASE (DECREASE) IN TOTAL NET ASSETS	764,331	582,428	896,974	104,463	1,239,216	(1,343,758)	2,900,521	(656,867)
NET ASSETS, beginning of year								
Unrestricted net assets	3,807,658	3,481,249	29,273,412	27,409,648	16,996,880	19,882,492	50,077,950	50,773,389
Temporarily restricted net assets	1,450,197	1,269,178	30,580,830	32,384,789	26,759,305	26,080,030	58,790,332	59,733,997
Permanently restricted net assets	-	-	-	-	31,162,773	30,180,536	31,162,773	30,180,536
Total net assets, beginning of year	5,257,855	4,750,427	59,854,242	59,794,437	74,918,958	76,143,058	140,031,055	140,687,922
Transfers in (out) of unrestricted net assets	-	-	(134,690)	(119,658)	134,690	119,658	-	-
Transfers in (out) of temporarily restricted net assets	-	(75,000)	-	75,000	-	-	-	-
NET ASSETS, end of year								
Unrestricted net assets	4,064,626	3,807,658	32,136,833	29,273,412	16,619,061	16,996,880	52,820,520	50,077,950
Temporarily restricted net assets	1,957,560	1,450,197	28,479,693	30,580,830	26,794,701	26,759,305	57,231,954	58,790,332
Permanently restricted net assets	-	-	-	-	32,879,102	31,162,773	32,879,102	31,162,773
Total net assets, end of year	<u>\$ 6,022,186</u>	<u>\$ 5,257,855</u>	<u>\$ 60,616,526</u>	<u>\$ 59,854,242</u>	<u>\$ 76,292,864</u>	<u>\$ 74,918,958</u>	<u>\$ 142,931,576</u>	<u>\$ 140,031,055</u>

(See Notes to Consolidated Financial Statements)

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	Program Services <u>2016</u>	Support Services			Total Expenses	
		Management & General <u>2016</u>	Fundraising <u>2016</u>	Total Support Services <u>2016</u>	<u>2016</u>	<u>2015</u>
Employee Compensation:						
Salaries	\$ 5,232,761	\$ 362,132	\$ 416,971	\$ 779,103	\$ 6,011,864	\$ 6,219,503
Employee benefits	990,958	81,635	93,993	175,628	1,166,586	1,163,777
Payroll taxes	482,433	34,696	39,949	74,645	557,078	524,698
Employee related expenses	24,888	2,283	2,628	4,911	29,799	13,535
Total employee compensation	<u>6,731,040</u>	<u>480,746</u>	<u>553,541</u>	<u>1,034,287</u>	<u>7,765,327</u>	<u>7,921,513</u>
Other Expenses:						
Professional fees	217,355	103,069	50,763	153,832	371,187	410,493
Supplies	949,087	7,518	36,595	44,113	993,200	1,120,469
Telephone	63,878	4,059	4,675	8,734	72,612	75,431
Postage and shipping	19,435	1,076	15,499	16,575	36,010	53,873
Occupancy	945,850	40,873	47,058	87,931	1,033,781	1,166,916
Rental and maintenance of equipment	111,191	7,782	8,958	16,740	127,931	115,497
Publications and media	88,684	2,468	45,346	47,814	136,498	139,115
Travel	498,088	35,156	59,893	95,049	593,137	664,921
Local conferences and meetings	67,174	4,801	9,535	14,336	81,510	105,153
Specific assistance to individuals	511,250	1	1	2	511,252	534,146
Recognition awards	54,382	847	40,305	41,152	95,534	130,644
Insurance	329,277	19,859	22,865	42,724	372,001	330,097
Other expenses	214,424	19,104	22,649	41,753	256,177	353,590
Total other expenses	<u>4,070,075</u>	<u>246,613</u>	<u>364,142</u>	<u>610,755</u>	<u>4,680,830</u>	<u>5,200,345</u>
Total expenses before depreciation	10,801,115	727,359	917,683	1,645,042	12,446,157	13,121,858
Depreciation expense	<u>994,735</u>	<u>26,669</u>	<u>30,706</u>	<u>57,375</u>	<u>1,052,110</u>	<u>1,063,968</u>
Total Functional Expenses	<u>\$ 11,795,850</u>	<u>\$ 754,028</u>	<u>\$ 948,389</u>	<u>\$ 1,702,417</u>	<u>\$ 13,498,267</u>	<u>\$ 14,185,826</u>
Percent of Total Expenses by Function *	<u>87.39%</u>	<u>5.58%</u>	<u>7.03%</u>	<u>12.61%</u>		
Time Study Percentages	<u>83.52%</u>	<u>7.66%</u>	<u>8.82%</u>			

* Percentage figures after combining allocated and unallocated expenses

(See Notes to Consolidated Financial Statements)

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2016	2015	2016	2015	2016	2015	2016	2015
Cash Flows from Operating Activities:								
Increase (decrease) in total net assets	\$ 764,331	\$ 582,428	\$ 896,974	\$ 104,463	\$ 1,239,216	\$ (1,343,758)	\$ 2,900,521	\$ (656,867)
Adjustments to reconcile increase (decrease) in total net assets to net cash provided by (used in) operating activities:								
Depreciation	-	-	1,052,110	1,063,968	-	-	1,052,110	1,063,968
Gain on sale of property	-	-	-	(7,650)	-	-	-	(7,650)
Realized and unrealized (gain) loss on investments, net	-	-	(1,486)	(19,829)	(1,678,157)	1,081,635	(1,679,643)	1,061,806
Contributions restricted for long-term purposes	-	-	-	-	(1,716,329)	(982,237)	(1,716,329)	(982,237)
Change in assets and liabilities:								
Accounts receivable	(81,310)	138,948	1,600	286,637	(143,585)	-	(223,295)	425,585
Contributions receivable	295,653	(162,576)	(100,840)	297,875	275,234	2,850,581	470,047	2,985,880
Inventories	1,263	22,415	-	-	-	-	1,263	22,415
Prepaid expenses	(67,867)	(108,937)	(50,478)	(9,861)	-	-	(118,345)	(118,798)
Other assets	12,631	10,693	-	-	-	-	12,631	10,693
Cash surrender value of life insurance	-	-	-	-	(13,513)	8,557	(13,513)	8,557
Accounts payable	(416,378)	(74,127)	275,317	10,426	-	-	(141,061)	(63,701)
Accrued expenses	43,418	(46,941)	-	-	-	-	43,418	(46,941)
Payroll taxes withheld	(402)	(24)	-	-	-	-	(402)	(24)
Custodial accounts	7,346	(113,696)	-	-	-	-	7,346	(113,696)
Deferred activity income	133,450	48,498	-	-	-	-	133,450	48,498
Deferred camp income	12,907	(10,663)	-	-	-	-	12,907	(10,663)
Deferred other income	37,316	(44,213)	-	-	-	-	37,316	(44,213)
Other current liabilities	(319)	26,708	33,100	-	-	-	32,781	26,708
Net cash provided by (used in) operating activities	742,039	268,513	2,106,297	1,726,029	(2,037,134)	1,614,778	811,202	3,609,320

(See Notes to Consolidated Financial Statements)

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2016 and 2015

	<u>Operating Fund</u>		<u>Capital Fund</u>		<u>Endowment Fund</u>		<u>Total All Funds</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Cash Flows from Investing Activities:								
Purchase of property	\$ -	\$ -	\$ (2,552,043)	\$ (3,190,843)	\$ -	\$ -	\$ (2,552,043)	\$ (3,190,843)
Proceeds from sale of investments	-	-	580,436	1,509,472	3,194,967	2,419,590	3,775,403	3,929,062
Purchase of investments	-	-	-	-	(3,008,852)	(5,136,263)	(3,008,852)	(5,136,263)
Net cash provided by (used in) investing activities	-	-	(1,971,607)	(1,681,371)	186,115	(2,716,673)	(1,785,492)	(4,398,044)
Cash Flows from Financing Activities:								
Proceeds from contributions restricted for long-term purposes	-	-	-	-	1,716,329	982,237	1,716,329	982,237
Transfers in (out) of unrestricted net assets	-	-	(134,690)	(119,658)	134,690	119,658	-	-
Transfers in (out) of temporarily restricted net assets	-	(75,000)	-	75,000	-	-	-	-
Net cash provided by (used in) financing activities	-	(75,000)	(134,690)	(44,658)	1,851,019	1,101,895	1,716,329	982,237
Net change in cash	742,039	193,513	-	-	-	-	742,039	193,513
Cash, beginning of year	<u>6,263,813</u>	<u>6,070,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,263,813</u>	<u>6,070,300</u>
Cash, end of year	<u>\$ 7,005,852</u>	<u>\$ 6,263,813</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,005,852</u>	<u>\$ 6,263,813</u>
Supplemental Disclosure of Noncash Transactions:								
Property acquired through accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,244,042</u>	<u>\$ 63,134</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,244,042</u>	<u>\$ 63,134</u>

(See Notes to Consolidated Financial Statements)

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Local Council, Sam Houston Area Council Boy Scouts of America (the "Council"), headquartered in Houston, Texas, operates in the counties of Austin, Brazos, Burleson, portions of Chambers, Colorado, Fort Bend, Grimes, Harris, Madison, Matagorda, Montgomery, portions of Trinity, Walker, Waller, Washington, and Wharton. The Council has five camping facilities. The Camp Strake Properties Foundation Incorporated (the "Foundation") was established for the benefit of the Council. The Council is a not-for-profit organization devoted to promoting, within the territory covered by the charter from time to time granted it by the Boy Scouts of America 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, 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 that are now in common use by the Boy Scouts of America.

Mission – The mission of the Boy Scouts of America is to prepare young people to make ethical and moral choices over their lifetimes by instilling in them the values of the Scout Oath and Scout Law.

Scout Oath – On my honor I will do my best to do my duty to God and my country and to obey the Scout Law; to help other people at all times; to keep myself physically strong, mentally awake, and morally straight.

Scout Law – A Scout is trustworthy, loyal, helpful, friendly, courteous, kind, obedient, cheerful, thrifty, brave, clean, and reverent.

Mission Statement of the Council – "Leading Youth to Lifelong Values, Service, and Achievement."

Vision Statement of the Council – "The Council will reach across the community to serve all ethnicities and youth age groups with a leadership and character-building program that has long-lasting impact."

The Council's programs are classified as follows:

Cub Scouting – A year-round program for boys in the first through fifth grades, or 7 to 10 years of age, uniquely designed to meet the needs of young boys and their parents. The program offers fun and challenging activities that promote character development, citizenship, and physical fitness.

Service projects, ceremonies, games, and other activities guide boys through the core values and give them a sense of personal achievement. Through positive peer group interaction and parental guidance, boys also learn honesty, responsibility, and respect.

Family involvement is an essential part of Cub Scouting, and parents are encouraged to play an active role in the program. Through interaction with parents, leaders, and friends, boys learn cooperation, compassion, and courage. This family and community-centered approach to learning means that Cub Scouting is truly time well spent.

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
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December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Boy Scouting – A year-round program for boys who have earned the Arrow of Light Award and are at least 10 years old or have completed the fifth grade and are at least 10, or who are 11 but not yet 18 years old, designed to develop character, citizenship, and fitness. Through the advancement program and peer group leadership, Scouting helps a boy develop into a well-rounded young man. The Eagle Scout Award, the highest rank in Scouting, is recognized around the world as a mark of excellence.

Venturing – A year-round youth development program for young men and women 14 years of age (and in the 9th grade) through 20 years old. Venturing provides positive experiences to help young people mature and become responsible and caring adults. The program offers fun and challenging activities that promote character development, citizenship, and physical fitness.

Learning for Life – Seven programs designed to support schools and community-based organizations in their efforts to prepare youth to successfully handle the complexities of contemporary society and to enhance their self-confidence, motivation, and self-esteem. The seven programs focus on character education and career education. Learning for Life programs help co-ed youth develop social and life skills, assist in character development, and help youth formulate positive personal values. It prepares youth to make ethical decisions that will help them achieve their full potential.

Adults involved in Learning for Life are selected by the organization in which they work (i.e., schools, local businesses, community organizations, etc.). Race, religion, gender, sexual orientation, ethnic background, economic status and citizenship are not criteria for participation in Learning for Life.

At a time when drugs and gangs are ravaging many of our schools and communities, Learning for Life programs can be a catalyst to help stop this trend. The program uses age-appropriate, grade-specific lesson plans to give youth skills and information that will help them cope with the complexities of today's society.

Learning for Life makes academic learning fun and relevant to real-life situations in age-appropriate and grade-specific material. As a result, the positive character traits and skills learned by participation in Learning for Life not only make students more confident and capable, but also give them an invaluable understanding of how things work in the real world.

Exploring – A career education program for young men and women who are 14 (and have completed the eighth grade) or 15 through 20 years old. Adults are selected by the participating organization for involvement in the program. Color, race, religion, gender, sexual orientation, ethnic background, economic status, and citizenship are not criteria for participation.

Exploring's purpose is to provide experiences to help young people mature and to prepare them to become responsible and caring adults. Explorers are ready to investigate the meaning of interdependence in their personal relationships and communities.

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
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December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exploring is based on a unique and dynamic relationship between youth and the organizations in their communities. Local community organizations initiate an Explorer post by matching their people and program resources to the interests of young people in the community. The result is a program of activities that helps youth pursue their special interests, grow, and develop.

Explorer posts can specialize in a variety of career skills. Exploring programs are based on five areas of emphasis: career opportunities, life skills, citizenship, character education, and leadership experience.

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

Principles of Consolidation

The Council has voting control over and an economic interest in the Foundation, which results in the accounts of the Foundation being consolidated with those of the Council in the consolidated financial statements. All intercompany balances and transactions have been eliminated in the consolidation. The Council and the Foundation are hereinafter collectively referred to as the "Organization."

Prior-Period Information

The consolidated statement of functional expenses includes certain prior-year summarized comparative information in total. Such information does not 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 Organization's consolidated financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with U.S. GAAP. Also, the Organization prepares its consolidated financial statements in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 958, *Not-for-Profit Entities*. Accordingly, the Organization reports information regarding its financial position and activities according to the following three classes of net assets:

- **Unrestricted Net Assets** - Net assets that are not subject to donor-imposed stipulations and may be expended at the discretion of the board of directors.

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Temporarily Restricted Net Assets** - Net assets that are subject to donor-imposed stipulations that require the passage of time or the occurrence of a specific event and may include accumulated investment income and gains on donor-restricted endowment assets that have not been appropriated for expenditure.
- **Permanently Restricted Net Assets** - Net assets required to be maintained in perpetuity, with only the income used for operating activities, due to donor-imposed stipulations.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of available resources, the accounts of the Organization 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 three funds based on specified activities or objectives, the Operating Fund, the Capital Fund and the Endowment Fund.

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. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the consolidated financial statements.

Accounts Receivable

Accounts receivable are recorded primarily for product sales and are stated at net realizable value. An allowance for doubtful accounts is based on an analysis of expected collection rates determined from experience. Receivable balances are charged off against the allowance for doubtful accounts when they are considered uncollectible by management. No allowance for doubtful accounts was considered necessary as of December 31, 2016 and 2015.

Inventories

Inventories consist of Scouting and other items available for resale and are stated at the lower of cost or market. Cost is determined using the average cost method.

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments consist primarily of assets invested in mutual funds, a multi-asset fund, debt and equity securities, limited partnerships, and money market accounts. The Organization accounts for investments in accordance with the FASB standard for investments held by not-for-profit entities. This standard requires that investments be measured at fair value in the consolidated statements of financial position. See Note 3 for discussion of fair value measurements. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded as earned on the accrual basis. Dividends are recorded on the ex-dividend date. The realized and unrealized gain or loss on investments is reflected in the consolidated statements of activities and changes in net assets. Investment income or loss restricted by a donor is reported as increases or decreases in unrestricted net assets if the restrictions are met in the reporting period in which the income or loss is recognized.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

Investment and Spending Policies

The Organization's investment policy intends for the Organization to invest in assets that would produce results exceeding the investment's purchase price and incur a reasonable yield of return, while assuming a moderate level of investment risk. The Organization expects its Endowment Fund, over time, to provide a reasonable rate of return. To satisfy this objective, the Organization 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 Organization targets a diversified asset allocation that places a greater emphasis on a multi-asset fund and limited partnerships to achieve its long-term return objectives within prudent risk constraints.

The spending policy of the Organization defines the total funds available from the Endowment Fund in a given year (the distributable income) as up to 5% of the Endowment Fund's average market value over the preceding three years. The Endowment Fund is to have returns greater than the proposed distribution plus costs that are appropriate and reasonable in relation to the assets, the purposes of the Organization, and the skills available to the Organization. These costs, which are netted out from the market value of the Endowment Fund prior to calculation of a distribution, are related to the audit, investment managers, and the Organization's human resources responsible for the management and growth of the investment fund. If the market value of the Endowment Fund falls to or below the amount of the Endowment Fund's donor-restricted gifts, then the spending policy may be amended in accordance with the guidelines found in the Texas Uniform Prudent Management of Institutional Funds Act ("TXUPMIFA") and may not exceed the actual earnings of the Endowment Fund. The executive committee may amend this spending policy.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property

Property acquired prior to January 1, 1973 is stated at appraised values as established by officials of the Organization at that time. Property purchased subsequent to January 1, 1973 is recorded at cost. Donated property is recorded at the approximate fair market value of the asset on the date of donation. Improvements or betterments of a permanent nature are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The cost of assets retired or otherwise disposed of, and the related accumulated depreciation, are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are credited or charged to operations currently. Proceeds from property disposals are unrestricted, unless restricted by the donor. Property is depreciated using the straight-line method over the estimated useful lives of the assets. Construction in progress represents costs incurred on the construction of assets that have not been completed or placed in service as of the end of the year.

Property held for sale is separately classified in the consolidated statements of financial position and recorded at the lower of its net carrying value or its fair value net of costs to sell.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset and its fair value are less than the carrying amount of that asset. The Organization has not recognized any impairment of long-lived assets during 2016 and 2015.

Contributions

Contributions receivable are recognized upon notification of a donor's unconditional promise to give to the Organization. Unconditional promises to give that are expected to be collected in less than one year are measured at net realizable value. An allowance for uncollectible promises to give is recorded based on an analysis of collection histories and on reviews of the creditworthiness of major donors. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

Other Reclassifications of Net Assets

Donor restrictions imposed on otherwise unrestricted net assets are reclassified from unrestricted net assets to either temporarily restricted or permanently restricted net assets based on donor intent. These reclassifications are reported as other reclassifications of net assets in the consolidated statements of activities and changes in net assets.

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Materials and Services

Donated property, investments, and other noncash donations are recorded as contributions at their fair value at their date of donation. The Organization reports the donations as unrestricted support, 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 as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated services that do not require specialized skills or enhance nonfinancial assets are not recorded in the consolidated financial statements because no objective basis is available to measure the value of such services. A substantial number of volunteers have donated significant amounts of their time to the Organization's program services and its fundraising campaigns, the value of which is not recorded in the consolidated financial statements.

Custodial Accounts

Custodial accounts primarily consist of registration and Boy's Life fees due to the National Council of the Boy Scouts of America (the "National Council"). These fees are received by the Organization, from the individual units, to be remitted to the National Council. Accordingly, a liability is presented in the consolidated statements of financial position.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the consolidated statement of functional expenses. Costs that are not directly associated with providing specific services have been allocated based upon the relative time spent by employees of the Organization providing those services. In accordance with the policy of the National Council, the payment of the charter and national service fees to the National Council are not allocated as functional expenses.

Advertising

Advertising costs are charged to operations in the period in which the advertisement is placed. Advertising expense for 2016 and 2015 amounted to approximately \$124,000 and \$117,000, respectively, and are included in other expenses in the consolidated statement of functional expenses.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization is classified as a public charity and currently has no unrelated business income. The Organization is also exempt from state income tax. Accordingly, no provision for income taxes has been recorded.

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Organization assesses whether it is more likely than not that a tax position will be sustained upon examination of the technical merits or the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of the tax position is not recognized in the consolidated financial statements. The Organization recorded no assets or liabilities for uncertain tax positions or unrecognized tax benefits. With few exceptions, the Organization is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2013.

Recent Accounting Pronouncements

Adopted: In May 2015, the FASB issued Accounting Standards Update (“ASU”) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize investments measured at net asset value within the fair value hierarchy table. The standard is effective for years beginning after December 15, 2016, and early adoption is permitted. The Organization elected to early adopt ASU 2015-07 as of December 31, 2015.

Pending: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the ASC. ASU 2014-09, as further amended by ASU 2015-14, is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 makes the following changes to existing U.S. GAAP for entities that are not public business entities:

- Simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to determine impairment.
- Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets (that is, securities or loans and receivables) on the consolidated statements of financial position or the accompanying notes to the consolidated financial statements.

ASU 2016-01 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. For lessees under ASU 2016-02, lease assets and lease liabilities arising from both finance leases (formerly capital leases) and operating leases should be recognized in the consolidated statements of financial position.

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For operating leases, a lessee is required to do the following:

1. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the consolidated statements of financial position.
2. Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis.
3. Classify all cash payments within operating activities in the consolidated statements of cash flows.

For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The accounting applied by a lessor is largely unchanged from that applied under previous U.S. GAAP. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958). ASU 2016-14 makes certain improvements on the current financial reporting for not-for-profit (“NFP”) entities, such as the following:

1. Presentation of two classes of net assets, net assets with donor restrictions and net assets without donor restrictions, on the consolidated statements of financial position and activities and changes in net assets.
2. Enhanced disclosures about (a) amounts and purposes of governing board designations, appropriations, and similar actions on the use of resources without donor-imposed restrictions; (b) the composition of net assets with donor restrictions and their effect on the NFP’s use of resources; (c) quantitative and qualitative information regarding the availability of financial assets and management of liquid assets to meet the NFP’s cash needs for general expenditures within one year of the consolidated statement of financial position date; and (d) disclosure of underwater endowment funds policy, current appropriation from these funds during the reporting period, and the total fair value and original gift (in aggregate) of these funds maintained at the end of the reporting period.
3. Removal of the separate disclosure of investment expenses netted with investment return.

Management is currently evaluating the impact pending ASUs will have on the Organization’s consolidated financial statements.

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 - INVESTMENTS

Investments at December 31, 2016 and 2015 are comprised of the following:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
The Investment Fund for Foundations ("TIFF") Multi-Asset Fund	\$ -	\$ -	\$39,424,025	\$36,459,196
Limited partnerships:				
BSA Commingled Endowment Fund, LP	-	-	14,056,846	15,879,910
Neuberger Berman Crossroads Fund XVIII - Asset Allocation, LP	714,893	943,687	891,842	1,270,731
Mutual funds	43,837,767	44,338,643	36,964,961	36,918,381
Alternative investments:				
Smith Barney Private Selection I and II	-	-	149,672	95,572
Debt securities	26,136,170	25,594,250	-	-
Equity securities	19,137,232	20,346,400	-	38,029
Money market and savings accounts	<u>3,195,547</u>	<u>3,195,547</u>	<u>2,843,616</u>	<u>2,843,616</u>
	<u>\$93,021,609</u>	<u>\$94,418,527</u>	<u>\$94,330,962</u>	<u>\$93,505,435</u>

The following schedule summarizes the investment return in the consolidated statements of activities and changes in net assets for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 1,172,398	\$ 684,130
Net realized and unrealized gains (losses)	<u>1,679,643</u>	<u>(1,061,806)</u>
	<u>\$ 2,852,041</u>	<u>\$ (377,676)</u>

The above investment return is classified in the 2016 and 2015 consolidated statements of activities and changes in net assets as unrestricted.

Income from interest and dividends on investments and realized and unrealized gains and losses on investments ("Investment Income, Gains, and Losses") are mostly recognized and initially recorded in the Endowment Fund. Distributions of Investment Income, Gains, and Losses 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 Organization's spending policy (Note 1) and included in the spending policy allocation presented on the consolidated statements of activities and changes in net assets. For 2016 and 2015, investment expenses were \$332,299 and \$57,425, respectively, and are netted against investment income in the consolidated statements of activities and changes in net assets.

SAM HOUSTON AREA COUNCIL BOY SCOUTS OF AMERICA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 - SUMMARY OF FAIR VALUE MEASUREMENTS

U.S. GAAP clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Various inputs are used in determining the fair value of the Organization's assets and liabilities. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, U.S. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy, including the types of assets and liabilities that fall under each category and the valuation methodologies used to measure fair value, are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Debt and equity securities - Valued at the closing market price on the New York Stock Exchange or an active secondary market.

Mutual funds - Valued at net asset value ("NAV") of shares held by the Organization at year-end. NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market.

Money market and savings accounts - Comprised of funds invested in savings accounts at various financial institutions and money market mutual funds. Funds invested in savings accounts are reported at the value of deposited funds and net investment earnings less withdrawals and fees. The money market mutual funds consist primarily of domestic commercial paper and other cash management instruments, such as repurchase agreements and master notes, U.S. government and corporate obligations, and other securities of foreign issuers. The funds seek to maintain a stable NAV of \$1.

Level 2 - Inputs to the methodology are other than quoted market prices in active markets that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices that are in inactive markets; inputs other than quoted 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.

Level 3 - Inputs to the valuation methodology are unobservable inputs (i.e., projections, estimates, interpretations, etc.) that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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NOTE 3 - SUMMARY OF FAIR VALUE MEASUREMENTS (CONTINUED)

Neuberger Berman Crossroads Fund XVIII - Asset Allocation, LP (“NB Fund”) - Investments held by the NB Fund are in private equity investments and valued at fair value based on the best information available. Securities listed on a securities exchange are valued at the closing price less a discount to reflect legal restrictions associated with the securities, if any. Private interests are valued based on a methodology that begins with the most recent information available from the general partner of the underlying fund or the lead investor of a direct co-investment, and considers subsequent transactions, such as drawdowns or distributions, as well as other reliable information that reports or indicates valuation changes, including realizations and other portfolio company events. The NB Fund’s private equity investments are diversified in large-cap buyout, mid-cap buyout, special situations, and venture capital. The NB Fund is valued at the Organization’s ownership percentage in the NB Fund’s underlying net assets. Redemptions are not permitted during the life of the NB Fund. The return of capital and the realization of gains on investments, if any, will generally occur only upon the partial or complete disposition of an investment by the NB Fund, which is not within the control of the fund’s general partner or advisor. The liquidation period of the NB Fund is unknown.

Beneficial interest in split-interest agreements - Contributions receivable from the Organization’s beneficial interest in split-interest agreements is based on the fair value of the assets held in the trust, as reported by the trustee, multiplied by the Organization’s percentage of trust assets to be received from the trust and a present value discount factor based on beneficiary life expectancies and a stated rate of return in the agreement or the prime rate in effect on the receipt date of the trust. The Organization will never receive the trust assets or have the ability to direct the trustee to redeem them.

The following investments valued at net asset value per share or its equivalent are excluded from presentation in the fair value hierarchy described above and were fully liquidated in 2016.

The Investment Fund for Foundations (“TIFF”) *Multi-Asset Fund* (“MAF”) - Managed by TIFF Advisory Services, Inc. (“TAS”), who serves as the MAF’s investment advisor and is responsible for the selection of money managers and other vendors and for the MAF’s asset allocation. The fund seeks to achieve a total return, net of expenses, that exceeds inflation plus 5% per year by employing a globally diversified portfolio.

At December 31, 2015, the MAF held the following investments:

Common stocks	63.8%
U.S. treasury securities	11.7%
Private investment funds	17.7%
Repurchase agreements	3.9%
Other	<u>2.9%</u>
	<u>100.0%</u>

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NOTE 3 - SUMMARY OF FAIR VALUE MEASUREMENTS (CONTINUED)

Securities listed on a securities exchange or traded on the National Association of Securities Dealers National Market System (“NASDAQ”) are valued at their closing price or at the most recently quoted bid price if there is not a closing price. Debt securities and over-the-counter (“OTC”) stocks not listed on the NASDAQ are valued at prices that reflect a broker/dealer-supplied valuation or are obtained from independent pricing services. Short-term debt securities with a maturity of 60 days or less are valued at amortized cost, and those with a maturity of over 60 days are valued at market value. Repurchase agreements are valued at cost. Private investment funds are valued either by management of the private investment fund or based on the most recent estimated value provided by the management of the private investment fund plus other relevant information reasonably available at the time of valuation, including total returns of indices or exchange-traded funds that track markets to which the private investment fund may be exposed. At December 31, 2015, all MAF investments were determined by the TIFP Investment Program, Inc. (“TIP”) board of directors to be Level 1 or 2, with the exception of the private investment funds and some common stocks, which were determined to be Level 3.

The NAV per share of the MAF is determined by dividing the assets of the MAF, less its liabilities, by the number of outstanding shares of the MAF. At December 31, 2015, the NAV is \$14.25. Full and fractional shares of a member’s account may be redeemed upon request. The redemption value is based on the NAV per share on the date the redemption request is received by TAS. Payment, less any applicable exit fees, is made to the member within seven days after receipt of the request. If the total market value of a member’s redeemed shares within a 90-day period is in excess of \$250,000 or 1% of the MAF’s NAV, the member will receive an in-kind redemption of marketable securities held in the MAF, as determined by the TAS. A member may also exchange its funds for shares of another fund held by TIP, subject to entry and exit fees. Member account balances must be at least \$25,000. If an account balance is less than \$25,000, TAS may redeem the member’s shares and send the redemption proceeds to the member.

BSA Commingled Endowment Fund, LP (“BSA Fund”) - Investments held by the BSA Fund are valued at fair value based on the closing price for securities listed on a securities exchange, the closing bid or ask price for OTC securities not listed on a securities exchange, or at cost or obtained from an independent pricing service for securities not listed or traded on any exchange or on the OTC market. The custodian of the investments in the BSA Fund also has the ability to determine the fair value of securities not listed or traded on any exchange or on the OTC market based on available information. The BSA Fund is valued at the number of units held by the Organization and the BSA Fund’s underlying net assets. Withdrawals up to 100% of the capital account are permitted. Amounts withdrawn are generally paid within 30 days of the distribution date. Withdrawals may be limited by the general partner of the BSA Fund, subject to certain conditions. After the completion of the BSA Fund’s annual audit, withdrawals in excess of the capital account are required to be reimbursed upon request by the BSA Fund. If the request is not made within 30 days following the completion of the annual audit, the reimbursement obligation is terminated. The Organization will never receive the underlying assets or have the ability to redeem them.

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NOTE 3 - SUMMARY OF FAIR VALUE MEASUREMENTS (CONTINUED)

Alternative investments - Comprised of pooled investment funds. Smith Barney Private Selection I and II invest in private equity funds. The current value of each private equity fund is provided by the general partner of the underlying funds. The current value may include realized and unrealized investments, but may not reflect the deduction of expenses, management fees, and carried interest payments of the underlying funds. The individual funds are valued at the NAV of shares held by the Organization. NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is determined by the trust company of the individual investment. Redemptions are not permitted for each of the individual alternative investments. When the underlying assets are sold, the proceeds will be distributed to the investors. The sale of the underlying assets is subject to the approval of the individual fund's manager.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The inputs and methodologies used for valuing assets and liabilities are not an indication of the risk associated with those assets and liabilities. There have been no changes in the methodologies used at December 31, 2016 or 2015.

The following tables provide fair value measurement information for financial assets measured at fair value on a recurring basis as of December 31, 2016 and 2015:

<u>Description</u>	<u>2016</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Neuberger Berman Crossroads Fund				
XVIII - Asset Allocation, LP	\$ -	\$ -	\$ 943,687	\$ 943,687
Mutual funds:				
Ultrashort bond	34,369,890	-	-	34,369,890
Dynamic allocation	4,515,741	-	-	4,515,741
High yield bond	4,332,234	-	-	4,332,234
Bank loan	<u>1,120,778</u>	-	-	<u>1,120,778</u>
Total mutual funds	<u>44,338,643</u>	-	-	<u>44,338,643</u>
Debt securities:				
Corporate bonds	12,408,805	-	-	12,408,805
Government securities	<u>13,185,445</u>	-	-	<u>13,185,445</u>
Total debt securities	<u>25,594,250</u>	-	-	<u>25,594,250</u>
Equity securities:				
Large blend	7,126,610	-	-	7,126,610
Foreign blend	5,591,993	-	-	5,591,993
Blend broad market	2,394,543	-	-	2,394,543
Blend small cap	1,646,077	-	-	1,646,077

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NOTE 3 - SUMMARY OF FAIR VALUE MEASUREMENTS (CONTINUED)

<u>Description</u>	<u>2016 (continued)</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Healthcare	\$ 39,514	\$ -	\$ -	\$ 39,514
Real estate	2,623,565	-	-	2,623,565
Diversified emerging market	<u>924,098</u>	<u>-</u>	<u>-</u>	<u>924,098</u>
Total equity securities	<u>20,346,400</u>	<u>-</u>	<u>-</u>	<u>20,346,400</u>
Money market and savings accounts	<u>3,195,547</u>	<u>-</u>	<u>-</u>	<u>3,195,547</u>
Total investments	93,474,840	-	943,687	94,418,527
Beneficial interest in split-interest agreements (Note 4)	<u>-</u>	<u>-</u>	<u>1,472,015</u>	<u>1,472,015</u>
Total recurring fair value measurements	<u>\$93,474,840</u>	<u>\$ -</u>	<u>\$2,415,702</u>	<u>\$95,890,542</u>

<u>Description</u>	<u>2015</u>				
	<u>Assets</u>				
	<u>Value (a)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities - healthcare	\$ -	\$ 38,029	\$ -	\$ -	\$ 38,029
The Investment Fund for Foundations (“TIFF”) Multi-Asset Fund	36,459,196	-	-	-	36,459,196
BSA Commingled Endowment Fund, LP	15,879,910	-	-	-	15,879,910
Neuberger Berman Crossroads Fund XVIII - Asset Allocation, LP	-	-	-	1,270,731	1,270,731
Mutual fund - fixed income	-	36,918,381	-	-	36,918,381
Money market and savings accounts	-	2,843,616	-	-	2,843,616
Alternative investments:					
Smith Barney Private Selection I and II	<u>95,572</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>95,572</u>
Total investments	52,434,678	39,800,026	-	1,270,731	93,505,435
Beneficial interest in split-interest agreements (Note 4)	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,466,923</u>	<u>1,466,923</u>
Total recurring fair value measurements	<u>\$ 52,434,678</u>	<u>\$39,800,026</u>	<u>\$ -</u>	<u>\$ 2,737,654</u>	<u>\$94,972,358</u>

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NOTE 3 - SUMMARY OF FAIR VALUE MEASUREMENTS (CONTINUED)

(a) As discussed above, 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 consolidated statements of financial position.

The following tables set forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended December 31, 2016 and 2015:

	<u>2016</u>		
	<u>Investments</u>	<u>Beneficial Interest In Split-Interest Agreements</u>	<u>Total</u>
Balance, beginning of year	\$ 1,270,731	\$ 1,466,923	\$ 2,737,654
Sales	(337,500)	(34,091)	(371,591)
Net realized and unrealized gains on investments in the consolidated statements of activities and changes in net assets	10,456	-	10,456
Change in value of split-interest agreements (Note 11)	<u>-</u>	<u>39,183</u>	<u>39,183</u>
Balance, end of year	<u>\$ 943,687</u>	<u>\$ 1,472,015</u>	<u>\$ 2,415,702</u>
Total gains included in the increase (decrease) in total net assets due to the change in unrealized gain (loss) on investments that relate to assets held at the reporting date and are included in unrealized gain (loss) on investments in the consolidated statements of activities and changes in net assets	<u>\$ 198,515</u>	<u>\$ -</u>	<u>\$ 198,515</u>
	<u>2015</u>		
	<u>Investments</u>	<u>Beneficial Interest In Split-Interest Agreements</u>	<u>Total</u>
Balance, beginning of year	\$ 1,664,649	\$ 991,802	\$ 2,656,451
Purchases and contributions	-	679,275	679,275
Sales	(487,500)	-	(487,500)
Net realized and unrealized gains on investments in the consolidated statements of activities and changes in net assets	93,582	-	93,582

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NOTE 3 - SUMMARY OF FAIR VALUE MEASUREMENTS (CONTINUED)

2015 (continued)			
	<u>Investments</u>	Beneficial Interest In Split-Interest <u>Agreements</u>	<u>Total</u>
Change in value of split-interest agreements (Note 11)	\$ _____ -	\$ (204,154)	\$ (204,154)
Balance, end of year	<u>\$ 1,270,731</u>	<u>\$ 1,466,923</u>	<u>\$ 2,737,654</u>
Total losses included in the increase (decrease) in total net assets due to the change in unrealized gain (loss) on investments that relate to assets held at the reporting date and are included in unrealized gain (loss) on investments in the consolidated statements of activities and changes in net assets	<u>\$ (113,543)</u>	<u>\$ _____ -</u>	<u>\$ (113,543)</u>

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

2016				
<u>Assets</u>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Inputs</u>	<u>Range</u>
Beneficial Interest in Split-Interest Agreements	\$ 1,472,015	Present value of future payments	Life expectancies Discount rates	Various 3.4%-6%
Neuberger Berman Crossroads Fund XVIII - Asset Allocation, LP	\$ 943,687	Fair value of underlying assets	Closing prices, pricing models, discounted cash flows	Unknown

2015				
<u>Assets</u>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Inputs</u>	<u>Range</u>
Beneficial Interest in Split-Interest Agreements	\$ 1,466,923	Present value of future payments	Life expectancies Discount rates	Various 3.4%-15%
Neuberger Berman Crossroads Fund XVIII - Asset Allocation, LP	\$ 1,270,731	Fair value of underlying assets	Closing prices, pricing models, discounted cash flows	Unknown

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NOTE 3 - SUMMARY OF FAIR VALUE MEASUREMENTS (CONTINUED)

Information regarding the Organization's investments in entities that calculate net asset value per share or its equivalent for the year ended December 31, 2015 are as follows:

<u>Asset</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
TIFF Multi-Asset Fund	\$ 36,459,196	\$ -	Not applicable	Not applicable
BSA Commingled Endowment Fund, LP	\$ 15,879,910	\$ -	Not applicable	Not applicable
Alternative Investments:				
Smith Barney Private Selection I and II	\$ 95,572	\$ -	Not permitted	Not applicable

Management determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring measurements. The Organization's board of directors assesses and approves these policies and procedures. At least annually, management determines if the current valuation techniques used in fair value measurements are still appropriate and evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information. The Organization recognizes transfers between levels in the fair value hierarchy at the beginning of a reporting period.

The fair values of cash, accounts receivable, and accounts payable approximate their respective carrying values due to the short-term nature of these accounts.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
United Way	\$ 347,087	\$ 368,341
Friends of Scouting	385,878	484,939
Beneficial interest in split-interest agreements	1,472,015	1,466,923
Foundations	34,500	51,000
Other unrestricted promises	367,773	492,914
Restricted to capital campaign	1,469,014	1,403,221
Restricted to Endowment Fund	2,575,252	3,008,452
Less: Discount for timing of cash flows	<u>(667,738)</u>	<u>(815,909)</u>
Subtotal	5,983,781	6,459,881
Less: Allowance for uncollectible contributions receivable	<u>(37,499)</u>	<u>(43,552)</u>
	<u>\$5,946,282</u>	<u>\$6,416,329</u>
Contributions receivable, due in:		
Less than one year	\$4,303,451	\$4,682,238
One to five years	<u>1,642,831</u>	<u>1,734,091</u>
	<u>\$5,946,282</u>	<u>\$6,416,329</u>

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NOTE 4 - CONTRIBUTIONS RECEIVABLE (CONTINUED)

The discount for timing of cash flows is computed using the risk-free interest rate applicable to the year in which the contribution is received or the Internal Revenue Service's actuarial mortality table, Table R(2). Risk-free interest rates are 3.25% to 7.25% for contributions received in 2007 - 2016, and the rate from Table R(2) is 0.58% for a contribution received in 2013.

Allocations from United Way of Greater Houston for \$306,083 and \$332,222 (designated for general operating purposes for the first three months of 2017 and 2016, respectively) have been recorded in the consolidated financial statements since the amounts were pledged in 2016 and 2015, respectively. The Organization has been notified of an additional allocation from United Way of Greater Houston in 2017 for approximately \$894,000. The revenue from the additional allocation will be recorded in 2017 when the firm commitment is received.

NOTE 5 - PROPERTY

Property at December 31, 2016 and 2015 consists of the following:

	<u>Useful Lives</u>	<u>2016</u>	<u>2015</u>
Land		\$13,978,570	\$18,428,570
Building, structures, and land improvements	5 - 50 years	22,529,449	26,505,945
Furniture, fixtures, and equipment	2 - 20 years	6,069,689	6,189,919
Construction in progress		<u>4,801,036</u>	<u>1,974,541</u>
		47,378,744	53,098,975
Less: Accumulated depreciation		<u>14,728,482</u>	<u>16,836,821</u>
		<u>\$32,650,262</u>	<u>\$36,262,154</u>

Land in the amount of approximately \$8 million is restricted for use as a camp at December 31, 2016 and 2015. The Organization may sell all or any portion of the land as it deems necessary; however, the sale proceeds must be applied either to acquire replacement property that will be used for the same purpose or for other purposes specifically permitted by the agreement with the donor.

NOTE 6 - PROPERTY HELD FOR SALE

During 2016, the Organization initiated plans to sell the Hamman Scout Ranch ("Hamman") and El Rancho Cima Scout Ranch ("Cima"). The decision to sell the camps was based on the financial performance of the camps and significant expenditures required to repair the flooding damages incurred at the camps. At December 31, 2016, the Organization entered into a contract to sell the Hamman camp and is in negotiations to sell the Cima camp. In January 2017, the Hamman camp was sold for approximately \$3 million with a realized gain of approximately \$1,500,000. The sale of the Cima property is expected to be completed in 2017 for a sales price in excess of net carrying value.

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NOTE 6 - PROPERTY HELD FOR SALE (CONTINUED)

Property held for sale at December 31, 2016 consists of the following:

Land	\$4,450,000
Building, structures, and land improvements	4,539,039
Furniture, fixtures, and equipment	<u>464,144</u>
	9,453,183
Less: Accumulated depreciation	<u>3,160,450</u>
	<u>\$6,292,733</u>

NOTE 7 - LINE OF CREDIT

The Organization has a \$1.2 million line of credit agreement with a bank. Interest is payable quarterly at prime plus 0.5%. Principal is due at maturity in September 2017. At December 31, 2016 and 2015, there was no outstanding balance on the line.

NOTE 8 - NET ASSETS AND RESTRICTIONS

Substantially all of the restrictions on net assets at the end of 2016 and 2015 are related to funds raised through ongoing capital and endowment campaigns to help prepare the Organization for future Scouting needs, charitable trusts of which the Organization is a beneficiary, and United Way funding for the next year.

Temporarily restricted net assets are available for the following purposes at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Endowment funds subject to a time restriction by explicit donor stipulation or by TXUPMIFA	\$50,893,908	\$52,620,714
Capital campaign	3,007,857	3,382,188
United Way	348,178	368,340
Split-interest agreements (Notes 4 and 11)	1,375,451	1,379,805
General operations	<u>1,606,560</u>	<u>1,039,285</u>
	<u>\$57,231,954</u>	<u>\$58,790,332</u>

Permanently restricted net assets consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Permanently restricted endowment gifts required to be retained either by explicit donor stipulations or by TXUPMIFA:		
General endowments	\$32,596,072	\$30,902,702
Split-interest agreements (Notes 4 and 11)	96,564	87,118
Cash surrender value of life insurance	<u>186,466</u>	<u>172,953</u>
	<u>\$32,879,102</u>	<u>\$31,162,773</u>

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NOTE 9 - RECLASSIFICATIONS OF NET ASSETS

Net assets were released from donor restrictions during 2016 and 2015 by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors. Net assets released were related to the following:

	<u>2016</u>	<u>2015</u>
Friends of Scouting	\$ 562,522	\$ 152,677
Capital campaign	3,230,308	2,244,574
Special events	338,700	124,250
Foundations and trusts	90,672	233,065
Other direct support	4,501	14,412
United Way	<u>368,340</u>	<u>409,325</u>
	<u>\$4,595,043</u>	<u>\$3,178,303</u>

Other reclassifications of net assets, resulting from donor restrictions imposed on otherwise unrestricted net assets, were as follows in 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Investment income	<u>\$ 773,290</u>	<u>\$ 357,965</u>

The proceeds from the sale of certain property in a prior year are purpose-restricted as \$34,000,000 in the Endowment Fund and \$28,445,669 in the Capital Fund. In 2014, the agreement with the donor of funds used to acquire the original property was amended to allow the release of approximately \$16,063,000 of temporarily restricted net assets to board-designated unrestricted net assets in the Endowment Fund. It was further amended to create a new account in the Capital Fund (“Capital Account”) for future use of depreciation and improvements, including long-term major maintenance projects, purchase and replacement of major equipment and vehicles, future permanent improvements, and future additional land acquisitions for expansion of the current acreage. The Capital Account is required to be funded, annually, with at least \$200,000 of the Organization’s spending policy distributable amount from the donor’s related account in the Endowment Fund. In 2016 and 2015, the Organization funded the Capital Account with \$773,290 and 357,965, respectively, and accordingly, reclassified the funds as temporarily restricted net assets.

NOTE 10 - ENDOWMENT FUND

The purpose of the Organization’s Endowment Fund, also called the Investment Fund, is to assist in the financial requirements of the Organization in its delivery of a quality Scout program, in its service to its chartering partners, and in its long-term financial sustainability. The Endowment Fund of the Organization is made up of unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, including several individual funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Unrestricted net assets, identified by the Organization’s board of directors to be used for future investment and growth, are included in unrestricted net assets – board-designated.

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NOTE 10 - ENDOWMENT FUND (CONTINUED)

The Organization has interpreted TXUPMIFA as requiring the preservation of the original gift amount of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by TXUPMIFA. In accordance with TXUPMIFA, the Organization considers the following factors in making a determination 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 Organization.

Changes in the Endowment Fund net assets (deficit) for the years ended December 31, 2016 and 2015 are as follows:

	<u>Unrestricted - Non-Board Designated</u>	<u>Unrestricted - Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Fund net assets (deficit), December 31, 2014	<u>\$ (458,741)</u>	<u>\$ 20,341,233</u>	<u>\$ 26,080,030</u>	<u>\$30,180,536</u>	<u>\$76,143,058</u>
Investment return:					
Investment income	453,434	104,122	-	-	557,556
Net depreciation (realized and unrealized)	<u>(983,673)</u>	<u>(97,962)</u>	<u>-</u>	<u>-</u>	<u>(1,081,635)</u>
Total investment return	<u>(530,239)</u>	<u>6,160</u>	<u>-</u>	<u>-</u>	<u>(524,079)</u>
Contributions	<u>-</u>	<u>6,569</u>	<u>679,275</u>	<u>982,237</u>	<u>1,668,081</u>
Transfers in	<u>-</u>	<u>119,658</u>	<u>-</u>	<u>-</u>	<u>119,658</u>
Appropriation of Endowment Fund assets for expenditure	<u>(1,982,960)</u>	<u>(504,800)</u>	<u>-</u>	<u>-</u>	<u>(2,487,760)</u>

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NOTE 10 - ENDOWMENT FUND (CONTINUED)

	Unrestricted - Non-Board <u>Designated</u>	Unrestricted - Board <u>Designated</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment Fund net assets (deficit), December 31, 2015	<u>\$(2,971,940)</u>	<u>\$ 19,968,820</u>	<u>\$ 26,759,305</u>	<u>\$31,162,773</u>	<u>\$74,918,958</u>
Investment return:					
Investment income	844,476	145,529	-	-	990,005
Net appreciation (realized and unrealized)	<u>1,514,611</u>	<u>163,546</u>	<u>-</u>	<u>-</u>	<u>1,678,157</u>
Total investment return	<u>2,359,087</u>	<u>309,075</u>	<u>-</u>	<u>-</u>	<u>2,668,162</u>
Contributions	<u>-</u>	<u>16,156</u>	<u>35,396</u>	<u>1,716,329</u>	<u>1,767,881</u>
Transfers in	<u>-</u>	<u>134,690</u>	<u>-</u>	<u>-</u>	<u>134,690</u>
Appropriation of Endowment Fund assets for expenditure	<u>(2,426,430)</u>	<u>(770,397)</u>	<u>-</u>	<u>-</u>	<u>(3,196,827)</u>
Endowment Fund net assets (deficit), December 31, 2016	<u>\$(3,039,283)</u>	<u>\$ 19,658,344</u>	<u>\$ 26,794,701</u>	<u>\$32,879,102</u>	<u>\$76,292,864</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or TXUPMIFA requires the Organization to retain as permanently restricted. Deficiencies of this nature result from unfavorable market fluctuations and are included in unrestricted net assets. At December 31, 2016 and 2015, total deficiencies are \$3,039,283 and \$2,971,940, respectively.

NOTE 11 - SPLIT-INTEREST AGREEMENTS

A split-interest agreement is an agreement in which a donor contributes assets directly to the Organization or places them in a trust for the benefit of the Organization and the Organization is not the sole beneficiary of the assets' economic value. The contributed assets are held, invested, and administered by the Organization or a trustee who is responsible for making the required distributions to the beneficiaries. Upon expiration of the agreements, the remaining assets will be distributed to or retained by the Organization.

A donor established a trust with a bank naming the Organization as a partial recipient of a charitable remainder unitrust. Under terms of this split-interest agreement, the Organization will receive 50% of the trust's assets upon the death of the donor into its permanently restricted endowment fund. Based on the donor's life expectancy and a 6% rate of return, the present value of the future benefits expected to be received by the Organization is estimated to be approximately \$97,000 and \$87,000 at December 31, 2016 and 2015, respectively.

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NOTE 11 - SPLIT-INTEREST AGREEMENTS (CONTINUED)

The Organization is the recipient of three and five separate charitable remainder trusts at December 31, 2016 and 2015, respectively. In May and November 2016, a trust was settled upon the death of a beneficiary, and another trust was terminated by a trustee, respectively. Under terms of the split-interest agreements, the Organization is to receive a percentage of the trusts' assets upon the death of a beneficiary, as defined in the agreements. Until receipt of the assets from the trusts, the Organization reports the trusts' assets in the Operating or Endowment Fund's temporarily restricted net assets, as determined by the Organization's unsolicited, unrestricted gifts policy. Upon receipt of the assets from the trusts, the trusts' assets will be released to unrestricted net assets in the applicable fund. Based on the life expectancies of the beneficiaries and the stated rate of return in the agreements or the prime rate in effect on the receipt date of the trust, the present value of the future benefits expected to be received by the Organization from the trusts, combined, was estimated to be approximately \$1,375,000 and \$1,380,000 at December 31, 2016 and 2015, respectively.

In 2016 and 2015, the Organization recorded changes in the value of the split-interest agreements amounting to approximately \$39,000 and (\$204,000), respectively.

NOTE 12 - CONDITIONAL CONTRIBUTIONS

The Organization has a matching endowment program with a donor. The purpose of the endowment program is to create awareness of endowment, encourage others to invest in the future of the Organization, and support community-level involvement in the annual endowment campaign of the Organization. The donor that established the endowment program matches third-party contributions, in \$500 increments, ranging from \$500 to \$25,000 to be maintained in the endowment. The endowment program is awarded on an annual basis, and the income of the endowment program is to be used for the general support of the Organization. In 2016 and 2015, donor matches totaled approximately \$353,000 and \$312,000, respectively.

Through April 2016, the Organization had a \$5,000,000 matching grant with a donor, contingent upon meeting certain restrictions. The grant was to be paid over five years, and income from the grant was to be used by the Organization, as agreed upon with the donor. The purpose of the grant was to maximize board giving, in which the donor would match the first \$250,000 of all gifts from members of the Organization's board of directors. In April 2016, the donor changed the terms of the grant as a result of board-approved changes to the scope of the Organization's Leaders of Tomorrow campaign. The terms of the revised grant no longer retain a matching requirement and provide that the remaining unfunded portion of the grant (\$3,000,000) will be restricted to expanding the Organization's staff to grow Scouting. In 2016, the Organization received \$1 million from the donor, of which approximately \$780,000 remains temporarily restricted at December 31, 2016. There were no funds received under the grant in 2015.

In October 2016, a donor awarded a \$1 million challenge grant for a construction project to construct certain facilities at Camp Strake. In accordance with the grant terms, the Organization is required to raise approximately \$4.2 million, restricted for the construction project, from third-party sources by October 2017. Payment will be provided to the Organization upon the meeting of the requirement and the commencement of construction. There were no funds received in 2016.

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NOTE 13 - ENDOWED FUND AGREEMENT

The Organization has entered into an endowed fund agreement with a grantor that provides for the establishment of a permanent endowment fund as well as the payment of annual non-endowment grants.

Endowment Fund

In accordance with the agreement, the Organization has established an endowment fund to be permanently held and managed for the long-term use and benefit of a Boy Scout camp, as defined in the agreement (the "Camp"). The fund consists of the grantor's annual grants and unexpended income.

In furtherance of the grantor's mission to support the Boy Scouts, and for as long as the agreement remains in effect, the grantor intends to make annual grants to the endowment fund equal to 25% of the annual qualifying distributions made by the grantor within the meaning of Section 4942 of the Internal Revenue Code and as reported in its annual Form 990 ("Annual Qualifying Distributions").

Non-Endowment Grants

In addition to the endowment grants mentioned above, the grantor intends to make annual non-endowment grants to the Organization equal to 12.5% of the grantor's Annual Qualifying Distributions. Such grants shall be used by the Organization to support the Camp or other projects that further the ideas and goals of the grantor and the Organization, as approved in advance on an annual basis by the board of directors of the grantor.

For 2016, the Organization received endowment and non-endowment grants under the above agreement totaling approximately \$654,000. For 2015, the Organization did not receive endowment or non-endowment grants under the above agreement.

NOTE 14 - EMPLOYEE BENEFIT PLANS

Retirement Plan

The National Council has a qualified defined benefit pension plan (the "Plan") administered at the National Service Center that covers employees of the National Council and local councils, including the Organization. The plan name is the *Boy Scouts of America Master Pension Trust - Boy Scouts of America Retirement Plan for Employees* and covers all employees who have completed one year of service and who have agreed to make contributions. Eligible employees contribute 2% of compensation, and the Organization contributes an additional 7% in 2016 and 2015 to the Plan. Pension expense (excluding the contributions made by employees) was \$295,446 and \$296,104 in 2016 and 2015, respectively, and covered current service cost.

The Plan is a multi-employer plan, and the individual information for each employer is not available. The actuarial information for the multi-employer plan as of February 1, 2016 indicates that it is in compliance with the Employee Retirement Income Security Act regulations regarding funding. The assumed rate of return used in determining actuarial present values of accumulated benefits at December 31, 2016 and 2015 was 7.00%. The actuarial value includes all Plan amendments as of February 1, 2016.

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NOTE 14 - EMPLOYEE BENEFIT PLANS (CONTINUED)

Thrift Plan

The Organization has established a thrift plan covering substantially all of the employees of the Organization. Participants in the thrift plan may elect to make voluntary before-tax contributions based on a percentage of their pay, subject to certain limitations set forth in the Internal Revenue Code. The Organization has elected to match employee contributions to the thrift plan up to 50% of contributions from each participant, limited to 3% of each employee's gross pay. The Organization contributed approximately \$100,000 and \$94,000 to the thrift plan in 2016 and 2015, respectively.

Health Care Plan

The Organization's employees participate in a health care plan provided by the National Council. The Organization 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, 2016 and 2015, the Organization remitted approximately \$717,000 and \$719,000, respectively, on behalf of its employees to the National Council related to the health care plan.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Credit Risk

Financial instruments that potentially subject the Organization to credit risk consist principally of cash at financial institutions. At times, the balances in cash accounts may be in excess of federally insured limits. Management continuously monitors the Organization's balances at financial institutions and invests excess operating cash in short-term investments.

Legal Claims

The Organization is involved in various legal matters arising in the normal course of operations. The Organization does not believe that the ultimate resolution of these matters will have a significant effect on its consolidated financial position.

Operating Leases

The Organization accounts for the lease of office equipment and Scout shops as operating leases. Total rent expense amounted to approximately \$304,000 and \$236,000 for 2016 and 2015, respectively. These leases will expire on various dates through 2021. As of December 31, 2016, the minimum required future lease payments under these leases are as follows:

<u>For the Year Ending December 31:</u>	
2017	\$170,172
2018	166,700
2019	128,200
2020	29,043
2021	<u>7,425</u>
	<u>\$501,540</u>

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NOTE 16 - SCOUT SHOP

The National Council operates five Scout shops within the Houston area. The National Council manages the Scout shops and pays the Organization an 8% commission on gross sales up to \$750,000 and 13% on sales in excess of \$750,000. The commissions earned (before expenses) by the Organization during 2016 and 2015 amounted to approximately \$463,000 and \$455,000, respectively, which are included in other revenue in the consolidated statements of activities and changes in net assets.

NOTE 17 - RELATED PARTY TRANSACTIONS

Some board of director members are officers at financial institutions where the Organization maintains investment and cash account balances. As of December 31, 2016 and 2015, total Organization deposits with the financial institutions were approximately \$25,725,000 and \$23,926,000, respectively.

In 2015, two board of director members were members of management of a construction consulting entity and an engineering firm, respectively, that the Organization used for camp design. In 2016, these members were no longer board of director members. For 2015, total costs of \$1,141,204 were incurred and capitalized in property as construction in progress from these entities.

NOTE 18 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 3, 2017, the date the consolidated financial statements were available to be issued.