"CROSSROADS III – ARE WE THERE YET?"

A Continuing Follow Up to the Members of the
Scouts Canada Ordinary-member Unity Taskforce Association on

THE FINANCES OF THE NATIONAL

SCOUTS CANADA

OPERATION AT AUGUST 31ST, 2005

The road goes ever on and on
Down from the door where it began
Now far ahead the road has gone
And I must follow, if I can
Pursuing it with eager feet
Until it joins some larger way
Where many paths and errands meet
And wither then? I cannot say

J.R.R. Tolkien, (1892-1973)

Joseph M. Grittani (*Ordinary Member)* **February 3rd, 2006**

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PURPOSE, SCOPE AND LIMITATIONS

PURPOSE

The purpose of this report is to:

1. To report on the financial performance of the National Operation for the fiscal year ended August 31st, 2005.
2. To provide a preliminary calculation of the projected loss for the fiscal year ending August 31st, 2006.
3. To highlight and quantify the continued use of restricted fund to support operational deficits.
4. To comment directly on various internal and external suppositions advanced by both the senior paid and volunteer management of the organization and;
5. To reintroduce and expand upon the questions raised in the first two Crossroads reports.

SCOPE AND LIMITATIONS

The information contained in this memorandum and the questions resulting there from are based on information obtained from the following sources:

1. The Audited Financial Statements of the National Operation for the fiscal year ending August 31st, 2005 (Appendix I of this report)
2. The National Operation's 2nd and 3rd Quarter Reports (including management commentary), to the Board of Governors for the quarters ending February 28th, 2005 and May 31st, 2005. (Management reports included at Appendix II of this report)
3. Memorandum from the Vice Chair – Finance to the Council Commissioners, Council Executive Commissioners, and Council Treasurers dated March 11, 2005 (Appendix III of this report)
4. Letter from the then Chief Commissioner and Chair of the Board of Governors to Scouter Ted Claxton dated May 13th, 2005. (Appendix IV of this report).
5. Operating Results Memorandum from the Vice Chair – Finance to the Board of Governors dated November 28th, 2005, (Appendix V of this report).
6. Cash Management Update memorandum from the Executive Commissioner and CEO to the Board of Governors Dated December 20th, 2005 (Appendix VI).

The opinions in this memorandum and the resulting questions are those of its author. All assumptions are clearly stated. The author ***welcomes*** input with respect to addressing the issues raised or in constructive rebuttal of any of the author's key assumptions, comments and/or opinions.

SUMMARY CONCLUSIONS

NATIONAL LOSSES – CURRENT, CUMULATIVE AND PROJECTED

- National generated a **reported loss from operations of $568,000** for the fiscal year ending August 31st, 2005.
- **The total loss for the year**, including the balance of **"Extraordinary Restructuring Costs" is $1,035,000**.
- **Cumulative losses from operations over the past four years total $3,151,000 and cumulative losses including extraordinary items now total $5,828,000 for that same four year period.**
- **The preliminary projected loss from operations for the fiscal year ended August 31st, 2006 is $900,000.**

OTHER FINANCIAL AND NON FINANCIAL FINDINGS

National membership has declined by approximately 7% from this time last year (i.e., January 2005 versus January 2006).

- The ***"Operating Fund"*** appears to have borrowed $716,000 in the current year from the ***"Insurance Fund"***. Given the chronic inability of the National Operation to generate profits, the likelihood of actual repayment of this amount appears remote.
- Cumulative transfers from ***"Restricted Funds"*** for the preceding four years appear to be $5,373,000. National recognizes only $966,000 of that amount on the Statement of Operations as being due to the ***"Restricted Funds".***
- It appears therefore that National has concluded that only this $966,000 will be repayable to the originating "***Restricted Funds"***.
- National appears to have written off from various "***Restricted Funds"*** $4,407,000 of money originally "***transferred"*** to the ***"Operating Fund"*** in order to fund day to day operations.
- It appears that the ability to implement and maintain strong financial (particularly spending) controls continues to elude senior management. It further appears that the Board of Governors receives neither significant nor timely information on these issues.

- **The removal of the going concern warning** from National's financial statement **IS NOT a signal from the Auditor that the affairs of the National operation are "well managed"**.
- **The removal of the going concern warning IS NOT**, in the author's view, **justified** when National is viewed from a "Comprehensive" rather than a purely short term "Financial" perspective.
- Based on all of the following conditions:
    - ► Continuing chronic (and increasingly exacerbated) operating deficits;
    - ► Declining membership numbers;
    - ► Continued expropriation of restricted funds to support operational losses;
    - ► Indebtedness to financial institutions and other branches of Scouting to fund cash flow deficiencies;
    - ► Senior management's apparent continuing inability to design and implement basic financial controls and other stewardship tools.

  The questions proffered in the first two Crossroads reports are now more timely and pressing than ever. Specifically:

- **WHAT SHOULD THE REAL ROLE OF THE NATIONAL OPERATION BE AND WHAT INFRASTRUCTURE IS REALLY REQUIRED TO SUPPORT THIS ROLE?**
- **HOW CAN THE ORGANIZATION BE RESTRUCTURED IN ORDER TO ONCE AGAIN MAKE SUSTAINED ADULT MEMBERSHIP AN ATTRACTIVE COMMUNITY SERVICE PROPOSITION?**

This report, and those which preceded it, in the author's opinion, strongly support the original Crossroads conclusions. **Ordinary Members should not (and can not) expect that continuation of the current governance structure (with all of the philosophical implications the structure entails) and management practices will produce different results**. A continuation of the current structure and practices will not likely produce management's often hyped positive results. Volunteer Members (particularly senior ones) need to ***urgently*** consider and vocalize what they believe National's real role should be without being intellectually constrained by the role National currently confers upon itself.

Ordinary volunteer members must also consider what they are prepared to do, in a voluntary capacity, to be part of the solution.

NATIONAL FINANCIAL REPORTING AND RESULTS – AN UPDATE AS AT AUGUST 31ST, 2005

THE CURRENT YEAR NATIONAL LOSS FROM OPERATIONS

The audited financial statements of the National Operation report a current year loss from operations of $568,000. This differs dramatically from management's earlier representations. As late as March 11, 2005, senior management reported that, "the National Operation is operating with an approved budget that shows a small surplus for 2004-2005."[1]

Included in the reported loss from operations is $269,000 in "Other Income". It is unclear to the author what this actually represents or whether it has anything at all to do with operations. Further information, which has been requested and still not provided[2], might lead me to conclude that the actual loss from operations could be as much as $247,000 higher.

THE TOTAL LOSS FROM OPERATIONS

The current year audited financial statements include restructuring costs of $467,000. Accordingly the total loss for the fiscal year including these costs was $1,035,000. At the Annual General Meeting held November 26th, 2005 at Camp Samac in Oshawa, the Vice Chair - Finance reported that the balance of restructuring costs has now been incurred. This presumably means that for the fiscal year ended August 31st, 2006, the National Operation will have no new "extraordinary" items in the form of Restructuring Costs.

CUMMULATIVE FOUR YEAR LOSSES FROM OPERATIONS

Cumulative operating losses over the 4 year restructuring period now total $3,151,000. When all restructuring and other extraordinary costs are factored in, the total loss for the four year period climbs to $5,828,000. It is again important to note that senior management has indicated that the restructuring is effectively complete.

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1 March 11, 2005, ***"Scout Eh"*** - Memorandum to Council Commissioners, Council Treasurers and Council Executive Commissioners, Paragraph 4

2 See ***"Beyond the Crossroads"*** published June 9, 2005, Page 9 "Other Revenue and the Youth Event Fund"…The removal of a proportionate share of "Other Revenue" increases the operating loss by another $247,000.

PROJECTED LOSS FROM OPERATIONS FOR 2005/2006

Based on the results from operations for the fiscal year ended August 31st, 2005 and a projected membership reduction of 7%, the loss from operations for the fiscal year ended August 31st, 2006 will be approximately $900,000. The projection is arrived at as follows:

Loss from operations for the fiscal year ending August 31, 2005	$	568,000
Add:		
Reduction of membership fees		190,000
Reduction in scout shop contribution		154,000
Projected loss from operations for the fiscal year ending August 31, 2006	$	912,000
Projected loss from operations (rounded to the nearest $100,000)	$	900,000

The $900,000 projected loss for 2005/2006 is predicated on all of the following key assumptions:

1. Membership will decline by 7%. Membership at January 16th, 2006 was 84,532 members versus 90,888 at essentially the same point in time last year. It is therefore, reasonable to assume that year over year membership numbers at August 31st, 2006 will show a similar 7% reduction.

2. Based on the 7% membership reduction, membership fees will fall by $190,000[3].

3. Based on the 7% membership reduction, the net contribution of the scout shops will be reduced by 7%. Scout shops had a gross margin of 42.18%[4] in 2004. Therefore the expected reduction in scout shop revenue will be $154,000[5] I indicated in both of the preceding Crossroads reports that ***Scout Shop contribution is directly correlated to membership numbers because all or substantially all Scout Shop Sales are to members***.

4. Because restructuring is apparently complete, there will be no noticeable material net reductions in costs generally and personnel costs particularly. National does plan to discontinue accounting for other branches of Scouting; however, this should have no bottom line impact. In a memorandum from the National CEO to the Board of Governors, the matter is commented on as follows, *"Although National was receiving a fee for service for handling the accounting for four Councils and the Ontario Incorporated Body, the time spent far outweighs the cash remuneration. It is anticipated that no cash*

[3] $2,709,000 (2004/2005 membership fees) x 7% = $189,630 or approximately $190,000
[4] ($5,225,000 Scout Shop Sales - $3,021,000 Cost of Sales) ÷ $5,225,000 Scout Shop Sales = 42.18%
[5] $5,225,000 Scout Shop Sales x 42.18% x 7% = $154,273 or approximately $154,000

> *impacts will take place with the transfer of this accounting, as the costs will be reduced accordingly."*[6]

The National Operation may have other new budgeted cost reductions which could serve to reduce the loss; however, we are not privy to this information. Even if further operational cost reductions are actually planned, the organization has shown a historical inability to control expenditures.[7]

OTHER FINANCIAL AND NON FINANCIAL FINDINGS

RESTRICTED FUNDS AND BORROWING TO FUND OPERATIONS

The current year saw the continuation of the worrying trend of borrowing from ***"Restricted Funds"*** to fund operations. At May 31st, 2005, the ***"Operating Fund"*** owed the ***"Insurance Fund"*** $510,189[8]. At year end, National reported that the ***"Operating Fund"*** owed to the ***"Restricted Funds***" generally the sum of $966,000.

The Schedule of Restricted Funds in the Audited Financial Statement is of some import this year. Although the Schedule seems to indicate that there were no transfers to or from the restricted funds, it would appear that $250,000 of the aforementioned $966,000 must relate to the Youth Event Fund. Recall that this fund was effectively emptied prior to the current fiscal year[9] but continues to be shown on the audited "Schedule of Restricted Funds."[10] In other words, this directly contradicts the internal third quarter reporting as the year end balance of $966,000 is apparently due to restricted funds as reported on the Audited Statement of Financial Position.

There are in my view two possible explanations for this contradiction. The first possible explanation is the Schedule of Fund Balances is in fact incorrect. The more likely explanation is that $716,000 of funds has effectively been expropriated from restricted funds this year. The $250,000 in unfunded assets recorded in the ***"Youth Event Fund"*** continues to be carried in the Accounts of the National Operation. It would appear that the only source of funds that is not subject to external restrictions is the ***"Insurance Fund"***. The only reasonable conclusion is that the $966,000 reportedly owed to restricted funds is made up of $716,000 of ***"Insurance Fund"*** money and the previously "borrowed" $250,000 from the ***"Youth Event Fund"***. This can only be reported as ***"due to Restricted Funds"*** on the assumption (in management's estimation) that they will be repaid

[6] December 20, 2005, ***"Cash Management Update"***, Memorandum to the Board of Governors from the Executive Commissioner and CEO, Page 2, Paragraph 6.
[7] See ***"The Road Ahead – Management and How "Deeds" Speak"***, at Page 14 of this report.
[8] National Operation 3rd Quarter Internal Financial Report – ***"Insurance Balance Sheet"***
[9] See ***"Crossroads"*** published January 8, 2005 at Page 7, Paragraph 5.
[10] National Operation Audited Financial Statements at page 20

to those funds. The reality however, in my view, is that this is entirely misguided and wishful thinking.

Since there is no explicit recording of the source and application of funds it is necessary to make assumptions. Since the Brotherhood Fund and World Scout Foundation Fund are externally restricted it would not ordinarily be open to Scouts Canada to apply those funds to cover shortfalls in the Operating Fund. I am not aware of the status of the International Participation Fund so I cannot comment on whether it is merely internally restricted or if it is subject to terms that make it externally restricted. In any event, assuming that it is only internally restricted it records a fund balance of only $333,000. This is not sufficient to cover the net unspecified $716,000.00 in funds "owed to restricted funds". The logical conclusion is that some or all of that amount was appropriated from the Insurance Fund to meet day to day operations.

The use of the ***"Insurance Fund"***, in particular, is in my view a complete circumvention of the purpose of the fund and seriously compromises the security the fund was intended to provide. In my view this is blatantly irresponsible. The Vice Chair of Finance, when commenting on the adverse operating results says, *"The Insurance Fund of Scouts Canada has segregated assets of $2.4 Million at August 31st, 2005. This fund is available to settle any uninsured claims that the organization may be required to pay. Our Insurance and Risk Manager, Pierre Laurin reported that the cost per member is just over $14. This relates closely to the $15 insurance fee being charged."*[11]

At August 31st, 2005, it would appear that an estimated $716,000 of that fund was used to meet day to day operations. This effectively means that $6.61[12] or 44% of each and every member's "Insurance Fee" has gone to fund operations this year. **If $14 per member was required (presumably based on an actuarial assessment of risk), why would it be appropriate to effectively only dedicate $8.39 per member to this purpose. In my view, it is not appropriate. It is irresponsible, short sighted, and arguably grossly negligent.**

GENERAL COMMENTARY

National has not shown a profit from operations in any of the four years, beginning 2001/2002, that I have examined their audited financial statements. Unless there is a dramatic turn around, National would appear to have no capacity to repay the amounts it expropriates from "restricted funds" because operations never generate profits, let alone positive cash flow. It is my expectation, that when the next year end (August 31st, 2006) arrives, one of two reporting events will happen. The current year transfers from restricted funds (and we do not know what these are yet), if any, will simply be added to the $966,000 currently shown. Alternatively, only the new transfers will be shown (as was done this

[11] November 28, 2005***, "Operating Results – Fiscal 2005 – National Operation"***, Memorandum to Council Commissioners, Page 2, Paragraph 4.
[12] $716,000 in borrowings ÷ 108,311 members = $6.61

year[13]) and the prior years numbers will net to zero and hence ***"disappear"*** from financial reporting.

In my view the manifest resulting serious implications are threefold:

First, the current structure generally and the management particularly seem chronically unable to avoid deficit financing which implies that the National Operation will always require cash infusions from somewhere to compensate for this.

Secondly, these circumstances imply that ***"Restricted Funds" are really restricted in name only*** and in fact cash seems to be able to be diverted to operations without any restrictions or conditions other than the necessity to prop up and propagate the ***"Operating Fund"***.

Thirdly, while National's financial reporting, (in the opinion of the National Operation's external auditor) apparently remains GAAP compliant, it lacks fundamental transparency. The failure to present a segregated statement of cash flow and a balance sheet for each individual fund (that would effectively disclose the actual source and application of the money in the particular ***"Funds")***, in my view, implies a deliberate attempt to mask the true measure of the National Operations deep financial challenges and consequently senior managements' inability to address those challenges. This, in my view, should be extremely troubling to any member of Scouts Canada.

THE "WHERE ARE WE GOING?" CONCERN – THE FINANCIAL AUDIT AND STEWARDSHIP

At August 31st, 2005, we are effectively left with $5,373,000 expropriated from restricted funds over a 4 year period. The amount is arrived at as follows:

Balance due to restricted funds at August 31st, 2004[14]	$ 4,657,000
Add: Current year new transfers presented as loans[15]	716,000
Cumulative (4 year) transfers from restricted funds.......................................	$ 5,373,000

Of this amount $966,000 is apparently due to the restricted funds meaning that for accounting purposes, $4,407,000[16] is gone. In my view, National's inability to generate positive cash flow really means all $5,373,000 is in fact gone. Permanently gone.

The senior management of the National Operation continues to argue that they are "well managed". Their assertion seems to be supported primarily by making

[13] With the exception of the Youth Event Fund which also carried a $250,000 balance last year.
[14] See, ***"Crossroads"*** published January 8, 2005, Page 7
[15] See Page 7, Paragraph 5
[16] $5,373,000 - $966,000 = $4,407,000.

reference to the financial audit of the National Operation and specifically, the removal of the "Going Concern" note from National's financial statements.

In his memorandum to Council Commissioners, Treasurers and Executive Commissioner, the Vice Chair of Finance states that, *"with respect to financial stewardship, our auditors, KPMG LLP have expressed an unqualified audit opinion on the financial statements of the National Council."*[17]

The Chair of the Board of Governors, in his letter to Scouter Ted Claxton dated May 13th, 2005, stated that, *"our audit committee and indeed our auditors, KPMG, felt it was appropriate to remove the going concern note from our 2003-2004 Annual Report that originally appeared in our 2002-2003 Annual Report. This demonstrates a significant level of confidence in the financial direction of the National Operation."*

The author must respectfully vigorously disagree with both of these positions.

The National Operation undergoes a "Financial" Audit which simply expresses an opinion on the fairness of the numbers as presented. It neither affirms nor condemns the stewardship of management and in fact only means what it actually says which is, *"In our opinion, these financial statements present fairly, in all material respects, the financial position of the Boy Scouts of Canada National Operation as at August 31, 2005 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles."*[18]

In simple terms, the opinion states that the numbers are fair and reflects (albeit poorly in my view) what happened according to a particular set of accounting rules[19]. ***I would therefore challenge management to have their auditor correspond directly with the membership on the quality of stewardship.*** I would be immensely pleased with any additional comfort the auditor could provide because an unqualified opinion only gives me comfort with respect to how to quantify the impact or severity of the problems and not management's capabilities to solve or not solve these problems.

In fact, ***a financial audit, BY DEFINITION, does not provide any such comfort and no one should expect an external auditor to provide said comfort.***

Having said that, public accountants do perform, "Comprehensive" or "Value for Money" audits. A "Value for Money Audit" is designed to look at[20]:

(a) ***Economy*** *refers to the acquisition of the appropriate quality and quantity of financial, human and physical resources at the appropriate times and at the lowest cost.*

(b) ***Efficiency*** *refers to the use of financial, human and physical resources such that output is*

17 March 11, 2005, ***"Scout Eh"*** Memorandum to Council Commissioners, Council Treasurers and Executive Commissioners, Paragraph 3.
18 Auditor's report on the Financial Statement of the National Operation Page 3.
19 In this instance GAAP or Generally Accepted Accounting Principles
20 CICA Handbook PS5400.08

maximized for any given set of resource inputs, or input is minimized for any given quantity and quality of output provided.

(c) ***Effectiveness*** *refers to the achievement of the objectives or other intended effects of programs, operations or activities.*

"Value for Money" audits are designed not only to quantify financial performance but the effectiveness of an organization in relation to a stated mission or objective. Most readers would be aware of the periodic release of reports by various Provincial[21] or indeed the Federal Auditor General. These auditors look not only at what was spent but how effective the controls were on those expenditures and how effectively the stated goals or objectives were in fact achieved.

In other words, "did the organization get "value" (financial and otherwise)" for their money"? My personal view is that were such an audit ever to be performed on National Operation, the "value for money" conclusions would be entirely unsatisfactory.

ARE WE A GOING CONCERN?

Financial statements are presented on what is called a "going concern" basis. This, by definition, means, *"that the enterprise will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future".*[22] This of course provides only limited guidance. One must consider what period of time would constitute the, "foreseeable future".

This period has generally been viewed to be a one year period. The Auditing and Assurance Standards Board (AASB) of the Canadian Institute of Chartered Accountants is currently undertaking a research project which in part is intended to specifically address the issue of a "Relevant future period of assessment". They state, *"Current international and US auditing standards diverge in the guidance provided to the auditor regarding the future period relevant to his or her assessment of uncertainties regarding an entity's ability to continue as a going concern.* ***International standards require that the auditor consider events and conditions over a period of at least one year from the date of the financial statements being audited (i.e., the same period required of management by international accounting standards), and also scheduled events and conditions beyond that one-year period.*** *US standards require that the auditor evaluate whether there is substantial doubt regarding the entity's ability to continue as a going concern for a period that should not exceed one year from the date of the financial statements being audited. The AASB will deliberate on these two positions in the context of legal implications and expectations of users of the entity's financial statements in determining the appropriate future period of assessment (emphasis added)"*[23]

[21] The National Audit Committee includes the Auditor General for the Province of Manitoba.
[22] CICA Handbook 5510.51
[23] Canadian Institute of Chartered Accountants – Audit and Assurance Board **"Going Concern Project"**

In my view, looking beyond one short year (which is where the AASB appears to be heading with this project), makes the assertion that the National Operation is a "going concern" increasingly suspect.

Auditors and management look at many matters when considering whether or not an entity is a going concern. Among the factors which suggest and entity is not a going concern (many of which apply to the National Operation) are[24]:

1. recurring operating losses;
2. serious deficiencies in working capital;
3. an inability to obtain financing sufficient for continued operations;
4. an inability to comply with terms of existing loan agreements;
5. the possibility of an adverse outcome of one or more contingencies;
6. insufficient funds to meet liabilities;
7. a plan to significantly curtail or liquidate operations; and
8. External factors that could force an otherwise solvent enterprise to cease operations.

The National Operation has incurred operating losses of $5,828,000 over only 4 years. $4,407,000 in restricted funds have been transferred to fund operations and written off. $966,000 in additional funds is due to be written off. The ***"Insurance Fund"*** now appears to be the only available source for day to day working capital deficiency needs.

The National Operation will, in my view, only be able to comply with existing loan agreements and the funding of future losses by borrowing more money. The National Operation had all of the following obligations at year end.

- Scouts Canada was indebted to the bank in the amount of $1,956,000 at August 31st, 2005.

- Scouts Canada owed provincial scouting bodies (corporate or otherwise) $1,008,000, having previously borrowed $500,000 for Ontario and having recently borrowed $250,000 from each of British Columbia and Ontario. The recent borrowings were recorded on September 1st, 2005, the day immediately after the fiscal year end. This was presumably done so that the additional $500,000 would not appear on the Statement of Financial Position included in the condensed Annual Report. This is the only report that the vast majority of Ordinary members ever see (if in fact they see any reporting at all).

[24] CICA Handbook, 5510.52

- Scouts Canada owes $5,192,000 to its National employees owing to under funding of its "defined benefit" pension plan. Scouts Canada has also recorded as "due from" the Councils a further $1,343,000 that was downloaded to the Councils. The ability of those Councils to meet that downloaded obligation is unknown and may well fall back on the National Operation[25].

- Scouts Canada owes various Councils a total of $967,000 (much of this relates to payments to councils for the expropriation of Scout Shops. $431,000 of this amount is due in the current fiscal year).

Clearly one could make the case that Scouts Canada is a going concern because it can survive for one or two years more without every generating positive cash flow. The (monumental) problem for National is that it is quickly exhausting its own restricted funds and the funds of other branches of scouting (i.e., Councils and Bodies Corporate). National considers the $1,008,000 in loans from Ontario ($758,000) and British Columbia ($250,000) to be "restructuring loans".

One must ask the straightforward question, "To what end?" or put simply, "Where are we going?"

All we appear to be doing is sustaining a colossally expensive, unresponsive, undemocratic structure, which has been a demonstrated and unspinnable failure when one actually considers membership statistics. Membership continues to fall sharply.

Where, fellow Scouters, are we going?

[25] Note 6 to the August 31st, 2005 Audited Financial Statements of the National Operation, Page 7

THE ROAD AHEAD - MANAGEMENT AND HOW "DEEDS SPEAK"

It is my personal view that the senior management of this operation has failed to apply basic business acumen. I would like to look at the record or the "deeds" if you will. In the private sector we are effectively judged, hired and fired based on what we do or what we fail to do.

BASIC MANAGEMENT ACUMEN – CAN YOU MANAGE?

In a memorandum from the Executive Commissioner and CEO to the Board of Governors[26], the progress of a number of the National Operation's projects is discussed. These include:

1. **Mapping of the General Ledger**
2. **Reconciliations** - to be done monthly
3. **Variance from Budget** - to be done with commentary
4. **Meetings with Department Heads** - will take place weekly with a "fulsome" discussion at each meeting
5. **Scout Shops –** "Alan Mimeault understands that his sole target to August 31, 2006 is to ensure that Scouts Shops come as close to break even as possible as well as reducing inventory by $500,000"

In other words, we are going to start managing our business. This document is both encouraging and frightening because it tells me that this senior management team really has had, up until now, no actual idea how the business is doing. Who is responsible for this? In the private sector, senior management is responsible. The National Operation should be no different.

Perhaps, senior management's time would have been significantly better spent investigating variances and looking for root causes instead of issuing quarterly reports which show all of the membership fees as income while only showing half of the salary costs as expenses[27].

If the rebuttal is, "our systems couldn't do this before" then my response would be, "Why didn't you get systems capable of doing this and for that matter people capable of operating them?"

In the private sector world, this would be unacceptable management performance. Not making basic stewardship and control tools a number one priority is in my view negligent. Failure to recognize their importance brings into question the underlying qualification of management to manage. The National Operation is responsible for a lot of money and its management should not, in my view, be a manifestation of Scouting's "learning by doing". The "learning by doing" should be reserved as much as possible to the non-formal education of our youth

[26] December 20, 2005 ***"Cash Management Update"*** Memorandum
[27] National Statement of Operations included in the 2nd quarter Report to the Board of Governors.

members, not on the job learning by senior management, whether they be volunteer or paid staff. Those who believe management needn't have a basic financial and management acumen through training and more junior experience are misguided

The Vice Chair's year end memorandum[28] indicates other factors that were "unanticipated or unbudgeted" contributed to the loss. But for these factors, National would have met budget. Among them were,

1. Under achievement of Scout Shops - $168,000
2. Excess Training and Relocation Costs - $87,000
3. A "Missing Accrual for Program costs in 2004" - $52,000
4. Additional IT costs to process backlogged membership registrations - $99,000

I wonder why under achievement of Scout Shops is a surprise. Why can't the National Operation develop reasonable benchmarks for likely Scout Shop performance based on realistic estimates of membership and the actual relationship between the numbers of members to that very performance?

I wonder why we have excess training costs rather than qualified people. Alternatively, are we training people to use a system and work in an environment both of which appear poorly designed and function poorly as a result?

I wonder if an accounting system which has "missing" accruals can ever provide management with timely information. Essentially are we saying we forgot we owed somebody $52,000 or are we saying we are not exactly sure when we owe money to people and what for?

I wonder why additional IT costs are a surprise when National purposefully took ownership of the process. Does the National Operation not understand the registration process they created or were they unqualified to develop the system and the process in the first place?

So while these year end items are unexpected from management's point of view, I can't except that they would not have either been foreseeable and better still ever incurred were a qualified management team in place.

What am I really being told here, either as an ordinary member or as a Board of Governors member? ***"If it hadn't been for the fact that we lost the game we would have won!"***

[28] November 28, 2005, ***"Operating Results – Fiscal 2005 – National Operations",*** Page 1, paragraph 3

FUNDRAISING – HOT CHOCOLATE ANYONE?

Many Scouters are bothered by this now defunct, "spring fundraiser". Final Hot Chocolate inventory was written off at August 31st, 2005. The write down of $222,000 effectively brings this saga to a merciful close. What disturbs me more than the financial loss (which ultimately is far greater than the final write down of inventory) is the thought process. Or, to be clear, the lack of a thought process.

Why would you introduce a warm beverage as a "spring fundraiser"? It defies logical thought. Is hot chocolate your spring beverage of choice (even as a Scouter)? Why not "Scout Ice Tea Mix" or "Scout Energy Drink Mix"? Was there any market research that suggests to anyone that people want warm beverages in the spring?

And what about the final write down of inventory? It is unbelievable to me that this write down was either unexpected or unbudgeted by National's most senior management. The memorandum covering year end results points out that, "All of our losses are caused by unanticipated or unbudgeted items."[29] This seems to directly contradict the 2nd quarter management report which states that fundraising is an area, *"of importance and concern to the board so we direct your attention to the separate schedule of Fundraising revenues and direct expenses. Hot Chocolate Sales have not developed as well as planned and there will be a further write down of inventories on the disposition of the balance remaining in the next month or so. The loss will be reported in the 3rd quarter of the year"*[30]. The 3rd Quarter report also indicates, *"there will be a final write down of inventories in the amount of $258,328. This loss will be reported by the end of the year."*[31]

Why would this write down fall into either category? The hot chocolate was a food product with an expiry or "best before" date of July 1st, 2005. What would lead you to believe your inventory would have any value after that date? Do you buy food products which have past their "sell by" dates? What was management telling the Board of Governors up until that point? That Hot Chocolate is flying off the fundraising shelves?

Some might argue that because the product was theoretically suitable for sale into the fourth quarter of the year, the late write down is justified. I would respectfully suggest, however, that such an argument is nonsense. The product never sold well (see comments on warm drinks in the spring). My local council field executive actually asked for Scouters to come to an event (in formal and not activity uniform I might add) where Scouts Canada was giving away the product to the local food bank.

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[29] November 28, 2005 ***"Operating Results – Fiscal 2005 – National Operations"***, Page 1, paragraph 2
[30] Scouts Canada Report to the Board, 2nd Quarter 2005, Paragraph 6
[31] Scouts Canada Report to the Board, 3rd Quarter 2005, Paragraph 6

In my view, this is another attempt to spin around a basic inability to manage, to consult, and to think. The real truth of the matter, in my view is that the purpose was to generate cash flow for National in the back end of their fiscal year because the money collected from annual fees was no longer sufficient to cover annual operating costs. Any suggestion that this was another fundraiser to build the movement and help the youth is in my view utter balderdash.

This fundraiser was the real beginning of Scouting's, "restructuring". Where has it taken us?

WHAT'S NEXT? – ASK NOT WHAT YOUR NATIONAL OPERATION CAN DO FOR YOU BUT WHAT YOU CAN DO FOR YOUR NATIONAL OPERATION

The bottom line (please excuse the pun) is that the National Operation is a wildly expensive one which in my view contributes virtually nothing to the actual fulfillment of the organization's stated mission. A strong comment to be sure but I believe a justifiable one. I believe that actual core required services could be delivered at far less cost. We ultimately spend money and time on things we value. Each and every one of us do this whether we realize it or not. At the National Operation, the corporate infrastructure and illusions of grandeur are what they have spent the organizations money on. They appear to be spending their time on how to spin it into a "happily ever after" ending.

What we haven't spent money on in any material way are little nuisances - like program development, proper adult training, a coherent honours and awards system and again, basic management controls.

With regard to program initiatives, we have no idea if the recent Central Canada Jamboree '05 made any money and if so where that money went. It didn't go to the now defunct Youth Event Fund. Apparently Jamborees are no longer considered youth events. On thing is clear, no one will pity or praise the National Operation for taking a loss on that event if that was indeed the case since over $2,000,000 was taken from the youth event fund in order to fund operations. The forthcoming climate change program was largely funded by a grant from the Trillium Foundation in Ontario. Scouts Canada contributed only moral support to the 50th Anniversary of the 8th World Jamboree held at Niagara-on-the-Lake in September of 2005. That latter event spent over $1,500.00 on Leader Magazine advertising and contributed $2,500.00 to the Scouts Canada Foundation.

So what will we be expected to do for the National Operation? My view of the future is as follows:

1. **BOTH MEMBERSHIP AND INSURANCE FEES WILL INCREASE** - There is no way around this. Fewer members carrying the same costs

means more costs borne by the remaining die hard members. National took control of registration and financial proceeds in the 2004/2005 scouting year. They did so, in my opinion, to borrow from councils by collecting fees and holding them and then paying out the council portion of fees to council at a later date. Frankly not a bad idea; however there was no infrastructure in place to actually process the registrations. My group's $12,000+ registration cheque mailed in October was not cashed until January. It is incredible to me that an organization with cash flow difficulties takes three months to cash a cheque. Since cheques were not cashed, presumably, councils were also starved for cash as a result. **WE WILL BE PAYING HIGHER FEES.**

2. **SPRING FUNDRAISING WILL RETURN –** National must address (and it may already be too late) its now annual spring cash flow crisis. A crisis which befalls National earlier and earlier each year. The fees don't go nearly as far as the costs require them too.

3. **FALL FUNDRAISING WILL HAPPEN SOONER AND BE MORE EXPENSIVE** - The Popcorn fundraiser also will be held earlier and earlier. In this past year, it overlapped the traditional Apple Day selling period. Who, if anyone, bothered to consider the impact of this decision on groups and their own fundraising? Hey kid, I just made an apple donation and now you want to sell me popcorn?

   It would not be unreasonable to expect that the actual return to National will also need to increase. So the product (already exorbitantly expensive) will get more expensive. Alternatively the portion of fees actually retained by the groups/councils could be reduced. In my opinion, both will happen.

4. **DEBT WILL CONTINUE TO SPIRAL UPWARD** - Because even the new "restructured" National Operation is not profitable, money to fund the operating losses will have to come from somewhere. In addition to the fee and fundraising implications above, National will have to borrow more (and more). Restricted funds will be exhausted; Scouting's bodies corporate will have to advance more funds. In addition, services (and the value of the services) provided by councils will inevitably be reduced. Money is flowing up to National and not down to Councils, groups or PROGRAM AND TRAINING.

5. **THE CENTENNIAL NATIONAL JAMBOREE WILL BE PROHIBITIVELY EXPENSIVE –** Fees have still not been announced for this event. I believe however, that this event and particularly early payment for participation in it will serve as yet another financing bridge. Scouts Canada won't have the working capital without early payment. It can't turn to the youth event fund as a source of working capital because it has already effectively expended these funds on operations.

6. **SCOUTS CANADA <u>MUST</u> WIN THE ELGIN LAND CASE –** Simply put, Scouts Canada, in affidavits filed in Court proceedings, has taken the position that, *"there are no trust obligations on Scouting real estate…… and that members rights are restricted to participation in meetings and the ability to apply to participate in Scouting events."*[32] Readers are directed to Scouter Ted's full article on the Scout eh! website. I draw it to your attention because a victory in this matter and the earnest, "no holds barred" effort which Scouts Canada is applying to winning this case speaks to National's core financial strategy.

   National **KNOWS** that predictions 1 through 4 are at best, unpopular and at worst probably cannot be done for much longer. In other words, Scouts Canada can see the bottom of Scouting's financial barrel and regrettably, it is not very deep.

   The uprising at the council level, led by Scouters in Nova Scotia is beginning to take hold in other councils. Councils can and should push back vigorously and demand accountability.

   Given that National's diminished borrowing capacity, plummeting membership, and the increasing push back from ordinary members, the only alternative is to sell assets.

   It is a basic tenet of law that you have to own something before you can sell it. ***National must establish that they own your camp so they can sell your camp. It is that simple.***

   The actual views of WOSM (World Organization of the Scout Movement) on a member's role in their local association must be ignored. WOSM views its member Associations (like Scouts Canada) and their members (the ordinary members of Scouts Canada) to be part owners and stakeholders. The National Operation does not.

   The basic construction of a "Trust" in law must also be challenged and overturned to secure an unfettered right to sale. Who is kidding who?

[32] ***"A Matter of Trust – A Backgrounder on Legal Issues Concerning Scout Property"***, Scouter Ted Claxton, Paragraph 1. See http://scouteh.ca/resources/matter_of_trust.php

AN ALTERNATIVE END GAME – DEMOCRACY

Scout eh! was established in order to propel Scouts Canada into democratic governance.

Democratically elected volunteers would be allowed to own the stewardship of this association. That is what WOSM (as well as Baden-Powell) intended and that is what any true stakeholder in an enterprise will expect.

National cannot lay declining membership at the door of volunteers. I have grown entirely weary of being told that the system and structure are appropriate but for the fact that there aren't enough members. Whoever controls an organization spends time and money on the things they view as truly important.

National does not spend money on program. National does not spend money on volunteer development. National does not spend money on customer service[33]. Instead of these priorities, National does spend time and money on a bureaucracy which exist to serve itself. A bureaucracy which is impossibly remote and disconnected from the association's true mission and the volunteers who deliver that mission.

Democracy means representation. It means the voices of those directly charged with fulfilling the mission have a stake in how that happens. I can't think of another successful enterprise that got that way by ignoring its customers. In fact, the managers of those enterprises have been "shown the door" in favour of managers who understand who their owners are and who their customer are. Senior managers who can manage and measure based on objectives specified by the owners (ordinary members) for the benefit of our customers (our youth members).

I am reminded of a cartoon I once saw in the newspaper. It showed a man who had just arrived in heaven and was standing before God. The man was absolutely dumbfounded by what he saw. Standing before him was a dog. The man said nothing but you could tell from his facial expression he wondered how it could be that God was a dog? God however did have a comment having assessed the man's reaction. He said to the man, "Well….what did you expect, you people have been spelling my name backwards for years".

While a silly cartoon, it makes an incredibly salient point. Scouts Canada is at (and has arguably passed) what the former CEO of Intel and now Stanford Professor Andy Grove calls a, "Strategic Inflection Point". Mr. Grove states, "an inflection point occurs where the old strategic picture dissolves and gives way to the new, allowing the business to ascend to new heights. How ever, if you don't navigate your way through an inflection point, you go through a peak and after the peak the business declines. It is around

[33] It took three written requests and 41 days to actually receive the audited financial statements.

such inflections points that managers puzzle and observe, "Things are different. Something has changed."[34]

My personal view is this senior management team doesn't get it. They are unable to connect severe membership decline with their own lack of accountability for their actions and their own lack of consultation with the ordinary membership. I am personally unmoved by the repeated forming of committees, strategic plan versions, and other whimsical forms of "visioneering".

I am equally unmoved by the assertion that ordinary members who are not yet vocal on these issues must therefore agree with the structure we currently have in place. It would be equally appropriate for me to assert that in fact these aforementioned Scouters all agree that democratic reformation is a "survival priority".

What the organization needs is a democratic governance structure through which all staff are led in all areas and through which all staff are accountable for their performance. It is time to stop saying we have this and actually really adopt this.

The true survival of this organization is in fact not dependent on its "professional management". It is dependent on its true stakeholders (the volunteers and the youth THEY ATTRACT to the program). If left on the outside looking in, not consulted and unable to have their say, they will continue to leave.

So rather than ask where we are going, perhaps volunteers should be democratically empowered to tell us where we are going based on what other volunteers tell them by:

1. **Redefining the role, governance and accountability of the National Operation and;**

2. **Thinking about how and what we as volunteers can contribute should the opportunities for meaningful input and service present themselves.**

I believe the time for spin is well and truly over and the time for reformation and accountability is long overdue.

[34] ***"Only the Paranoid Survive, How to Exploit the Crisis Points that Challenge Every Company and Career"***, © 1996, Andrew S. Grove, Bantam Doubleday Publishing Group Inc., Pages 32 and 33.

ACKNOWLEDGMENTS

The author wishes to thank Scouter Ted Claxton for editorial assistance and counsel in the preparation of this report.

The author also wishes to thank Scouter Dave Upham for additional editorial assistance.

APPENDIX I

AUDITED FINANCIAL STATEMENTS OF THE
"BOYS SCOUTS OF CANADA NATIONAL OPERATION"
FOR THE FISCAL YEAR ENDING AUGUST 31ST, 2005

SCOUTS CANADA

SCOUTS CANADA

Bring on the ADVENTURE

1345 Baseline Road, Ottawa, ON, K2C 0A7
Phone (613) 224-5131 Fax (613) 224-3571

Per your request, I enclose a copy of the audited financial statements for Scouts Canada's National Operation for the year ending August 31, 2005. Please note that, as stated in Note 1 to these financial statements, these statements reflect the activities of the National Operation only, and do not include the activities, assets and liabilities of Scouts Canada's individual councils.

Scouts Canada's National Operation is funded by membership fees and the generous support of corporate and individual donors. Scouts Canada is a registered charitable organization under the Canada Revenue Agency (BN 10776 1694 RR0028).

The mission of Scouting is to contribute to the education of young people, through a value system based on the Scout Promise and Law, to help build a better world where people are self-fulfilled as individuals and play a constructive role in society. In accordance with the Scout Law, Scouts Canada endeavors to be wise in the use of its resources in all matters.

Thank you for your interest in Scouts Canada.

Sincerely,

Gary Boutilier, BSc, CMA
Director of Finance

Financial Statements of

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Year ended August 31, 2005

KPMG LLP
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160 Elgin Street
Ottawa ON K2P 2P8
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AUDITORS' REPORT

The Boy Scouts of Canada National Operation

We have audited the statement of financial position of The Boy Scouts of Canada National Operation as at August 31, 2005 and the statements of operations, changes in fund balances (deficiency) and cash flows for the year then ended. These financial statements are the responsibility of the National Operation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of The Boy Scouts of Canada National Operation as at August 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Ottawa, Canada

November 21, 2005

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Statement of Financial Position

August 31, 2005, with comparative figures for 2004
(In thousands of dollars)

	Operating Fund	Restricted and Endowed Funds	2005	2004
Assets				
Current assets:				
Cash	$ 13	$ 407	$ 420	$ 1,307
Amounts receivable	1,041	–	1,041	1,542
Inventory	3,478	–	3,478	3,491
Prepaid expenses	272	398	670	276
Membership fees receivable (note 11(a))	209	125	334	–
Amounts receivable from Councils (note 2)	205	–	205	384
	5,218	930	6,148	7,000
Investments (note 3)	613	3,132	3,745	3,547
Capital assets (note 4)	2,682	–	2,682	2,970
Prepaid pension costs (note 5)	739	–	739	699
Employee future benefits recovery receivable (note 6)	2,485	–	2,485	1,025
Amounts due from Operating Fund	(966)	966	–	–
	$ 10,771	$ 5,028	$ 15,799	$ 15,241
Liabilities and Fund Balances (Deficiency)				
Current liabilities:				
Bank indebtedness	$ 1,956	$ –	$ 1,956	$ 1,814
Accounts payable and accrued liabilities	890	431	1,321	1,593
Deferred revenue (note 7)	397	–	397	522
Membership fees payable (note 11(a))	226	–	226	–
Current portion of inventory payables to Councils (note 8)	431	–	431	438
	3,900	431	4,331	4,367
Inventory payables to Councils (note 8)	536	–	536	1,056
Loan from Provincial Council for Ontario (note 9)	508	–	508	500
Accrued employee future benefits (note 5)	5,192	–	5,192	4,750
Fund balances (deficiency):				
Operating Fund	(2,047)	–	(2,047)	(2,643)
Restricted Funds (schedule)	–	3,523	3,523	3,181
Investment in capital assets	2,682	–	2,682	2,970
World Scout Foundation Fund	–	1,074	1,074	1,060
	635	4,597	5,232	4,568
Contingent liabilities (note 10)				
	$ 10,771	$ 5,028	$ 15,799	$ 15,241

See accompanying notes to financial statements.

On behalf of The Boy Scouts of Canada National Operations:

Vice-Chair Finance – Board of Governors

Chief Executive Officer

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Statement of Operations

Year ended August 31, 2005, with comparative figures for 2004
(In thousands of dollars)

	Operating Fund 2005	Restricted and Endowed Funds	Total 2005	Total 2004
		(schedule)		
Revenue:				
Membership fees (note 11)	$ 2,709	$ –	$ 2,709	$ 3,055
Scout Shops sales	5,225	–	5,225	5,460
Insurance fees (note 11)	–	1,864	1,864	1,833
Fundraising	295	–	295	448
Donations and sponsorships	200	61	261	381
Grants	551	–	551	157
Fees for services	197	–	197	190
Investment	31	204	235	194
Other	269	31	300	382
Revenue sharing – Scout Shops	–	–	–	42
	9,477	2,160	11,637	12,142
Expenses:				
Salaries and benefits (note 12)	10,987	–	10,987	11,969
Recovery of salaries and benefits (note 12)	(7,493)	–	(7,493)	(8,435)
Scout Shops cost of sales	3,021	–	3,021	3,171
Insurance and legal	–	1,551	1,551	1,196
Communication and promotion	270	–	270	384
Occupancy	214	–	214	256
Property maintenance	213	–	213	192
Administration	559	133	692	498
Fundraising cost of sales	188	–	188	448
Canadian Leader magazine	221	–	221	242
Warehouse facility and freight	190	–	190	252
Council revenue sharing	100	–	100	105
Travel and meetings	202	24	226	240
World Bureau fees	165	–	165	158
Training and relocation	105	–	105	68
Programs and grants	552	52	604	40
Other	85	–	85	198
Interest	51	–	51	15
Transfer to World Scout Bureau	–	58	58	–
Amortization of capital assets	415	–	415	425
	10,045	1,818	11,863	11,422
Excess (deficiency) of revenue over expenses before the undernoted	(568)	342	(226)	720
Endowed donations – World Scout Foundation	–	14	14	31
Restructuring (note 13)	(467)	–	(467)	(1,184)
Excess (deficiency) of revenue over expenses	$ (1,035)	$ 356	$ (679)	$ (433)

See accompanying notes to financial statements.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Statement of Changes in Fund Balances (Deficiency)

Year ended August 31, 2005, with comparative figures for 2004
(In thousands of dollars)

	Operating Fund	Restricted Funds (schedule)	Investment in Capital Assets	World Scout Foundation	Total 2005	Total 2004
Opening balance (deficiency)	$ (2,643)	$ 3,181	$ 2,970	$ 1,060	$ 4,568	$ 5,001
Adjustment to employee future benefits recovery receivable (note 6)	1,343	–	–	–	1,343	–
Excess (deficiency) of revenue over expenses	(1,035)	342	–	14	(679)	(433)
Change in investment in capital assets:						
Amortization of capital assets	415	–	(415)	–	–	–
Capital asset additions	(127)	–	127	–	–	–
Closing balance (deficiency)	$ (2,047)	$ 3,523	$ 2,682	$ 1,074	$ 5,232	$ 4,568

See accompanying notes to financial statements.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Statement of Cash Flows

Year ended August 31, 2005, with comparative figures for 2004
(In thousands of dollars)

		2005		2004
Cash flows from operating activities:				
Deficiency of revenue over expenses	$	(679)	$	(433)
Items not involving cash:				
Amortization of capital assets		415		425
Change in pension and employee future benefit balances		285		280
Changes in non-cash working capital:				
Amounts receivable		501		(478)
Inventory		13		(1,007)
Prepaid expenses		(394)		(101)
Membership fees receivable		(334)		–
Amounts receivable from Councils		179		(384)
Accounts payable and accrued liabilities		(272)		691
Deferred revenue		(125)		259
Membership fees payable		226		–
		(185)		(748)
Cash flows from investing and financing activities:				
Capital asset additions		(127)		(167)
Increase in investments		(198)		(1,486)
Increase (decrease) in inventory payables to Councils		(527)		1,102
Increase in loan from Provincial Council for Ontario		8		500
		(844)		(51)
Net decrease in cash		(1,029)		(799)
Cash (bank indebtedness), beginning of year		(507)		292
Bank indebtedness, end of year	$	(1,536)	$	(507)
Consisting of:				
Cash	$	420	$	1,307
Bank indebtedness		(1,956)		(1,814)
	$	(1,536)	$	(507)
Supplemental cash flow information:				
Interest paid	$	44	$	14

See accompanying notes to financial statements.

The Boy Scouts of Canada is a national organization operating programs aimed at contributing to the development of young people in achieving their full physical, intellectual, social and spiritual potential as individuals, as responsible citizens and as members of their local, national and international communities through the application of Scouts Principles and Practices.

The Boy Scouts of Canada was incorporated on June 12, 1914, by an Act of the Canadian Parliament and is a registered charity under the Income Tax Act, and as such is not subject to income taxes. The Boy Scouts of Canada National Operation (the "National Operation") is responsible for the national activities of The Boy Scouts of Canada and provides services to the Provincial and Regional Councils (the "Councils") of The Boy Scouts of Canada.

1. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

(a) Basis of presentation:

These financial statements reflect the operations of the National Operation only and do not include the revenue, expenses, assets and liabilities of the Councils, Fondation Scouts Canada Foundation and Canyouth Publications Inc.

(b) Fund accounting:

The National Operation follows the restricted fund method of accounting for not-for-profit organizations.

The Operating Fund accounts for the National Operation's program delivery, retail sales and administrative activities. Restricted funds report the revenue, expenses and fund balances of the activities of the National Operation for which the funding is restricted to that activity.

The World Scout Foundation Fund reports resources externally endowed by donors for the benefit of the World Scout Bureau. The investment revenue earned on the World Scout Foundation Fund is forwarded annually to the World Scout Bureau.

(c) Inventory:

Inventory is valued at the lower of average cost and net realizable value.

(d) Investments:

Investments are recorded at cost plus accrued interest. Investments are written-down to market value if the decline in value is considered other than temporary by management.

1. Significant accounting policies (continued):

(e) Capital assets:

Capital assets are carried at cost less accumulated amortization. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets which is as follows:

Asset	Term
Building	20 years
Betterment	20 years
Office furniture and equipment	5 years
Computer hardware and software	3 years
Scout Shop equipment and renovations	3 years

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimate undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(f) Employee benefit plans:

The cost of pensions and other post-retirement benefits earned by the employees covered by defined benefit plans is actuarially determined using the projected benefit cost method prorated on employees' length of service and management's best estimate of expected plan performance, salary escalation, retirement ages of plan members and expected health care costs.

Pension plan assets are measured at fair value. Adjustments arising from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees.

(g) Revenue recognition:

Restricted contributions relating to general operations are recognized as revenue of the Operating Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund in the year received or receivable.

1. Significant accounting policies (continued):

(g) Revenue recognition (continued):

Unrestricted contributions are recognized as revenue of the Operating Fund in the year received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income earned on restricted funds is recognized in the applicable restricted fund. Other investment income is recognized in the Operating Fund when earned.

Membership, insurance and other Council related fees are recognized as revenue in the fiscal year to which they relate.

Amounts received but not recognized as revenue are recorded as deferred revenue.

(h) Donated materials and services:

Volunteers donate services throughout the year to assist the National Operation in carrying out its activities. Because of the difficulty of tracking and determining their fair value, contributed materials and services are not recorded in the financial statements.

(i) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at year end. Revenue and expenses are translated at the rate of exchange prevailing at the time of the transactions. Exchange gains and losses resulting from the translation of these amounts are recorded in the statement of operations.

(j) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the financial statements in the period in which they become known.

2. Amounts receivable from Councils:

The National Operation performs accounting and administrative services for the Provincial Council for Ontario and the White Pine, Voyageur, Prince Edward Island and New Brunswick Councils. The amounts receivable from Councils represent amounts paid by the National Operation on behalf of these Councils which will be reimbursed by the Councils. Interest of chartered bank prime plus 0.75% is charged to the Councils on the receivable balance.

(Amounts in thousands of dollars)

3. Investments:

The National Operation holds investments for the following purposes:

	2005		2004	
	Carrying value	Market value	Carrying value	Market value
Operating:				
General operations	$ –	$ –	$ –	$ –
Employee future benefits	613	622	537	532
Restricted:				
Insurance Fund	1,154	1,164	1,147	1,147
Brotherhood Fund	459	467	419	431
International Participation Fund	364	389	330	360
World Scout Foundation	1,155	1,232	1,114	1,215
	$ 3,745	$ 3,874	$ 3,547	$ 3,685

Investments consist of:				
Bonds	$ 2,376	$ 2,443	$ 1,980	$ 2,038
Equities	1,108	1,170	646	652
Money market mutual funds	261	261	921	995
	$ 3,745	$ 3,874	$ 3,547	$ 3,685

4. Capital assets:

			2005	2004
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 15	$ –	$ 15	$ 15
Building	1,485	1,041	444	473
Betterment	2,791	723	2,068	2,144
Office furniture and equipment	325	323	2	25
Computer hardware and software	1,353	1,265	88	254
Scout Shop equipment and renovations	85	20	65	59
	$ 6,054	$ 3,372	$ 2,682	$ 2,970

Cost and accumulated amortization as at August 31, 2004 were $5,927 and $2,957 respectively.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Year ended August 31, 2005
(Amounts in thousands of dollars)

5. Employee future benefits:

The Boy Scouts of Canada has a defined benefit pension plan that covers most of its employees working at the National Operation and the Councils. The Boy Scouts of Canada also provides its employees with other employee future benefits including life insurance and medical coverage.

The latest triennial actuarial valuation for accounting purposes was performed as at August 31, 2003. The next triennial actuarial valuation is planned for August 31, 2006.

(a) Plan assets and obligations:

The following table presents the changes in benefit assets and obligations, change in plan assets, and the composition of prepaid (accrued) benefit costs in the financial statements.

	2005		2004	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Prepaid (accrued) benefit costs:				
Funded status – plan deficit	$ (2,294)	$ (7,437)	$ (555)	$ (7,216)
Unamortized net actuarial loss	2,209	2,425	336	2,698
Unamortized past service cost	824	(180)	918	(232)
Prepaid (accrued) benefit costs	$ 739	$ (5,192)	$ 699	$ (4,750)
Change in benefit asset (obligation):				
Benefit obligation, beginning of year	$ (21,639)	$ (7,216)	$ (21,801)	$ (5,996)
Current service cost	(439)	(244)	(484)	(224)
Interest cost	(1,311)	(382)	(1,320)	(398)
Employees' contributions	(304)	–	(362)	–
Benefits paid	2,080	214	1,212	104
Actuarial gain (loss)	(3,524)	(1,317)	612	(1,044)
Remeasurement gain	–	1,034	–	–
Decrease in obligation due to curtailment	–	474	504	342
Benefit obligation, end of year	$ (25,137)	$ (7,437)	$ (21,639)	$ (7,216)
Change in plan assets:				
Plan assets at fair value, beginning of year	$ 21,078	$ –	$ 19,390	$ –
Actual return on plan assets	3,029	–	1,908	–
Employer contributions	512	–	636	–
Employees' contributions	304	–	362	–
Benefits paid	(2,080)	–	(1,212)	–
Plan assets at fair value, end of year	$ 22,843	$ –	$ 21,084	$ –

(Amounts in thousands of dollars)

5. Employee future benefits (continued):

(b) Net benefit cost:

The components of the net benefit cost included in salaries and benefits expense are:

	2005 Pension benefits	2005 Other benefits	2004 Pension benefits	2004 Other benefits
Current service cost	$ 439	$ 244	$ 484	$ 224
Interest cost	1,311	382	1,320	398
Expected return on plan assets	(1,380)	–	(1,349)	–
Amortization of past service costs	95	(37)	113	(41)
Curtailment loss (gain)	–	(23)	175	(21)
Amortization of actuarial losses	–	90	–	133
Net benefit cost	$ 465	$ 656	$ 743	$ 693

(c) Pension plan assets:

Plan assets are invested in the following securities at August 31, 2005:

	Target	Actual
Cash	5%	7%
Bonds	45%	37%
Canadian equities	30%	34%
U.S. equities	10%	12%
Other foreign equities	10%	10%

(d) Assumptions:

The significant weighted-average assumptions used in the actuarial valuation of the plan are:

	2005 Pension benefits	2005 Other benefits	2004 Pension benefits	2004 Other benefits
Compensation increases	4.0%	–	5.0%	–
Rate of inflation	3.0%	3.0%	3.0%	3.0%
Discount rate	5.0%	5.0%	6.25%	6.25%
Expected return on plan assets	6.75%	–	7.0%	–
Initial health care trend rate	–	8.3%	–	9.0%
Ultimate health care trend rate	–	5.1%	–	5.1%

The ultimate health care trend rate is estimated to be reached in 2014. The actual return on plan assets in fiscal 2005 was 13% (2004 – 9%).

5. Employee future benefits (continued):

(e) Health care sensitivity analysis:

Assumed health care cost trend rates have a significant effect on the amounts reported for the health-care plans. A 1% change in assumed health care trend rates would have the following effects for 2005.

	Increase	Decrease
Net benefit cost	$ 142	$ 101
Accrued benefit obligation	1,458	1,142

(f) Curtailment:

The National Operation's restructuring plan disclosed in note 13 resulted in a curtailment of the pension and other employee future benefits plans. The impact of this curtailment is disclosed in notes 5(a) and 5(b).

6. Employee future benefits recovery receivable:

The employee future benefits recovery receivable represents the amount of the accrued employee future benefits liability, disclosed in note 5, which relates to the employees of The Boy Scouts of Canada who are working at the Councils. The Councils pay the National Operation for their portion of the employer contributions under the plans in the year.

In the year, the Board of The Boy Scouts of Canada approved the allocation of the entire accrued employee future benefits liability between the National Operation and the Councils. In prior years, only the liability relating to post-September 1, 2001 employee service was allocated. This allocation has been recorded as an adjustment to Operating Fund deficiency, resulting in an increase in the employee future benefits recovery receivable and a decrease in the Operating Fund deficiency of $1,343.

(Amounts in thousands of dollars)

7. Deferred revenue:

Deferred revenue represents funds received or receivable by the Operating Fund for which goods or services will be provided in future years.

	Opening balance	Amounts received	Revenue recognized	Closing balance
Membership fees	$ 250	$ 127	$ (250)	$ 127
ScoutsAbout and Extreme Adventure	61	4	(17)	48
Personnel funds	142	–	(142)	–
Deposits – Scout Shops	54	38	(54)	38
Lieutenant Governor Aboriginal Literary Program	–	502	(390)	112
Other	15	72	(15)	72
	$ 522	$ 743	$ (868)	$ 397

Membership fees for fiscal 2006 were received prior to year end.

Grants and donations received for the ScoutsAbout and Extreme Adventure programs are used to develop and introduce these programs in Councils across Canada.

The National Operation receives funds from Councils for personnel related expenses including training and relocation which are deferred until required.

Group deposits - Scout Shops are funds left on deposit at Scout Shops for future purchases by Groups.

The Lieutenant Governor Aboriginal Literary Program relates to funds received for a program to improve the literacy of Aboriginal children.

8. Inventory payables to Councils:

Effective September 1, 2003, the National Operation assumed ownership from the Councils of all the Scout Shops across Canada. The National Operation purchased the inventory of the Scout Shops from the Councils at September 1, 2003 for $1,284, to be paid in fiscal years 2005 – 2008. During the year, the National Operation paid $435 against this inventory purchase payable to Councils.

In fiscal 2002, the National Operation rebated to the Councils, the profit earned by the National Operations on goods sold to the Scout Shops that were still in the inventory of the Scout Shops at August 31, 2002. The total rebate was $405. The National Operation made payments of $92 (2004 - $182) against this inventory rebate payable in the year.

(Amounts in thousands of dollars)

8. Inventory payables to Councils (continued):

Interest is not charged on these amounts. The expected repayments of these amounts are:

	Inventory rebate payable	Inventory purchase payable	Total
Year ending August 31:			
2006	$ 118	$ 313	$ 431
2007	–	313	313
2008	–	223	223
	$ 118	$ 849	$ 967

As part of the transfer of ownership of the Scout Shops, the National Operation committed to paying the Councils 2% of the gross sales of the Scout Shops in their region. In 2005, $100 (2004 - $105) was paid to the Councils.

9. Loan from Provincial Council for Ontario:

The loan from the Provincial Council for Ontario bears interest at the chartered bank prime rate less 1%. This loan has no annual repayments terms but is to be repaid in full by fiscal 2010.

10. Contingent liabilities:

(a) Legal claims:

The National Operation has been named as a defendant in a number of legal claims, which have arisen in the normal course of its operations and delivery of its programs. Legal claims are categorized as liability, breach of contract, sexual molestation, wrongful dismissal and human rights complaints. In certain of these instances, a specified amount has been claimed by the plaintiffs. In other instances, no amounts have been specified.

The National Operation is covered by insurance policies which provide funding for the cost of most of these claims should damages be awarded. The National Operation has accrued as an expense the amount deductible from insurance payments for those cases where management believes a payment is likely. Due to the difficulty in predicting the outcome of any litigation and the sustainability of insurance coverage, actual losses could differ from management's estimates and therefore could have a material adverse effect on the financial position of the National Operation.

10. Contingent liabilities (continued):

(a) Legal claims (continued):

Additional costs, if any, for financial settlements in excess of the National Operation's insurance coverage, and for cases where no insurance coverage exists, will be recorded as an expense of the Insurance Fund, in the period in which they are determined.

Effective September 1, 2001, the National Operation is self-insured for child abuse coverage. A self-insurance reserve fund has been established and funds have been transferred to this restricted fund.

(b) Other:

Under certain circumstances, the National Operation could be held liable for the obligations of the Councils and Groups.

11. Related party transactions:

(a) Membership and insurance fees:

Membership and insurance fees are collected from individual members of Scouts Canada primarily at the local Group level. National and Council fees collected by the local Groups are allocated to the National Operation and the Councils based on the membership fee schedules for the year.

The membership fee receivable balance consists of amounts receivable from local Groups of \$190 and from Councils of \$144 for 2004-2005 national membership and insurance fees. The balance is net of an allowance for uncollectible memberships of \$303, which is included in administration expense.

The membership fees payable balance of \$226 consists of amounts payable by the National Operation to Councils for Council membership fees.

(b) Other:

A senior volunteer of The Boy Scouts of Canada was, until March 2005, president of the company that contracted warehouse services with the National Operation. As per the conflict of interest guidelines of The Boy Scouts of Canada, the appropriate declarations have been made.

Other related party transactions and balances are disclosed in notes 2, 6, 8, 9, 12, 14 and 15 to the financial statements.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Year ended August 31, 2005
(Amounts in thousands of dollars)

12. Salaries and benefits:

The National Operation is responsible for the payroll for all employees of Boy Scouts of Canada, including those working at the Councils. The National Operation recovers the cost of salary and benefits as well as an administrative fee from the Councils.

	2005	2004
All employees:		
Salaries and benefits	$ 9,716	$ 10,534
Employee future benefits	1,271	1,435
	10,987	11,969
Less recovered from Councils:		
Salaries and benefits	6,504	7,535
Employee future benefits	989	900
	7,493	8,435
National Operation	$ 3,494	$ 3,534

13. Restructuring costs:

During 2004, the Board of The Boy Scouts of Canada approved a restructuring plan that included a reduction in the number of Councils in Canada to 20, subject to certain conditions stated in By-Law No. 2.

The restructuring expense of $467 (2004 - $1,184) relates to costs incurred under the restructuring plan which is expected to strengthen scouting in Canada and has direct financial benefits for a number of Councils. Of this amount, $27 (2004 - $662) is included in accounts payable and accrued liabilities at August 31, 2005. This amount is expected to be paid in 2006.

14. Fondation Scouts Canada Foundation:

The National Operation has an economic interest in Fondation Scouts Canada Foundation. The Foundation was established to financially support The Boy Scouts of Canada by promoting and soliciting gifts, grants and matching funds from individuals, corporations and foundations.

Under the terms of an agreement with the Foundation, the National Operation received donations of $139 (2004 - $167) from the Foundation based on 100% of net proceeds from direct mail campaigns and 85% of net proceeds of corporate campaigns.

During the year, the National Operation charged the Foundation $9 (2004 - $6) for administrative services and recovered $128 (2004 - $131) for salaries and benefits.

The National Operation has an amount receivable from the Foundation of $167 (2004 - $72) including recoveries of salaries and benefits from the Foundation.

15. Canyouth Publications Ltd.:

The National Operation exercises significant influence over Canyouth Publications Ltd. Canyouth Publications Ltd. publishes the Canadian Leader magazine. Under an agreement between the two organizations, the National Operation purchases all issues of the magazine, and covers any deficit incurred by Canyouth Publications Ltd. or receives a rebate in the amount of any surplus generated by Canyouth Publications Ltd. For the year ended August 31, 2005, the National Operation is entitled to a rebate of $32 (2004 - $48) from Canyouth Publications Ltd. This amount has been recorded as a reduction in Canadian Leader magazine expense.

The National Operation purchased magazines totaling $187 (2004 - $195) from Canyouth Publications Ltd. in the year. The National Operation has an amount receivable from Canyouth Publication Ltd. of $42 (2004 - $53) including the above rebate and recoveries of salaries and benefits.

During the year, the National Operation charged Canyouth Publications Ltd. $48 (2004 - $41) for rent, administration and designer services and recovered $124 (2004 - $96) for salaries and benefits.

16. Financial instruments:

The carrying value of cash, amounts receivable, membership fees receivable, amounts receivable from Councils, bank indebtedness, membership fees payable, and accounts payable and accrued liabilities approximates their fair value because of the relatively short period to maturity of these financial instruments.

The fair value of the employee future benefits recovery receivable and the loan from Provincial Council for Ontario is not determinable as there are no set terms of repayment. The fair value of investments is disclosed in note 3 to the financial statements.

The fair value of inventory payables to Councils is approximately $880 based on the expected repayments provided in note 8 and an annual interest rate of 5.5%.

17. Subsequent event:

Subsequent to year-end, the National Operation borrowed $250 from each of the Provincial Council for Ontario and the Provincial Council for British Columbia, under the same terms as those disclosed in note 9.

18. Comparative figures:

Certain 2004 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2005.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Schedule – Restricted Funds

Year ended August 31, 2005, with comparative figures for 2004
(In thousands of dollars)

	Insurance	Brotherhood	International Participation	World Scout Foundation	Youth Event	2005 Restricted Funds	2004 Restricted Funds
Revenues:							
Insurance fees	$ 1,864	$ –	$	$ –	$ –	$ 1,864	$ 1,833
Donations and sponsorships	34	14	13	–	–	61	151
Investment	28	36	34	106	–	204	181
Other	20	11	–	–	–	31	225
	1,946	61	47	106	–	2,160	2,390
Expenses:							
Insurance and legal	1,551	–	–	–	–	1,551	1,196
Administration	113	–	11	9	–	133	15
Travel and meetings	–	–	24	–	–	24	21
Programs and grants	–	52	–	–	–	52	32
Transfer to World Scout Bureau	–	–	–	58	–	58	–
	1,664	52	35	67	–	1,818	1,264
Excess of revenue over expenses	282	9	12	39	–	342	1,126
Fund balance, beginning of year	2,117	423	333	58	250	3,181	3,622
Transfer to Operating Fund	–	–	–	–	–	–	(1,567)
Fund balance, end of year	$ 2,399	$ 432	$ 345	$ 97	$ 250	$ 3,523	$ 3,181

Restricted fund descriptions:

The Insurance Fund reports the revenue and expenses related to insurance premiums and settlements and potential legal liabilities to Scouts Canada.

The Brotherhood Fund reports revenue and expenses related to Canadian support of World Scouting projects.

The International Participation Fund reports revenue and expenses related to Canadian delegates attending World Scouting conferences, events and meetings.

The World Scout Foundation Fund reports the investment income earned on the endowment of the Foundation and the amounts paid to the World Scout Foundation.

The Youth Event Fund is an internally restricted fund consisting of the net surpluses from past Canadian Jamborees.

APPENDIX II

MANAGEMENT REPORTS TO THE BOARD OF GOVERNORS ACCOMPANYING THE 2ND AND 3RD INTERNAL FINANCIAL REPORTS

Scouts Canada

Report to Board of Directors-Second Quarter 2005

We are pleased to submit this report to you on the operating activities of Scouts Canada for the Six months ending February 28, 2005. This report is submitted to you in advance of the May Board meeting, in order to update you on the operating results of the first six months of fiscal 2005.

Financial Statements-February 28, 2005

Attached is the Consolidated Balance Sheet as of February 28, 2005 and the Statement of Income for the six months then ended. Comparative figures have been provided for the comparable period for the preceding year, as well as for the Budget.

We comment on any material differences from budget, composition of key revenue and expenses, such as Retail Store contribution and Fund Raising, analysis as required of key balance sheet balances, and unanticipated expenses that have developed, as well as an indication of future cash flows.

Discussion of Income Statement

Membership-This reflects paid up memberships for the year to date. Attached is a schedule of registrations by Council.

Retail Store Sales-A schedule of sales and key components of costs, such as costs of goods sold, salaries and benefits, occupancy costs and other is attached. In a review held with the Director of Retail Stores, it became apparent that some stores are not performing well and that a small budgeted annual profit will in fact, turn out to be a small annual loss. Management has initiated a detailed review and analysis and advise that they will be in a position to report on 2004- 2005 as well as 2005- 2006 activities in some detail, as part of the Budget package. The Board will have the opportunity at the September meeting to further discuss this area.

Fund Raising-This area is of importance and concern to the Board so we direct your attention to the separate schedule for Fund Raising revenues and direct expenses. Hot chocolate sales have not developed as well as planned and there will be a further write down of inventories on disposition of the balance remaining in the next month or so. This loss will be reported in the third quarter of the year.

Discussion of Balance Sheet

Accounts Receivable-This balance comprises Membership Fees receivable, along with other amounts due from Councils. There are no anticipated uncollectable amounts that have not been provided for.

Prepaid Expenses- Nothing special to report. Represents normal prepayments.

Inventories- This amount is similar to that of a year ago. There are no known items that should be provided, for or written down, that are not already covered by provisions made at August 31, 2004.

As previously reported, the related inventory rebates payable to Councils are being paid out in full as stores are closed, with the balance being paid $400 per month, per store on a quarterly basis. The long-term payables for inventory purchases made as of September 1, 2003 are being paid to Councils, in accordance with the agreed schedule.

Due From Council Funds- This balance represents the funds due to National from those Councils that are handled by the National accounting staff. Balances owing are subject to interest.

Long Term Receivable- This represents amounts due from Councils in respect of Employee Future Benefits, specifically the difference between the actuarial accounting expense and amount actually received from Councils via payroll contributions.

Deferred Revenue- This represents unspent funds from the SCOUTSabout program and the Human Resource Fund.

Accrued Post Retirement Benefits- We will report in person on this ever-increasing liability at the next Board meeting. We both attended a meeting held on April 20, 2005 of the Pension and Benefit Advisory Committee. The meeting also dealt with the pension plan, preliminary consideration of implementation of a defined contribution plan as well as a meeting with the plan investment advisor. A further meeting is scheduled for May 26, 2005.

Fund Balances

The **Insurance Fund** has a balance of $2,678,000 at February 28, 2005 as shown by the attached financial statements for the Insurance Fund. A further $200,000 was transferred in after February 28, 2005.

Investment Returns
The investment returns for the trust funds for the calendar year 2004 ranged between 8.16% and 8.33% for all funds, except the short-term investments, which yielded an annual return of 5.92%.

The Pension Plan had an annual return of 9.6% for the year 2004. For each of the past five years, the investment return has exceeded the established benchmark.

Cash Flow
There are no anticipated cash flow concerns as of the date of issue of this report.

Contingencies

There are no changes in this area from that disclosed in the annual financial statements. The Second Quarter Compliance Certificates signed by the EC/CEO confirming environmental compliance, withholding taxes including workers compensation, sales taxes and pension contributions, as well as workplace heath and safety legislation will be provided to you separately. These certificates cover National Operations as well as those of the Councils.

Other Financial Matters

Controller

You have already been advised of the resignation of Sally Clarke as of March 31, 2005. We both thank Sally for all of her efforts over the past number of years on behalf of Scouts Canada and take this opportunity to wish Sally good luck in whatever the future brings to her. We also take the opportunity to welcome Gary Boutilier who joined us on April 18, 2005.

Reporting Dates 2005

The next Quarterly Report will be issued and mailed to you *on or about July 31, 2005* covering the nine months ended May 31, 2005. A forecast to the end of the fiscal year will also accompany this third quarter report. Future reports will be sent to you within 60 days after the end of each quarter.

Financial Objectives-2005

It is still planned that a Consolidated Audited Financial Statement will be available for 2005. A target of only one audit for all of the organization for 2006 is also planned. Specific details are still being worked out and preliminary indications are that Councils wish to retain audited Council financial statements. We will report more details to you as soon as planning in this area is completed.

We hope you find this Second Quarter Report to be informative and we again would be pleased to receive any constructive comments on its improvement. It is anticipated that Gary Boutilier will issue this report from now on, although the Vice-Chair, Finance will continue to review the report prior to its issuance.

Christopher Barltrop FCA	Rob Stewart
Vice-Chair, Finance	EC/CEO

April 20, 2005

Scouts Canada

Report to Board of Directors-Third Quarter 2005

We are pleased to submit this report to you on the operating activities of Scouts Canada for the Nine months ending May 31, 2005. This report is submitted to you in advance of the September Board meeting, in order to update you on the operating results of the first nine months of fiscal 2005.

Financial Statements-May 31, 2005

Attached are the Consolidated Balance Sheet as of May 31, 2005 and the Statement of Income for the nine months then ended. Comparative figures have been provided for the comparable period for the preceding year, as well as for the Budget.

We comment on any material differences from budget, composition of key revenue and expenses, such as Retail Store contribution and Fund Raising, analysis as required of key balance sheet balances, and unanticipated expenses that have developed, as well as an indication of future cash flows.

Discussion of Income Statement

Membership-This reflects paid up memberships for the year to date. Attached is a schedule of registrations by Council. At the time of writing this report, the target of 105,000 members has been reached.

Retail Store Sales-A schedule of sales and key components of costs, such as costs of goods sold, salaries and benefits, occupancy costs and other is attached. In a review held with the Director of Retail Stores, it became apparent that some stores are not performing well and that a small budgeted annual profit will in fact, turn out to be a small annual loss. Management has initiated a detailed review and analysis and will be in a position to report on 2004- 2005 as well as 2005-2006 activities in some detail, as part of the Budget package. The Board will have the opportunity at the September meeting to further discuss this area.

Fund Raising-This area is of importance and concern to the Board so we direct your attention to the separate schedule for Fund Raising revenues and direct expenses. Hot chocolate sales have not developed as well as planned and there will be a final write down of inventories in the amount of $258,328. This loss will be reported by the end of the year.

Discussion of Balance Sheet

Accounts Receivable-This balance comprises Membership Fees receivable, along with other amounts due from Councils. Discussions are underway with the Councils to resolve outstanding issues prior to the end of the year.

Prepaid Expenses- Nothing special to report. Represents normal prepayments.

Inventories- Inventory is slightly lower than the same time last year due mainly to lower store inventory levels and lower hot chocolate inventories.

As previously reported, the related inventory rebates payable to Councils are being paid out in full as stores are closed, with the balance being paid $400 per month, per store on a quarterly basis. The long-term payables for inventory purchases made as of September 1, 2003 are being paid to Councils, in accordance with the agreed schedule.

Due From Council Funds-This balance represents the funds due to National from those Councils that are handled by the National accounting staff. Balances owing are subject to interest.

Long Term Receivable- This represents amounts due from Councils in respect of Employee Future Benefits, specifically the difference between the actuarial accounting expense and amount actually received from Councils via payroll contributions.

Deferred Revenue- This represents unspent funds from the SCOUTSabout program, Extreme Adventure and outstanding gift certificates.

Accrued Post Retirement Benefits- The Pension and benefit Advisroy Committee held meetings on April 20, 2005 and May 26, 2005 to discuss the pension plan, including discussions with the plan investment advisor and further discussions on a defined contribution plan.

Fund Balances

The **Insurance Fund** has assets of $2,924,373 as shown by the attached financial statements for the Insurance Fund.

Investment Returns

The investment returns for the trust funds for the calendar year 2005 are consistent with those achieved in 2004.

Cash Flow

There are no anticipated cash flow concerns as of the date of issue of this report.

Contingencies

There are no changes in this area from that disclosed in the annual financial statements. The Third Quarter Compliance Certificates signed by the EC/CEO confirming environmental compliance, withholding taxes including workers compensation, sales taxes and pension contributions, as well as workplace heath and safety legislation will be provided to you separately. These certificates cover National Operations as well as those of the Councils.

Other Financial Matters

We are able to confirm the information provided to you in the memo from Robert Stewart on June 21, 2005 regarding the budget. Due to a reclassification of salaries during the previous year end, additional capacity was added to the budget for compensation. Other minor changes were made to the budget but clear working papers for these changes are unavailable.

Over the past three months a number of challenges have hampered the ability of the finance department to achieve significant improvement in its deliverables. The change in leadership has resulted in changes to the way the department operates. The changes are slowly being implemented and are being managed to ensure both correctness and completeness.

Staff morale is an issue and there have been resignations as individuals seek other opportunities.

The Great Plains system is set up in a cumbersome manner making reporting more difficult than necessary and prone to error. In addition, a number of the reports built by staff are redundant and in some cases contradictory. A significant amount of time is being spent ensuring that correct and consistent information is being supplied to Management and the Board.

A forecast has not been included in this report as analysis and subsequent clean up on several predominant issues may affect the financial statements in a manner that we are unable to predict at this time. If there is anything material come from the analysis, the Treasurer will be advised as to the issue, the correction necessary and the effect on the bottom line. If during those discussions, the issue is sufficiently material to involve the Board, you will be kept informed.

Reporting Dates 2005

The next Report will be issued and mailed to you *on or about October 31, 2005* covering the twelve months ended August 31, 2005.

Financial Objectives-2005

The plan to have a Consolidated Audited Financial Statement available for 2005 will have to delayed. The challenges of the project were intensified with changeover in accounting staff. An opportunity to review the project will come after the work of the audit is completed. We will report more details to you as soon as planning in this area is completed.

We hope you find this Third Quarter Report to be informative and we again would be pleased to receive any constructive comments on its improvement

Gary J Boutilier BSc, CMA
Director, Finance

Christopher Baltrop
Vice Chair, Finance

July 28, 2005

APPENDIX III

MARCH 11TH, 2005 MEMORANDUM

TO: **COUNCIL COMMISSIONERS, COUNCIL EXECUTIVE COMMISSIONERS, AND COUNCIL TREASURERS**

FROM: **THE BOARD OF GOVERNOR'S VICE CHAIR OF FINANCE**

SUBJECT: **"SCOUT EH"**

SCOUTS CANADA
1345 Baseline Road, Ottawa, ON, K2C 0A7

Phone (613) 224-5131 Fax (613) 224-3571

To: Council Commissioners
Council Treasurers
Council Executive Commissioners

CC: Board of Governors
Operations Advisory Committee

From: Chris Barltrop FCA
Vice Chair-Finance (Board of Governors)

Date: March 11, 2005

Re: Scout Eh

You may be aware of an article that appeared last month on the Scout Eh website commenting on the finances of Scouts Canada. Accordingly, I am sending this communication to you to reassure you and your Councils that Scouts Canada's finances are well managed.

The article, prepared by Mr. Joseph Grittani, a public accountant, is his personal view and his observations are based on his analysis of the Annual Financial Statements of the National Operation. Mr. Grittani has not been privy to all of the financial data of Scouts Canada and the related decision making process. The article appears to deal with Scouts Canada as a whole, whereas, as stated, the financial data is actually only applicable to the National Operation. Unfortunately, Mr. Grittani did not seek our comments on his report prior to its issuance.

With respect to financial stewardship, our auditors, KPMG LLP have expressed an unqualified audit opinion on the financial statements of the National Council.

I stated at the Annual Meeting in November that the National financial statements contain expenses that are for the benefit of the organization as a whole. These include the restructuring costs to right size the organization. I also indicated, and as reflected in my quarterly financial reporting, the National Operation is operating with an approved budget that shows a small surplus for 2004-2005. The financial operating results are closely monitored by your National Board and discussed at the quarterly Board meeting.

I trust you will find this memorandum helpful in clarifying the situation. If I can be of any further assistance to you, please do not hesitate to communicate with me through Rob Stewart or our National controller.

APPENDIX IV

LETTER DATED JUNE 13TH, 2005

FROM THE MIKE SCOTT, CHIEF COMMISSIONER AND CHAIR OF THE BOARD OF GOVERNORS

TO SCOUTER TED CLAXTON

MAY 17 2005

SCOUTS CANADA

SCOUTS CANADA

1345 Baseline Road, Ottawa, ON, K2C 0A7

Phone (613) 224-5131 Fax (613) 224-3571

Bring the ADVENTURE

May 13, 2005

Mr. Ted Claxton
17 Weber Street West
Kitchener, ON N2H 3Y9

Dear Scouter Ted:

Thank you for your letter to Mr. Chris Barltrop, received on April 4, 2005.

While I appreciate the amount of time and attention you and Mr. Joseph Grittani have spent in reviewing the National Operation's financial situation, I must disagree with your analysis on a number of fronts. I have a great deal of confidence in the ethics and competence of the day-to-day financial administration and management of the National Operation, as well as the annual audit process.

I also feel very comfortable with the direction we are now taking as an organization, especially with the recent staff downsizing and amalgamation of administrative centres. We are being wise in the use of all resources, and continue to look at ways to ensure that we continue in this direction as we look to the future.

As a result, our audit committee and indeed our auditors, KPMG, felt it was appropriate to remove the going concern note in our 2003-04 Annual Report that originally appeared in our 2002-03 Annual Report. This demonstrates a significant level of confidence in the financial direction of the National Operation.

Your comments about having difficulty accessing financial information caused me some concern. After making inquiries and reviewing past correspondence between the National Operation and you and Mr. Grittani, I feel satisfied that you have been afforded reasonable access to detailed financial statements as is available to any of our members, and indeed to the general public. In fact, our records indicate that Mr. Grittani was corresponded with a number of times in December 2004. As per his request, on December 22, 2004 he was provided with detailed financial statements for the National Operation for 2000, 2001, 2004 and audited financial statements for the Scouts Canada Foundation (not Canyouth Publications, publisher of *The Leader Magazine* as you have suggested) since its inception. On this request, and others, I feel that our staff and volunteers have been very cooperative in producing the financial information requested. Please keep in mind that the priorities of the finance department, around the time of your requests, have been focused on making major changes to better service our members. If a request was not addressed as promptly as you would have wished, please remember that our intentions were in the right place.

.../2

In terms of your request for financial statements for all councils, because we have not yet moved to a single chart of accounts for the entire organization, I would encourage you to make these requests directly to each council. As for information on budgets, this is not part of the standard package of financial information that Scouts Canada routinely provides. With respect to our banking arrangements, Scouts Canada has had access to a line of credit for many years which assists us in underwriting costs while we await income from membership fees.

Scouts Canada currently employs approximately 270 full-time and part-time employees. This number fluctuates depending on the need for seasonal staff and/or independent contractors. Please be assured our human resources department regularly monitors salary scales to ensure that Scouts Canada is within the appropriate guidelines of other youth serving agencies. To address your concerns more directly, it is no secret that a large percentage of Scouts Canada's budget is directed at staff salaries. This is common for any organization, and we have worked hard to restructure our staff so that we spend those dollars as wisely as possible and provide optimal service to our members.

On the subject of properties, I must remind you that the National Operation does not profit from the sale of any camp or property. That money remains in the council where it can be reinvested in other neighbouring properties or local recruitment efforts.

Thank you for bringing your concerns to my attention. I trust that the foregoing will provide the clarification you seek. I look forward to working with you toward our mutual goal of contributing to the education of young people.

Yours truly,

Mike Scott
Chief Commissioner
& Chair of the Board of Governors

APPENDIX V

NOVEMBER 28TH, 2005 MEMORANDUM

TO: COUNCIL COMMISSIONERS

FROM: CHRIS BALTROP – VICE CHAIR FINANCE
BOARD OF GOVERNORS

SUBJECT: "OPERATING RESULTS–FISCAL 2005–NATIONAL OPERATION"

SCOUTS CANADA

SCOUTS CANADA

1345 Baseline Road, Ottawa, ON, K2C 0A7

Phone (613) 224-5131 Fax (613) 224-3571

Bring the Adventure

To: Council Commissioners

From: Chris Barltrop
Vice-Chair, Strategic, Board of Governors

Date: November 28, 2005

Re: **Operating Results - Fiscal 2005 - National Operations**

I have been asked by the out-going Chief Commissioner and Chair of the Board, as well as several of you, to give you a brief summary of the reasons for the operating loss of $568,000 for 2005 as reflected in the 2004-2005 Annual Report.

All of the loss was caused by unanticipated or unbudgeted items. The operating loss can be explained by five (5) items that total $622,000. Had these not occurred, an operating surplus would have been achieved. As stated in my report to the Annual meeting held this past weekend, we have accounted for the balance of the restructuring and related costs.

The five (5) items that resulted in an operating deficit and their explanations are as follows.

- Excess fund raising costs, principally the write off of the balance of Hot Chocolate inventories, of $222,000
- Under achievement of the Scout Shops from budget of $162,000. It should be noted that Scout shops contributed $382,000 to Councils by way of premises rent or Sales rebates.
- Excess training and relocation costs over the amount budgeted of $87,000.
- A missing accrual for program costs from 2004 fiscal year of $52,000.
- Additional IT salary costs incurred in order to process the backlogged 2004-2005 membership registrations of $99,000.

The Audit Committee of Scouts Canada recommended to the Board of Governors in its report to the recent Board meeting, that immediate steps must be taken to implement strict spending controls and cost management. This includes monthly reports by the Financial Services group to senior management and a quarterly report to the Board. The Board accepted this recommendation and instructed management to comply with the edict immediately.

For your information, the Audit Committee comprises three (3) non Board members, namely the Auditor General of Manitoba, a senior manager in the financial analysis group of BMO and a retired senior banker from Scotia Bank. The other members were Robert Patzelt and Richard Morris, along with myself as a non-voting member.

I also reported to you that a Consolidated Balance Sheet was prepared for 2004. It showed that Scouts Canada was in a strong position with assets of over $33.7 million, of which $18.8 million is comprised of cash and investments. Equity totaled $23.4 million.

The Insurance Fund of Scouts Canada had segregated assets of $2.4 million at August 31, 2005. This Fund is available to settle any uninsured claims that the organization may be required to pay. Our Insurance and Risk Manager, Pierre Laurin reported that the cost per member is just over $14. This relates closely to the $15 Insurance fee being charged.

I reported to the Board and to the Commissioners meeting held this past weekend, that Scouts Canada is facing external issues with regard to the Employee Pension Plan and other Benefit plans. Scouts Canada, through the Pension and Benefit Advisory Committee, is being proactive in dealing with these anticipated challenges. Bill Palamar will keep you fully informed as matters develop further and more specific details are known.

I hope this brings you up-to-date on the 2004-2005 Operating results. Should you have any questions that you wish to direct to me, please do so by email care of Gary Boutilier at <gboutilier@scouts.ca> and I will attempt to get back to you as quickly as possible.

Chris Barltrop
Vice-Chair – Finance
Board of Governors

c.c. Council Executive Directors

APPENDIX VI

DECEMBER 20TH, 2005 MEMORANDUM

TO: **BOARD OF GOVERNORS**

FROM: **ROB STEWART – EXECUTIVE COMMISSIONER AND CEO**

SUBJECT: **"CASH MANAGEMENT UPDATE"**

SCOUTS CANADA

1345 Baseline Road, Ottawa, ON, K2C 0A7

Phone (613) 224-5131 Fax (613) 224-3571

Date: December 20, 2005

To: Board of Governors

From: Rob Stewart, Executive Commissioner and CEO

Re: Cash Management Update

Dear Scouters,

In accordance with the direction of the Board at the November Board meeting as well as recommendations from the Audit Committee, I wish to report to you on the short-term procedures that I have implemented in order to ensure that bank lines of credit are not exceeded and, in fact, are reduced over the course of the balance of fiscal 2006. I define short-term as the period up to and including August 31, 2006. A Task Force under the leadership of Glenn Armstrong, Chief Commissioner and Chair of the Board, will be looking at the longer-term issues of cash preservation.

I would be remiss if I did not thank Board of Governor Members Keith Martin and Chris Barltrop for their suggestions and input on this matter. I believe their suggestions and recommendations have been incorporated in the actions and procedures that have been put in place. I attach for your information the following schedules:

- Schedule 1 - Summary of Cash Flow Issues - A summary of the background of the cash flow issues
- Schedule 2 - Impact of Decisions on Cash Flow - A summary of the negative impact of the decisions set out on Schedule 1 on cash flow
- Schedule 3 - Preliminary Cash Flow Projection-Fiscal 2006
- Schedule 4 - Summary of Cash Management Policies

Chris Barltrop prepared Schedules 1 and 2 as part of his analysis as to why National Council was in a precarious cash position. They are sent to you for your information.

Gary Boutilier and Chris Barltrop both prepared Schedule 3 as part of their initial review of anticipated cash flow for 2006. Gary is currently finalizing a monthly cash flow projection for fiscal 2006, which will be available to Board Members and others, as part of the Board package for 2006. It is in the format suggested by Keith Martin. It will break out monthly cash flows, with past months shown as actual, and future months based on best estimates. The report will be updated monthly and sent out to the Board on a quarterly basis. Due to the upgrades required to the accounting software, and the mapping of the General Ledger, Gary does not want to issue it until he is sure that all balances tie into both the General Ledger and the Budget package.

A preliminary review of this monthly cash flow that was carried out by Chris Barltrop and Gary Boutilier on December 15, 2005 when Chris was in Ottawa, indicates only a negligible difference between Schedule 3 and the detailed monthly cash flow as it now stands in draft form. As stated, it will be sent to you with the January Board package.

It is pointed out to you that as was indicated at the Winnipeg Board meeting in September 2005, the main soft spots in the Budget are the membership target numbers and the ability of Scout Shops to break even. Membership currently stands at over 80,000 and is reported weekly. I comment further on Scout Shops below.

Schedule 4 reflects a summary of processes that National has implemented since the November 2005 Board meeting. I now comment on each of the component parts:

- **Mapping of the General Ledger**. This was a recommendation of both KPMG and the Audit Committee. It was a mandatory first step in our cash flow management and the creation of the new entities has been completed. A few procedural issues need to be finalized and the new General Ledgers will be activated in January 2006.

- **Transfer of Accounting for Councils**. Although National was receiving a fee for service for handling the accounting for four Councils and the Ontario Incorporated Body, the aggravation and time spent, far outweighs the cash remuneration. It is anticipated that no cash impacts will take place with the transfer of this accounting, as costs will be reduced accordingly. The transfer of the Ontario Incorporated Body took place, at their request, on December 1, 2005. The accounting for the Prince Edward Island and New Brunswick Councils is being transferred to Nova Scotia Council and should be completed by the end of February 2006. I have just notified White Pines and Voyageur Councils that we will cease doing their accounting by the end of March 2006.

It is my belief, which is shared by both Gary Boutilier and Chris Barltrop, that this change will allow our senior accounting staff to devote more of their efforts to the cash flow management issues.

- **Reconciliations.** As recommended by the Audit Committee, reconciliations are now being done monthly. Gary Boutilier reports that the MMS numbers have been reconciled with Councils, as of November 30, 2005, for both numbers and fees. He has requested from Councils, the requisite National portion of fees. This will improve our collection of member fees. This will continue to be done monthly, as will other inter-Council balances.

- **Variance Report From Budget.** Changes are being made to the monthly financial statement package to enable a variance commentary to be done and reviewed monthly with Department Heads at the National Office. Instructions have been issued to ensure that all departments do not incur cost over runs. Efficiencies of operations are also being encouraged to see if cost savings can be implemented. The quarterly Board report will have this variance commentary. Some cost savings are anticipated as a result of the new processes.

- **Meetings With Department Heads.** These now take place weekly with a fulsome discussion at each meeting. Gary Boutilier will meet monthly with these departments to review the prior months performance and budget variances and recommend to me any appropriate action required.

- **Scout Shops.** Alan Mimeault clearly understands that his sole target to August 2006 is to ensure that the Scouts Shops come as close as possible to a break even position, as well as reducing inventory levels by $500,000. In discussions with Alan on December 15, 2005, when Chris Barltrop was in Ottawa, he indicated that with proper ordering and monthly review of store sales and goods in stores, he should be able to achieve this target.

- **Accounts Receivable.** National has followed the policy of paying Councils on a net 30 day basis, yet has not required Councils to pay National on the same net 30 day basis. I will notify Councils that by March 31, 2006, all balances owing to National must be on a 30-day net basis. Gary Boutilier has calculated that this change alone will improve our cash flow by at least $250,000 by August 2006. I recognize that some Councils will not be able to do this immediately, and I will deal with each case as it arises.

- **Funding for IT Upgrades.** The Director of Information Management, under the direction of Barry Hardaker, has developed a plan that outlines the upgrades required of our IT system to meet the needs of the Movement at all levels. This plan will shortly be shared with a number of entities (Foundations inside and outside of Scouting) to see if they will fund the budgeted IT upgrades that we need. I should be able to report to the Board at the April 2006 Board meeting, as to how successful we were. Any such funding will have a positive result on our cash flow.

I believe that the steps we have taken will ensure the cash viability of the National Office. We do have a serious cash position, but Gary Boutilier, Chris Barltrop, and I, believe it is manageable.

While fairly detailed, I hope I have reassured the Board Members that I am cognizant of the concerns that you have, and that proper steps and policies are being implemented to deal with our cash challenges. If we achieve our objectives, which both Gary and Chris consider are modest, we will use the cash generated to pay down the balance owed by the Operating Fund to the Restricted Funds.

I have left a number of matters to the new Task Force to deal with and to make recommendations on. These include: the repayment of the restructuring loans, the future of Scout Shops, the future of Baseline Road, as well as ensuring that the 2007 Jamboree produces a positive cash result (the Budget for CJ will be presented to the Board for approval at the January meeting).

As stated, further details will be provided to you in January 2006. If you have any questions, please feel free to contact me. Please note that the National Office will be closed as of noon on Friday, December 23, 2005 and will reopen on Monday, January 2, 2006.

I wish to take this opportunity also to thank each of you for your dedication to the Scouting Movement and for all your efforts to maintain our position in thousands of communities across Canada.

Yours in Scouting,

Rob Stewart
Executive Commissioner & CEO

c.c. Council Commissioners;Audit Committee; Operations Advisory Committee; Council Executive Directors