



“CROSSROADS V – CAN YOU SMELL THAT?”

A Report to the Members of the
Scouts Canada Ordinary-member Unity Taskforce Association on

THE FINANCES OF THE NATIONAL



OPERATION AT AUGUST 31ST, 2006

Let's talk about how to fill out your 2006 financial statements. Here's an often overlooked accounting technique that can save you thousands of unnecessary questions: For several days before you publish it, carry it around under your armpit. No reader of those statements is going to want to spend hours poring over a sweat-stained document. So even if it's not as “clear” as it could be, you can publish it anyway.

Dave Barry (adapted), (1947-)

Joseph M. Grittani
(Ordinary Member)

June 11th, 2007

CONTENTS

PURPOSE SCOPE AND LIMITATIONS

PURPOSE.....	2
SCOPE AND LIMITATIONS.....	2

SUMMARY CONCLUSIONS

NATIONAL RESULTS FROM OPERATIONS.....	2
OTHER FINANCIAL AND NON FINANCIAL FINDINGS.....	3

NATIONAL FINANCIAL REPORTING AND RESULTS – AN UPDATE AS AT AUGUST 31ST, 2006

THE CURRENT YEAR NATIONAL “PROFIT” FROM OPERATIONS.....	4
THE RESTATED INCOME FROM OPERATIONS.....	5
WHAT CAN WE SAY ABOUT THIS LOSS FROM OPERATIONS.....	5

MANAGEMENT

RESULTS FROM OPERATIONS	6
RETAIL SERVICES AND INVENTORY	6
CASH MANAGEMENT.....	7
HOW SHOULD WE MEASURE SUCCESS?.....	9
FINAL THOUGHTS.....	12

CROSSROADS V – Can You Smell That?

AN UPDATE ON THE FINANCES OF THE NATIONAL OPERATION AT AUGUST 31ST, 2006

PURPOSE, SCOPE AND LIMITATIONS

PURPOSE

The purpose of this Crossroads Report is:

1. To report on the financial performance of the National Operation for the fiscal year ended August 31st, 2006.
2. To comment, directly on various internal and external suppositions advanced by both the senior paid and volunteer management of the organization.

SCOPE AND LIMITATIONS

The information contained in this memorandum and the few remaining questions (not asked in the 4 preceding reports) 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, 2006 (Appendix I of this report)
2. Report of the Executive Commissioner & CEO: Year Ended August 31, 2006 (Appendix II of this report)

The opinions in this memorandum and the resulting questions are those of its author. 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 RESULTS FROM OPERATIONS

- National reported an “audited” bottom line profit from operations of \$102,000. This includes \$251,000 in restructuring costs
- Bank indebtedness was reduced by \$1,052,000 to \$904,000.
- Inventory levels fell by \$591,000 to \$2,887,000. Retail services generated a profit of approximately \$130,000 as compared to losses of \$210,500 in 2005.
- Total Canadian Payroll fell by \$1,064,000. National's net payroll (i.e., the payroll that is not charged to councils) fell only \$112,000 to \$3,382,000.

CROSSROADS V – Can You Smell That?

AN UPDATE ON THE FINANCES OF THE NATIONAL OPERATION AT AUGUST 31ST, 2006

OTHER FINANCIAL AND NON FINANCIAL FINDINGS

- **National membership has declined by approximately 6.8%** from this time last year (i.e., August 2005 versus August 2006).
- The **“Operating Fund”** appears to have borrowed \$250,000 plus accrued interest in the current year from each of the provinces of British Columbia and Ontario. This reflects total new borrowing of \$539,000.
- Total employee pension obligations increased by \$626,000 to \$5,818,000.
- Total employee pension obligations previously downloaded to Councils exceed \$1,300,000.

I would like to reiterate in the strongest terms that I believe this report, and the preceding four reports, 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 and management practices will produce different results.**

A journey through the financial and other results as well as the mission could open your mind to a different way of thinking. A way of thinking which suggests, perhaps, that not only is change required but it is urgent. Change which, in the view of many (including myself), may already be far too late in coming.

Perhaps many ordinary members don’t really have time to consider what they are prepared to really do, in a voluntary capacity, to be part of a realistic, long term, sustainable solution.

CROSSROADS V – Can You Smell That?

AN UPDATE ON THE FINANCES OF THE NATIONAL OPERATION AT AUGUST 31ST, 2006

NATIONAL FINANCIAL REPORTING AND RESULTS – AN UPDATE AS AT AUGUST 31ST, 2006

THE CURRENT YEAR NATIONAL “PROFIT” FROM OPERATIONS

It seems only fair to me that, having spent the first four Crossroads report, pillorying the National Operation for what were in my view “staggering” operational losses (coupled with management and control incompetence), I should point out right up front that National reports a “profit” from operations of \$102,000. Congratulations.

My personal view is that the reported “profit” (excess of income over expenses) is nonsense. It is a “profit” created by careful application of the accounting rules but it is questionable whether it realistically reflects the actual situation regarding whether there is in fact an excess of income over expenses in the Scouts Canada National Operation. Some might see my continuing point of view as intellectual or financial sour grapes. Fair comment but it is reasonable to take a closer look at the “profit” from operations.

Before we accept the proposition that we have a “profit” I would draw your attention to a number of “changes” in National's financial statements for the fiscal year ending August 31st, 2006. Those are:

1. **The offloading of fundraising “costs” onto councils. This improved income by \$188,000 (using 2005 as a comparative amount).** What this item essentially means to me, as a member, is that we haven't reduced costs, we simply transferred them to another governance level. So go and complain to your local council about its fee increase.
2. **A significant portion of the World Scout Bureau fees were paid out of restricted funds. This improved the operational bottom line by a further \$68,000.** This item essentially means that we will start using yet another fund to support our operational obligations and give absolutely no thought to what our operational obligations should be.
3. **Income continues to include investment income expropriated primarily from Ontario. This results in a \$294,000 improvement in income.** This one means, of course, that in reality there is no way that our fees even come close to addressing our bloated operational costs. It also means that the way we will address this is to expropriate investment income and in the very next breath tell you we can't sustain our program assets. Imagine how good your camp might be (at least here in Ontario) if the entity holding properties actually spent its investment income on maintenance of those properties instead of just calling it “administrative” and sending the money on to National.

CROSSROADS V – Can You Smell That?

AN UPDATE ON THE FINANCES OF THE NATIONAL OPERATION AT AUGUST 31ST, 2006

RESTATED INCOME FROM OPERATIONS

Income as reported.....	\$ 102,000
Less:	
Fundraising costs offloaded to councils.....	188,000
World Bureau Fees paid from restricted funds.....	68,000
Investment income expropriated from other levels of scouting	<u>294,000</u>
Loss from operations.....	<u>\$ (448,000)</u>

If one were to also remove from National's results the \$177,000 reduction in amortization expense one would then arrive at a loss of \$625,000¹.

This is significant because our CEO tells us that, *“a significant number of capital assets came to the end of their economic as well as their useful life. This accounted for a reduction in expense of more than \$175,000 but has left the organization in need of replacing assets necessary to the management and delivery of programs. A life-cycle plan for technology and building maintenance is under development and will serve as a tool for the efficient implementation of necessary technology and building maintenance and improvements”*².

In other words, while we were busy restructuring we gave absolutely no thought to the capital infrastructure necessary to support our operations. Operations which we feel are completely justified and appropriate in every circumstance. In other (even simpler) words, a lot of stuff is broken and we are working on a plan to replace it. We are also probably telling you (wink wink, nudge nudge) that we are going to borrow more (and more) to do it. At the end of all that we'll have our same wildly expensive, valueless infrastructure.

The CEO tells us that, *“after a series of losses going back to the 2001-2002 fiscal year, Scouts Canada has begun to realize the benefits or restructuring and administrative changes undertaken in the last few years are paying dividends as evidenced in this year's operating results where we are showing an excess of revenue over expenses from the Operating Fund of \$102,000”*³.

WHAT CAN WE SAY ABOUT THE “PROFIT” FROM OPERATIONS?

I would respectfully suggest that **in fact, the National Operation “lost”** (i.e. had an excess of expenses over income) of as little as \$448,000 or as much as \$625,000.

¹ \$448,000 + \$177,000 = \$688,000

² Report of the Executive Commissioner & CEO: Year Ended August 31, 2006, Page 8, Pgh 4

³ Report of the Executive Commissioner & CEO: Year Ended August 31, 2006, Page 6, Pgh 2

CROSSROADS V – Can You Smell That?

AN UPDATE ON THE FINANCES OF THE NATIONAL OPERATION AT AUGUST 31ST, 2006

MANAGEMENT

Results from Operations

I really have made no secret of my personal view that this CEO does not grasp the real import of the annual financial statements. The preceding comment, I believe, makes my point. The “series of losses” to which he refers totals \$5,726,000 by the CEO’s count and \$6,313,000 by my count⁴.

The Vice Chair of Finance indicated, when reporting on the 2005 financial results, that restructuring was “complete”. Notwithstanding the Vice Chair’s 2005 comments, in 2006 we see \$251,000 in additional restructuring costs.

Note 12 of the 2006 audited financial statements explains this by stating, “*During 2004, the Board of the Boy Scouts 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 \$251 (2005-\$467) relates to costs incurred under the restructuring plan which is expected to strengthen scouting in Canada and has a direct financial benefits for a number of Councils*”.

What does that really mean? The organization has year over year membership reductions of 7-10% and has managed to loose in excess of \$6,000,000 over the past 5 years. Would it be too much to ask to see the original “plan”, the original budgeted costs of the “plan”, and the material variances from the “plan”? I can only conclude that we’re a little over “plan” since we keep restructuring.

Retail Services and Inventory

The CEO tells us that Retail Services turned a profit of approximately \$130,000 compared to a loss of \$210,500 in 2005. In addition inventory levels fell by \$581,000 to \$2,887,000. Again completely consistent with Retail Services marching orders to “get rid of inventory”. What I don’t understand is how it is possible to “dump” almost \$600,000 in excess inventory and still improve Scout Shop Margin by 2.3% In the private sector, this rarely if ever happens. So naturally you would want to believe that your local Scout Shops can do what Walmart, Canadian Tire, the Bay, Zellers, and Sears cannot. After all those organizations don’t have the depth of management we have.

In fact, were the Scout Shop Margin a more believable and comparable 40% (less than historical average because they are after all clearing inventory), then income from operations would fall by an additional \$271,000.

⁴ \$5,828,000 - \$102,000 current year surplus = \$5,726,000 or \$5,828,000 + \$488,000 = \$6,313,000.
\$5,282,000 is the cumulative loss from operations up to and including fiscal 2005.

CROSSROADS V – Can You Smell That?

AN UPDATE ON THE FINANCES OF THE NATIONAL OPERATION AT AUGUST 31ST, 2006

Cash Management

The CEO tells us that, “2005-06 ended with our bank debt being reduced by \$1,000,000 from the same time the previous year. Better membership collection processes lead the way to improved cash management but also included better inventory management, lower shipping costs, decreased travel and meeting expenses as well as reductions in prepaid expenses”⁵.

The statement is in my view a masterful play pulled right from the first page of the nonsensical financial analyst’s play book. Let’s look at the details.

Note 10(a) of the financial statements states that there is a, “membership fees receivable balance of \$195,000 consists of amounts receivable for national membership and insurance fees from Councils of \$69,000 for 2004-2005 and \$126,000 for 2005-2006”. Unless I am very much mistaken, this means that additional uncollected fees have been added for this year of \$126,000. Doesn’t that mean its \$57,000 worse than last year? Why would any reasonable person conclude this reflects a “better membership collection process”?

Perhaps the better part comes from an increase in the amount National owes to Councils for the same items. Again according to Note 10(a), we see that the, “membership fees payable balance of \$175 consists of amounts payable by the National Operations to Councils for Council membership fees, of which \$155 relates to 2004-2005 and \$20 relates to 2005-2006”. So in other words, you owe you \$20,000 in new money but you owe us \$155,000 in new money. Doesn’t that mean National has effectively lent the difference of \$135,000 to councils through a combination of administrative blundering or various councils’ inability to pay. I draw your attention to the first four crossroad reports to consider why councils may not be able to pay their bills.

Interesting point of view, but it seems to me that fees collection efforts make National worse off. In addition, how many employees are tasked with the charge of keeping track of the “he said / she said” who owes who what saga?

So in summary, tell me again why this is an improvement and why it, “leads the way”?

Travel and Meeting expenses fell by a whopping \$26,000. This is of course 2.6% of \$1,000,000.

Warehousing and Freight costs fell by 33.8% or \$66,000. Again, \$66,000 is 6.6% of \$1,000,000. I guess that means the item leading the way is not leading the way as much as the item which is following it and both put together are not really leading the way in any very material way.

⁵ Report of the Executive Commissioner & CEO: Year Ended August 31, 2006, Page 6, Pgh 1.

CROSSROADS V – Can You Smell That?

AN UPDATE ON THE FINANCES OF THE NATIONAL OPERATION AT AUGUST 31ST, 2006

Now to be fair, one would expect this reduction in warehousing and freight and this is consistent with the overall inventory level reduction of \$591,000. Now selling \$591,000 in inventory and not replacing it would improve cash flow by \$591,000 or 59% of \$1,000,000. I wonder why this one doesn't "lead the way". At least this statement is true because inventory reductions are a significant and positive cash flow enhancer.

Prepaid expenses did in fact fall by \$225,000 and this is a significant contribution of 22.5%.

These items add up to \$898,000 in improved cash flow. Very close to the CEO's \$1,000,000 improvement. So while perhaps there is an inability to determine which items are bigger than other items, at the end of the day, it does add up to pretty much all of it. - **If only it were that simple.**

In addition to these items, the National Operation borrowed an additional \$539,000 (total) from Ontario and British Columbia. This of course shows as cash on hand so it is using Ontario and British Columbia as an internal source of funds.

National also collected \$630,000 in Jamboree pre-registrations and out of that \$630,000 only spent \$202,000 on upcoming Jamboree costs. Therefore, there was a net cash infusion on the books of \$428,000 but this will soon have to be spent for the upcoming Jamboree. These are actually committed funds which if held in a separate account for the Jamboree would reduce the cash for operational purposes by that \$428,000.

The Jamboree registrations and Ontario/British Columbia loans account for \$967,000 in improvements; so really, I am forced to wonder why we have any bank debt at all?

The cryptic point here is that this individual merely took a bunch of items that added up to a number he wanted and forgot about a whole bunch of other items, both positive and negative which net out the alleged \$1,000,000 improvement. This is in fact very important. Simply stated, there is \$967,000 which is previously committed and really isn't available. As soon as you pay it out or pay it back (if in fact you ever do) then your bank debt will go right back up again by \$967,000.

Consider also the capital assets which the CEO has told us are at the end of their useful lives. Lease or buy, replacing them will cost money. Writing down a non-cash item like depreciation only makes the balance sheet look better. If these items must be replaced it will be with money we just don't have, money lent by the bank.

At the end of 2005, the operating fund owed the restricted funds \$966,000. At the end of 2006, it owes \$1,122,000. The best cast interpretation of this change is

CROSSROADS V – Can You Smell That?

AN UPDATE ON THE FINANCES OF THE NATIONAL OPERATION AT AUGUST 31ST, 2006

that we have only “borrowed” and additional \$156,000 from restricted funds. **The worst (and most likely) case, is that we have borrowed a full \$1,122,000 in additional money from 'restricted funds' if we added together the Jamboree money ‘in hand’ and cash “borrowed” from Ontario and British Columbia .**

The CEO didn't even bother to touch on the \$626,000 increase in employee pension plan obligations. Isn't that important? Shouldn't the year end report from the organization's head employee address the organization's largest single financial obligation? Shouldn't some mention be made of how the organization plans to address this? Is there a plan? If so, **what is it?**

Since our CEO has no apparent accounting qualifications I can only assume the he has, without criticism, accepted a picture presented to him and is merely hyping its rosy conclusions. I am unclear how the Board of Governors of this organization can receive reports like these and maintain any confidence in this individual or his management team.

Should the organization ever produce a “consolidated” financial statement for Scouts Canada, what will it show? Will it contain glaring errors like last year's statement? This CEO continues to make a case for his management and this organization without the slightest shred of tangible demonstrated financial success. There is none.

HOW SHOULD WE MEASURE SUCCESS?

I personally (still only) look at an organization's key performance indicators. For Scouts Canada, the main indicator is and forever will be membership. The CEO indicates that the climate change program is a *“good example of how Scouting remains relevant to Canadian Society one of Scouts Canada's Strategic Directions.”*⁶

During the implementation period for this program, membership fell by 6.8%. Membership decline averages between 6% and 10% every year. If Scouting were “relevant” shouldn't membership be going up?

Of course it's not. The population is growing and this makes Scouting's decline even more dramatic. In fact, even if one were to make the case, that Scouting's core principles were relevant (and I would of course support that supposition), it really doesn't matter because membership is becoming an increasingly expensive proposition for parents and an increasingly irritating proposition for volunteers (most of whom are parents).

Our council commissioner is excited about the pace of registrations in our Centennial year and won't be satisfied with anything less than 101%. Are we

⁶ Report of the Executive Commissioner and CEO: Year Ended August 31, 2006, Page 6, pgh3.

CROSSROADS V – Can You Smell That?

AN UPDATE ON THE FINANCES OF THE NATIONAL OPERATION AT AUGUST 31ST, 2006

ahead of pace because we are growing or are we just getting better at using the MMS? Even if we do wind up with growth (regardless of how trivial), how much of that growth will relate to people who wanted to hang around for the Centennial year, who will be gone the moment the calendar strikes September 1, 2007.

Another key performance indicator is simply this. Did we borrow money this year or did we pay some back. In this particular year, we paid back the bank but we really just borrowed enough and more of that *'payback'* from other levels of Scouting and other activities. So net, we are worse off again.

What about the achievement of Strategic Directions? Any sign of democratic governance at any level? What about a National Board of Governors elected by ordinary members? What about a Council where all members are elected? What about an elected Area Team? What about arms length directors for provincial Scouting corporations.

I would like to go on record and state I would happily stand for election for the Board of Governors and would happily serve as a director of a provincial property holding corporation.

Neither of course will ever happen and even if they did, I'm sure the process would be so cryptic and so secretive that genuinely interested people with contrary stewardship views (like say me) have no practical opportunity to run for such offices.

Is Scouting so arrogant as to believe that they are the only Canadian youth organization which delivers meaningful developmental experiences for Canadian Youth. In fact, I view this as the silver lining of Scouting's constantly darkening cloud. Of course its not.

Our arrogance is most clearly trumpeted by how it is, with no demonstrable tangible evidence, we can support the supposition of relevance. If Scouting is relevant it is less so every year. Membership goes down while the population goes up. I suppose you could say that Scouting is just as 'relevant'. It's just that we're relevant to 6-10% fewer people every year.

The reality is that the organization's infrastructure is largely irrelevant, obscenely expensive, and has little positive impact on the prosecution of the organization's mission. Furthermore, this can now probably only be changed by external financial forces, namely a financial failure.

At that point program assets will go and everyone will get looked after, except for the ordinary members (the children) who rely upon a solvent organization with functioning program assets. Things which it seems to me they have already paid for (at least) once already.

CROSSROADS V – Can You Smell That?

AN UPDATE ON THE FINANCES OF THE NATIONAL OPERATION AT AUGUST 31ST, 2006

Scouts Canada lacks transparency and fairness in its dealings with its volunteers. It accepts no suggestion or criticism. Conversely that very same criticism flows readily from Scouts Canada through a myriad of broken promises and unsatisfactory “customer service experiences”.

ARE WE REALLY OPERATING “IN THE BLACK”?

I was informed by SCOUT eh! members who were in attendance at the 2006 Winnipeg meeting that in the opening remarks at the Financial Review session it was stated several times and emphasized that “we are in the black” and that “everything is transparent”. Scouts Canada’s financial reporting practices have repeatedly been demonstrated to be deceptive and opaque. I refer you to the first four Crossroads reports for evidence of this. Its management decisions repeatedly demonstrate a lack of financial acumen, a lack of stewardship ability and a lack of old fashion common sense.

FINAL THOUGHTS

George Bernard Shaw tells us that, **“Imagination is the beginning of creation. You imagine what you desire, you will what you imagine and at last you create what you will.”**

I hope the Scouts Canada you imagine will be realized in ways the Scouts Canada I imagine clearly never will be. If it can’t, I would at the very least encourage you to take from it what makes you truly happy and give to it what is truly beneficial to the children you work with. Give to it the things that really advance the mission.

Make sure you know what that mission is. In so doing you will, at the very least, distinguish yourself from a self aggrandizing bureaucracy that clearly has no idea of the mission and hasn’t had for a very very long time.

Again, my personal silver lining is that Scouting is not the only community service game in town. There are plenty of opportunities to provide meaningful community service without all the propaganda and nonsense which the average volunteer regularly must consume to get his or her job done. This of course probably makes me one of those 100th anniversary Scouters, but like many of them, I have only the offer of good luck to you for year 101. The organization doesn’t (and in hindsight perhaps never did) reflect any of the principles I view as important.

I personally cannot any longer abide the deception couched in equal parts of spin and stupidity. In fact, I am sure that employees and senior volunteers within this organization are celebrating the fact that the guy asking all the annoying “why?” questions will be gone.

CROSSROADS V – Can You Smell That?

AN UPDATE ON THE FINANCES OF THE NATIONAL OPERATION AT AUGUST 31ST, 2006

I think it is time for those who really believe the interests and mission of the organization are best served by this management to step up. I am clearly not one of those people and for me, the time has come to say, “good luck with that”.

If you are also one of those people who like myself don't think it's quite right but unlike myself, are prepared to soldier on regardless, then you have some very important work left to do. You had better start asking your own “why” questions and you had better be sure the answer you get makes more sense than the responses I have become all to accustomed to receiving.

I feel that I have brought a number of questionable management practices and highly questionable financial reporting practices into the light of day. That said, that represents about 5% of what I will take away from my short 6 year association with Scouting. I had a lot of fun, I learned and did a lot of cool stuff, and I made a number of what I am sure will be lifelong friends during my time in Scouting.

The issue is (at least for me I suppose) that all of the fun, learning, and friendships from which I benefited (and will continue to benefit) happened more or less in spite of the bureaucracy and were 90% of the bureaucracy not there, I could still have achieved the very same personal and group outcomes. In fact, we might have accomplished even more because more people could afford to realistically participate in our programs. Again these are the weighty issues for which I no longer accept any ownership or responsibility. As I indicated, it's now up to you to ask why but only ask if you really want to know and understand why.

CROSSROADS V – Can You Smell That?

AN UPDATE ON THE FINANCES OF THE NATIONAL OPERATION AT AUGUST 31ST, 2006

APPENDIX I

**AUDITED FINANCIAL STATEMENTS OF THE
“BOYS SCOUTS OF CANADA NATIONAL OPERATION”
FOR THE FISCAL YEAR ENDING AUGUST 31ST, 2006**

Financial Statements of

**THE BOY SCOUTS OF CANADA
NATIONAL OPERATION**

Year ended August 31, 2006



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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, 2006 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly wavy line that serves as a flourish or underline.

Chartered Accountants

Ottawa, Canada

October 27, 2006

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Statement of Financial Position

August 31, 2006, with comparative figures for 2005
(In thousands of dollars)

	Operating Fund	Restricted and Endowed Funds	2006	2005
Assets				
Current assets:				
Cash	\$ 342	\$ 1,820	\$ 2,162	\$ 420
Amounts receivable	927	–	927	1,246
Inventory	2,887	–	2,887	3,478
Prepaid expenses	47	333	380	670
Membership fees receivable (note 10(a))	195	–	195	334
Deferred Canadian Jamboree costs (note 6)	–	202	202	–
	4,398	2,355	6,753	6,148
Investments (note 2)	659	2,868	3,527	3,745
Capital assets (note 3)	2,522	–	2,522	2,682
Prepaid pension costs (note 4)	768	–	768	739
Employee future benefits recovery receivable (note 5)	2,795	–	2,795	2,485
Amounts due from Operating Fund	(1,122)	1,122	–	–
	\$ 10,020	\$ 6,345	\$ 16,365	\$ 15,799
Liabilities and Fund Balances (Deficiency)				
Current liabilities:				
Bank indebtedness	\$ 904	\$ –	\$ 904	\$ 1,956
Accounts payable and accrued liabilities	692	477	1,169	1,321
Deferred revenue (note 6)	104	630	734	397
Membership fees payable (note 10(a))	175	–	175	226
Current portion of inventory payables to Councils (note 7)	382	–	382	431
	2,257	1,107	3,364	4,331
Inventory payables to Councils (note 7)	161	–	161	536
Loans from Provincial Councils (note 8)	1,047	–	1,047	508
Accrued employee future benefits (note 4)	5,818	–	5,818	5,192
Fund balances (deficiency):				
Operating Fund	(1,785)	–	(1,785)	(2,047)
Restricted Funds (schedule)	–	4,109	4,109	3,523
Investment in capital assets	2,522	–	2,522	2,682
World Scout Foundation	–	1,129	1,129	1,074
	737	5,238	5,975	5,232
Contingent liabilities (note 9)				
	\$ 10,020	\$ 6,345	\$ 16,365	\$ 15,799

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, 2006, with comparative figures for 2005
(In thousands of dollars)

	Operating Fund 2005	Restricted and Endowed Funds (schedule)	Total 2006	Total 2005
Revenue:				
Membership fees (note 10)	\$ 2,868	\$ –	\$ 2,868	\$ 2,709
Scout Shops sales	4,854	–	4,854	5,225
Insurance fees (note 10)	–	1,562	1,562	1,864
Fundraising	420	–	420	295
Donations and sponsorships	259	29	288	261
Grants	167	–	167	551
Fees for services	94	–	94	197
Investment	49	282	331	235
Other	294	45	339	300
	9,005	1,918	10,923	11,637
Expenses:				
Salaries and benefits (note 11)	9,923	–	9,923	10,987
Recovery of salaries and benefits (note 11)	(6,541)	–	(6,541)	(7,493)
Scout Shops cost of sales	2,695	–	2,695	3,021
Insurance and legal	–	1,072	1,072	1,551
Communication and promotion	229	–	229	270
Occupancy	232	–	232	214
Property maintenance	209	–	209	213
Administration	641	73	714	692
Fundraising cost of sales	–	–	–	188
Canadian Leader magazine	231	–	231	221
Warehouse facility and freight	124	–	124	190
Council revenue sharing	95	–	95	100
Travel and meetings	178	22	200	226
World Bureau fees	99	–	99	165
Training and relocation	44	–	44	105
Programs and grants	138	68	206	604
Other	69	–	69	85
Interest	47	–	47	51
Transfer to World Scout Bureau	–	97	97	58
Amortization of capital assets	239	–	239	415
	8,652	1,332	9,984	11,863
Excess (deficiency) of revenue over expenses before the undernoted	353	586	939	(226)
Endowed donations – World Scout Foundation	–	55	55	14
Restructuring (note 12)	(251)	–	(251)	(467)
Excess (deficiency) of revenue over expenses	\$ 102	\$ 641	\$ 743	\$ (679)

See accompanying notes to financial statements.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Statement of Changes in Fund Balances (Deficiency)

Year ended August 31, 2006, with comparative figures for 2005
(In thousands of dollars)

	Operating Fund	Restricted Funds	Investment in Capital Assets	World Scout Foundation	Total 2006	Total 2005
	(schedule)					
Opening balance (deficiency)	\$ (2,047)	\$ 3,523	\$ 2,682	\$ 1,074	\$ 5,232	\$ 4,568
Adjustment to employee future benefits recovery receivable (note 5)	–	–	–	–	–	1,343
Excess (deficiency) of revenue over expenses	102	586	–	55	743	(679)
Change in investment in capital assets:						
Amortization of capital assets	239	–	(239)	–	–	–
Capital asset additions	(79)	–	79	–	–	–
Closing balance (deficiency)	\$ (1,785)	\$ 4,109	\$ 2,522	\$ 1,129	\$ 5,975	\$ 5,232

See accompanying notes to financial statements.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Statement of Cash Flows

Year ended August 31, 2006, with comparative figures for 2005
(In thousands of dollars)

	2006	2005
Cash flows from operating activities:		
Excess (deficiency) of revenue over expenses	\$ 743	\$ (679)
Items not involving cash:		
Amortization of capital assets	239	415
Change in pension and employee future benefit balances	287	285
Changes in non-cash working capital:		
Amounts receivable	319	680
Inventory	591	13
Prepaid expenses	290	(394)
Membership fees receivable	139	(334)
Deferred Canadian Jamboree costs	(202)	-
Accounts payable and accrued liabilities	(152)	(272)
Deferred revenue	337	(125)
Membership fees payable	(51)	226
	2,540	(185)
Cash flows from investing and financing activities:		
Capital asset additions	(79)	(127)
Decrease (increase) in investments	218	(198)
Decrease in inventory payables to Councils	(424)	(527)
Increase in loan from Provincial Councils	539	8
	254	(844)
Net increase (decrease) in cash	2,794	(1,029)
Bank indebtedness, beginning of year	(1,536)	(507)
Cash (bank indebtedness), end of year	\$ 1,258	\$ (1,536)
Consisting of:		
Cash	\$ 2,162	\$ 420
Bank indebtedness	(904)	(1,956)
	\$ 1,258	\$ (1,536)
Supplemental cash flow information:		
Interest paid	\$ 47	\$ 44

See accompanying notes to financial statements.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements

Year ended August 31, 2006
(Amounts in thousands of dollars)

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.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 2

Year ended August 31, 2006
(Amounts in thousands of dollars)

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 estimated 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.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 3

Year ended August 31, 2006
(Amounts in thousands of dollars)

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, donated 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 reporting 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.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 4

Year ended August 31, 2006
(Amounts in thousands of dollars)

2. Investments:

The National Operation holds investments for the following purposes:

	2006		2005	
	Carrying value	Market value	Carrying value	Market value
Operating:				
Employee future benefits	\$ 659	\$ 648	\$ 613	\$ 622
Restricted:				
Insurance Fund	761	757	1,154	1,164
Brotherhood Fund	490	486	459	467
International Participation Fund	410	409	364	389
World Scout Foundation	1,207	1,189	1,155	1,232
	<u>\$ 3,527</u>	<u>\$ 3,489</u>	<u>\$ 3,745</u>	<u>\$ 3,874</u>

Investments consist of:

Bonds	\$ 1,675	\$ 1,680	\$ 2,376	\$ 2,443
Equities	943	900	1,108	1,170
Money market mutual funds	909	909	261	261
	<u>\$ 3,527</u>	<u>\$ 3,489</u>	<u>\$ 3,745</u>	<u>\$ 3,874</u>

3. Capital assets:

	2006		2005	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 15	\$ -	\$ 15	\$ 15
Building	1,485	1,071	414	444
Betterment	2,794	860	1,934	2,068
Office furniture and equipment	354	326	28	2
Computer hardware and software	1,398	1,320	78	88
Scout Shop equipment and renovations	87	34	53	65
	<u>\$ 6,133</u>	<u>\$ 3,611</u>	<u>\$ 2,522</u>	<u>\$ 2,682</u>

Cost and accumulated amortization as at August 31, 2005 were 6,054 and \$3,372 respectively.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 5

Year ended August 31, 2006
(Amounts in thousands of dollars)

4. 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 Boy Scouts of Canada has adopted an annual measurement date of June 30 for estimating the accounting surplus or deficit and establishing benefit costs for the coming fiscal year, both of which are dependent on the measurement factors at that time.

The latest triennial actuarial valuation for accounting purposes was performed as at January 1, 2006. The next triennial actuarial valuation is planned for January 1, 2009.

As part of the regulations governing federally regulated pension plans, pension plans must meet certain solvency requirements, which assume the plans, are wound up/liquidated as of the valuation date. The actuarial valuation performed as at January 1, 2006 reported a solvency deficit of \$946 and a going concern deficit of \$701, based on economic assumptions applicable at January 1, 2006. The Boy Scouts of Canada anticipates additional contributions to meet solvency and going concern requirements will approximate \$364 per year for the next three years.

(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.

	2006		2005	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Prepaid (accrued) benefit costs:				
Funded status – plan deficit	\$ (941)	\$ (6,158)	\$ (2,294)	\$ (7,437)
Employer contribution from measurement date to fiscal year end	87	–	–	–
Unamortized net actuarial loss	893	484	2,209	2,425
Unamortized past service cost	729	(144)	824	(180)
Prepaid (accrued) benefit costs	\$ 768	\$ (5,818)	\$ 739	\$ (5,192)
Change in benefit asset (obligation):				
Benefit obligation, beginning of year	\$ (25,137)	\$ (7,437)	\$ (21,639)	\$ (7,216)
Current service cost	(630)	(309)	(439)	(244)
Interest cost	(1,231)	(383)	(1,311)	(382)
Employees' contributions	(300)	–	(304)	–
Benefits paid	1,981	189	2,080	214
Actuarial gain (loss)	2,527	1,782	(3,524)	(1,317)
Remeasurement gain	–	–	–	1,034
Decrease in obligation due to curtailment	–	–	–	474
Benefit obligation, end of year	\$ (22,790)	\$ (6,158)	\$ (25,137)	\$ (7,437)

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 6

Year ended August 31, 2006
(Amounts in thousands of dollars)

4. Employee future benefits (continued):

(a) Plan assets and obligations (continued):

	2006		2005	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Change in plan assets:				
Plan assets at fair value, beginning of year	\$ 22,843	\$ —	\$ 21,078	\$ —
Actual return on plan assets	288	—	3,029	—
Employer contributions	399	—	512	—
Employees' contributions	300	—	304	—
Benefits paid	(1,981)	—	(2,080)	—
Plan assets at fair value, end of year	\$ 21,849	\$ —	\$ 22,843	\$ —

(b) Net benefit cost:

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

	2006		2005	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Current service cost	\$ 630	\$ 309	\$ 439	\$ 244
Interest cost	1,231	383	1,311	382
Expected return on plan assets	(1,499)	—	(1,380)	—
Amortization of past service costs	95	(36)	95	(37)
Curtailment loss (gain)	—	—	—	(23)
Amortization of actuarial losses	—	158	—	90
Net benefit cost	\$ 457	\$ 814	\$ 465	\$ 656

(c) Pension plan assets:

Plan assets are invested in the following securities at August 31, 2006:

	Target	Actual
Cash	5%	7%
Bonds	45%	34%
Canadian equities	30%	34%
U.S. equities	10%	12%
Other foreign equities	10%	13%

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 7

Year ended August 31, 2006
(Amounts in thousands of dollars)

4. Employee future benefits (continued):

(d) Assumptions:

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

	2006		2005	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Compensation increases	3.5%	– %	4.0%	–
Rate of inflation	3.0%	3.0%	3.0%	3.0%
Discount rate	5.75%	5.75%	5.0%	5.0%
Expected return on plan assets	6.75%	– %	6.75%	–
Initial health care trend rate	– %	8.9%	–	8.3%
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 2006 was 1.3% (2005 – 13%).

(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 2006.

	Increase	Decrease
Net benefit cost	\$ 170	\$ 130
Accrued benefit obligation	955	767

(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 in 2005. The impact of this curtailment is disclosed in notes 4(a) and 4(b).

5. Employee future benefits recovery receivable:

The employee future benefits recovery receivable represents the amount of the accrued employee future benefits liability, disclosed in note 4, 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.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 8

Year ended August 31, 2006
(Amounts in thousands of dollars)

5. Employee future benefits recovery receivable (continued):

In 2005, 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 was recorded as an adjustment to Operating Fund deficiency in 2005, resulting in an increase in the employee future benefits recovery receivable and a decrease in the Operating Fund deficiency of \$1,343.

6. 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	Amounts reimbursed	Closing balance
Membership fees	\$ 127	\$ –	\$ (127)	\$ –	\$ –
ScoutsAbout and Extreme Adventure	48	–	(48)	–	–
Group Deposits – Scout Shops	38	36	(38)	–	36
Lieutenant Governor Aboriginal Literary Program	112	–	(87)	(25)	–
Canadian Jamboree	–	630	–	–	630
Other	72	28	(32)	–	68
	\$ 397	\$ 694	\$ (332)	\$ (25)	\$ 734

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.

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

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

The Canadian Jamboree amounts consist of funds received in the year relating to the 2007 Canadian Jamboree. It is comprised of restricted cash of \$428 and deferred Jamboree costs of \$202.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 9

Year ended August 31, 2006
(Amounts in thousands of dollars)

7. 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 \$375 against this inventory purchase payable to Councils.

In fiscal 2002, the National Operation rebated to the Councils, the profit earned by the National Operation 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 \$49 (2005 - \$92) against this inventory rebate payable in the year.

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:			
2007	\$ 69	\$ 313	\$ 382
2008	–	161	161
	\$ 69	\$ 474	\$ 543

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 2006, \$95 (2005 - \$100) was paid to the Councils.

8. Loans from Provincial Councils:

	2006	2005
Loans from Provincial Councils:		
Provincial Council for Ontario	\$ 781	\$ 508
Provincial Council for British Columbia	266	–
	\$ 1,047	\$ 508

The loans from the Provincial Councils bear interest at the chartered bank prime rate less 1%. Repayment terms are currently under negotiation between the National Operation and the respective Provincial Council.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 10

Year ended August 31, 2006
(Amounts in thousands of dollars)

9. 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.

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.

10. 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 of \$195 consists of amounts receivable for national membership and insurance fees from Councils of \$69 for 2004-2005 and \$126 for 2005-2006.

The membership fees payable balance of \$175 consists of amounts payable by the National Operation to Councils for Council membership fees, of which \$155 relates to 2004-2005 and \$20 to 2005-2006.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 11

Year ended August 31, 2006
(Amounts in thousands of dollars)

10. Related party transactions (continued):

(b) Other:

Other related party transactions and balances are disclosed in notes 5, 7, 8, 11, 13 and 14 to the financial statements.

11. 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.

	2006	2005
All employees:		
Salaries and benefits	\$ 8,609	\$ 9,716
Employee future benefits	1,314	1,271
	<u>9,923</u>	<u>10,987</u>
Less recovered from Councils:		
Salaries and benefits	5,718	6,504
Employee future benefits	823	989
	<u>6,541</u>	<u>7,493</u>
National Operation	<u>\$ 3,382</u>	<u>\$ 3,494</u>

12. 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 \$251 (2005 - \$467) 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.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 12

Year ended August 31, 2006
(Amounts in thousands of dollars)

13. 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 \$217 (2005 - \$139) from the Foundation based on 100% of net proceeds from direct mail campaigns, excluding 15% of first \$100,000 and 85% of corporate campaigns.

During the year, the National Operation charged the Foundation \$9 (2005 - \$9) for administrative services and recovered \$129 (2005 - \$128) for salaries and benefits.

The National Operation has an amount receivable from the Foundation of \$193 (2005 - \$167) including recoveries of salaries and benefits from the Foundation.

14. 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, 2006, the National Operation is entitled to cover the deficit of \$36 (2005 - \$32) from Canyouth Publications Ltd. This amount has been recorded as a reduction in Canadian Leader magazine expense.

The National Operation purchased magazines totaling \$173 (2005 - \$187) from Canyouth Publications Ltd. in the year. The National Operation has an amount payable to Canyouth Publication Ltd. of \$25 (2005 - amount receivable of \$42) including the above deficit and recoveries of salaries and benefits.

During the year, the National Operation charged Canyouth Publications Ltd. \$44 (2005 - \$48) for rent, administration and designer services and recovered \$130 (2005 - \$124) for salaries and benefits.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 13

Year ended August 31, 2006
(Amounts in thousands of dollars)

15. 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, accrued employee future benefits 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 2 to the financial statements.

The fair value of inventory payables to Councils is approximately \$507 based on the expected repayments provided in note 7 and an annual interest rate of 5.5%.

16. Comparative figures:

Certain 2005 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2006.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Schedule – Restricted Funds

Year ended August 31, 2006, with comparative figures for 2005
(In thousands of dollars)

	Insurance	Brotherhood	International Participation	World Scout Foundation	Youth Event	2006 Restricted Funds	2005 Restricted Funds
Revenues:							
Insurance fees	\$ 1,562	\$ –	\$ –	\$ –	\$ –	\$ 1,562	\$ 1,864
Donations and sponsorships	–	16	13	–	–	29	61
Investment	38	35	50	159	–	282	204
Other	25	20	–	–	–	45	31
	1,625	71	63	159	–	1,918	2,160
Expenses:							
Insurance and legal	1,072	–	–	–	–	1,072	1,551
Administration	58	–	6	9	–	73	133
Travel and meetings	–	–	22	–	–	22	24
Programs and grants	–	68	–	–	–	68	52
Transfer to World Scout Bureau	–	–	–	97	–	97	58
	1,130	68	28	106	–	1,332	1,818
Excess of revenue over expenses	495	3	35	53	–	586	342
Fund balance, beginning of year	2,399	432	345	97	250	3,523	3,181
Fund balance, end of year	\$ 2,894	\$ 435	\$ 380	\$ 150	\$ 250	\$ 4,109	\$ 3,523

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Schedule – Restricted Funds (continued)

Year ended August 31, 2006, with comparative figures for 2005
(In thousands of dollars)

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.

CROSSROADS V – Can You Smell That?

AN UPDATE ON THE FINANCES OF THE NATIONAL OPERATION AT AUGUST 31ST, 2006

APPENDIX II

**REPORT OF THE EXECUTIVE COMMISSIONER & CEO:
YEAR ENDED AUGUST 31, 2006**



100 Years of Scouting 100 ans de scoutisme



Report of the Executive Commissioner & CEO: Year Ended August 31, 2006

I am pleased to submit to you my overview on Scouts Canada's National Operation for the year ended August 31, 2006, along with comments on planned activities for our 100th year of Scouting in Canada.

Summary

In line with Scouts Canada's Strategic Directions, we have achieved a number of successes in the past year that are worthy of mention in my report to the members of Scouts Canada. They are highlighted as follows:

- **Program:** Scouts Canada has focused a great deal of its efforts on ensuring that we continue to provide a program that remains relevant and interesting to today's youth. We have achieved this through partnering with various government agencies and corporations in order to offer leading-edge activities to youth dealing with such areas as climate change, appreciating Canada's veterans, and celebrating our Centennial.
- **Membership:** Membership exceeded our budget target of 100,000. We ended the year with a total of 102,200. Pacific Coast Council and Greater Toronto Council achieved membership in excess of 100% of the previous year, and Shining Waters was very close to achieving this target. Our success can be attributed in large part to Councils embracing Scouts Canada's Strategic Directions and in particular focusing more effort on membership growth and retention.
- **Finance:** Efforts spent in improving fiscal discipline are paying dividends as evidenced in this year's operating results where we are showing an excess of revenue over expenses for the Operating Fund of \$102,000. The costs associated with restructuring are mainly behind us. We also have built a strong reserve in the Insurance Fund to protect the sustainability of our operations. A more detailed analysis is provided in the Finance section of this report.
- **Other Points of Interest:**
 - The new Governor General has agreed to serve as Chief Scout and extended an invitation to the Chief Commissioner and Executive Commissioner & CEO to meet with her to discuss our program.
 - We have created a position dedicated to enhancing our Internal Communications, one of the key Strategic priorities.

Program

Program Networks

Scouts Canada is shifting from its Program Services Committee model to three new Networks which cover Program, Adult Development, and Recognition. A representative from each council will sit on each network. It is anticipated that this will improve communication to and from the field and increase the ability to engage the field to discuss trends, issues and new initiatives. This is consistent with our Strategic Directions.

Honours and Awards

The Recognition Deputy and Network have reviewed some of the processes around the Honours and Awards program and have streamlined some of the forms making it easier for applicants. They have also encouraged Councils to establish goals or targets for the number of Scouters recognized; 5% has been established as the minimum for each Council to achieve. This supports our Strategic Directions. The Recognition Network is also working with the Youth Committee to review Council Youth awards and develop a proposal for a national youth award. This group has also developed a proposal for a Centennial Medal for review and approval by the Council Commissioners, the Operations Advisory Committee, and Chief Commissioner.

Centennial

A committee was established this past year to plan Centennial celebrations. As a result, many initiatives are under way for 2007.

A new badge has been developed and produced for adults who have earned the Chief Scout, Queen's Venturer or King's Scout Awards. The first order has already sold out in Scout Shops across the country!

The national web site now features a special Centennial section for sharing centennial ideas and activities as well as providing national updates. We look forward to a year of celebrations including a national sunrise ceremony on Parliament Hill; a black tie Gala in the national capital; the Canadian Jamboree at Tamaracouta Scout Reserve in Mille Isle, Quebec; and the many local Council events and activities.

Commissioners have approved the development of a 2007 badge to be worn on the uniform of members during the Centennial year. This is also now available in Scout Shops.

Partnerships

Scouts Canada's ongoing partnership with Veterans Affairs Canada has continued to evolve throughout 2005-06. This year, Chief Commissioner Glenn Armstrong and another adult Advisor along with 12 Venturers from across Canada joined a delegation of youth on a Journey of Remembrance to commemorate the 90th Anniversary of the Battle of the Somme and Beaumont-Hamel. We have also developed Pass the Torch interpretive trails at a number of locations across the Country.

Scouts Canada's *Climate Change Education and Action Program* had a fantastic year. It was bestowed three awards: (1) runner up in Imagine Canada's Community Partnership Award, (2) Huguette Labelle Award for Engaging Youth in International Cooperation with the Delphi Group for our work with the South African Scout Association, and (3) an exceptional honour; the Canadian Environment Awards – Gold for Climate Change! As well, Scouts Canada, the South African Scout Association and the Delphi Group held a workshop in Windhoek, Namibia to expand climate change programming to Scout Associations across Africa.

We would like to recognize our partners and sponsors who have helped make this happen - the Delphi Group, The South African Scout Association, Alcan Inc. and Nexen Inc. The Scouts Canada Climate Change Award is a good example of how Scouting remains relevant to Canadian society one of Scouts Canada's Strategic Directions.

Membership

This past year, membership exceeded our budget target of 100,000 with a final tally of 102,200. Pacific Coast Council and Greater Toronto Council achieved membership in excess of 100% of the previous year, and Shining Waters Council was very close to achieving this target. Many groups across the country also reported growth in numbers.

While our overall membership declined by 6.8% from the previous year, the rate of decline has been slowed from the average 10% year-over-year decline we have experienced each of the last five years.

The number one challenge continues to be the recruitment of leaders to deliver our programs. We are committed to identifying ways to make volunteering less demanding and more flexible so that we can attract and retain these much needed adult leaders.

The use of school talks and local distribution of flyers continue to generate positive results across the country. While Scouts Canada's programs continue to attract young people, we must focus some effort on the follow up of those who show an interest in our programs. There are indicators to suggest we need to make it easier for parents to obtain information about getting their children registered at the group level.

We continue to make a concerted effort to expand our programs into all communities across the country. Our Diversity Task Group has been providing key leadership in our initiative to welcome all Canadians into the Movement.

Our Partners and Sponsors continue to play a key role in the delivery of our programs in the local community. We must nurture these relationships, and in some cases reconnect to ensure that their needs are being met. We are committed to assisting

them in achieving their Mission by applying the Scout program.

A number of Councils reported a very successful Spring Registration program. This allows the Council to begin planning for the Fall program and ensures appropriate leadership is in place and trained in a timely manner.

Finance

After a series of losses going back to the 2001-2002 fiscal year, Scouts Canada has begun to realize the benefits of restructuring and administrative changes undertaken in the last few years are paying dividends as evidenced in this year's operating results where we are showing an excess of revenue over expenses for the Operating Fund of \$102,000.

Operating Fund

Membership revenue is higher than last year but is not reflective of the full membership fee increase implemented for the 2005-06 year. Differences in the membership mix (full year programs, Extreme Adventure, SCOUTSabout, etc.) along with corresponding rates impacted the overall revenue amount.

Revenue was down overall in 2005-06 compared to the previous year, due primarily to a reduction in Scout Shop retail sales. This reduction in sales can be attributed to the decline in membership. Despite the downturn in sales, Retail Services was able to generate a profit this year of \$130,000 as compared to losses of \$210,500 in the previous year. Reductions in salaries and benefits of almost \$200,000 along with reductions in the cost of freight, warehousing and promotional costs were the primary contributors to the change in profitability of the Scout Shops. It should be noted that in addition to the profit generated by Retail Services, contributions to council and national operations for rents, services and profit sharing totaled just under \$500,000.

An increase in fundraising revenue can be attributed to increased sales of Scout Popcorn. Revenues generated directly from popcorn remain at the council and group levels. The revenues received at the national level are based on a royalty for unit sales and is used to offset some of the administrative costs of running the popcorn program incurred by the National Operation.

Most other revenue streams remained consistent year over year with the exception of grants and fees for service. During the year several councils took back responsibility for their accounting. This resulted in a decline in the service fees collected by National Operation for this service and is the primary source of the decline of fees for service.

Grant availability to Scouts Canada during the year was not as good as in the previous year. We were able to take advantage of some key grants that should lead to multiyear partnerships. Program and grant expenses were reduced proportionately with the grant monies received.

Other operating expenses were either on budget or under in 2005-06.

Cash Management

Fiscal 2005-06 ended with our bank debt being reduced by \$1,000,000 from the same time the previous year. Better membership collection processes lead the way to improved cash management but also included better inventory management; lower shipping costs, decreased travel and meeting expenses as well as reductions in prepaid expenses.

Retail Services was successful this year in reducing on-hand inventories by almost \$600,000 which greatly benefited the organization's ability to utilize cash in other areas. It is believed that further reductions in inventory are possible which will continue to positively add to the cash flow requirements of Scouts Canada.

During the year we were able to take advantage of profits from our investments increasing our investment revenues. Monies from these profits were reinvested and will be available to the organization in the future as required.

This year a significant number of capital assets came to the end of their economic as well as their useful life. This accounted for a reduction in expense of more than \$175,000 but has left the organization in need of replacing assets necessary to the management and delivery of programs. A life-cycle plan for technology and building maintenance is under development and will serve as a tool for the efficient implementation of necessary technology and building maintenance and improvements.

Also included in this year's cash balance are monies held for both the World Jamboree and the Canadian Jamboree. Although these are restricted funds they make up a portion of the year-end cash balances.

A complete set of condensed consolidated financial statements was prepared for the year ended August 31, 2005 and sent out to all Councils. These consolidated financial statements demonstrate the overall strength of Scouting in Canada. Due to the timing of Annual meetings as well as the decentralized accounting by geographic area, it is not possible to have these consolidated financial statements available earlier than the spring of the following year. Plans are already underway to issue the condensed consolidated financial statements for 2005-2006.

Insurance

A camp insurance program has been established and many councils are experiencing significant savings on their premiums.

A policy change with respect to Scouts Canada property usage is providing opportunities for Councils to increase their revenue by renting facilities to outside groups.

The coming year will provide Scouting with wonderful opportunities to enhance our profile. This will be the 100th Anniversary of the Scouting Movement and a number of celebrations in Canada and around the world will serve to remind Canadians that Scouting remains an integral part of their community.

We anticipate the participation of over 7000 Scouts, Venturers, Leaders and other volunteer Scouters at our Canadian Jamboree at Tamaracouta in July. There will also be a Jamboree in British Columbia and a number of other events taking place in Councils across the country over the course of the year. We will also send a contingent of Venturers and Leaders to England for the World Jamboree. This contingent will be under the leadership of Mike Scott, Past Chief Commissioner. They will join over 30,000 members from around the world.

We must continue to focus on achieving the desired results as identified in the Strategic Directions strategy. Of course membership growth and retention is the cornerstone of our efforts at all levels. While we had a positive year with respect to our financial results, we must continue to follow the Scout Law and continue to operate "in the black".

Our efforts will continue to support the development and enhancement of our Membership Management System.

We plan to continue to work to ensure our Scout Shops operate in a manner that results in service to our membership while at the same time providing a reasonable return on investment.

Conclusion

This is the first time we have compiled a comprehensive review of the year's activities for the information of our members. It forms part of our commitment to better communicate with our stakeholders on an ongoing basis. I hope you find this report useful in better understanding the operations of Scouts Canada. I would also like to note that we have set aside time prior to our AGM in Winnipeg to review of the financial report.

Yours in Scouting,



J. Robert (Rob) Stewart
CEO and Executive Commissioner

Ottawa, Ontario
November 7, 2006

One World, One Promise  Un monde une promesse