

Financial Statements of

**SCOUTS CANADA NATIONAL
OPERATION**

Year ended August 31, 2010

AUDITORS' REPORT

To the Board of Governors of Scouts Canada National Operation

We have audited the statement of financial position of Scouts Canada National Operation as at August 31, 2010 and the statements of operations, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Scouts Canada National Operation 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 Scouts Canada National Operation as at August 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Ottawa, Canada

October 26, 2010

SCOUTS CANADA NATIONAL OPERATION

Statement of Financial Position

August 31, 2010, with comparative figures for 2009
(In thousands of dollars)

	Operating Fund	Restricted Funds	2010	2009
Assets				
Current assets:				
Cash	\$ 1,994	\$ 812	\$ 2,806	\$ 3,124
Amounts receivable (notes 12 and 13)	350	–	350	185
Inventories	2,845	–	2,845	3,152
Prepaid expenses	35	293	328	350
Membership fees receivable (note 10(a))	423	–	423	260
Current portion of loan receivable from related party (note 8)	10	–	10	10
	5,657	1,105	6,762	7,081
Investments (note 3)	3,470	8,972	12,442	9,527
Capital assets (note 4)	1,806	–	1,806	1,990
Prepaid pension costs (note 5(a))	2,960	–	2,960	2,716
Employee future benefits recovery receivable (note 6)	1,790	–	1,790	1,896
Loan receivable from related party (note 8)	20	–	20	30
Amounts due from operating fund	(1,983)	1,983	–	–
	\$ 13,720	\$ 12,060	\$ 25,780	\$ 23,240

Liabilities and Fund Balances

Current liabilities:				
Accounts payable and accrued liabilities	\$ 1,117	\$ 132	\$ 1,249	\$ 870
Deferred revenue (note 7)	401	–	401	272
Current portion of loans payable to related parties (note 9)	100	–	100	80
	1,618	132	1,750	1,222
Loans payable to related parties (note 9)	605	–	605	725
Accrued employee future benefits (note 5(a))	6,000	–	6,000	6,148
Fund balances:				
Operating Fund	3,691	–	3,691	3,180
Restricted Funds (schedule)	–	9,251	9,251	7,676
Investment in capital assets	1,806	–	1,806	1,990
World Scout Foundation	–	2,677	2,677	2,299
	5,497	11,928	17,425	15,145
Contingent liabilities (note 14)				
	\$ 13,720	\$ 12,060	\$ 25,780	\$ 23,240

See accompanying notes to financial statements.

On behalf of Scouts Canada National Operation:

Vice-Chair Finance – Board of Governors

Chief Executive Officer

SCOUTS CANADA NATIONAL OPERATION

Statement of Operations

Year ended August 31, 2010, with comparative figures for 2009
(In thousands of dollars)

	Operating Fund	Restricted Funds (schedule)	Total 2010	Total 2009
Revenue:				
Membership fees (note 10(a))	\$ 4,110	\$ -	\$ 4,110	\$ 4,024
Scout Shops sales	4,574	-	4,574	4,756
Insurance fees (note 10(a))	-	1,498	1,498	1,473
Fundraising	395	-	395	579
Donations and sponsorships (note 12)	93	27	120	234
Grants	89	-	89	272
Fees for services	49	-	49	72
Investment	48	180	228	304
Program fees	8	67	75	7
Gain on sale of land (note 4)	166	-	166	-
Other	155	20	175	206
	9,687	1,792	11,479	11,927
Expenses:				
Salaries and benefits (note 11)	11,507	-	11,507	10,727
Recovery of salaries and benefits (note 11)	(7,924)	-	(7,924)	(7,442)
Scout Shops cost of sales	2,353	-	2,353	2,300
Insurance and legal	-	666	666	773
Communication and promotion	554	-	554	263
Occupancy	199	-	199	203
Property maintenance	227	-	227	272
Administration	1,041	49	1,090	775
Scouting Life magazine	165	-	165	116
Warehouse facility and freight	76	-	76	73
Council revenue sharing (note 10(b))	86	-	86	91
Travel and meetings	511	79	590	326
World Bureau fees	121	-	121	125
Training and relocation	10	-	10	65
Programs and grants	234	64	298	336
Interest	26	-	26	29
Transfer to World Scout Bureau	-	51	51	-
Amortization of capital assets	225	-	225	223
Other	22	-	22	32
	9,433	909	10,342	9,287
Excess of revenue over expenses before the undernoted				
	254	883	1,137	2,640
World Scout Foundation (note 12)	-	378	378	1,085
World Jamboree	-	463	463	-
Excess of revenue over expenses	\$ 254	\$ 1,724	\$ 1,978	\$ 3,725

See accompanying notes to financial statements.

SCOUTS CANADA NATIONAL OPERATION

Statement of Changes in Fund Balances

Year ended August 31, 2010, with comparative figures for 2009
(In thousands of dollars)

	Operating Fund	Restricted Funds (schedule)	Investment in Capital Assets	World Scout Foundation	Total 2010	Total 2009
Fund balances, beginning of year	\$ 3,180	\$ 7,676	\$ 1,990	\$ 2,299	\$ 15,145	\$ 11,327
Excess of revenue over expenses	254	1,346	—	378	1,978	3,725
Adjustment for unrealized gains on investments (note 3(b))	73	229	—	—	302	93
Change in investment in capital assets:						
Amortization of capital assets	225	—	(225)	—	—	—
Capital asset additions	(41)	—	41	—	—	—
Closing balance	\$ 3,691	\$ 9,251	\$ 1,806	\$ 2,677	\$ 17,425	\$ 15,145

See accompanying notes to financial statements.

SCOUTS CANADA NATIONAL OPERATION

Statement of Cash Flows

Year ended August 31, 2010, with comparative figures for 2009
(In thousands of dollars)

	2010	2009
Cash flows from operating activities:		
Excess of revenue over expenses	\$ 1,978	\$ 3,725
Items not involving cash:		
Gain on sale of land	(166)	-
Amortization of capital assets	225	223
Change in pension and employee future benefit balances	(286)	(116)
Changes in non-cash working capital:		
Amounts receivable	(165)	88
Inventories	307	(362)
Prepaid expenses	22	(54)
Membership fees receivable	(163)	(151)
Accounts payable and accrued liabilities	379	77
Deferred revenue	129	14
	<u>2,260</u>	<u>3,444</u>
Cash flows from investing activities:		
Capital asset additions	(41)	(59)
Additions to investments	(2,613)	(2,410)
Principal payments received on loan receivable from related party	10	10
Proceeds from sale of land	166	-
	<u>(2,478)</u>	<u>(2,459)</u>
Cash flows from financing activities:		
Principal payments on loans payable to related parties	(100)	(152)
	<u>(100)</u>	<u>(152)</u>
Net increase (decrease) in cash	(318)	833
Cash, beginning of year	3,124	2,291
Cash, end of year	<u>\$ 2,806</u>	<u>\$ 3,124</u>
Supplemental cash flow information:		
Interest paid	\$ 26	\$ 29

See accompanying notes to financial statements.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements

Year ended August 31, 2010
(Amounts in thousands of dollars)

Scouts 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.

Scouts 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. Scouts Canada National Operation (the "National Operation") is responsible for the national activities of Scouts Canada and provides services to the Provincial and Regional Councils (the "Councils") of Scouts 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 internally or externally restricted to that activity.

The World Scout Foundation Fund reports donations received 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) Inventories:

Inventories are valued at the lower of weighted average cost and net realizable value.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 2

Year ended August 31, 2010
(Amounts in thousands of dollars)

1. Significant accounting policies (continued):

(d) Investments:

Investments are designated as available-for-sale and are recorded at fair value. Realized investment income calculated using the effective interest rate method is recorded in the statement of operations. Unrealized gains or losses from the change in fair value are recorded in the statement of changes in fund balances. Fair value is determined at quoted market prices. Sales and purchases of investments are recorded on the settlement date. Transaction costs related to the acquisition of investments are expensed.

(e) Financial instruments:

The National Operation classifies all financial instruments in one of the following categories: held-for-trading, held-to-maturity, loans and receivables, other financial liabilities, or available-for-sale financial assets. Upon initial recognition, financial assets or financial liabilities are measured at their fair value. The related accounting treatment for financial instruments subsequent to initial recognition depends on the classification. Financial assets and liabilities categorized as held-for-trading are measured at fair value with gains and losses recognized in the statement of operations. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with changes in fair value initially recorded directly in the statement of changes in net assets until the financial asset is sold or impaired at which time the amounts are recognized in the statement of operations. In addition, the derivatives embedded in financial instruments or other contracts may be required to be accounted for separately.

The National Operation classifies financial instruments other than investments as follows:

Amounts receivable, membership fees receivable and loan receivable from related party are designated as loans and receivables.

Accounts payable and accrued liabilities and loans payable to related parties have been classified as other financial liabilities.

Non-financial and embedded derivatives

The National Operation reviews contracts in place to identify non-financial derivatives and embedded derivatives. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is separated from the host contract and accounted for as a derivative at its fair value with subsequent changes in fair value recorded in the statement of operations. No embedded derivatives have been recognized in these financial statements.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 3

Year ended August 31, 2010
(Amounts in thousands of dollars)

1. Significant accounting policies (continued):

(e) Financial Instruments (continued):

Transaction costs

Transaction costs are comprised primarily of legal, accounting and other costs directly attributable to the acquisition, issuance or disposal of a financial asset or financial liability. Transaction costs are expensed as incurred.

(f) 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 are 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.

(g) 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.

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 accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees.

Pension plan assets are measured at fair value, determined at quoted market prices.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 4

Year ended August 31, 2010
(Amounts in thousands of dollars)

1. Significant accounting policies (continued):

(h) 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.

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.

(i) Expenses:

In the statement of operations, the National Operation presents its expenses by object, except for administration expense and Scout Shops cost of sales, which are presented on a functional basis. Expenses are recognized in the year incurred and are recorded in the applicable function to which they are directly related. The National Operation does not allocate expenses between functions after initial recognition.

(j) 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.

(k) 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.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 5

Year ended August 31, 2010
(Amounts in thousands of dollars)

1. Significant accounting policies (continued):

(l) 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. Significant estimates result from assumptions used to actuarially determine the prepaid pension costs and accrued benefit liability for employee future benefits and the accrual for contingent liabilities.

2. Adoption of new accounting standards:

(a) Amendments to Accounting Standards that Apply Only to Not-For-Profit Organizations:

Effective, September 1, 2009, the National Operation adopted the Canadian Institute of Chartered Accountants ("CICA") amendments to the 4400 Sections of the CICA Handbook. These amendments revised the financial statement presentation and disclosure requirements for the National Operation. The adoption of these amendments had no effect on the National Operation's financial statements for the year ended August 31, 2010, except for additional disclosure in the statement of cash flows.

(b) Amendments to Section 1000, *Financial Statement Concepts*:

Effective, September 1, 2009, the National Operation adopted the Canadian Institute of Chartered Accountants ("CICA") amendments to Section 1000 of the CICA Handbook. These amendments clarified the criteria for recognition of an asset or liability, removing the ability to recognize assets or liabilities solely on the basis of matching revenue and expense items. The adoption of these amendments had no effect on the National Operation's financial statements for the year ended August 31, 2010.

(c) Disclosure of Allocated Expenses by Not-for-Profit Organizations:

Effective September 1, 2009, the Association adopted CICA Handbook Section 4470, *Disclosure of Allocated Expenses by Not-for-Profit Organizations* which establishes disclosure standards for Entities that chose to report their expenses by function and allocate expenses between functions. The adoption of these amendments had no effect on the National Operation's financial statements for the year ended August 31, 2010, except for the additional note disclosure in note 1(i).

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Notes to Financial Statements, page 6

Year ended August 31, 2010
(Amounts in thousands of dollars)

3. Investments:

(a) The National Operation holds investments for the following purposes:

	2010		2009	
	Cost	Fair value	Cost	Fair value
Operating:				
Employee future benefits	\$ 846	\$ 890	\$ 823	\$ 823
Building Reserve	2,520	2,580	1,001	1,033
Restricted:				
Insurance Fund	5,116	5,209	4,056	4,102
Brotherhood Fund	458	489	473	476
International Participation Fund	371	396	385	384
Youth Event Fund	374	374	372	372
World Scout Foundation	2,358	2,504	2,320	2,337
	\$ 12,043	\$ 12,442	\$ 9,430	\$ 9,527

Investments consist of:

Fixed income securities	\$ 4,239	\$ 4,420	\$ 2,800	\$ 2,939
Equities	2,467	2,684	1,414	1,372
Money market mutual funds	5,337	5,338	5,216	5,216
	\$ 12,043	\$ 12,442	\$ 9,430	\$ 9,527

The National Operation's fixed income securities have interest rates of 1.5% to 7.9% and maturity dates ranging from November 2010 to June 2018.

(b) Cumulative adjustment for unrealized gains on investments:

	2010	2009
Balance, beginning of year	\$ 97	\$ 4
Change in cumulative unrealized gains on investments in the year	302	93
Balance, end of year	\$ 399	\$ 97

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 7

Year ended August 31, 2010
(Amounts in thousands of dollars)

3. Investments (continued):

(b) Cumulative adjustment for unrealized gains on investments (continued):

The National Operation regularly reviews investment to determine whether unrealized losses represent temporary changes in fair value or are a result of other than temporary impairments. The consideration of whether an investment is other than temporarily impaired is based on a number of factors which include, but are not limited to, the financial condition of the issuer and the length and magnitude of the unrealized loss and specific credit events. The National Operation also considers its intent and ability to hold an investment for a sufficient period of time for the value of the unrealized loss to recover. Based on the evaluation as of August 31, 2010, unrealized losses are considered to be temporary.

4. Capital assets:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 15	\$ -	\$ 15	\$ 15
Building	1,485	1,189	296	325
Betterment	2,800	1,419	1,381	1,521
Office furniture and equipment	400	363	37	47
Computer hardware and software	724	664	60	62
Scout Shop equipment and renovations	50	33	17	20
	\$ 5,474	\$ 3,668	\$ 1,806	\$ 1,990

Cost and accumulated amortization as at August 31, 2009 were \$5,433 and \$3,443 respectively. In the year, the National Operation sold a small portion of its land to the owner of a neighbouring property for \$166.

5. Employee future benefits:

Scouts Canada administers the Employees' Pension Plan of Scouts Canada, which is a defined benefit pension plan that covers most of its employees working at the National Operation and the Councils. Scouts Canada also provides its employees with other retirement and post-employment benefits under its employee benefit plans.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 8

Year ended August 31, 2010
(Amounts in thousands of dollars)

5. Employee future benefits (continued):

For the pension and employee benefit plans, Scouts 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.

(a) Plan assets and obligations:

The following table presents the changes in plan assets and benefit obligations and the composition of prepaid pension costs and accrued future employee benefits liability in the financial statements.

	2010		2009	
	Pension	Other post-employment	Pension	Other post-employment

(i) Prepaid pension costs (accrued benefit liability):

Plan assets at fair value	\$ 21,180	\$ -	\$ 21,058	\$ -
Accrued benefit obligation	(26,197)	(4,237)	(21,076)	(3,549)
	(5,017)	(4,237)	(18)	(3,549)
Employer contribution from measurement date to fiscal year end	180	-	122	-
Unamortized net actuarial loss	7,447	(617)	2,167	(1,274)
Unamortized past service cost	350	(1,146)	445	(1,325)
Prepaid pension costs (accrued benefit liability)	\$ 2,960	\$ (6,000)	\$ 2,716	\$ (6,148)

	2010		2009	
	Pension	Other post-employment	Pension	Other post-employment

(ii) Accrued benefit obligation:

Benefit obligation, beginning	\$ (21,076)	\$ (3,549)	\$ (22,623)	\$ (4,443)
Current service cost	(212)	(65)	(370)	(96)
Interest cost	(1,483)	(255)	(1,339)	(277)
Employees' contributions	(337)		(364)	-
Benefits paid	1,811	197	1,350	220
Actuarial gain (loss)	(4,900)	(565)	2,270	1,047
Accrued benefit obligation, ending	\$ (26,197)	\$ (4,237)	\$ (21,076)	\$ (3,549)

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 9

Year ended August 31, 2010
(Amounts in thousands of dollars)

5. Employee future benefits (continued):

(a) Plan assets and obligations (continued):

	2010		2009	
	Pension	Other post-employment	Pension	Other post-employment
(iii) Plan assets:				
Plan assets at fair value, beginning	\$ 21,058	\$ -	\$ 22,926	\$ -
Actual return on plan assets	896	-	(1,755)	-
Employer contributions	760	-	873	-
Employee contributions	337	-	364	-
Benefits paid	(1,811)	-	(1,350)	-
Allowance for plan expenses	(60)	-	-	-
Plan assets at fair value, ending	\$ 21,180	\$ -	\$ 21,058	\$ -

(b) Net benefit cost:

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

	2010		2009	
	Pension	Other post-employment	Pension	Other post-employment
Current service cost	\$ 212	\$ 65	\$ 370	\$ 96
Provision for plan expenses	60	-	-	-
Interest cost	1,483	255	1,339	277
Expected return on plan assets	(1,281)	-	(1,544)	-
Amortization of past service costs	95	(179)	95	(179)
Amortization of actuarial losses	7	(92)	-	(3)
Net benefit cost	\$ 576	\$ 49	\$ 260	\$ 191

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 10

Year ended August 31, 2010
(Amounts in thousands of dollars)

5. Employee future benefits (continued):

(c) Assumptions:

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

	2010		2009	
	Pension	Other post-employment	Pension	Other post-employment
Rate of compensation increases	3.00%	—	2.75%	—
Rate of inflation	2.25%	2.25%	2.00%	2.00%
Discount rate	5.50%	5.50%	7.25%	7.25%
Expected return on plan assets	6.20%	—	6.20%	—
Initial health care trend rate	—	6.10%	—	8.60%
Ultimate health care trend rate	—	3.80%	—	5.10%

The ultimate health care trend rate is estimated to be reached in 2019. The actual return on plan assets in fiscal 2010 was 4.2% (2009 – (8.3%)).

(d) Health care sensitivity analysis:

Assumed health care cost trend rates have a significant effect on the amounts reported for the post-employment benefits. A 1% change in assumed health care trend rates would have the following effect for 2010.

	Increase	Decrease
Net benefit cost	\$ 13	\$ 11
Accrued benefit obligation	222	194

(e) Defined benefit plan:

The latest actuarial valuation of the pension plan for funding purposes was performed as at January 1, 2010. The next actuarial valuation is required to be completed as at January 1, 2011, in accordance with the requirements of the Pension Benefits Act (Ontario).

As part of the regulations governing provincially 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, 2010 reported a solvency deficiency of \$1,874 and a going concern deficit of \$2,001, based on economic assumptions applicable at January 1, 2010. Scouts Canada is required to make additional contributions of \$856 per annum in future years to eliminate the solvency deficiency and going concern unfunded liability under the Pension Benefits Act (Ontario). In fiscal 2010, Scouts Canada made additional contributions of \$364 (2009 - \$364).

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 11

Year ended August 31, 2010
(Amounts in thousands of dollars)

5. Employee future benefits (continued):

(f) Defined contribution plan:

Effective January 1, 2010, Scouts Canada created a defined contribution plan available to all employees of Scouts Canada who meet the eligibility requirements specified in the Plan Agreement. In the year, Scouts Canada made employer contributions to the defined contribution plan of \$37, which is included in salaries and benefits expense and recovery of salaries and benefits.

6. Employee future benefits recovery receivable:

The employee future benefits recovery receivable represents the amount of the prepaid pension costs and accrued employee future benefits liability, disclosed in note 5(a), that is receivable from the Councils with respect to their employees. The Councils pay the National Operation for their portion of the employer contributions made to the pension and employee benefit plans.

7. Deferred revenue:

Deferred revenue represents amounts 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
ScoutsAbout and Extreme Adventure programs	\$ 35	\$ 10	\$ 26	\$ 19
Other programs	173	223	84	312
Gift Certificates – Scout Shops	64	104	98	70
	\$ 272	\$ 337	\$ 208	\$ 401

ScoutsAbout and Extreme Adventure programs consist of restricted grants and donations to be used to develop and introduce these programs in Councils across Canada.

Other programs consist of restricted grants and donations received for various Scout programs in future years.

Gift Certificates - Scout Shops are funds left on deposit at Scout Shops for future purchases.

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Notes to Financial Statements, page 12

Year ended August 31, 2010
(Amounts in thousands of dollars)

8. Loan receivable from related party:

Loan receivable from related party:

	2010	2009
Loan receivable from New Brunswick Council	\$ 30	\$ 40
Current portion	10	10
Long-term portion	\$ 20	\$ 30

The loan to the New Brunswick Council is repayable in five annual installments of \$10. No interest is charged on the loan.

9. Loans payable to related parties:

	2010	2009
Loans payable to related parties:		
Incorporated Body for Scouts Canada in Ontario	\$ 530	\$ 605
British Columbia Councils	175	200
	705	805
Current portion	100	80
Long-term portion	\$ 605	\$ 725

The loans from the Incorporated Body for Scouts Canada in Ontario is repayable in annual installments of \$75 principal plus interest accrued at the chartered bank prime rate less 1% at the date of the original loan.

The loans from the British Columbia Councils are repayable in annual installments of \$25 plus interest accrued at the chartered bank prime rate less 1% at the date of the original loan.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 13

Year ended August 31, 2010
(Amounts in thousands of dollars)

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 \$423 (2009 - \$260) consists of amounts receivable for national membership and insurance fees from Councils at year end.

(b) Council revenue sharing:

Effective September 1, 2003, the National Operation assumed ownership from the Councils of all the Scout Shops across Canada.

As part of the transfer of ownership of the Scout Shops, the National Operation committed to paying the Councils 2% of the annual gross sales of the Scout Shops in their region. In 2010, \$86 (2009 - \$91) was paid to the Councils.

(c) Other:

Other related party transactions and balances are disclosed in notes 6, 8, 9, 11, 12 and 13 to the financial statements.

11. Salaries and benefits:

The National Operation administers the payroll for all employees of Scouts Canada, including those working at the Councils, Fondation Scouts Canada Foundation and Canyouth Publications Ltd. The National Operation recovers the cost of salary and benefits.

	2010	2009
All employees:		
Salaries and benefits	\$ 10,546	\$ 9,599
Employee future benefits	961	1,128
	<u>11,507</u>	<u>10,727</u>
Less amounts recovered:		
Salaries and benefits	7,190	6,660
Employee future benefits	734	782
	<u>7,924</u>	<u>7,442</u>
National Operation	\$ 3,583	\$ 3,285

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 14

Year ended August 31, 2010
(Amounts in thousands of dollars)

12. Fondation Scouts Canada Foundation:

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

The National Operation received donations of \$50 (2009 - \$1,162) from the Foundation consisting of \$Nil (2009 - \$992) relating to the World Scout Foundation and \$50 (2009 - \$170) of other donations.

During the year, the National Operation recovered \$298 (2009 - \$262) for salaries and benefits.

The National Operation has an amount receivable from the Foundation of \$3 (2009 - \$62) including recoveries of salaries and benefits from the Foundation.

13. Canyouth Publications Ltd.:

The National Operation exercises significant influence over Canyouth Publications Ltd. Canyouth Publications Ltd. publishes the Scouting Life 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, 2010, the National Operation received a contribution of \$147 (2009 - \$98) representing the surplus generated by Canyouth Publications Ltd.

The National Operation purchased magazines totaling \$165 (2009 - \$116) from Canyouth Publications Ltd. in the year. The National Operation has an amount receivable from Canyouth Publication Ltd. of \$147 (2009 - \$86).

During the year, the National Operation charged Canyouth Publications Ltd. \$9 (2009 - \$9) for rent and administration and recovered \$89 (2009 - \$82) for salaries and benefits.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 15

Year ended August 31, 2010
(Amounts in thousands of dollars)

13. Canyouth Publications Ltd. (continued):

Effective September 1, 2010, Canyouth Publications Ltd has ceased operations and is commencing the process dissolving the company. The National Operation will assume all assets and liabilities of Canyouth Publications Ltd. at their carrying amounts. As at August 31, 2010, the assets and liabilities of Canyouth Publications Ltd were as follows:

	2010
Cash	\$ 261
Accounts receivable	5
	<u>266</u>
Current liabilities	\$ 112
Due to National Operation	147
	<u>259</u>
Equity	7
	<u>\$ 266</u>

14. 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. However, since September 2001 Scouts Canada has not been insured for child abuse claims. 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.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 16

Year ended August 31, 2010
(Amounts in thousands of dollars)

14. Contingent liabilities (continued):

(b) Other:

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

15. Financial instruments:

(a) Fair values:

The carrying value of cash, amounts receivable, membership fees receivable 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 accrued employee future benefits is not determinable as there are no set terms of repayment.

The fair value of the loan receivable from the New Brunswick Council is approximately \$27 based on the expected repayments provided in note 9 and an annual interest rate of 3.75%.

The fair value of the loan from the Incorporated Body for Scouts Canada in Ontario is approximately \$513 based on the expected repayments provided in note 9 and an annual interest rate of 3.75%.

The fair value of the loan from British Columbia Councils is approximately \$172 based on the expected repayments provided in note 9 and an annual interest rate of 3.75%.

(b) Credit risk:

The National Operation is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. Credit exposure is minimized by dealing mostly with creditworthy counterparties such as Scouts Councils, government agencies and public companies. The National Operation believes that it is not exposed to significant credit risk arising from its financial instruments.

(c) Interest rate risk:

The National Operation is exposed to interest rate risk with respect to its interest-bearing investments, loan receivable from related party and loans repayable to related parties, as disclosed in notes 3, 8, and 9.

(d) Foreign currency risk:

The National Operation believes that it is not exposed to significant foreign currency risks arising from its financial instruments.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 17

Year ended August 31, 2010
(Amounts in thousands of dollars)

16. Capital management:

The National Operation considers its capital to consist of the fund balances of the operating and restricted funds and its investment in capital assets.

The National Operation's overall objective for its capital is to fund capital assets, contingent liabilities, future projects and ongoing operations. The National Operation manages its capital by maintaining and monitoring restricted funds for specific purposes, future projects, contingencies and other capital requirements. The restricted funds are disclosed in the schedule.

In the prior year, the Board of Governors approved by motion the objective of accumulating a fund balance of \$4 million in the Operating Fund by 2016.

The National Operation is not subject to externally imposed capital requirements and its approach to capital management remains unchanged for the prior year.

17. Comparative figures:

Certain 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2010.

SCOUTS CANADA NATIONAL OPERATION

Schedule – Restricted Funds

Year ended August 31, 2010, with comparative figures for 2009
(In thousands of dollars)

	Insurance	Brotherhood	International Participation	World Scout Foundation	Youth Event	Information Technology Fund	CCTFOG Fund	2010 Restricted Funds	2009 Restricted Funds
Revenue:									
Insurance fees	\$ 1,498	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 1,498	\$ 1,473
Donations and sponsorships	–	20	6	–	–	–	1	27	25
Investment	79	17	13	68	2	1	–	180	253
Program fees	–	65	2	–	–	–	–	67	–
Other	–	20	–	–	–	–	–	20	41
	1,577	122	21	68	2	1	1	1,792	1,792
Expenses:									
Salaries and benefits	–	–	–	–	–	–	–	–	70
Insurance and legal	666	–	–	–	–	–	–	666	773
Administration	21	4	3	21	–	–	–	49	14
Travel and meetings	–	57	22	–	–	–	–	79	11
Programs and grants	–	64	–	–	–	–	–	64	35
Transfer to World Scout Bureau	–	–	–	51	–	–	–	51	–
	687	125	25	72	–	–	–	909	903
Excess (deficiency) of revenue over expenses	890	(3)	(4)	(4)	2	1	1	883	889
Fund balance, beginning of year	5,250	484	370	39	373	160	1,000	7,676	5,755
Adjustment for unrealized gains on investments	47	28	25	129	–	–	–	229	53
Transfer from operating fund	–	–	–	–	–	–	–	–	979
Fund balance, end of year	\$ 6,187	\$ 509	\$ 391	\$ 164	\$ 375	\$ 161	\$ 1,001	8,788	7,676
World Jamboree	–	–	–	–	–	–	–	463	–
Total restricted fund balance								\$ 9,251	\$ 7,676

SCOUTS CANADA NATIONAL OPERATION

Schedule – Restricted Funds (continued)

Year ended August 31, 2010, with comparative figures for 2009
(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 World Scout Foundation Fund and the amounts paid to the World Scout Foundation from the investment income earned.

The Youth Event Fund is an internally restricted fund consisting of amounts earned from past Canadian Jamborees that have been set aside to fund future events.

The Information Technology Fund is an internally restricted fund that has been set aside to fund upgrades to the Membership Management System.

The Chief Commissioner's Task Force on Growth ("CCTFOG") Fund is an internally restricted fund that has been set aside to support the work of the Chief Commissioner's Task Force on membership renewal and growth.