



“CROSSROADS”

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

A REPORT ON FINANCES OF THE NATIONAL



OPERATION AND WHERE TO GO FROM HERE

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CONTENTS

PURPOSE SCOPE AND LIMITATIONS

PURPOSE	2
SCOPE AND LIMITATIONS	2

SUMMARY CONCLUSIONS..... 2

NATIONAL FINANCIAL REPORTING

BACKGROUND.....	3
FUND ACCOUNTING.....	3
FUND HIGHLIGHTS.....	5

OPERATING RESULTS AND THE CROSSROADS

THE RESULTS.....	8
THE CROSSROADS.....	10
THE NATIONAL STRATEGIC PLAN AND FINANCE.....	11

SOME THOUGHTS FROM THE FOUNDER 13

ACKNOWLEDGEMENTS 14

CROSSROADS

A REPORT ON THE FINANCES OF THE NATIONAL OPERATION AND WHERE TO GO FROM HERE

PURPOSE, SCOPE AND LIMITATIONS

PURPOSE

The purpose of this report is to:

1. Highlight various financial reporting decisions of the “Scout Canada National Operation” (hereinafter National).
2. Comment on the Financial Statements within the context of management decision making.
3. To look through the financial reporting with a view to addressing the real issues and real decisions which currently confront National. To ask fundamental directional questions that, regrettably, will have to be addressed by the movement in a very short period of time, due to our current severe financial constraints.
4. This document will not address peripheral financial issues. Furthermore, this document will not address the financial operations of Scouts Canada at the council level. In the author’s view, a council’s primary costs are manifested in payroll that is fully accounted for in the financial statements of National. Furthermore, a full understanding of the relationship between national and councils would require access to the audited financial statements of those councils¹.

SCOPE AND LIMITATIONS

The information contained in this memorandum and the questions resulting there from are based on information obtained from National’s audited financial statements. 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 rebuttal of any of the author’s comments and/or opinions.

This document should form the foundation for a candid discussion on how best to financially stabilize National.

SUMMARY CONCLUSIONS

- National has depleted established “Fund Accounts” designated as “restricted” for the purpose of funding general operations. National’s presentation of a combined statement cash flows of the “**Restricted Funds**” and “**Operating Fund**” serves to shield these activities from easily accessible view.
- The National operation continues to operate at a loss and has, over the past three years, generated \$2,583,000 in operating deficits, before

¹ 7.1.2.5 of the strategic plan currently being circulated contemplates “consolidated financial reporting and standardized accounting policies/procedures”

CROSSROADS

A REPORT ON THE FINANCES OF THE NATIONAL OPERATION AND WHERE TO GO FROM HERE

extraordinary items. Inclusion of the extraordinary items of \$2,210,000 during the period increases the deficit accumulated during this period to \$4,793,000.

- Assuming a 10% membership reduction in 2004/2005, the author projects a 2004/2005 operating loss of approximately \$600,000.
- Chronic operating deficits and growing liabilities to Councils, banks, employees and others suggests the organization is at a decision making crossroads that has very real time constraints.
- The organization is essentially faced with two core questions, given our current membership numbers:
 - **What should the real role of the National operation be and what infrastructure is really required to support this role?**
 - **How can the organization be restructured in order to once again make sustained adult membership an attractive community service proposition?**
- The Members should not expect that continuing the same management practices will produce different positive results. Members need to consider what National's real role should be without being intellectually constrained by the role National currently confers upon itself.

NATIONAL FINANCIAL REPORTING

BACKGROUND

Financial Reporting in Canada is governed by *Canadian Generally Accepted Accounting Principles*. These principles are largely manifested in the CICA (Canadian Institute of Chartered Accountants) Handbook. The Handbook provides both general guidance on accountancy matters and specific guidance in the area of financial reporting.

FUND ACCOUNTING

National reports its results based on *Fund accounting* using the "Restricted Fund Method".

Fund accounting is defined by the CICA Handbook as, "*the collective accounting procedures resulting in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions of an organization. Elements of a fund can include assets, liabilities, net assets, revenues and expenses (and gains and losses, where appropriate). Fund accounting involves an accounting segregation, although not necessarily a physical segregation, of resources.*"²

² CICA Handbook 4400.02 (c)

CROSSROADS

A REPORT ON THE FINANCES OF THE NATIONAL OPERATION AND WHERE TO GO FROM HERE

The Restricted Fund Method of Accounting, “*comprises the collective accounting procedures resulting in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions of an organization. Elements of a fund can include assets, liabilities, net assets, revenues and expenses (and gains and losses, where appropriate). Fund accounting involves an accounting segregation, although not necessarily a physical segregation, of resources.*”³

National segregates funds on both its statement of Financial Position and its Statement of Operations. National does not, however, present its Statement of Cash Flows on a segregated basis. This presentation is permitted under the financial reporting guidelines which state that, “*An organization may present its financial statements using different formats for the individual statements, as long as it does so in a way that satisfies the Recommendations of this Section. For example, a statement of operations and changes in net assets presented in the multi-column format may be accompanied by a statement of financial position that presents assets, liabilities and net assets in a single column without presenting each financial statement item by individual fund. The formats selected for individual statements would be based on the particular circumstances of the organization.* (emphasis added by the author)”⁴

Although this presentation is specifically permitted, in the author’s opinion, it is misleading with respect to the operations and financing of National. This Statement of Cash Flows represents, in the author’s view, the most important commentary on the management and stewardship of the financial resources of a not-for-profit organization. This view is supported by the CICA which states that, “*Certain resource providers to a not-for-profit organization may be particularly interested in the statement of cash flows because it shows cash received in the period and how it was used. Resource providers may look to the statement of cash flows in determining whether the cash provided to the organization was used in the manner that the resource provider intended. This statement could form the basis for supplementary schedules or reports prepared to meet resource providers’ needs.* (emphasis added by the author)”⁵

The author believes that both National and Councils should be viewed as government and the members, be they voting or non-voting, as both taxpayers and consumers of services. The analogy is supported by the fact that, while both National and Councils have line items over and above membership fees (for example camps and Scout shops) all or substantially all of the revenue to the movement comes directly from or through the efforts of⁶ its members. The author believes that a taxpayer’s interest in the government’s stewardship of their tax dollars is directly analogous to a Scout Canada member’s interest in National’s sources and uses of funds. The author believes that members are the primary financial “resource providers” to the organization.

³ CICA Handbook 4400.02 (d)

⁴ CICA Handbook 4400.11

⁵ CICA Handbook 4400.47

⁶ Through National fundraising activities such as the sale of Scout Popcorn.

CROSSROADS

A REPORT ON THE FINANCES OF THE NATIONAL OPERATION AND WHERE TO GO FROM HERE

If one accepts the forgoing premise, than one would also justifiably expect a presentation of the organization's sources and uses of funds on a fund by fund basis. It is a fair question to ask why this distinction is important. Simply stated, it is important because it would, in the author's opinion, highlight how funds that are on their face described as and believed by the membership to be "*restricted*" have been used to fund day to day operations. To that end, the following outline highlights significant fund activities from 2001 through 2004.

FUND HIGHLIGHTS

2001

At the direction of the Board of Governors⁷ a new youth event fund is created with the cumulative surpluses from previous Canadian Jamborees as follows:

Opening cumulative surpluses from Canadian Jamborees ⁸	\$ 555,000
2001 Canadian Jamboree surplus	<u>1,989,000</u>
	2,544,000
Less: 1997 Canadian Jamboree deficit	<u>205,000</u>
Balance used to establish the apparently new Youth Event Fund	<u>\$ 2,339,000</u>

It is unclear to the author what the substantive difference is between the old and the new funds. This might simply represent the renaming of the preceding fund. Alternatively, it may represent the retirement of the old fund to establish a new fund which operates under differing access terms and conditions.

2002

The audited financial statements for the fiscal year ending August 31, 2002 represent the elimination of the internally restricted *Employee Future Benefits Fund* into the organization's *Operating Fund*. It is for this reason that the 2001 audited financial statements indicate the *Operating Fund* had a closing surplus fund balance of \$1,629,000 while the 2002 financial statement indicates an *Operating Fund* opening deficit of \$563,000. The difference of \$2,191,000 represents the retirement of the *Employee Future Benefit Fund* into the *Operating Fund*.

While the disclosure of this internal transfer of financial resources is poor, the author believes that the obligation to employees for pension benefits is actually better presented as part of the *Operating Fund* because the ultimate liability for these obligations rests with the membership.

The youth event fund maintains its balance of \$2,339,000.

⁷ Notes to the 2001 Audited Financial Statements; Pg 16, Note 12

⁸ Excluding the 1997 Canadian Jamboree.

CROSSROADS

A REPORT ON THE FINANCES OF THE NATIONAL OPERATION AND WHERE TO GO FROM HERE

2003

As disclosed in the audited financial statements, during 2003 National transfers \$500,000 from the *Youth Event Fund* to the *Operating Fund*⁹. This is not presented as an expense of the *Youth Event Fund* nor is it presented as revenue of the *Operating Fund*. This financial accounting treatment is viewed as fair by the CICA which states, “*Transfers between funds or between funds and reserves during a reporting period do not result in increases or decreases in the economic resources of the organization as a whole and therefore are reported in the statement of changes in net assets rather than in the statement of operations.*”¹⁰

The *Youth Event Fund* as at year end 2003 therefore stands at \$1,839,000. In addition the Statement of Financial Position indicates that the net surplus of Restricted and Endowed funds stands at \$4,651,000. Regrettably, however, \$3,090,000 is only manifest as an amount due from the Operating fund. This is best summarized as follows:

Net Restricted and Endowed Funds at August 31, 2003 ¹¹	\$ 4,651,000
Less net balance related to arms length items.....	<u>1,561,000</u>
Balance due from the Operating Fund.....	<u>\$ 3,090,000</u>

It is not clear to the author when the opening amount, being \$2,590,000¹², was actually transferred from *Restricted Funds* to the *Operating Fund*. What seems clear, however, is that the *Operating Fund* had no current ability to replenish the assets transferred from those *Restricted Funds*. Furthermore there is no reasonable likelihood that in the foreseeable future, any of the *Restricted Fund* assets will be realized because of the unlikely prospect of the *Operating Fund* being sufficiently buoyed up that there would be resources available to transfer resources back to the various *Restricted Funds*.

The 2003 audited financial statements do not disclose by what method these monies will be returned to their restricted purposes. The very existence of and continued reporting of these amounts in the 2003 audited Statement of Financial Position suggests that National viewed the *Operating Fund* as a **Fund** which did have an obligation, over time, to replenish the *Restricted Funds* for resources borrowed from them. Also of import was the long-term classification of these amounts. This indicates that National, whatever those repayment terms might be, did not at that time contemplate repaying the amounts within the following year.

⁹ Schedule 2 – Restricted Funds, 1993 Audited Financial Statements

¹⁰ CICA Handbook 4400.15

¹¹ Statement of Financial Position, 2003 Audited Financial Statement.

¹² Being the 2003 closing balance of \$3,090,000 minus the \$500,000 transfer from the Youth Event Fund which took place during the year.

CROSSROADS

A REPORT ON THE FINANCES OF THE NATIONAL OPERATION AND WHERE TO GO FROM HERE

Finally, the \$624,000 surplus in the World Jamboree Fund was effectively eliminated through the organizations' participation in the 2003 World Jamboree.

2004

During the fiscal year ending August 31, 2004, a further \$ 1,567,000¹³ was transferred from the *Youth Event Fund* to the *Operating Fund*. Notwithstanding this, the inter-fund balance on the Statement of Net Assets at August 31st, 2004 indicates that the *Restricted Funds* are only owed \$234,000 from the *Operating Fund*. *This seems to suggest that \$4,423,000 of cumulative inter-fund transfers have effectively been forgiven.* In other words, National concluded that there was no prospect that those cash assets transferred from the *Restricted Funds* could ever be restored to those *Restricted Funds* and so it appears they are being treated as expended resources of the *Operating Fund*. The amount is arrived at as follows:

Balance due to Restricted and Endowed funds at August 31, 2003	\$ 3,090,000
Add additional transfer from the Youth Event Fund.....	<u>1,567,000</u>
Balance notionally due to Restricted and Endowed funds	4,657,000
Less balance recorded as due to Restricted/Endowed Funds at August 31, 2004	<u>234,000</u>
Suggested Cumulative Operating Fund debt forgiveness at August 31, 2004	<u>\$ 4,423,000</u>

For the fiscal year ending August 31, 2004, Restricted and Endowed Funds present a surplus of \$4,241,000¹⁴. Further, only \$234,000¹⁵ of this amount is supported by amounts due from the General Fund.

The *Youth Event Fund* shows the 2004 closing balance remaining as \$250,000¹⁶. The fact that no appreciable revenue or expenses are attributed to this fund between 2002 when the fund had a balance of \$2,339,000 and the \$250,000 balance as at August 31, 2004, suggests that the fund has been used for purposes other than those originally intended. Members would be unable to readily determine this fact because the *Statement of Cash Flows* blends the activities of all funds together into a single reporting column¹⁷. In addition, the fact that \$234,000 of the amounts recorded as “due to” *Restricted Funds* are in the form of amounts “due from” the *Operating Fund*, would suggest that only \$16,000 of this fund's assets are actually funded by arms length realizable assets.

¹³ Schedule – Restricted Funds and Statement of Changes in Fund Balances, 2004 Audited Financial Statements

¹⁴ Statement of Financial Position, 2004 Audited Financial Statements

¹⁵ Statement of Financial Position, 2004 Audited Financial Statements

¹⁶ Schedule – Restricted Funds, 2004 Audited Financial Statements

¹⁷ An attributed considered acceptable by the CICA at 4400.11

CROSSROADS

A REPORT ON THE FINANCES OF THE NATIONAL OPERATION AND WHERE TO GO FROM HERE

This amount is arrived at as follows:

Total Assets in Restricted/Endowed Funds and August 31, 2004.....	\$ 4,372,000
Less amount due from Operating Fund.....	<u>234,000</u>
Balance due to Restricted/Endowed funds before trade payables.....	4,138,000
Less trade payables relating to these funds.....	<u>131,000</u>
Net assets available to support Restricted/Endowed Funds.....	4,007,000
Less assets required to support the following funds ¹⁸	
World Scout Foundation (externally restricted fund).....	1,060,000
Insurance Fund ¹⁹	2,117,000
Brotherhood Fund ²⁰	423,000
International Participation Fund ²¹	333,000
World Scout Foundation ²²	<u>58,000</u>
Net remaining realizable assets available to the Youth Event Fund ²³	<u>\$ 16,000</u>

OPERATING RESULTS AND THE CROSSROADS

THE RESULTS

National has generated operating deficits over the preceding three years totaling \$2,583,000 before any extraordinary items or restructuring costs.

Deficiency for the fiscal year ended August 31 st , 2004.....	\$ 406,000
Deficiency for the fiscal year ended August 31 st , 2003.....	1,363,000
Deficiency for the fiscal year ended August 31 st , 2002.....	<u>814,000</u>
Cumulative three year operations deficit.....	<u>\$ 2,583,000</u>

This suggests that the organization as it is presently structured is precluded from operating on a cash neutral basis over an extended period of time. It suggests that the organization simply has operated and continues to operate at cost levels which exceed its ability to generate revenue. As outlined in the preceding section, this historically appears to have been addressed by using restricted funds to effectively fund shortfalls in day to day operations. This is an approach which is, in the author's view, "upside down" Stable financial and operating results are one of many end results when Scouts Canada (both National and Councils) prosecutes all its affairs, be they program, leadership development and training, or a significantly more aggressive restructuring of the professional side of the movement in an effective manner.

¹⁸ All of the following fund balances obtained from the Schedule – Restricted Funds included in the 2004 Audited Financial Statements

¹⁹ **The Insurance Fund** reports the revenue and expenses related to insurance premiums and settlements and potential legal liabilities to Scouts Canada.

²⁰ **The Brotherhood Fund** reports revenue and expenses related to Canadian support of World Scouting Projects.

²¹ **The International Participation Fund** reports revenue and expenses related to Canadian delegates attending World Scouting conferences, events and meetings.

²² **The World Scout Foundation Fund** reports the investment income earned on the endowment of the Foundation and amounts paid to the World Scout Foundation.

²³ **The Youth Event Fund is an internally restricted fund** consisting of the net surpluses from past Canadian Jamborees

CROSSROADS

A REPORT ON THE FINANCES OF THE NATIONAL OPERATION AND WHERE TO GO FROM HERE

Scouts Canada has, in part, begun to address its operational cost excesses by reducing the country-wide workforce by 65 persons²⁴. The author believes this will save the organization approximately \$1,700,000²⁵ per annum. The author further believes that approximately \$500,000²⁶ of this savings will be in staff engaged directly by National. Even with this change, however, the author believes the operating deficit for the fiscal year ended August 31, 2005 will be approximately \$600,000. The amount was arrived at as follows:

2003/2004 National operating deficit before restructuring costs (A).....	\$ (406,000)
Add Expected Savings in 2005 From:	
National's share of salary savings.....	510,085
Savings on payments to Councils for Sales in their areas ²⁷	10,920
Inventory cost savings (based on a 27% cost of product) ²⁸	<u>147,420</u>
Total savings in 2004/2005 (B).....	<u>668,425</u>
Less Expected Lost Revenues in 2005 From:	
Reduction in Scout Shop revenues ²⁹	546,000
Reduction in Membership Fees ³⁰	<u>305,550</u>
Total additional costs (C).....	<u>851,550</u>
Projected National operating deficit for 2004/2005 (A) + (B) – (C).....	<u>\$ (589,125)</u>

The remaining \$1,200,000 in payroll savings at the council level should begin to address deficits at this level of the organization, however, a reduced membership base means offsetting reductions in membership fees going to councils.

Being a “Not for Profit” organization does not in any way preclude National from generating surpluses nor does it imply that National should be “unprofitable” It is generally accepted that over a period of time, a “commercial concern” will generate operating surpluses, or profits if you will. The recent financial history of Scouts Canada shows, however, that it has not performed on a commercial basis. Indeed, the outstanding financial obligations of the National operation, whether they be employee future benefits, bank indebtedness, amounts due to councils for inventory or the Ontario loan, continue to grow.

²⁴ Scouts Canada 2003/2004 Annual Report, Pg. 5

²⁵ $\$11,969,000 \times 65/450 = \$1,728,856 \approx \$1,700,000$ (The author believes that the total country-wide headcount before the 2004 restructuring was approximately 450 employees)

²⁶ $\$3,534,000 - ((\$11,969,000 - \$1,728,856) \times 29.53\%) = \$510,085 \approx \$500,000$ (With \$3,534,000 being National's 2003/2004 payroll and 29.53% being national's percentage of the total payroll for fiscal 2003/2004)

²⁷ National returns 2% of gross sales to Council for sales in shops in their geographic area.

²⁸ $\$546,000 \times 27\% \text{ cost of product associated with those sales} = \$147,420$

²⁹ $\$5,460,000$ (being 2003/2004 Scout Shop Revenue) $\times 10\%$ membership reduction = \$546,000

³⁰ $\$3,055,000$ (being 2003/2004 membership fees) $\times 10\%$ membership reduction = \$305,550

CROSSROADS

A REPORT ON THE FINANCES OF THE NATIONAL OPERATION AND WHERE TO GO FROM HERE

THE CROSSROADS

The operating results place the organization in a position where it must make prudent decisions in a timely fashion. There are a number of short term directions which the organization could take and in some cases this has already begun. The summer of 2004, for example, saw a dramatic push toward the sale of properties in Ontario. Despite the rhetoric surrounding the review process, this action suggests that National holds the view that hard assets should be disposed of in order that chronic deficits from operations may be funded.

Alternatively, National could move to significantly restructure its operations such that costs better align themselves with resources available.

These are, fundamentally, three short term approaches - liquidation of assets, an increase in membership fees, or operating cost reductions.

In the author's mind, there are really two questions which bisect one another and naturally lead to many smaller interrelated questions. Taking into account the level of our current membership numbers, those questions are:

1. **What should the real role of the National operation be and, consequently, what infrastructure is really required for National to fulfill that role? The subsidiary questions are:**
 - a. Should operating costs be reduced? Are the operating costs generally and the staff levels particularly excessive given the current size of the organization?
 - b. If the current infrastructure and its associated costs are viewed as acceptable to the membership, should membership fees be increased to fully fund it? Alternatively should new/additional "National" fundraising initiatives be introduced³¹?
 - c. Should encroachments on restricted funds be permitted in order to continue financing the existing structure?
 - d. Should there be a continued liquidation of Scout Camps and other real property to support the existing structure?

³¹ 7.1.2.2 of the Draft Strategic Plan suggests this is the direction National wishes to take by stating, "A shift away from reliance on membership fees and local fund-raisers to alternative revenue streams coordinated at the national level"

CROSSROADS

A REPORT ON THE FINANCES OF THE NATIONAL OPERATION AND WHERE TO GO FROM HERE

2. **Because the road to reduced “Professional Scouter Costs” is paved with the time commitments of volunteers, how can our organization be restructured in order that it may once again make sustained adult membership (in both program and administrative roles) an attractive community service proposition? The subsidiary questions are:**
- a. Do you accept the premise that well trained and motivated leaders produce good programs which in turn attract youth members? And if so.....
 - b. Should formalized training be re-emphasized, funded, and mandated in order to build existing leader competencies?
 - c. Can new adults be attracted to and can experienced adults be retained by an organization in which they have no true, timely or coherent stake in the decision making process?
 - d. Does the current dichotomy created by the “Staff Led/Volunteer supported and Volunteer Led/Staff supported” mantras actually enhance the framework of the movement’s true mission and its community based intent?
 - e. Should volunteers have a larger role in the prosecution of administrative and risk management matters?

THE NATIONAL STRATEGIC PLAN AND FINANCE

The author believes both Councils and National could operate more efficiently and cost effectively. The author further supports an increased role for volunteers in operational matters.

The strategic plan currently being circulated to members outlines the need to develop action plans to “Achieve Financial Security”. These include items such as:

1. National and 20 Councils operating “in the black”.
2. A shift away from reliance on membership fees and local fund-raisers to alternative revenue streams coordinated at the national level.
3. National financial management practices that result in simplified administration efficiencies and reduced administration costs.
4. Increase net revenue earned from the annual popcorn campaign and end the confusion of “fundraising” with “program”
5. Institute consolidated financial reporting and standardized accounting policies and procedures.

CROSSROADS

A REPORT ON THE FINANCES OF THE NATIONAL OPERATION AND WHERE TO GO FROM HERE

6. Ensure a comprehensive risk management process and adequate insurance to support the movement.
7. Centralize Retail Services to ensure supply availability, reduce the cost of Scouting, increase sales volume, and target the general public.

For one to accept all of the foregoing, one would have to accept the premise that National, as it is currently constituted is appropriate. The author does not accept this premise and further believes that these goals, particularly the first goal, are unattainable should the National organization continue to operate in the same fashion.

National currently operates at a cost level, which should it be continued, will require a membership increase of approximately 12,000³² members in order to break even with the current cost structure.

Goal number 7 is also highly problematic, National does not have the real estate assets, marketing capability or information technology infrastructure to be a full scale retailer. Even if the capital were available to develop these, the organization would then be confronted with competitors selling largely the same merchandise, often at better prices and from more numerous and convenient locations (including the internet).

There is considerable merit in the concept of buying program items and uniform items in bulk to minimize the cost to members. This in the author's view should be the role of Retail Services.

In the author's view, putting aside the merits of goal 7, financial stability is an **outcome**. Because the balance of the strategic plan documents really only offers more of the same philosophy and management practices, it is unclear how one could reasonably conclude that a philosophy which has consistently generated losses will miraculously produce a National Operation or Councils which "run in the black".

Albert Einstein offered the view that, "*Insanity is doing the same thing over and over again and expecting different results*".

Einstein might well ask, "why is it reasonable to assume that the continuation of National's existing operational structure and practices will now yield different, positive results?" The author strongly believes it is not reasonable and therefore, members will have to decide first what National's role should be without being intellectually constrained by the role National currently confers upon itself. Only then can restructuring be effected in a manner more likely to produce more positive results.

³² \$600,000 projected deficit / \$50 per new member (\$25 National member fee + \$25 in popcorn and scout shop sales net of product costs)

CROSSROADS

A REPORT ON THE FINANCES OF THE NATIONAL OPERATION AND WHERE TO GO FROM HERE

SOME THOUGHTS FROM THE FOUNDER

To my Brother Scouters and Guides:

Cecil Rhodes said at the end of his life (and I, in my turn do feel the truth of it), "So much to do and so little time to do it". No one can hope to see the consummation, as well as the start, of a big venture within the short span of one life-time.



I have had an extraordinary experience in seeing the development of Scouting from its beginning up to its present stage (1940). But there is a vast job before it. The Movement is only now getting into its stride. (When I speak of Scouting I include in it Guiding also). The one part which I can claim as mine towards promoting the movement is that I have been lucky enough to find you men and women to form a group of the right stamp who can be relied upon to carry it on to its goal. You will do well to keep you eyes open, in your turn, for worthy successors to who you can, with confidence, hand the torch. **Don't let it become a salaried organization: keep it a voluntary movement of patriotic service.**

The Movement has already, in the comparatively short period of its existence, established itself onto a wide and so strong a footing as to show most encouraging promise of what may be possible to it in the coming years. Its aim is to produce health, happy, helpful citizens, of both sexes, to eradicate the prevailing narrow self-interest, personal, political, sectarian and national, and to substitute for it a broader spirit of self sacrifice and service in the cause of humanity; and thus to develop mutual goodwill and co-operation not only within our own country but abroad, between all countries. Experience show that this consummation is no idle or fantastic dream, but is a practicable possibility if we work for it; and it means, when attained, peace, prosperity and happiness for all. The "encouraging promise" lies in the fact that the hundreds of thousands of boys and girls who are learning our ideals today will be fathers and mothers of millions in the near future, in whom they will in turn inculcate the same ideals, provided that these are really and unmistakably impressed upon them by their fathers and mothers of today.

Therefore you, who are Scouters and Guiders, are not only doing a great work for your neighbor's children but also helping in practical fashion to bring to pass God's Kingdom of peace and goodwill upon earth. So, from my heart, I wish you God's Speed in you effort.

CROSSROADS

A REPORT ON THE FINANCES OF THE NATIONAL OPERATION AND WHERE TO GO FROM HERE

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