

Financial Statements of

**THE BOY SCOUTS OF CANADA
NATIONAL OPERATION**

Year ended August 31, 2002



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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, 2002 and the statements of operations, changes in fund balances 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, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for August 31, 2001 were reported on by another firm of chartered accountants.

KPMG LLP

Chartered Accountants

Ottawa, Canada

October 22, 2002

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Statement of Financial Position

August 31, 2002, with comparative figures for 2001
(In thousands of dollars)

| | 2002 | 2001 |
|---|-----------|-----------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 139 | \$ 90 |
| Accounts receivable | 1,485 | 2,679 |
| Due from related entities (notes 13 and 14) | 116 | 100 |
| Prepaid expenses | 575 | 433 |
| Inventory (schedule 1) | 1,661 | 2,312 |
| | 3,976 | 5,614 |
| Investments (note 4) | 2,767 | 3,393 |
| Capital assets (note 5) | 3,504 | 3,443 |
| Prepaid pension costs (note 6) | 1,091 | 1,256 |
| Benefit recovery receivable (note 7) | 168 | 83 |
| | \$ 11,506 | \$ 13,789 |

Liabilities and Fund Balances

| | | |
|---|-----------|-----------|
| Current liabilities: | | |
| Bank indebtedness | \$ - | \$ 660 |
| Accounts payable and accrued liabilities | 1,174 | 1,921 |
| Deferred revenue (note 8) | 305 | 449 |
| | 1,479 | 3,030 |
| Inventory rebates payable (note 3) | 405 | - |
| Accrued post-retirement benefits (note 6) | 3,861 | 3,633 |
| Fund balances: | | |
| Operating Fund (schedule 2) | (2,466) | (563) |
| Restricted Funds (schedule 3) | 3,725 | 3,318 |
| Investment in capital assets | 3,504 | 3,443 |
| World Scout Foundation Fund | 998 | 928 |
| | 5,761 | 7,126 |
| Future operations (note 1) | | |
| Contingent liabilities (note 10) | | |
| Commitments (note 11) | | |
| | \$ 11,506 | \$ 13,789 |

See accompanying notes to financial statements.

On behalf of the Corporation:

Vice-President Finance
- Board of Governors

Chief Executive Officer

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Statement of Operations

Year ended August 31, 2002, with comparative figures for 2001
(In thousands of dollars)

| | Operating Fund 2002 (schedule 2) | Restricted Funds 2002 (schedule 3) | World Scout Foundation Fund 2002 | Total 2002 | Total 2001 |
|---|---|---|---|-------------------|-----------------|
| Revenue: | | | | | |
| Retail services sales (schedule 1) | \$ 3,963 | \$ - | \$ - | \$ 3,963 | \$ 4,773 |
| Membership fees | 1,468 | - | - | 1,468 | 1,509 |
| Insurance fees | 912 | - | - | 912 | 511 |
| Donations and sponsorships | 722 | 116 | 70 | 908 | 1,013 |
| Royalty on popcorn | 287 | - | - | 287 | 61 |
| Calendar sales | 177 | - | - | 177 | 40 |
| Contributions from councils | 60 | - | - | 60 | 40 |
| Fees for services | 92 | 625 | - | 717 | 134 |
| Canadian leader subscriptions | 186 | - | - | 186 | 187 |
| Conference fees | 117 | - | - | 117 | 16 |
| Investment | 48 | 149 | - | 197 | 413 |
| Other | 208 | - | - | 208 | 230 |
| | 8,240 | 890 | 70 | 9,200 | 8,927 |
| Expenses: | | | | | |
| Salaries and benefits (note 9) | <i>net</i> 11,953 | - | - | 11,953 | 10,214 |
| Retail services cost of sales (schedule 1) | 2,768 | - | - | 2,768 | 3,186 |
| Insurance and legal | 1,012 | - | - | 1,012 | 882 |
| Communications and promotions | 405 | - | - | 405 | 381 |
| Administration | 364 | 44 | - | 408 | 337 |
| Fundraising | 317 | - | - | 317 | 335 |
| Canadian leader magazine | 297 | - | - | 297 | 298 |
| Warehouse operation | 242 | - | - | 242 | 246 |
| Training and relocation | 273 | - | - | 273 | 171 |
| Corporate meetings | 190 | - | - | 190 | 155 |
| Property | 177 | - | - | 177 | 155 |
| World bureau fees | 162 | - | - | 162 | 137 |
| Program development and grants | 98 | 173 | - | 271 | 310 |
| Scoutrees program | - | 49 | - | 49 | 55 |
| Honours and awards | 50 | - | - | 50 | 66 |
| International relations | 12 | 95 | - | 107 | 56 |
| Council profit sharing | 17 | - | - | 17 | 17 |
| Transfer to World Bureau | - | 122 | - | 122 | 42 |
| Interest | 11 | - | - | 11 | 26 |
| Amortization of capital assets | 269 | - | - | 269 | 266 |
| Recovery of salaries and benefits (note 9) | (9,563) | - | - | (9,563) | (8,145) |
| | 9,054 | 483 | - | 9,537 | 9,190 |
| Excess (deficiency) of revenue over expenses before the undernoted | | | | | |
| | (814) | 407 | 70 | (337) | (263) |
| Deferred bulk order profit (note 3) | (600) | - | - | (600) | - |
| Council inventory rebate (note 3) | (405) | - | - | (405) | - |
| Canadian Jamboree | (23) | - | - | (23) | 1,989 |
| Excess (deficiency) of revenue over expenses | \$ (1,842) | \$ 407 | \$ 70 | \$ (1,365) | \$ 1,726 |

See accompanying notes to financial statements.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Statement of Changes in Fund Balances

Year ended August 31, 2002, with comparative figures for 2001
(In thousands of dollars)

| | Operating Funds (schedule 2) | Restricted Funds (schedule 3) | Investment in Capital Assets | World Scout Foundation | Total 2002 | Total 2001 |
|---|------------------------------------|-------------------------------------|------------------------------------|------------------------------|---------------|---------------|
| Opening balance | \$ (563) | \$ 3,318 | \$ 3,443 | \$ 928 | \$ 7,126 | \$ 5,400 |
| Excess (deficiency) of revenue over expenses | (1,842) | 407 | — | 70 | (1,365) | 1,726 |
| Change in investment in capital assets: | | | | | | |
| Amortization of capital assets | 269 | — | (269) | — | — | — |
| Capital asset additions | (330) | — | 330 | — | — | — |
| Closing balance | \$ (2,466) | \$ 3,725 | \$ 3,504 | \$ 998 | \$ 5,761 | \$ 7,126 |

See accompanying notes to financial statements.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Statement of Cash Flows

Year ended August 31, 2002, with comparative figures for 2001
(In thousands of dollars)

| | 2002 | 2001 |
|---|------------|----------|
| Cash flows from operating activities: | | |
| Excess (deficiency) of revenue over expenses | \$ (1,365) | \$ 1,726 |
| Items not involving cash: | | |
| Amortization of capital assets | 269 | 266 |
| Write-down of investments | 42 | - |
| Changes in non-cash working capital: | | |
| Accounts receivable | 1,194 | 82 |
| Due from related companies | (16) | - |
| Inventories | 651 | (269) |
| Prepaid expenses | (142) | (164) |
| Accounts payable and accrued liabilities | (747) | 674 |
| Deferred revenue | (144) | (258) |
| Change in pensions and post-retirement benefit balances | 308 | 92 |
| Increase in inventory rebates payable | 405 | - |
| | 455 | 2,149 |
| Cash flows from investing and financing activities: | | |
| Purchases of capital assets | (330) | (366) |
| Net disposals (purchases) of investments | 584 | (1,625) |
| | 254 | (1,991) |
| Net increase in cash | 709 | 158 |
| Bank indebtedness, beginning of year | (570) | (728) |
| Cash (bank indebtedness), end of year | \$ 139 | \$ (570) |

See accompanying notes to financial statements.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements

Year ended August 31, 2002
(Tabular 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.

1. Future operations:

These financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that The Boy Scouts of Canada National Operation will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the appropriateness of the use of the going concern assumption because the National Operation has incurred deficits in its operating fund from normal operations of \$814,000 for the year ended August 31, 2002 (2001 - \$307,000) and has negative unrestricted net assets of \$2,466,000 at August 31, 2002 (2001 - \$563,000). In addition, membership in The Boy Scouts of Canada has been declining and effective September 1, 2001 is self-insured for child abuse coverage. The ability of the National Operation to continue as a going concern is dependent on obtaining adequate funding from retail services sales and membership fees to finance its past deficits and future operations and to provide appropriate self-insurance coverage. There is no certainty that this will be sufficient to permit the National Operation to continue beyond August 31, 2003.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

2. Significant accounting policies:

These financial statements reflect The Boy Scouts of Canada National Operation only and do not include revenues and expenses, assets and liabilities of the Provincial Councils or other Councils of The Boy Scouts of Canada.

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

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 2

Year ended August 31, 2002
(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(a) 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.

(b) Inventory:

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

(c) Investments:

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

(d) 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 |

(e) 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.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 3

Year ended August 31, 2002
(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(e) Employee benefit plans (continued):

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.

(f) 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.

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.

(g) Donated materials and services:

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

(h) 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.

(i) 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 those 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, 2002
(Tabular amounts in thousands of dollars)

3. Scout Shop operations:

Effective September 1, 2002, the method under which Scout Shops ("Shops") belonging to Councils share their profits with the National Operation will be changed. Prior to September 1, 2002, the National Operation sold goods to Shops at a mark-up. Under the new method, the National Operation will sell goods to Shops at cost and Shops will remit 19% of their gross sales to the National Operation for fiscal 2002/03.

Each year, the National Operation delivers bulk orders (large volume orders) to Shops during the summer months that will be sold by Shops subsequent to August 31. In accordance with the change in the policy, bulk orders were sold to Shops at cost in the year ended August 31, 2002, resulting in a decrease in gross profit of approximately \$600,000 in the current year.

The National Operation will rebate the profit earned on goods sold to Shops at a mark-up, for goods still in the inventory of Shops at August 31, 2002. This rebate has been estimated at \$405,000. The rebate will not be paid to Shops until the 2004 fiscal year at the earliest. This amount has been accrued in these financial statements.

4. Investments:

The National Operation holds investments for the following purposes:

| | 2002 | | 2001 | |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|
| | Carrying value | Market value | Carrying value | Market value |
| Operating | \$ 304 | \$ 304 | \$ 1,550 | \$ 1,550 |
| Employee Future Benefits Fund | 284 | 284 | — | — |
| Brotherhood Fund | 364 | 352 | 434 | 455 |
| International Participation Fund | 333 | 345 | 380 | 401 |
| World Scout Foundation | 1,004 | 1,024 | 1,029 | 1,059 |
| World Jamboree | 478 | 478 | — | — |
| | <u>\$ 2,767</u> | <u>\$ 2,787</u> | <u>\$ 3,393</u> | <u>\$ 3,465</u> |

Investments consist of:

| | 2002 | | 2001 | |
|--------------|-----------------|-----------------|-----------------|-----------------|
| | Carrying value | Market value | Carrying value | Market value |
| Bonds | \$ 865 | \$ 907 | \$ 810 | \$ 848 |
| Equities | 1,075 | 1,053 | 1,033 | 1,067 |
| Money market | 827 | 827 | 1,550 | 1,550 |
| | <u>\$ 2,767</u> | <u>\$ 2,787</u> | <u>\$ 3,393</u> | <u>\$ 3,465</u> |

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 5

Year ended August 31, 2002
(Tabular amounts in thousands of dollars)

5. Capital assets:

| | 2002 | | 2001 | |
|--------------------------------|----------|--------------------------|----------------|----------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Land | \$ 15 | \$ - | \$ 15 | \$ 15 |
| Building | 1,485 | 953 | 532 | 562 |
| Betterment | 2,663 | 314 | 2,349 | 2,507 |
| Office furniture and equipment | 322 | 239 | 83 | 113 |
| Computer hardware and software | 1,133 | 608 | 525 | 246 |
| | \$ 5,618 | \$ 2,114 | \$ 3,504 | \$ 3,443 |

Cost and accumulated amortization as at August 31, 2001 were \$5,305,000 and \$1,862,000 respectively.

6. Benefit plans:

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

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.

| | 2002 | | 2001 | |
|----------------------------------|------------------|----------------|------------------|----------------|
| | Pension benefits | Other benefits | Pension benefits | Other benefits |
| Prepaid (accrued) benefit costs: | | | | |
| Funded status – plan deficit | \$ (1,492) | \$ (3,861) | \$ - | \$ (3,633) |
| Unamortized net actuarial loss | 1,264 | - | 294 | - |
| Unamortized past service cost | 1,319 | - | 962 | - |
| Prepaid (accrued) benefit costs | \$ 1,091 | \$ (3,861) | \$ 1,256 | \$ (3,633) |

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 6

Year ended August 31, 2002
(Tabular amounts in thousands of dollars)

6. Benefit plans (continued):

| | 2002 | | 2001 | |
|--|------------------|-------------------|------------------|-------------------|
| | Pension benefits | Other benefits | Pension benefits | Other benefits |
| Change in benefit asset (obligation): | | | | |
| Benefit asset (obligation), beginning of year | \$ 19,111 | \$ (3,633) | \$ 17,450 | \$ (3,482) |
| Current service cost | 557 | (132) | 486 | (112) |
| Interest cost | 1,276 | (229) | 1,189 | (214) |
| Employees' contributions | 279 | — | 274 | — |
| Benefits paid | (1,175) | 92 | (883) | 71 |
| Amortization of past services cost | 35 | 41 | — | 41 |
| Actuarial loss | (757) | — | 636 | — |
| Purchase of indexation for pensioners | 227 | — | (41) | — |
| Effect of plan change | 1,126 | — | — | 63 |
| Benefit asset (obligation), end of year | \$ 20,679 | \$ (3,861) | \$ 19,111 | \$ (3,633) |
| Change in plan assets: | | | | |
| Plan assets at fair value, beginning of year | \$ 19,405 | \$ — | \$ 18,730 | \$ — |
| Actual return on plan assets | 280 | — | 975 | — |
| Employer contributions | 262 | — | 350 | — |
| Employees' contributions | 279 | — | 273 | — |
| Benefits paid | (1,175) | — | (883) | — |
| Purchase of indexation for pensioners | — | — | (40) | — |
| Amendment effective May 11, 2002 | 1,353 | — | — | — |
| Actuarial gain on pension obligation | (757) | — | — | — |
| Plan assets at fair value, end of year | \$ 19,647 | \$ — | \$ 19,405 | \$ — |

The effect of plan change of \$1,353,000 relates to a plan amendments effective May 11, 2002 with respect to indexing, joint and survivor benefits and pension term guarantee.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 7

Year ended August 31, 2002
(Tabular amounts in thousands of dollars)

6. Benefit plans (continued):

The significant assumptions used in accounting for the plan were:

| | 2002 | | 2001 | |
|---------------------------------|------------------|----------------|------------------|----------------|
| | Pension benefits | Other benefits | Pension benefits | Other benefits |
| Discount rate | 6.75% | 6.50% | 6.50% | 6.50% |
| Expected return on plan assets | 7.00% | — | 7.00% | — |
| Initial health care trend rate | — | 7.34% | — | 8.00% |
| Ultimate health care trend rate | — | 5.00% | — | 5.00% |

The components of the net benefit cost were:

| | | | | |
|------------------------------------|---------------|---------------|---------------|---------------|
| Current service cost | \$ 557 | \$ 132 | \$ 486 | \$ 112 |
| Interest cost | 1,276 | 229 | 1,189 | 214 |
| Expected return on plan assets | (1,340) | — | (1,301) | — |
| Amortization of past service costs | 35 | (41) | — | — |
| Net benefit cost | \$ 528 | \$ 320 | \$ 374 | \$ 326 |

7. Benefit recovery receivable:

This balance represents the amount to be collected from Councils for pension and/or employee future benefits.

8. 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 | Cash receipts | Revenue recognized | Closing balance |
|-----------------------------------|-----------------|---------------|--------------------|-----------------|
| ScoutsAbout and Extreme Adventure | \$ 63 | \$ 69 | \$ (78) | \$ 54 |
| Personnel funds | 322 | 351 | (429) | 244 |
| World Jamboree | 59 | — | (59) | — |
| Other | 5 | 7 | (5) | 7 |
| | \$ 449 | \$ 427 | \$ (571) | \$ 305 |

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 8

Year ended August 31, 2002
(Tabular amounts in thousands of dollars)

8. Deferred revenue (continued):

Grants and donations received for the ScoutsAbout and Extreme Adventure programs are used to develop and introduce these programs in Councils across Canada. The National Operation receives funds for personnel related expenses including training and relocation which are deferred until required.

9. Salaries and benefits:

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

| | 2002 | 2001 |
|--|-----------------|-----------------|
| Salaries and benefits – all employees <i>350 employees</i> | \$ 11,953 | \$ 10,214 |
| Less: recovered from councils | 9,563 | 8,145 |
| Salaries and benefits – National Operation | \$ 2,390 | \$ 2,069 |

average \$34,150/yr per employee

10. Contingent liabilities:

(a) Legal claims:

The Boy Scouts of Canada 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 likely 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.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 9

Year ended August 31, 2002
(Tabular amounts in thousands of dollars)

10. Contingent liabilities (continued):

(b) Loan guarantee:

The National Operation has guaranteed a loan of \$225,000 on behalf of a Council.

(c) Other:

Under certain circumstances, the Boy Scouts of Canada National Operation could be held liable for the obligations of the provincial councils, regions, districts and other groups.

11. Commitments:

The National Operations has contractual commitments totaling \$324,000 for advertising in 2002/2003.

12. Related party transactions:

The Boy Scouts of Canada National Operation collects membership fees from all members through the Provincial and Regional Councils. In addition, the majority of Retail Services sales are made to Scout Shops operated by Councils. The National Operation provides payroll services to the Provincial and Regional Councils. The President of the Company with which the National Operation has contracted its warehouse services serves as a senior volunteer of the National Operation.

13. Fondation Scouts Canada Foundation:

The Boy Scouts of Canada National Operation exercises significant influence over Fondation Scouts Canada Foundation. The Foundation was established to financially support Boy Scouts of Canada, by promoting and soliciting gifts, grants and matching funds from individuals, corporations and foundations. The Foundation is incorporated under the Canada Corporations Act and is a registered charity under the Income Tax Act. The Foundation has net assets of \$1,554,000 (2001 - \$1,461,000).

During the year, the National Operation received grants of \$Nil (2001 - \$100,000) from the Foundation.

During the year, the National Operation charged the Foundation \$6,890 (2001 - \$4,455) for administrative services and recovered \$39,219 (2001 - \$13,274) for salaries and benefits.

The National Operation has a receivable from the Foundation of \$59,713 (2001 - \$32,976) including recoveries of salary and benefits from the Foundation.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Notes to Financial Statements, page 10

Year ended August 31, 2002
(Tabular amounts in thousands of dollars)

14. Canyouth Publications Ltd.

The Boy Scouts of Canada 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, 2002, the National Operation is entitled to a rebate of \$31,908 (2001 - \$34,042) from Canyouth Publications Ltd. This amount has been recorded as a reduction in Canadian Leader magazine expense.

The National Operation purchased magazines totaling \$317,000 (2001 - \$322,000) from Canyouth Publications Ltd. in the year. The National Operation has a receivable from Canyouth Publication Ltd. of \$54,705 (2001 - \$40,964) including the above rebate and recoveries of salaries and benefits.

During the year, the National Operation charged Canyouth Publications Ltd. \$45,668 (2001 - \$46,295) for rent, administration and designer services and recovered \$64,957 (2001 - \$65,297) for salaries and benefits.

15. Comparative figures:

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Schedule 1 – Retail Services

Year ended August 31, 2002
(Tabular amounts in thousands of dollars)

| | 2002 | 2001 |
|-------------------------------|---------------|-----------------|
| Warehouse: | | |
| Regular sales | \$ 1,602 | \$ 1,622 |
| Cost of regular sales | 1,335 | 1,147 |
| Gross profit | \$ 267 | \$ 475 |
| Bulk order sales | | |
| Bulk order sales | \$ 1,545 | \$ 1,762 |
| Cost of bulk order sales | 945 | 1,057 |
| | 600 | 705 |
| Deferred bulk order profit | (600) | – |
| Gross profit | \$ – | \$ 705 |
| National Scout Shop: | | |
| Sales | \$ 816 | \$ 788 |
| Cost of sales | 488 | 504 |
| Gross profit | \$ 328 | \$ 284 |
| Jamboree Trading Post: | | |
| Sales | \$ – | \$ 601 |
| Cost of sales | – | 478 |
| Gross profit | \$ – | \$ 123 |
| Total: | | |
| Sales | \$ 3,963 | \$ 4,773 |
| Cost of sales | 2,768 | 3,186 |
| | 1,195 | 1,587 |
| Deferred bulk order profit | (600) | – |
| Gross profit | \$ 595 | \$ 1,587 |
| Inventory consists of: | | |
| Warehouse | \$ 1,309 | \$ 1,977 |
| National Scout Shop | 321 | 295 |
| Work-in-progress | 31 | 40 |
| | \$ 1,661 | \$ 2,312 |

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Schedule 2 – Operating Funds

Year ended August 31, 2002, with comparative figures for 2001
(In thousands of dollars)

| | General operating | Employee future benefits | Insurance | Total 2002 | Total 2001 |
|---|----------------------|--------------------------------|---------------|-------------------|-----------------|
| Revenue: | | | | | |
| Retail services sales (schedule 1) | \$ 3,963 | \$ – | \$ – | \$ 3,963 | \$ 4,773 |
| Membership fees | 1,468 | – | – | 1,468 | 1,509 |
| Insurance fees | – | – | 912 | 912 | 511 |
| Donations and sponsorships | 648 | – | 74 | 722 | 911 |
| Royalty on popcorn | 287 | – | – | 287 | 61 |
| Calendar sales | 177 | – | – | 177 | 40 |
| Contributions from councils | 60 | – | – | 60 | 40 |
| Fees for services | 92 | – | – | 92 | 134 |
| Canadian leader subscriptions | 186 | – | – | 186 | 187 |
| Conference fees | 117 | – | – | 117 | 16 |
| Investment | 43 | 5 | – | 48 | 141 |
| Other | 189 | – | 19 | 208 | 230 |
| | 7,230 | 5 | 1,005 | 8,240 | 8,553 |
| Expenses: | | | | | |
| Salaries and benefits (note 9) | 11,105 | 848 | – | 11,953 | 10,214 |
| Retail services cost of sales (schedule 1) | 2,768 | – | – | 2,768 | 3,186 |
| Communications and promotions | 405 | – | – | 405 | 381 |
| Administration | 361 | 3 | – | 364 | 322 |
| Fundraising | 317 | – | – | 317 | 335 |
| Canadian leader magazine | 297 | – | – | 297 | 298 |
| Warehouse operation | 242 | – | – | 242 | 246 |
| Training and relocation | 273 | – | – | 273 | 171 |
| Corporate meetings | 190 | – | – | 190 | 155 |
| Property | 177 | – | – | 177 | 155 |
| World bureau fees | 162 | – | – | 162 | 137 |
| Program development and grants | 98 | – | – | 98 | 140 |
| Honours and awards | 50 | – | – | 50 | 66 |
| International relations | 12 | – | – | 12 | 8 |
| Council profit sharing | 17 | – | – | 17 | 17 |
| Insurance and legal | – | – | 1,012 | 1,012 | 882 |
| Interest | 11 | – | – | 11 | 26 |
| Amortization of capital assets | 269 | – | – | 269 | 266 |
| Recovery of salaries and benefits (note 9) | (8,897) | (666) | – | (9,563) | (8,145) |
| | 7,857 | 185 | 1,012 | 9,054 | 8,860 |
| Deficiency of revenue over expenses | | | | | |
| before the undermoted | (627) | (180) | (7) | (814) | (307) |
| Deferred bulk order profit (note 3) | (600) | – | – | (600) | – |
| Council inventory rebate (note 3) | (405) | – | – | (405) | – |
| Canadian Jamboree | (23) | – | – | (23) | 1,839 |
| Interfund transfer | (132) | 132 | – | – | – |
| Excess (deficiency) of revenue over expenses | \$ (1,787) | \$ (48) | \$ (7) | \$ (1,842) | \$ 1,532 |

Operating fund descriptions:

The Employee Future Benefits Fund reports the revenue and expenses related to pension and other post-retirement benefits for employees of the Boy Scouts of Canada.

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

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Statement of Cash Flows

Year ended August 31, 2002, with comparative figures for 2001
(In thousands of dollars)

| | 2002 | 2001 |
|---|------------|----------|
| Cash flows from operating activities: | | |
| Excess (deficiency) of revenue over expenses | \$ (1,365) | \$ 1,726 |
| Items not involving cash: | | |
| Amortization of capital assets | 269 | 266 |
| Write-down of investments | 42 | - |
| Changes in non-cash working capital: | | |
| Accounts receivable | 1,194 | 82 |
| Due from related companies | (16) | - |
| Inventories | 651 | (269) |
| Prepaid expenses | (142) | (164) |
| Accounts payable and accrued liabilities | (747) | 674 |
| Deferred revenue | (144) | (258) |
| Change in pensions and post-retirement benefit balances | 308 | 92 |
| Increase in inventory rebates payable | 405 | - |
| | 455 | 2,149 |
| Cash flows from investing and financing activities: | | |
| Purchases of capital assets | (330) | (366) |
| Net disposals (purchases) of investments | 584 | (1,625) |
| | 254 | (1,991) |
| Net increase in cash | 709 | 158 |
| Bank indebtedness, beginning of year | (570) | (728) |
| Cash (bank indebtedness), end of year | \$ 139 | \$ (570) |

See accompanying notes to financial statements.

THE BOY SCOUTS OF CANADA NATIONAL OPERATION

Schedule 3 - Restricted Funds

Year ended August 31, 2002
(In thousands of dollars)

| | World Jamboree | Brotherhood | International Participation | World Scout Foundation | Youth Event | 2002 Restricted Funds | 2001 Restricted Funds |
|--|-------------------|-------------|--------------------------------|------------------------------|----------------|-----------------------------|-----------------------------|
| Revenues: | | | | | | | |
| Donations and sponsorships | \$ - | \$ 86 | \$ 30 | \$ - | \$ - | \$ 116 | \$ 102 |
| Fees for services | 625 | - | - | - | - | 625 | - |
| Investment Income | 28 | 46 | 19 | 56 | - | 149 | 272 |
| | 653 | 132 | 49 | 56 | - | 890 | 374 |
| Expenses: | | | | | | | |
| Administration | 29 | 4 | 3 | 8 | - | 44 | 15 |
| Program development and grants | - | 173 | - | - | - | 173 | 170 |
| Scoutrees program | - | 49 | - | - | - | 49 | 55 |
| International relations | - | 3 | 92 | - | - | 95 | 48 |
| Transfer to World Bureau | - | - | - | 122 | - | 122 | 42 |
| | 29 | 229 | 95 | 130 | - | 483 | 330 |
| Excess (deficiency) revenue over expenses | 624 | (97) | (46) | (74) | - | 407 | 44 |
| Fund balance, beginning of year | - | 478 | 377 | 123 | 2,339 | 3,317 | 3,274 |
| Fund balance, end of year | \$ 624 | \$ 381 | \$ 331 | \$ 49 | \$ 2,339 | \$ 3,724 | \$ 3,318 |

Restricted fund descriptions:

- The World Jamboree Fund reports revenue and expenses related to the participation of The Boy Scouts of Canada in the World Jamboree.
- 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.