

Financial Statements of

**SCOUTS CANADA NATIONAL
OPERATION**

Year ended August 31, 2012



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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Scouts Canada National Operation

We have audited the accompanying financial statements of Scouts Canada National Operation, which comprise the statement of financial position as at August 31, 2012, the statements of operations, changes in fund balances and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Scouts Canada National Operation as at August 31, 2012, and its results of operations, changes in fund balances and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that underlines the text.

Chartered Accountants, Licensed Public Accountants

November 16, 2012

Ottawa, Canada

SCOUTS CANADA NATIONAL OPERATION

Statement of Financial Position

August 31, 2012, with comparative figures for 2011
(In thousands of dollars)

	Operating Fund	Restricted Funds	2012	2011
Assets				
Current assets:				
Cash	\$ 58	\$ 200	\$ 258	\$ 1,106
Amounts receivable (notes 10 and 11)	310	–	310	1,028
Inventories	4,815	–	4,815	4,710
Prepaid expenses	392	–	392	501
Membership fees receivable (note 9(a))	260	–	260	355
Current portion of loans receivable from related parties (note 6)	195	–	195	658
	6,030	200	6,230	8,358
Investments (note 2)	948	9,736	10,684	10,717
Capital assets (note 3)	2,257	–	2,257	2,357
Prepaid pension costs (note 4(a))	4,014	–	4,014	3,344
Employee future benefits recovery receivable (note 5)	1,130	–	1,130	1,643
Loans receivable from related parties (note 6)	–	–	–	10
Amounts due from operating fund to restricted funds	(945)	945	–	–
	\$ 13,434	\$ 10,881	\$ 24,315	\$ 26,429
Liabilities and Fund Balances				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 1,631	\$ 732	\$ 2,363	\$ 2,411
Deferred revenue (note 7)	547	–	547	467
Current portion of loans payable to related parties (note 8)	100	–	100	100
	2,278	732	3,010	2,978
Loans payable to related parties (note 8)	405	–	405	505
Accrued employee future benefits (note 4(a))	5,923	–	5,923	5,955
Fund balances:				
Operating Fund	2,571	–	2,571	2,781
Restricted Funds (schedule)	–	6,885	6,885	8,623
Investment in capital assets	2,257	–	2,257	2,357
World Scout Foundation	–	3,264	3,264	3,230
	4,828	10,149	14,977	16,991
Contingent liabilities (note 12)				
Commitments (note 13)				
	\$ 13,434	\$ 10,881	\$ 24,315	\$ 26,429

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, 2012, with comparative figures for 2011
(In thousands of dollars)

	Operating Fund	Restricted Funds (schedule)	Total 2012	Total 2011
Revenue:				
Membership fees (note 9(a))	\$ 4,994	\$ –	\$ 4,994	\$ 5,454
Retail	4,700	–	4,700	4,386
Fundraising	1,916	45	1,961	2,132
Other	626	91	717	2,140
	12,236	136	12,372	14,112
Expenses:				
Salaries and benefits (note 10)	13,097	–	13,097	12,706
Recovery of salaries and benefits (note 10)	(8,395)	–	(8,395)	(8,150)
Retail expenses	3,546	–	3,546	3,273
Program services	661	–	661	437
Membership services	340	–	340	301
Technology services	296	–	296	131
Financial services	330	–	330	261
Marketing and communications	777	–	777	534
Fundraising expenses	422	–	422	362
Administration	340	–	340	381
Compliance and governance	1,455	600	2,055	629
Human resources management	308	–	308	621
Action plan	–	–	–	897
Restricted funds	–	778	778	2,408
	13,177	1,378	14,555	14,791
Deficiency of revenue over expenses before the undernoted	(941)	(1,242)	(2,183)	(679)
World Scout Foundation donations	–	34	34	553
Deficiency of revenue over expenses	\$ (941)	\$ (1,208)	\$ (2,149)	\$ (126)

See accompanying notes to financial statements.

SCOUTS CANADA NATIONAL OPERATION

Statement of Changes in Fund Balances

Year ended August 31, 2012, with comparative figures for 2011
(In thousands of dollars)

	Operating Fund	Restricted Funds (schedule)	Investment in capital Assets	World Scout Foundation	Total 2012	Total 2011
Fund balances, beginning of year	\$ 2,781	\$ 8,623	\$ 2,357	\$ 3,230	\$ 16,991	\$ 17,425
Excess (deficiency) of revenue over expenses	(941)	(1,242)	–	34	(2,149)	(126)
Change in cumulative unrealized gains on investments (note 2(b))	6	129	–	–	135	(308)
Change in investment in capital assets:						
Amortization of capital assets	328	–	(328)	–	–	–
Capital asset additions	(228)	–	228	–	–	–
Transfer to operating fund	625	(625)	–	–	–	–
Closing balance	\$ 2,571	\$ 6,885	\$ 2,257	\$ 3,264	\$ 14,977	\$ 16,991

See accompanying notes to financial statements.

SCOUTS CANADA NATIONAL OPERATION

Statement of Cash Flows

Year ended August 31, 2012, with comparative figures for 2011
(In thousands of dollars)

	2012	2011
Cash flows from operating activities:		
Deficiency of revenue over expenses	\$ (2,149)	\$ (126)
Items not involving cash:		
Amortization of capital assets	328	219
Change in pension and employee future benefit balances	(189)	(282)
Changes in non-cash working capital:		
Amounts receivable	718	(678)
Inventories	(105)	(1,865)
Prepaid expenses	109	(173)
Membership fees receivable	95	68
Accounts payable and accrued liabilities	(48)	1,162
Deferred revenue	80	66
	(1,161)	(1,609)
Cash flows from investing activities:		
Capital asset additions	(228)	(770)
Loans provided to related parties	—	(664)
Principal payments received on loan receivable from related parties	473	26
	245	(1,408)
Cash flows from financing activities:		
Withdrawals from investments	168	1,417
Principal payments on loans payable to related parties	(100)	(100)
	68	1,317
Net decrease in cash	(848)	(1,700)
Cash, beginning of year	1,106	2,806
Cash, end of year	\$ 258	\$ 1,106
Supplemental cash flow information:		
Interest paid	\$ 19	\$ 23

See accompanying notes to financial statements.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements

Year ended August 31, 2012

(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 and Fondation Scouts Canada Foundation.

(b) Fund accounting:

The National Operation follows the restricted fund method of accounting for contributions 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, 2012
(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 loans receivable from related parties 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, 2012
(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, 2012
(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 function, except for salaries and benefits, recovery of salaries and benefits, marketing and communications, fundraising expenses and action plan, which are presented on an object 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, 2012
(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.

2. Investments:

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

	2012		2011	
	Cost	Fair value	Cost	Fair value
Operating:				
Employee future benefits	\$ 925	\$ 948	\$ 902	\$ 915
Building reserve	–	–	427	430
Restricted:				
Insurance Fund	5,373	5,509	5,265	5,309
Brotherhood Fund	559	571	498	504
International Participation Fund	357	368	403	408
Youth Event Fund	–	–	379	379
World Scout Foundation	3,244	3,288	2,752	2,772
	<u>\$ 10,458</u>	<u>\$ 10,684</u>	<u>\$ 10,626</u>	<u>\$ 10,717</u>
Investments consist of:				
Fixed income securities	\$ 4,011	\$ 4,078	\$ 4,557	\$ 4,655
Equities	5,309	5,468	4,014	4,007
Money market mutual funds	1,076	1,076	1,709	1,709
Cash	62	62	346	346
	<u>\$ 10,458</u>	<u>\$ 10,684</u>	<u>\$ 10,626</u>	<u>\$ 10,717</u>

The National Operation's fixed income securities have interest rates of 1.25% to 5.0% and maturity dates ranging from November 27, 2012 to June 2018.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 6

Year ended August 31, 2012
(Amounts in thousands of dollars)

2. Investments (continued):

(b) Cumulative adjustment for unrealized gains on investments:

	2012	2011
Balance, beginning of year	\$ 91	\$ 399
Change in cumulative unrealized gains on investments in the year	135	(308)
Balance, end of year	\$ 226	\$ 91

The National Operation regularly reviews investments 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, 2012, unrealized losses are considered to be temporary.

3. Capital assets:

			2012	2011
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 15	\$ –	\$ 15	\$ 15
Building	1,485	1,248	237	266
Betterment	3,050	1,712	1,338	1,489
Office furniture and equipment	404	381	23	27
Computer hardware and software	756	715	41	38
Scout Shop equipment and renovations	51	39	12	15
Membership system	696	105	591	507
	\$ 6,457	\$ 4,200	\$ 2,257	\$ 2,357

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 7

Year ended August 31, 2012
(Amounts in thousands of dollars)

3. Capital assets (continued):

Cost and accumulated amortization as at August 31, 2011 were \$6,229 and \$3,872 respectively.

During the year \$Nil (2011 - \$15) of Computer hardware and software and \$Nil (2011 - \$15) of related accumulated amortization were written off.

4. 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.

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.

	2012		2011	
	Pension	Other post-employment	Pension	Other post-employment
(i) Prepaid pension costs (accrued benefit liability):				
Plan assets at fair value	\$ 24,067	\$ -	\$ 24,035	\$ -
Accrued benefit obligation	(28,973)	(4,130)	(26,925)	(4,450)
	(4,906)	(4,130)	(2,890)	(4,450)
Employer contributions from measurement date to fiscal year end	287	-	189	-
Unamortized net actuarial loss (gain)	8,473	(933)	5,790	(502)
Unamortized past service	160	(860)	255	(1,003)
Prepaid pension costs (accrued benefit liability)	\$ 4,014	\$ (5,923)	\$ 3,344	\$ (5,955)

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 8

Year ended August 31, 2012

(Amounts in thousands of dollars)

4. Employee future benefits (continued):

(a) Plan assets and obligations (continued):

	2012		2011	
	Pension	Other post-employment	Pension	Other post-employment
(ii) Accrued benefit obligation:				
Benefit obligation, beginning	\$ (26,925)	\$ (4,450)	\$ (26,197)	\$ (4,237)
Current service cost	(364)	(100)	(376)	(93)
Interest cost	(1,437)	(233)	(1,417)	(232)
Employee contributions	(285)	—	(350)	—
Benefits paid	2,261	216	1,573	207
Actuarial gain (loss)	(2,223)	437	(158)	(95)
Accrued benefit obligation, ending	\$ (28,973)	\$ (4,130)	\$ (26,925)	\$ (4,450)

	2012		2011	
	Pension	Other post-employment	Pension	Other post-employment
(iii) Plan assets:				
Plan assets at fair value, beginning	\$ 24,035	\$ —	\$ 21,180	\$ —
Actual return on plan assets	533	—	2,534	—
Employer contributions	1,575	216	1,604	207
Employee contributions	285	—	350	—
Benefits paid	(2,261)	(216)	(1,573)	(207)
Provision for plan expenses	(100)	—	(60)	—
Plan assets at fair value, ending	\$ 24,067	\$ —	\$ 24,035	\$ —

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 9

Year ended August 31, 2012

(Amounts in thousands of dollars)

4. Employee future benefits (continued):

(b) Net benefit cost:

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

	2012		2011	
	Pension	Other post-employment	Pension	Other post-employment
Current service cost	\$ 364	\$ 100	\$ 376	\$ 93
Provision for plan expenses	100	–	60	–
Interest cost	1,437	233	1,418	232
Expected return on plan assets	(1,380)	–	(1,323)	–
Amortization of actuarial losses	387	(6)	603	(20)
Amortization of past service costs	95	(143)	95	(143)
Net benefit cost	\$ 1,003	\$ 184	\$ 1,229	\$ 162

(c) Assumptions:

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

	2012		2011	
	Pension	Other post-employment	Pension	Other post-employment
Rate of compensation increases	3.00%	–	3.00%	–
Rate of inflation	–	–	2.25%	–
Discount rate	5.50%	4.75%	5.50%	5.25%
Expected return on plan assets	5.80%	–	5.80%	–
Initial health care trend rate	–	5.00%	–	5.30%
Ultimate health care trend rate	–	3.80%	–	3.80%

The ultimate health care trend rate is estimated to be reached in 2030. The actual return on plan assets in fiscal 2012 was 2.2% (2011 - 11.9%).

(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 2012.

	Increase	Decrease
Net benefit cost	\$ 11	\$ 10
Accrued benefit obligation	207	181

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 10

Year ended August 31, 2012
(Amounts in thousands of dollars)

4. Employee future benefits (continued):

(e) Defined benefit plan:

The latest actuarial valuation of the pension plan for funding purposes was performed as at January 1, 2012. The next actuarial valuation is required to be completed as at January 1, 2013, in accordance with the requirements of the Pension Benefits Act (Ontario).

As part of the regulations governing provincially regulated pension plans in Ontario, 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, 2012 reported a solvency deficiency of \$2,917 (2011 - \$1,256) and a going concern deficit of \$2,630 (2011 - \$2,790), based on economic assumptions applicable at January 1, 2012. Scouts Canada is required to make additional contributions of \$858 (2011 - \$987) per annum in future years to eliminate the solvency deficiency and going concern unfunded liability under the Pension Benefits Act (Ontario). In fiscal 2012, Scouts Canada made additional contributions of \$903 (2011 - \$1,307).

(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 \$114 (2011 - \$72), which is included in salaries and benefits expense and recovery of salaries and benefits.

5. 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 4(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.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 11

Year ended August 31, 2012
(Amounts in thousands of dollars)

6. Loans receivable from related parties:

	2012	2011
New Brunswick Council	\$ 10	\$ 20
White Pine Council	185	364
Fondation Scouts Canada Foundation	–	284
	195	668
Current portion	195	658
Long-term portion	\$ –	\$ 10

The loan to New Brunswick Council is non-interest bearing and is repayable in annual installments of \$10.

The loan to White Pine Council is non-interest bearing and is repayable on demand.

The loan to Fondation Scouts Canada Foundation related to advances made by National Operation for the World Scout Foundation conference held in Canada. The loan was non-interest bearing and was repaid in 2012.

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
Membership	\$ –	\$ 60	\$ –	\$ 60
ScoutsAbout and Extreme Adventure programs	29	–	11	18
Other programs	367	178	144	401
Gift Certificates – Scout Shops	71	21	24	68
	\$ 467	\$ 259	\$ 179	\$ 547

Membership consists of fees collected in advance of the Scouting year, which runs from September 1 to August 31.

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.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 12

Year ended August 31, 2012
(Amounts in thousands of dollars)

8. Loans payable to related parties:

	2012	2011
Loans payable to related parties:		
Incorporated Body for Scouts Canada in Ontario	\$ 380	\$ 455
British Columbia Councils	125	150
	<u>505</u>	<u>605</u>
Current portion	100	100
Long-term portion	<u>\$ 405</u>	<u>\$ 505</u>

The loan 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.

9. Related party transactions:

(a) Membership fees:

Membership 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 \$260 (2011 - \$355) consists of amounts receivable for national membership 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 2012, \$89 (2011 - \$83) was paid to the Councils.

(c) Other:

Other related party transactions and balances are disclosed in notes 5, 6, 8, 10 and 11 to the financial statements.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 13

Year ended August 31, 2012

(Amounts in thousands of dollars)

10. Salaries and benefits:

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

	2012	2011
All employees:		
Salaries and benefits	\$ 11,389	\$ 11,018
Employee future benefits	1,708	1,688
	<u>13,097</u>	<u>12,706</u>
Less amounts recovered:		
Salaries and benefits	7,275	6,950
Employee future benefits	1,120	1,200
	<u>8,395</u>	<u>8,150</u>
National Operation	<u>\$ 4,702</u>	<u>\$ 4,556</u>

At year-end, the National Operation has amounts receivable from the Councils totaling \$307 (2011 - \$570) relating to salaries and benefits.

11. 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 \$88 (2011 - \$50) from the Foundation.

During the year, the National Operation recovered \$Nil (2011 - \$105) for salaries and benefits.

The National Operation has an amount receivable from the Foundation of \$Nil (2011 - \$37) for scholarships and grants from the Foundation.

The National Operation has a loan receivable from the Foundation of \$Nil (2011 - \$284) as disclosed in note 6.

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 14

Year ended August 31, 2012
(Amounts in thousands of dollars)

12. 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.

(b) Other:

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

13. Commitments:

The National Operation is committed under long-term operating leases for the rental of Scouts Shops. Minimum annual payments are approximately:

2013	\$ 77
2014	54
2015	46
2016	46
2017	46

\$ 269

SCOUTS CANADA NATIONAL OPERATION

Notes to Financial Statements, page 15

Year ended August 31, 2012
(Amounts in thousands of dollars)

14. Financial instruments:

(a) Fair values:

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

The fair value of the loan from the Incorporated Body for Scouts Canada in Ontario is approximately \$374 based on the expected repayments provided in note 8 and an estimated annual interest rate of 4.00%.

The fair value of the loan from British Columbia Councils is approximately \$122 based on the expected repayments provided in note 8 and an estimated annual interest rate of 4.00%.

(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, loans receivable from related parties and loans repayable to related parties, as disclosed in notes 2, 6, and 8.

(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 16

Year ended August 31, 2012
(Amounts in thousands of dollars)

14. 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 2009, 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.

15. Comparative figures:

Certain 2011 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2012.

SCOUTS CANADA NATIONAL OPERATION

Schedule – Restricted Funds

Year ended August 31, 2012, with comparative figures for 2011

(In thousands of dollars)

	Insurance	Brotherhood	International Participation	World Scout Foundation	Youth Event	I.T. Fund	CCTFOG Fund	CJ13	World Jamboree	2012 Restricted Funds	2011 Restricted Funds
Revenue:											
Insurance fees	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 266
Donations and sponsorships	–	39	6	–	–	–	–	–	–	45	537
Investment	2	16	13	59	–	1	–	–	–	91	481
Program fees	–	–	–	–	–	–	–	–	–	–	1,237
Other	–	–	–	–	–	–	–	–	–	–	75
	2	55	19	59	–	1	–	–	–	136	2,596
Expenses:											
Salaries and benefits	–	–	–	–	–	–	–	44	–	44	–
Insurance	43	–	–	–	–	–	–	–	–	43	596
Administration	–	6	3	18	–	32	–	24	5	88	27
Compliance and governance	600	–	–	–	–	–	–	–	–	600	–
Advertising	–	–	–	–	–	–	133	–	–	133	500
Consulting	–	–	–	–	–	–	56	–	–	56	81
Travel and meetings	–	–	39	–	–	1	–	–	2	42	1,064
Programs and grants	–	56	–	44	–	–	–	123	4	227	631
Refund of fees	–	–	–	–	–	–	–	–	39	39	–
Transfer to World Scout Bureau	–	–	–	106	–	–	–	–	–	106	104
	643	62	42	168	–	33	189	191	50	1,378	3,003
Deficiency of revenue over expenses	(641)	(7)	(23)	(109)	–	(32)	(189)	(191)	(50)	(1,242)	(407)
Fund balance, beginning of year	6,000	540	360	122	379	163	920	–	139	8,623	9,251
Change in cumulative unrealized gains on investments	93	6	6	24	–	–	–	–	–	129	(221)
Transfer from (to) Operating fund	(52)	–	–	–	(379)	(105)	–	–	(89)	(625)	–
Fund balance, end of year	\$ 5,400	\$ 539	\$ 343	\$ 37	\$ –	\$ 26	\$ 731	\$ (191)	\$ –	\$ 6,885	\$ 8,623

SCOUTS CANADA NATIONAL OPERATION

Schedule – Restricted Funds (continued)

Year ended August 31, 2012, with comparative figures for 2011
(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 (I.T.) 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. During 2011, the National Operation received a \$500 contribution from the Greater Toronto Scouts Foundation to support the new Scouts promotional campaign.

The CJ Fund consists of revenue and expenses related to the Canadian Scout Jamboree 2013 to be held at Sylvan Lake, Alberta.

The World Jamboree Fund reports the revenue and expenses related to Canadian Scouting groups attending the 2011 World Jamboree in Sweden.