

ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2011

ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
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AS AT DECEMBER 31, 2011

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AUDITORS' REPORT

To the Members of
Royal Military Colleges Club of Canada Foundation Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Royal Military Colleges Club of Canada Foundation Inc., which comprise the statement of financial position as at December 31, 2011 and the statement of operations and changes in fund balances for the year then ended, and 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.

Auditor's 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 the auditor's 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, the auditor considers 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 qualified audit opinion.

WILKINSON & COMPANY LLP - CHARTERED ACCOUNTANTS

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Basis for Qualified Opinion

In common with many charitable organizations, Royal Military Colleges Club of Canada Foundation Inc. derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of Royal Military Colleges Club of Canada Foundation Inc. and we were not able to determine whether any adjustments might be necessary to donations revenue, excess of revenue over expenditure, assets and fund balances.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, these financial statements present fairly, in all material respects, the financial position of Royal Military Colleges Club of Canada Foundation Inc. as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KINGSTON, Canada
May 17, 2012

Wilkinson & Company LLP
Chartered Accountants
Licensed Public Accountants

ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2011

	Operating Fund \$	Restricted Fund \$	Endowment Fund \$	2011 Total \$	2010 Total \$
CURRENT ASSETS					
Cash and bank	157,156	277,217	192,747	627,120	404,537
Short term investments	104,903	1,852,023		1,956,926	1,930,731
Accounts receivable	66,825			66,825	30,129
Accrued investment income	3,240			3,240	2,344
Due from the Royal Military Colleges Club of Canada	32,238			32,238	32,238
Inter - fund receivables	68,700			68,700	66,126
Prepaid expenses	916			916	2,150
LONG-TERM INVESTMENTS - Note 3	433,978	2,129,240	192,747	2,755,965	2,468,255
		1,740,379	3,680,962	5,421,341	5,289,479
LIABILITIES AND FUND BALANCES	433,978	3,869,619	3,873,709	8,177,306	7,757,734
CURRENT					
Accounts payable and accrued liabilities	18,153			18,153	21,876
Inter - fund payables		68,700		68,700	66,126
Deferred revenue	600			600	1,200
Monies held in trust - Note 4		2,129,139		2,129,139	1,898,628
	18,753	2,197,839		2,216,592	1,987,830
FUND BALANCES					
Unrestricted	415,225			415,225	509,755
Externally restricted		1,671,780		1,671,780	1,568,893
Externally restricted - Note 5			3,873,709	3,873,709	3,691,256
	415,225	1,671,780	3,873,709	5,960,714	5,769,904
	433,978	3,869,619	3,873,709	8,177,306	7,757,734

APPROVED ON BEHALF OF THE BOARD


 Director
 Director

The accompanying notes form an integral part of these financial statements



ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Operating Fund		Restricted Fund		Endowed Fund	
	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$
Revenue						
Administration fee	44,135	35,352				
Donations	165,966	410,878	934,027	173,135	242,608	250,133
Investment income	20,491	8,698	(33,241)	621,283		
Transfer from deferred contributions - Note 6				116,930		
RMC Research Services	119,045	112,235				
Special projects	59,900	51,610				
	<u>409,537</u>	<u>618,773</u>	<u>900,786</u>	<u>911,348</u>	<u>242,608</u>	<u>250,133</u>
Expenditures						
Administration fee	128,856	112,407	44,135	35,352		
Administrative	42,863	83,991	719,202	91,575		
College benefactions			95,031	105,447		
Distributions from endowments						
Personnel	248,088	228,686				
RMC Research Services	49,555	35,659				
Special projects	34,391	36,490				
	<u>503,753</u>	<u>497,233</u>	<u>858,368</u>	<u>232,374</u>		
EXCESS OF REVENUE OVER EXPENDITURES (EXPENDITURES OVER REVENUE) FOR YEAR	(94,216)	121,540	42,418	678,974	242,608	250,133
FUND BALANCES - BEGINNING OF YEAR	509,755	385,635	1,568,893	827,557	3,691,256	3,506,065
INTER-FUND TRANSFER - Note 7	(314)	2,580	60,469	62,362	(60,155)	(64,942)
FUND BALANCES - END OF YEAR	<u>415,225</u>	<u>509,755</u>	<u>1,671,780</u>	<u>1,568,893</u>	<u>3,873,709</u>	<u>3,691,256</u>

The accompanying notes form an integral part of these financial statements

ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. PURPOSE OF THE ORGANIZATION

The Royal Military Colleges Club of Canada Foundation Inc. is incorporated without share capital under the *Canada Business Corporations Act*. The principal purpose of the Foundation is to support the Royal Military Colleges of Canada and its cadets.

The Foundation is exempt from tax under subparagraph 149 (1)(f) of the *Canadian Income Tax Act*. In order to maintain its status as a registered charity under the *Canadian Income Tax Act*, the Foundation must meet certain requirements within the *Canadian Income Tax Act*.

2. ACCOUNTING POLICIES

Outlined below are those accounting policies adopted by the Foundation considered to be particularly significant:

(a) Accounting 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include valuation of accounts receivable. Actual results could differ from those estimates.

(b) Fund Accounting

The Foundation follows the restricted fund method for accounting for contributions. The Foundation ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for that purpose.

(i) Endowment Fund

The endowment fund reports resources that are required to be maintained by the Foundation on a permanent basis.

(ii) Restricted Fund

The restricted fund reports resources that are available to be used for purposes specified by the donor and do not form part of the endowment fund.

(iii) Operating Fund

The operating fund reports resources available for the Foundation's general operating activities. The costs of supporting these activities are reported as expenditures in the operating fund.

**ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
NOTES TO FINANCIAL STATEMENTS
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2. ACCOUNTING POLICIES (Cont'd)

(c) Revenue Recognition

Donor-restricted contributions for endowment purposes are recognized as revenue in the endowment funds. Other donor-restricted contributions are recognized as revenue in the restricted fund depending on the nature of the restriction. Unrestricted contributions and investment income earned on RMC Research Services investments are recognized as revenue in the operating fund. Contributions are recognized as revenue when received, except where amounts are received for specific long-term projects. In these cases, contributions are deferred and recorded as revenue when the related expenditures are incurred.

Income is recorded as follows:

(i) The restricted fund reports income earned on resources of the endowment and restricted funds, as well as donations, that must be spent on donor restricted activities.

(ii) The operating fund reports income earned on the assets held in the operating fund, donations specially earmarked for facilitating the Foundation's operations in the short term and the administrative fee charged to all endowment and restricted funds.

Investment income includes dividend and interest income and realized and unrealized investment gains and losses. Unrealized gains and losses on held for trading financial instruments are included in investment income and recognized as revenue in the statement of operations, deferred or reported directly in net assets, depending on the nature of any external restrictions imposed on the investment income.

(d) Investments

Investments are reported as held for trading financial instruments and are stated at market value.

(e) Contributed Goods and Services

Volunteers contribute a substantial number of hours each year to assist the Foundation in carrying out its activities. Because of the difficulty of determining the fair value, contributions of such services are not recognized in the financial statements.

(f) Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as detailed. At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the period end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period except for the foreign currency gains and losses on long-term monetary items which are deferred and amortized over the remaining terms of the related items.

ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

3. LONG-TERM INVESTMENTS

The investments held at December 31, 2011 consist of bonds and stock equities. The investments have been recorded at fair market value as at December 31, 2010 and December 31, 2011.

	2011	2010
	\$	\$
Fixed income	2,875,582	2,955,670
Canadian equity	1,774,350	1,672,548
Foreign equity	771,409	661,261
	<hr/> 5,421,341	<hr/> 5,289,479

The fixed income securities have varying maturity dates and the effective investment yield for the year ranges from 3.6% to 10.75% (2010: 2% to 10.75%).

4. MONIES HELD IN TRUST

In 2005, the organization entered into a contract with Federal Granting Agencies, namely The Natural Sciences and Engineering Research Council (NSERC), the Social Sciences and Humanities Research Council (SSHRC) and the Canadian Institutes of Health Research (CIHR) to provide services on a trust basis as outlined in The Memorandum of Understanding between the parties. In 2010 this Memorandum of Understanding was extended for a further five years.

ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
NOTES TO FINANCIAL STATEMENTS
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5. EXTERNALLY RESTRICTED - ENDOWMENT FUNDS

	Opening Balance	Donations	Inter-Fund Transfer	Endowed Capital Expended	Ending Balance
	\$	\$	\$	\$	\$
(a) Major Giving Endowed Funds					
Burma Star Competition	15,655		(15,655)		
Captain Bart Leadership Award	71,594				71,594
Captain Bart Teamwork Prize	258,841				258,841
Dacey Memorial Fund/ Chemical and Mechanical Engineering Fund	19,589				19,589
Danny McLeod Athletics	125,360	63,594			188,954
Howard B. Ripstein Endowment Fund	125,000				125,000
Howard B. Ripstein First Year Fund	60,000				60,000
Howard B. Ripstein Reserve Entry Fund	60,000				60,000
J. Douglas Young Sword of Excellence	994				994
J.W. Brown Memorial Fund	10,936				10,936
James Carruthers Endowment Fund	415,000	122			415,122
Keyser Red & White	25,000				25,000
Mech Eng P.G. Scholarship Fund	101,174	12,000			113,174
No. 1 Fund - Wurtele	143,759				143,759
P Cadieux Memorial Award Fund		40,000			40,000
RG Haycock Grad Student Fund	35,575				35,575
Ripstein Library Endowment Fund	20,000				20,000
RMC Excellence in Research	106,050				106,050
Sandhurst Endowment Fund	20,100	50			20,150
UPTNCM Fund (Otter Sqn)	15,392	651			16,043
W.A. Ferguson	10,000				10,000
Young Memorial Fund	100,000				100,000
	1,740,019	116,417	(15,655)		1,840,781
(b) Endowed Class Funds					
Class of 56	113,530	375			113,905
Class of 57	84,510	700	(44,500)		40,710
Class of 59	74,155	2,740			76,895
Class of 60	78,337	4,090			82,427
Class of 62	170,353				170,353
Class of 63	72,146				72,146
Class of 64	310,248	4,980			315,228
Class of 65 - Teaching Excellence	616,118	3,345			619,463
Class of 66	280,151	108,661			388,812
Class of 69 - Bade Bursary	69,820	500			70,320
Class of 72	50,735	800			51,535
Class of 98	30,234				30,234
Class of 2000	900				900
	1,951,237	126,191	(44,500)		2,032,928
Total Endowed Funds	3,691,256	242,608	(60,155)		3,873,709

**ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

6. DEFERRED CONTRIBUTIONS

In 2005, the organization received approval from the Canada Revenue Agency to accumulate funds for the purpose of contributing up to \$7,000,000 to the construction of library facilities at the Royal Military College for the six year period from January 1, 2004 to December 31, 2009. At December 31, 2009 the deferred contribution balance was \$116,930. In 2010, the Foundation's Board of Directors approved a transfer of the deferred contribution balance to a restricted fund.

7. INTERFUND TRANSFERS

During 2011 the Royal Military Colleges Club of Canada Foundation Inc. transferred \$60,155 from the endowment fund to the restricted fund and transferred net \$314 from the operating fund to the restricted fund. All transfers were approved by the Board of Directors of the Foundation.

8. STATEMENT OF CASH FLOWS

A statement of cash flows has not been included in these financial statements as the required cash flow information is readily apparent from the other financial statements. Cash flow from operations approximates the change in fund balances.

9. FINANCIAL INSTRUMENTS

The Foundation's financial instruments consist of cash and bank, accounts receivable, short-term investments, long-term investments and accounts payable and accrued liabilities. The carrying amounts approximate their fair market value due to the immediate or short-term maturity of these financial instruments except for long-term investments which are disclosed in Note 3 to these financial statements.

Credit Risk

Credit risk is the risk of financial loss to the Foundation if a party to the Foundation's financial instruments fails to discharge an obligation or make payments of interest and principal when due. The Foundation is exposed to this risk relating to its debt holdings in its investment portfolio and in accounts receivable.

**ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
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9. FINANCIAL INSTRUMENTS (Cont'd)

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk, and equity risk.

Currency Risk

Currency risk relates to the Foundation operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The Foundation's foreign exchange risk is related to its investment portfolio of which approximately 10% is tied to foreign currency.

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Foundation is exposed to interest rate risk through its interest bearing investments within the investment portfolio.

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Foundation is exposed to this risk through its equity holdings within its investment portfolio.

Liquidity Risk

Liquidity risk is the risk that the Foundation will not be able to meet all cash outflow obligations as they come due. The Foundation mitigates this risk by monitoring cash activities and expected outflows.

There have been no significant changes from the previous period in the exposure to risk or policies, procedures and methods used to measure the risk.

**ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

10. CAPITAL DISCLOSURE

The Foundation's objectives with respect to capital management are to maintain a minimum capital base that allows the Foundation to continue with and execute its overall purpose as outlined in the fund balances accounting policy in Note 2. The Foundation's Board of Directors performs periodic reviews of the Foundation's capital needs to ensure they remain consistent with the risk tolerance that is acceptable to the Foundation.

11. RELATED PARTY TRANSACTIONS

During the year, the Foundation shared selected services with the Royal Military Colleges Club of Canada (the Club), a related party to the Royal Military Colleges Club of Canada Foundation Inc. The result is a net annual transfer from the Foundation to the Club in the amount of \$17,880 (2010 - \$17,601). As at the year-end there was a balance receivable from the Club in the amount of \$32,228. This balance has not changed over the year.

12. PROPOSED CHANGES TO ACCOUNTING STANDARDS FOR NOT FOR PROFIT ORGANIZATIONS

The Accounting Standards Board of the Canadian Institute of Chartered Accountants have issued new standards for not-for-profit organizations. These standards permit not-for-profit organizations to adopt International Financial Reporting Standards or to apply the new standards for private enterprises, where standards addressing the unique transactions and circumstances do not exist. The new accounting standards for not-for-profit organizations are effective for years commencing after January 1, 2012.

The Foundation's management will review the new accounting standards to determine the impact on future financial statements.