

**ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.  
FINANCIAL STATEMENTS  
AS AT DECEMBER 31, 2012**

**ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.**  
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**AS AT DECEMBER 31, 2012**

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## **INDEPENDENT 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, 2012, December 31, 2011 and January 1, 2011 and the statements of operations and changes in fund balances and cash flows for the year ended December 31, 2012 and December 31, 2011, 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 accounting standards for not-for-profit organizations 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.

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## **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 above, the financial statements present fairly, in all material respects, the financial position of Royal Military Colleges Club of Canada Foundation Inc. as at December 31, 2012, December 31, 2011 and January 1, 2011 and the results of its operations and its cash flows for the year ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

KINGSTON, Canada  
May 16, 2013

*Wilkinson & Company LLP*  
Chartered Accountants  
Licensed Public Accountants

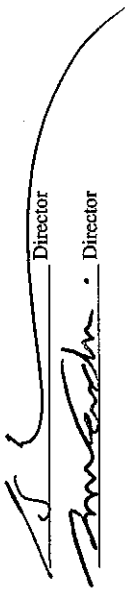
**ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Operating Fund \$	Restricted Fund \$	Endowment Fund \$	December 31 2012 Total \$	December 31 2011 (Note 2) Total \$	January 1 2011 (Note 2) Total \$
<b>ASSETS</b>						
<b>CURRENT</b>						
Cash and bank	158,854	108,369	78,907	346,130	627,120	404,537
Short term investments	204,945	2,002,022		2,206,967	1,956,926	1,930,731
Accounts receivable	62,192			62,192	59,936	21,895
Accrued investment income	3,076			3,076	3,240	2,344
Due from the Royal Military Colleges Club of Canada	32,238			32,238	32,238	32,238
Government remittances receivable	8,801			8,801	6,889	8,234
Inter - fund receivables	68,674			68,674	68,700	66,126
Prepaid expenses	9,938			9,938	916	2,150
	<b>548,718</b>	<b>2,110,391</b>	<b>78,907</b>	<b>2,738,016</b>	<b>2,755,965</b>	<b>2,468,255</b>
	<b>548,718</b>	<b>3,467,070</b>	<b>3,791,766</b>	<b>7,258,836</b>	<b>5,421,341</b>	<b>5,289,479</b>
<b>LONG-TERM INVESTMENTS - Note 4</b>		<b>5,577,461</b>	<b>3,870,673</b>	<b>9,996,852</b>	<b>8,177,306</b>	<b>7,757,734</b>

**LIABILITIES AND FUND BALANCES**

<b>CURRENT</b>						
Accounts payable and accrued liabilities	23,971			23,971	18,153	21,876
Inter - fund payables		68,674		68,674	68,700	66,126
Deferred revenue	900			900	600	1,200
Monies held in trust - Note 5		2,110,212		2,110,212	2,129,139	1,898,628
	<b>24,871</b>	<b>2,178,886</b>		<b>2,203,757</b>	<b>2,216,592</b>	<b>1,987,830</b>
<b>FUND BALANCES</b>						
Unrestricted	523,847			523,847	415,225	509,755
Externally restricted		3,398,575		3,398,575	1,671,780	1,568,893
Externally restricted - Note 6			3,870,673	3,870,673	3,873,709	3,691,256
	<b>523,847</b>	<b>3,398,575</b>	<b>3,870,673</b>	<b>7,793,095</b>	<b>5,960,714</b>	<b>5,769,904</b>
	<b>548,718</b>	<b>5,577,461</b>	<b>3,870,673</b>	<b>9,996,852</b>	<b>8,177,306</b>	<b>7,757,734</b>

APPROVED ON BEHALF OF THE BOARD

 Director

 Director

**ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.**  
**STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Operating Fund		Restricted Fund		Endowed Fund	
	2012	2011	2012	2011	2012	2011
	\$	\$	\$	\$	\$	\$
<b>Revenue</b>						
Administration fee	44,911	44,135				
Donations	297,965	165,966	1,208,420	934,027	104,288	242,608
Investment income	25,689	20,491	890,952	(33,241)		
RMC Research Services	150,532	119,045				
Special projects	117,525	59,900				
	<b>636,622</b>	<b>409,537</b>	<b>2,099,372</b>	<b>900,786</b>	<b>104,288</b>	<b>242,608</b>
<b>Expenditures</b>						
Administration fee						
Administrative	110,647	128,856	44,911	44,135		
College benefactions	71,177	42,863	323,391	719,202		
Distributions from endowments			111,599	95,031		
Personnel	256,649	248,088				
RMC Research Services	55,048	49,555				
Special projects	34,479	34,391				
	<b>528,000</b>	<b>503,753</b>	<b>479,901</b>	<b>858,368</b>		
<b>EXCESS OF REVENUE OVER EXPENDITURES (EXPENDITURES OVER REVENUE) FOR YEAR</b>	<b>108,622</b>	<b>(94,216)</b>	<b>1,619,471</b>	<b>42,418</b>	<b>104,288</b>	<b>242,608</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>415,225</b>	<b>509,755</b>	<b>1,671,780</b>	<b>1,568,893</b>	<b>3,873,709</b>	<b>3,691,256</b>
<b>INTER-FUND TRANSFER - Note 7</b>		<b>(314)</b>	<b>107,324</b>	<b>60,469</b>	<b>(107,324)</b>	<b>(60,155)</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>523,847</b>	<b>415,225</b>	<b>3,398,575</b>	<b>1,671,780</b>	<b>3,870,673</b>	<b>3,873,709</b>

The accompanying notes form an integral part of these financial statements

ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012 Operating Fund	2012 Research	2012 Restricted Fund	2012 Endowment Fund	2012 Total	2011 Total
	\$	\$	\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Sources of cash						
Donations	286,852		1,061,061	104,288	1,452,201	796,389
Research services contract	149,099				149,099	80,649
Grant monies received		1,995,613			1,995,613	1,883,405
Government remittances receivable	(1,912)				(1,912)	1,344
Other receivables	(823)				(823)	355
Special projects	117,825				117,825	67,100
Uses of cash						
Personnel	(256,477)				(256,477)	(247,935)
Administrative	(101,808)				(101,808)	(114,745)
Research services contract	(56,749)				(56,749)	(50,121)
Grant monies disbursed		(2,014,462)			(2,014,462)	(1,652,893)
Benefactions	(70,577)		(197,191)		(267,768)	(240,390)
Endowment distributions			(90,518)		(90,518)	(94,481)
Special projects	(34,479)				(34,479)	(34,391)
<b>CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES</b>	<b>30,951</b>	<b>(18,849)</b>	<b>773,352</b>	<b>104,288</b>	<b>889,742</b>	<b>394,286</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
(Increase) decrease in investments	42		(1,726,691)	(110,804)	(1,837,495)	(132,758)
Investment income	25,810		890,952		916,762	(12,750)
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>25,852</b>		<b>(835,739)</b>	<b>(110,804)</b>	<b>(920,733)</b>	<b>(145,508)</b>
<b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS FOR YEAR</b>						
	56,803	(18,849)	(62,387)	(6,516)	(30,949)	248,778
<b>CASH AND EQUIVALENTS - BEGINNING OF YEAR</b>	<b>262,059</b>	<b>2,129,240</b>	<b>NIL</b>	<b>192,747</b>	<b>2,584,046</b>	<b>2,335,268</b>
Interfund cash adjustments	44,937		62,387	(107,324)		
<b>CASH AND EQUIVALENTS - END OF YEAR</b>	<b>363,799</b>	<b>2,110,391</b>	<b>NIL</b>	<b>78,907</b>	<b>2,553,097</b>	<b>2,584,046</b>
<b>REPRESENTED BY:</b>						
Cash	363,799	2,110,391	NIL	78,907	2,553,097	2,584,046

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, 2012**

**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. ADOPTION OF CANADIAN ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS**

Effective January 1, 2012, the Foundation adopted the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook – Accounting electing to adopt the new accounting framework: Canadian Accounting Standards for Not-For-Profit Organizations (Part III). These are the Foundation's first financial statements prepared in accordance with Part III and the transitional provisions of Section 1501, First-time Adoption have been applied. Section 1501 requires retrospective application of the accounting standards with certain elective exemptions and limited retrospective exceptions. The accounting policies set out in the significant accounting policy note have been applied in preparing the financial statements for the year ended December 31, 2012, the comparative information for the year ended December 31, 2011 and the opening Part III statement of financial position at January 1, 2011 (the Foundation's date of transition).

The Foundation issued financial statements for the year ended December 31, 2011 using generally accepted accounting principles prescribed by the CICA Handbook – Part V. The adoption of Part III resulted in no adjustment to the previously reported assets, liabilities, fund balances, excess of revenues over expenditures (expenditures over revenues) and cash flows of the Foundation.

As a result of the adoption of Part III, the Foundation made the following changes to financial statement disclosures: separate disclosure of government remittances receivable on the statement of financial position; inclusion of a statement of cash flows for the year ended December 31, 2012 including comparatives for the year ended December 31, 2011.

**3. ACCOUNTING POLICIES**

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

**(a) Basis of Accounting**

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations.



**ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**3. ACCOUNTING POLICIES (Cont'd)**

**(b) Accounting Estimates**

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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.

**(c) 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.

**(d) 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.

**ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**3. ACCOUNTING POLICIES (Cont'd)**

**(d) Revenue Recognition (Cont'd)**

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.

**(e) Financial instrument measurement**

The Foundation initially measures its financial assets and financial liabilities at fair value. It subsequently measures all its financial assets and financial liabilities with the exception of investments at amortized cost. Investments continue to be measured at fair value.

The financial assets subsequently measured at amortized cost include cash, accounts receivables, and prepaid expenses. The financial liabilities measured at amortized cost include accounts payable and accrued liabilities, deferred revenue and monies held in trust.

**(f) 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.

**(g) 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, 2012**

**3. ACCOUNTING POLICIES (Cont'd)**

**(h) Cash and Equivalents**

Cash and equivalents consist of cash on deposit and short term investments maturing in less than 90 days.

**4. LONG-TERM INVESTMENTS**

The investments held at December 31, 2012 consist of bonds and stock equities. Investments have been recorded at the fair market value provided by Canso Investment Counsel Ltd. as at December 31, 2012 and December 31, 2011.

	2012	2011
	\$	\$
Canadian fixed income	1,956,151	1,453,385
Foreign fixed income	1,978,008	1,422,196
Canadian equity	1,708,271	1,774,351
Foreign equity	1,616,406	771,409
	<b>7,258,836</b>	<b>5,421,341</b>

The fixed income securities have varying maturity dates and effective investment yield ranges from 1.1% to 10.75% (2011: 3.6% to 10.75%) if held until maturity.

**5. 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.

During the year, providing services under the aforementioned Memorandum of Understanding resulted in net contributions to the operating fund of \$119,824 (2011 - \$88,786).

**ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**6. EXTERNALLY RESTRICTED - ENDOWMENT FUNDS**

	Opening Balance	Donations	Inter-Fund Transfer	Endowed Capital Expended	Ending Balance
	\$	\$	\$	\$	\$
<b>(a) Major Giving Endowed Funds</b>					
Captain Bart Leadership Award	71,594		(30,000)		41,594
Captain Bart Teamwork Prize	258,841		(110,000)		148,841
Dacey Memorial Fund/ Chemical and Mechanical Engineering Fund	19,589				19,589
Danny McLeod Athletics	188,954	4,035			192,989
Howard B. Ripstein Third Year 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	150			11,086
James Carruthers Endowment Fund	415,122				415,122
Keyser Red & White	25,000				25,000
Mech Eng P.G. Scholarship Fund	113,174	15,000			128,174
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	20,150	1,000			21,150
UPTNCM Fund (Otter Sqn)	16,043	648			16,691
W.A. Ferguson	10,000				10,000
Young Memorial Fund	100,000				100,000
	<u>1,840,781</u>	<u>20,833</u>	<u>(140,000)</u>		<u>1,721,614</u>
<b>(b) Endowed Class Funds</b>					
Class of 56	113,905	500			114,405
Class of 57	40,710	550			41,260
Class of 59	76,895	1,740			78,635
Class of 60	82,427	3,070			85,497
Class of 62	170,353	375			170,728
Class of 63	72,146				72,146
Class of 64	315,228	4,480			319,708
Class of 65 - Teaching Excellence	619,463	4,160			623,623
Class of 66	388,812	61,240	32,676		482,728
Class of 69 - Bade Bursary	70,320	240			70,560
Class of 72	51,535	7,100			58,635
Class of 98	30,234				30,234
Class of 2000	900				900
	<u>2,032,928</u>	<u>83,455</u>	<u>32,676</u>		<u>2,149,059</u>
<b>Total Endowed Funds</b>	<u>3,873,709</u>	<u>104,288</u>	<u>(107,324)</u>		<u>3,870,673</u>

**ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**7. INTERFUND TRANSFERS**

During 2012 the Royal Military Colleges Club of Canada Foundation Inc. transferred \$107,324 from the endowment fund to the restricted fund. All transfers were approved by the Board of Directors of the Foundation.

**8. 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 4 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.

**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 15% is denominated in the United States dollar.

**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.

**ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**8. FINANCIAL INSTRUMENTS (Cont'd)**

**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.

**9. 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 3. 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.

**10. 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 \$18,641 (2011 - \$17,880). 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.