

ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2013

ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.

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INDEPENDENT AUDITORS' REPORT

To the Members
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 the statement of financial position as at December 31, 2013, and the statements of operations and changes in fund balances, and cash flows 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 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.

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, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KINGSTON, Canada
May 15, 2014


Malhearn + 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, 2013

	Operating Fund \$	Restricted Fund \$	Endowment Fund \$	2013 Total \$	2012 Total \$
ASSETS					
CURRENT					
Cash and bank	185,069	89,650	58,696	333,415	346,130
Short term investments	105,187	1,952,023		2,057,210	2,206,967
Accounts receivable	16,763			16,763	62,192
Accrued investment income	2,958			2,958	3,076
Due from the Royal Military Colleges Club of Canada - current - Note 9	3,250			3,250	32,238
Government remittances receivable	20,441			20,441	8,801
Inter - fund receivables	162,718			162,718	68,674
Prepaid expenses	4,829			4,829	9,938
LONG-TERM	501,215	2,041,673	58,696	2,601,584	2,738,016
Due from the Royal Military Colleges Club of Canada - Note 9	28,988			28,988	
Investments - Note 3	530,203	6,583,642	4,016,411	11,130,256	9,996,852
		4,541,969	3,957,715	8,499,684	7,258,836

	Operating Fund \$	Restricted Fund \$	Endowment Fund \$	2013 Total \$	2012 Total \$
LIABILITIES AND FUND BALANCES					
CURRENT					
Accounts payable and accrued liabilities	19,784			19,784	23,971
Inter - fund payables		162,718		162,718	68,674
Deferred revenue	4,303			4,303	900
Monies held in trust - Note 4		2,041,673		2,041,673	2,110,212
	24,087	2,204,391		2,228,478	2,203,757
FUND BALANCES					
Unrestricted	506,116			506,116	523,847
Externally restricted		4,379,251		4,379,251	3,398,575
Externally restricted - Note 5			4,016,411	4,016,411	3,870,673
	506,116	4,379,251	4,016,411	8,901,778	7,793,095
	530,203	6,583,642	4,016,411	11,130,256	9,996,852

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, 2013

	Operating Fund		Restricted Fund		Endowed Fund	
	2013	2012	2013	2012	2013	2012
	\$	\$	\$	\$	\$	\$
Revenue						
Administration fee	60,099	44,911				
Donations	311,684	297,965	506,367	1,208,420	69,358	104,288
Investment income	28,418	25,689	1,175,400	890,952		
RMC Research Services	166,433	150,532				
Special projects	74,854	117,525				
	641,488	636,622	1,681,767	2,099,372	69,358	104,288
Expenditures						
Administration fee				44,911		
Administrative	114,270	110,647	60,099			
College benefactions	154,810	71,177	369,673	323,391		
Distributions from endowments			154,216	111,599		
Gifts to other qualified donees			58,164			
Personnel	281,974	256,649				
RMC Research Services	45,290	55,048				
Special projects	45,434	34,479				
	641,778	528,000	642,152	479,901		
EXCESS OF REVENUE OVER						
EXPENDITURES (EXPENDITURES						
OVER REVENUE) FOR YEAR	(290)	108,622	1,039,615	1,619,471	69,358	104,288
FUND BALANCES - BEGINNING OF						
YEAR	523,847	415,225	3,398,575	1,671,780	3,870,673	3,873,709
INTER-FUND TRANSFER - Note 6	(17,441)		(58,939)	107,324	76,380	(107,324)
FUND BALANCES - END OF YEAR	506,116	523,847	4,379,251	3,398,575	4,016,411	3,870,673

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, 2013

	2013 Operating Fund \$	2013 Research \$	2013 Restricted Fund \$	2013 Endowment Fund \$	2013 Total \$	2012 Total \$
CASH FLOWS FROM OPERATING ACTIVITIES						
Sources of cash						
Donations	299,688		489,912	69,358	858,958	1,452,201
Research services contract	211,852				211,852	149,099
Grant monies received		2,222,225			2,222,225	1,995,613
Government remittances receivable	(11,640)				(11,640)	(1,912)
Other receivables	9				9	(823)
Special projects	78,257				78,257	117,825
Uses of cash						
Personnel	(279,808)				(279,808)	(256,477)
Administrative	(102,332)				(102,332)	(101,808)
Research services contract	(44,432)				(44,432)	(56,749)
Grant monies disbursed		(2,290,764)			(2,290,764)	(2,014,462)
Benefactions	(154,210)		(364,033)		(518,243)	(267,768)
Endowment distributions			(143,401)		(143,401)	(90,518)
Gifts to other qualified donees			(58,164)		(58,164)	
Special projects	(48,077)				(48,077)	(34,479)
CASH FLOWS PROVIDED FROM (USED IN) OPERATING ACTIVITIES	(50,693)	(68,539)	(75,686)	69,358	(125,560)	889,742
CASH FLOWS FROM INVESTING ACTIVITIES						
(Increase) decrease in investments	(20)		(1,074,899)	(165,949)	(1,240,868)	(1,837,453)
Investment income	28,556		1,175,400		1,203,956	916,762
CASH FLOWS USED IN INVESTING ACTIVITIES	28,536		100,501	(165,949)	(36,912)	(920,691)
DECREASE IN CASH AND EQUIVALENTS FOR YEAR						
	(22,157)	(68,539)	24,815	(96,591)	(162,472)	(30,949)
CASH AND EQUIVALENTS - BEGINNING OF YEAR						
Interfund cash adjustments	(51,386)	(179)	(24,815)	76,380		
CASH AND EQUIVALENTS - END OF YEAR	290,256	2,041,673	NIL	58,696	2,390,625	2,553,097
REPRESENTED BY:						
Cash	290,256	2,041,673	NIL	58,696	2,390,625	2,553,097

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, 2013

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) Basis of Accounting

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

(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, in accordance with the donors' direction, 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 in accordance with the donors' direction and do not form part of the endowment fund. The restricted fund also includes resources that the Board of Directors have internally restricted by Foundation policy for benefactions.

(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
FOR THE YEAR ENDED DECEMBER 31, 2013**

2. ACCOUNTING POLICIES (Cont'd)

(d) Revenue Recognition

Donor-restricted contributions for endowment purposes are recognized as revenue in the endowment funds. Other contributions are recognized as revenue in the restricted fund depending on the nature of the donor's direction. Contributions with no donor's direction 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 directed 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, or 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.

ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

2. ACCOUNTING POLICIES (Cont'd)

(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.

(h) Cash and Equivalents

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

3. LONG-TERM INVESTMENTS

The investments held at December 31, 2013 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, 2013 and December 31, 2012.

	2013	2012
	\$	\$
Canadian fixed income	1,940,294	1,956,151
Foreign fixed income	2,315,013	1,978,008
Canadian equity	2,140,864	1,708,271
Foreign equity	2,103,513	1,616,406
	8,499,684	7,258,836

The fixed income securities have varying maturity dates and interest rates ranging from 3.624% to 10.75% (2012: 1.1% to 10.75%) if held until maturity.

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.

During the year, providing services under the aforementioned Memorandum of Understanding resulted in net contributions to the operating fund of \$121,143 (2012 - \$95,484).

ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

5. EXTERNALLY RESTRICTED - ENDOWMENT FUNDS

	Opening Balance	Donations	Inter-Fund Transfer	Endowed Capital Expended	Ending Balance
	\$	\$	\$	\$	\$
(a) Major Giving Endowed Funds					
Captain Bart Leadership Award	41,594				41,594
Captain Bart Teamwork Prize	148,841				148,841
Dacey Memorial Fund/ Chemical and Mechanical Engineering Fund	19,589				19,589
Danny McLeod Athletics	192,989	3,560			196,549
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	11,086				11,086
James Carruthers Endowment Fund	415,122				415,122
Keyser Red & White	25,000				25,000
Mech Eng P.G. Scholarship Fund	128,174	15,000			143,174
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	4,770			110,820
Sandhurst Endowment Fund	21,150	500			21,650
UPTNCM Fund (Otter Sq)	16,691	612			17,303
W.A. Ferguson	10,000				10,000
Young Memorial Fund	100,000				100,000
	<u>1,721,614</u>	<u>24,442</u>	<u>NIL</u>		<u>1,746,056</u>
(b) Endowed Class Funds					
Class of 56	114,405	2,500			116,905
Class of 57	41,260	825			42,085
Class of 59	78,635	1,890			80,525
Class of 60	85,497	3,735			89,232
Class of 62	170,728				170,728
Class of 63	72,146				72,146
Class of 64	319,708	6,055			325,763
Class of 65 - Teaching Excellence	623,623	3,260			626,883
Class of 66	482,727	12,900			495,627
Class of 68		2,101	108,615		110,716
Class of 69 - Bade Bursary	70,560	11,550			82,110
Class of 72	58,635	100	(2,000)		56,735
Class of 98	30,235		(30,235)		
Class of 2000	900				900
	<u>2,149,059</u>	<u>44,916</u>	<u>76,380</u>		<u>2,270,355</u>
Total Endowed Funds	<u>3,870,673</u>	<u>69,358</u>	<u>76,380</u>		<u>4,016,411</u>

**ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

6. INTERFUND TRANSFERS

During 2013 the Royal Military Colleges Club of Canada Foundation Inc. transferred \$76,380 from the restricted fund to the endowment fund and \$17,441 from the operating fund to the restricted fund. All transfers were approved by the Board of Directors of the Foundation.

7. 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.

(a) 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.

(i) 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.

(ii) 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.

(iii) 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.

**ROYAL MILITARY COLLEGES CLUB OF CANADA FOUNDATION INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

7. FINANCIAL INSTRUMENTS (Cont'd)

(b) 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.

(c) 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.

8. 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.

9. 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 \$18,117 (2012 - \$18,641).

During the year, the organization made an arrangement with the Royal Military Colleges Club of Canada to repay the amount owing of \$32,238 (2012 - \$32,238) to the Foundation. The amount owing is not subject to interest and the repayment is expected to occur over a ten-year period with annual payments of approximately \$3,250 commencing in 2014. The current portion of the amount due to the Foundation is \$3,250 with the balance being presented as long-term.