

The Royal Canadian Legion - Dominion Command

Financial Statements
December 31, 2015



March 31, 2016

Independent Auditor's Report

To the Members of The Royal Canadian Legion - Dominion Command

We have audited the accompanying financial statements of The Royal Canadian Legion - Dominion Command, which comprise the statement of financial position as at December 31, 2015 and the statements of changes in fund balances, operations - general fund, operations - externally restricted funds and cash flows for the year then ended, and the related notes, which comprise 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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 The Royal Canadian Legion - Dominion Command as at December 31, 2015 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants


The Royal Canadian Legion - Dominion Command


Statement of Financial Position

As at December 31, 2015

	2015 \$	2014 \$
Assets		
Current assets		
Cash and cash equivalents	5,083,959	7,687,615
Accounts receivable (note 3)	2,287,889	1,940,876
Inventories		
General	1,433,353	1,351,244
Poppy promotional material	145,127	133,152
Prepaid expense	186,479	157,275
Prepaid subscriptions	1,334,637	768,259
	10,471,444	12,038,421
Marketable investments (note 4)	25,187,186	21,383,560
Capital assets (note 5)	5,535,326	5,708,504
Pension asset (note 6)	2,069,700	2,131,200
	43,263,656	41,261,685
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	1,270,347	835,381
Per capita tax received in advance	2,733,173	1,560,399
Due to Canvet Publications Ltd. (note 8)	15,098	104,719
	4,018,618	2,500,499
Retirement obligation (note 6)	493,100	445,900
	4,511,718	2,946,399
Fund Balances		
General Fund		
Unrestricted	5,310,452	4,569,351
Invested in capital assets (note 5)	5,535,326	5,706,619
Other internally restricted (note 9)	4,871,391	4,634,891
Pension Plan Fund (note 6)	2,069,700	2,131,200
Investment Fund	9,295,169	9,791,317
Externally Restricted Funds	11,669,900	11,481,908
	38,751,938	38,315,286
	43,263,656	41,261,685
Commitments and contingencies (note 10)		

Signed on behalf of the Dominion Executive Council


President


Treasurer

The accompanying notes are an integral part of these financial statements.

The Royal Canadian Legion - Dominion Command

Statement of Changes in Fund Balances

For the year ended December 31, 2015

	Balance - Beginning of year \$	Net revenue (expense) for the year \$	Remeasurements and other items \$	Transfers from (to) \$	Balance - End of year \$
General Fund					
Unrestricted	4,569,351	523,130	3,300	214,671	5,310,452
Invested in capital assets (note 5)	5,706,619	(204,302)	-	33,009	5,535,326
Other internally restricted (note 9)	4,634,891	-	-	236,500	4,871,391
	14,910,861	318,828	3,300	484,180	15,717,169
Pension Plan Fund (note 6)	2,131,200	(223,927)	(170,700)	333,127	2,069,700
Investment Fund (note 4)	9,791,317	(399,864)	-	(96,284)	9,295,169
	26,833,378	(304,963)	(167,400)	721,023	27,082,038
Externally Restricted Funds					
Poppy Trust Fund	9,008,970	601,975	-	(721,023)	8,889,922
Centennial Fund	1,921,481	(3,403)	-	-	1,918,078
RCEL Fund	461,731	310,116	-	-	771,847
Benevolent Fund	89,726	327	-	-	90,053
Total externally restricted funds	11,481,908	909,015	-	(721,023)	11,669,900
	38,315,286	604,052	(167,400)	-	38,751,938

The accompanying notes are an integral part of these financial statements.

The Royal Canadian Legion - Dominion Command

Statement of Operations – General Fund

For the year ended December 31, 2015

	2015 \$	2014 \$
Revenue		
Administrative fees (note 8)	110,000	75,000
Building rental (note 8)	82,920	72,439
Dividends	171,768	116,200
Estate bequests	-	80
Interest	266,264	405,552
MasterCard royalties	61,713	64,137
Miscellaneous (note 8)	68,838	76,247
Per capita tax	5,944,705	6,006,792
Subscription agency fee (note 8)	377,854	400,000
Supply sales	2,475,575	1,841,813
	<u>9,559,637</u>	<u>9,058,260</u>
Expense		
Administration	710,346	830,748
Building	303,644	320,570
Committees	569,991	1,320,058
Marketing, advertising and promotion	379,458	347,620
Finance	446,364	442,502
Information technology	260,414	258,787
Legion Magazine - Subscriptions (note 8)	2,925,054	2,988,364
Marketing, membership and communications	1,005,446	771,160
Other program expenses	159,135	105,187
Service bureau	704,116	711,759
Supply -		
Operation	587,211	743,746
Cost of sales	985,328	795,885
Amortization -		
Furniture and equipment and computers	58,266	69,731
Building	146,036	146,036
	<u>9,240,809</u>	<u>9,852,153</u>
Net revenue (expense) for the year	<u>318,828</u>	<u>(793,893)</u>

The accompanying notes are an integral part of these financial statements.

The Royal Canadian Legion - Dominion Command

Statement of Operations – Externally Restricted Funds

For the year ended December 31, 2015

	2015				2014	
	Poppy Trust Fund \$	Centennial Fund \$	RCEL Fund \$	Benevolent Fund \$	Total \$	Total \$
Revenue						
Donations	319,547	-	509,712	-	829,259	407,807
Interest	118,935	27,787	1,851	327	148,900	211,646
Dividends	118,577	46,169	-	-	164,746	19,013
Poppies and wreaths	3,137,012	-	-	-	3,137,012	2,910,378
Promotional aids	485,464	-	-	-	485,464	451,802
Other	1,432	-	-	-	1,432	19,998
	4,180,967	73,956	511,563	327	4,766,813	4,020,644
Expense						
Advertising and promotional materials	55,814	-	-	-	55,814	63,134
Poppy contests	23,593	-	-	-	23,593	21,132
Poppies and wreaths	1,499,837	-	-	-	1,499,837	1,393,514
Promotional aids	248,593	-	-	-	248,593	241,952
Trademark defence	65,390	-	-	-	65,390	31,478
Freight	237,137	-	-	-	237,137	245,411
General	468,103	13,691	-	-	481,794	157,968
Amortization - Warehouse shelving	1,885	-	-	-	1,885	1,887
Caribbean Liaison	19,842	-	-	-	19,842	-
Remembrance ceremony and videos	5,368	-	-	-	5,368	36,917
Veterans Transition Network	18,905	-	-	-	18,905	-
Bursaries	2,000	-	-	-	2,000	-
Grant - MRI/PET Scanner	575,000	-	-	-	575,000	-
Grants - Other	5,000	-	-	-	5,000	40,000
Benevolent support and assistance	105,166	-	201,447	-	306,613	355,878
	3,331,633	13,691	201,447	-	3,546,771	2,589,271
Revenue before the undernoted	849,334	60,265	310,116	327	1,220,042	1,431,373

The accompanying notes are an integral part of these financial statements.

The Royal Canadian Legion - Dominion Command

Statement of Operations – Externally Restricted Funds ...continued

For the year ended December 31, 2015

	2015			2014	
	Poppy Trust Fund \$	Centennial Fund \$	RCEL Fund \$	Benevolent Fund \$	Total \$
Net changes in fair value of marketable investments					
Realized	(51,424)	(15,762)	-	-	208,844
Unrealized	(195,935)	(47,906)	-	-	(92,530)
	(247,359)	(63,668)	-	-	116,314
Net revenue (expense) for the year	601,975	(3,403)	310,116	327	1,547,687

The accompanying notes are an integral part of these financial statements.

The Royal Canadian Legion - Dominion Command

Statement of Cash Flows

For the year ended December 31, 2015

	2015 \$	2014 \$
Cash provided by (used in)		
Operating activities		
Net revenue (expense) for the year -		
General Fund	318,828	(793,893)
Pension Plan Fund	(223,927)	(433,565)
Investment Fund	(399,864)	470,381
Externally Restricted Funds	909,015	1,547,687
Items not affecting cash -		
Provision for pension plan	223,927	433,565
Provision for retirement obligation	62,100	59,100
Amortization	206,187	217,654
Realized gains on sales of marketable investments	(25,401)	(663,896)
Unrealized losses on marketable investments	736,292	76,871
Loss on foreign exchange	-	330
Contributions to pension plan	(333,127)	(730,865)
Cash paid for retirement obligation	(11,600)	(87,800)
Net change in non-cash working capital items	481,440	(103,392)
	<u>1,943,870</u>	<u>(7,823)</u>
Investing activities		
Proceeds on sale of marketable investments	3,361,950	24,742,709
Purchase of marketable investments	(7,876,467)	(23,270,923)
Purchase of capital assets	(33,009)	(45,445)
	<u>(4,547,526)</u>	<u>1,426,341</u>
Net change in cash for the year	(2,603,656)	1,418,518
Cash and cash equivalents - Beginning of year	7,687,615	6,269,097
Cash and cash equivalents - End of year	<u>5,083,959</u>	<u>7,687,615</u>
Net change in non-cash working capital items -		
Accounts receivable	(347,013)	146,515
Due from Canvet Publications Ltd.	-	7,217
Inventory -		
General	(82,109)	136,319
Poppy promotional material	(11,975)	(6,518)
Prepaid expense	(29,204)	42,855
Prepaid subscriptions	(566,378)	529,779
Accounts payable and accrued liabilities	434,966	13,107
Per capita tax received in advance	1,172,774	(1,077,385)
Due to Canvet Publications Ltd.	(89,621)	104,719
	<u>481,440</u>	<u>(103,392)</u>

The accompanying notes are an integral part of these financial statements.

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

December 31, 2015

1 Purpose of the organization

The Canadian Legion was incorporated in 1926 under the *Companies Act*, and its name was amended to The Royal Canadian Legion in 1961 by an Act of Parliament. The Royal Canadian Legion - Dominion Command (“the Dominion Command”) is a not-for-profit organization under subsection 149(1)(l) of the *Income Tax Act* and as such is exempt from income taxes.

2 Significant accounting policies

Use of 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 dates of the financial statements and the reported amounts of revenue and expense during the reporting periods. Actual results could differ from these estimates.

Fund accounting

Pension contributions and the actuarially determined pension expense are accounted for in the Pension Plan Fund.

Interest and dividends earned on marketable investments are accounted for in the General Fund or in the Externally Restricted Fund to which they relate. Realized and unrealized gains and losses on marketable investments held in the General Fund are accounted for in the Investment Fund. The Investment Fund was established January 1, 1998 by transferring all investments held at that time.

Externally Restricted Funds are accounted for as follows.

Poppy Trust Fund

The Royal Canadian Legion - Dominion Command Poppy Trust Fund (“Poppy Trust Fund”) accounts for the sales of poppies and wreaths and poppy promotional material to the Provincial Commands and local branches. The funds raised are used to assist Canadian ex-service personnel and their dependants and ex-service personnel of Commonwealth and allied countries living in Canada in necessitous circumstances; to pay operating expenses of the Dominion Command Service Bureau where required; and to provide a grant to the RCEL Fund to support veterans in the Caribbean.

Centennial, RCEL and Benevolent Funds (“Special Funds”)

Special Funds are accumulated to finance special activities, including a youth track and field camp and grants to Commonwealth veterans in the Caribbean.

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

December 31, 2015

Cash equivalents

Investments with maturities at the date of acquisition of three months or less are considered cash equivalents as they are readily convertible to cash and are not subject to significant changes in value.

Inventories

Inventories are carried at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

Marketable investments

Marketable investments are recorded at fair value in the statement of financial position and changes in fair value are included in net revenue of the year of the Investment Fund or appropriate Externally Restricted Fund.

Capital assets and amortization

Capital assets are carried at cost less accumulated amortization.

Capital assets are amortized on a straight-line basis, over their estimated useful service lives, at the following annual rates.

Building	2.5%
Furniture and equipment	10.0%
Computers	10.0%

Employee future benefits

The Royal Canadian Legion - Dominion Command Pension Plan is a multiemployer, contributory, defined benefit pension plan that covers all employees of the Dominion Command, The Royal Canadian Legion - New Brunswick Command and Canvet Publications Ltd. The annual pension payable is based on final average earnings and years of credited service.

In addition to the plan, the Dominion Command provides a defined benefit retirement allowance for its employees who have a minimum number of years of service and have attained a minimum age.

Under the immediate recognition approach, the total cost, excluding remeasurement and other items, is included in net revenue or expense of the appropriate fund. Actuarial gains and losses, past service costs and other remeasurements and other items are recognized directly in fund balances.

The defined benefit obligation related to the pension plan is measured based on the most recent actuarial valuation report prepared for funding purposes. The retirement obligation is measured based on an actuarial valuation report prepared specifically for accounting purposes.

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

December 31, 2015

Revenue recognition

Externally restricted contributions are recognized as revenue of the appropriate externally restricted fund. Unrestricted contributions are recognized as revenue of the General Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Per capita tax is recorded as revenue in the year it is received unless it relates to a future year, in which case it is deferred and recorded as revenue in the year to which it relates.

Allocated expenses

A portion of Information Technology expenses (system maintenance, programming, computer parts and internet connectivity) is allocated to Administration, Finance, Marketing, membership and communications, Service bureau and Supply - Operation expense in the General Fund in order to reflect support and management oversight provided to those areas. These expenses are allocated based on estimates of time spent by the relevant information technology personnel on those areas during the year.

A portion of Administration expenses (salaries and general office) is allocated to Marketing, membership and communications and Service bureau expense in the General Fund, and to General expense in the Poppy Trust Fund, in order to reflect support and management oversight provided to those areas. These expenses are allocated based on estimates of time spent by the relevant administrative personnel on those areas during the year.

A portion of Supply – Operation expenses (salaries and general warehouse) is allocated to General expense of the Poppy Trust Fund in order to reflect warehouse storage costs, shipping and handling for the Poppy Trust Fund inventory, and processing of sales. General warehouse costs are allocated based on \$7 per square foot of the total warehouse space dedicated to Poppy Trust Fund inventory. The remaining expenses are allocated based on estimates of time spent by the relevant personnel during the year.

3 Accounts receivable

	2015	2014
	\$	\$
Commands, branches and members		
General	450,675	428,145
Poppy Trust Fund	1,419,354	1,037,341
Other		
General	106,712	95,637
Poppy Trust Fund	280,043	327,476
Accrued interest	31,105	52,277
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	2,287,889	1,940,876

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

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4 Marketable investments

	2015		2014	
	Fair value \$	Cost \$	Fair value \$	Cost \$
General Fund	17,718,210	17,854,477	16,641,647	16,285,463
Poppy Trust Fund	5,656,596	5,836,607	3,019,505	3,003,581
Centennial Fund	1,812,380	1,848,835	1,722,408	1,710,957
	<u>25,187,186</u>	<u>25,539,919</u>	<u>21,383,560</u>	<u>21,000,001</u>

Net gains on sales of marketable investments of \$92,587 (2014 - \$454,722) and net decreases in unrealized gains and losses of \$492,451 (2014 - net increases in unrealized gains and losses of \$15,659) relate to the general investment portfolio and are accounted for in the Investment Fund.

	2015		2014	
	Fair value \$	Cost \$	Fair value \$	Cost \$
Government and government guaranteed bonds	3,386,992	3,332,153	3,319,131	3,290,975
Corporate bonds and pooled bond funds	11,045,004	11,183,240	7,998,572	8,007,291
Corporate stocks and pooled equity funds	10,755,190	11,024,526	10,065,857	9,701,735
	<u>25,187,186</u>	<u>25,539,919</u>	<u>21,383,560</u>	<u>21,000,001</u>

Government and government guaranteed bonds bear interest at fixed rates ranging from 1.3% to 2.1% and mature between 2017 and 2019 (2014 - 1.5% to 2.1% and mature between 2017 and 2019).

Corporate bonds bear interest at fixed rates ranging from 2.0% to 3.5% and mature between 2016 and 2022. The pooled bond funds invest in high quality, short and long-term government securities and corporate bonds, bearing interest at fixed rates.

The Dominion Command invests, directly and through pooled equity funds, in companies in various industries, including energy, materials, industrials, consumer discretionary, consumer staples, financial institutions, telecommunication services and utilities.

19% (2014 - 17%) of marketable investments are denominated in U.S. dollars.

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

December 31, 2015

5 Capital assets

	2015			2014	
	Cost \$	Accumulated amortization \$	Net \$	Net \$	
Land	950,220	-	950,220	950,220	
Building	5,841,416	1,350,833	4,490,583	4,636,619	
Furniture and equipment	323,334	292,708	30,626	55,672	
Computers	220,264	156,367	63,897	65,993	
	7,335,234	1,799,908	5,535,326	5,708,504	
			2015	2014	
	Cost \$	Accumulated amortization \$	Net \$	Net \$	
General Fund	7,316,368	1,781,042	5,535,326	5,706,619	
Poppy Trust Fund	18,866	18,866	-	1,885	
	7,335,234	1,799,908	5,535,326	5,708,504	

6 Employee future benefits

Extrapolations of actuarial valuation reports prepared as at January 1, 2015 and January 1, 2014 (2014 - January 1, 2014), for the retirement allowance and the overall defined benefit plan, respectively, indicated the following information.

	2015		2014	
	Retirement obligation \$	Pension Plan \$	Retirement obligation \$	Pension Plan \$
Fair value of plan assets	-	16,701,500	-	17,333,200
Defined benefit obligation	(493,100)	(14,631,800)	(445,900)	(15,202,000)
Pension asset (retirement obligation)	(493,100)	2,069,700	(445,900)	2,131,200

7 Government remittances

Government remittances of \$27,831 (2014 - \$nil) are included within accounts payable and accrued liabilities.

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Notes to Financial Statements

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8 Controlled entity

The Dominion Command controls Canvet Publications Ltd. ("Canvet"), a federally incorporated entity, as the shareholders of Canvet are officers of the Dominion Command. Canvet publishes and distributes "Legion Magazine", which is sold to the membership of the Royal Canadian Legion, non-member subscribers and the general public.

Canvet has not been consolidated in the Dominion Command's financial statements. A summary of the financial position, results of operations and cash flows of Canvet as at December 31, 2015 and 2014 is as follows.

	2015 \$	2014 \$
Financial position		
Total assets	4,033,944	2,844,337
Total liabilities	2,026,337	1,344,938
Shareholders' equity	2,007,607	1,499,399
	4,033,944	2,844,337
	2015 \$	2014 \$
Results of operations		
Total revenue	4,439,885	4,320,018
Total expense	3,930,977	3,856,645
Net earnings for the year	508,908	463,373
Cash provided by (used in)		
Operating activities	1,279,098	(217,517)
Investing activities	(1,019,369)	(5,313)
	259,729	(222,830)

The accounting policies followed by Canvet are similar to those followed by the Dominion Command except that Canvet's contributions to the pension plan are included in total expense when determining net earnings for the year.

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Notes to Financial Statements

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The following transactions with Canvet are included in expenses of the General Fund.

	2015	2014
	\$	\$
Legion Magazine - Subscriptions	2,668,945	2,732,834
Advertising	82,140	93,243
Design services	11,906	19,748
Special issue publications	2,107	-

The following transactions with Canvet are included in revenues of the General Fund.

	2015	2014
	\$	\$
Administrative fees	110,000	75,000
Building rental	68,640	59,664
Network support charge (included in miscellaneous revenue)	3,000	3,000
Subscription agency fee	377,854	400,000

These transactions are considered to be in the normal course of operations and are measured at the exchange amount, which is the amount established and agreed to by the related parties.

Balances with Canvet are non-interest bearing with no specified terms of repayment. Included in accounts receivable is \$48,402 (2014 - \$59,748) owing from Canvet.

9 Internally restricted fund balance

The Dominion Command internally restricts a portion of its General Fund balance for expenses that will be incurred in the future.

	2015	2014
	\$	\$
Legion Magazine	1,445,000	1,445,000
Building	240,053	210,053
RCEL conference	45,000	30,000
Convention	200,000	-
Pilgrimage	-	8,500
Special purpose	26,979	26,979
Per capita tax	2,914,359	2,914,359
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	4,871,391	4,634,891

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Notes to Financial Statements

December 31, 2015

10 Commitments and contingencies

The Trico Group Inc. supplies the Poppy Trust Fund with poppies and related remembrance materials under an agreement which is in effect until December 31, 2018.

The Dominion Command is also committed to the following payments for equipment under various leases.

	\$
Year ending December 31, 2016	36,829
2017	36,829
2018	16,052
2019	9,126
2020	9,126
2021	2,281

11 Allocation of expenses

Information technology expenses have been allocated within the General Fund as follows.

	2015 \$	2014 \$
Administration	3,000	3,000
Finance	3,000	3,000
Marketing, membership and communications	6,000	6,000
Service bureau	3,000	3,000
Supply - Operation	6,000	6,000

Administration expenses have been allocated as follows.

	2015 \$	2014 \$
General Fund - Marketing, membership and communications	30,000	30,000
General Fund - Service bureau	30,000	30,000
Poppy Trust Fund - General	142,949	25,000

Supply - Operation expenses of \$258,706 (2014 - \$80,000) have been allocated to General expense of the Poppy Trust Fund.