

**The Royal Canadian Legion
- Dominion Command**

Financial Statements
December 31, 2016



May 16, 2017

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, 2016 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, 2016 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, 2016

	2016 \$	2015 \$
Assets		
Current assets		
Cash and cash equivalents	4,125,802	5,083,959
Accounts receivable (note 3)	1,602,711	2,287,889
Inventories		
General	1,312,447	1,433,353
Poppy promotional material	146,103	145,127
Prepaid expense	161,471	186,479
Prepaid subscriptions	1,127,051	1,334,637
	<u>8,475,585</u>	<u>10,471,444</u>
Marketable investments (note 4)	28,812,554	25,187,186
Capital assets (note 5)	5,440,790	5,535,326
Pension asset (note 6)	1,940,500	2,069,700
	<u>44,669,429</u>	<u>43,263,656</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	1,287,644	1,270,347
Per capita tax received in advance	2,439,943	2,733,173
Due to Canvet Publications Ltd. (note 8)	103,562	15,098
	<u>3,831,149</u>	<u>4,018,618</u>
Retirement obligation (note 6)	515,400	493,100
	<u>4,346,549</u>	<u>4,511,718</u>
Fund Balances		
General Fund		
Unrestricted	5,521,470	5,310,452
Invested in capital assets (note 5)	5,440,790	5,535,326
Other internally restricted (note 9)	4,675,691	4,871,391
Pension Plan Fund	1,940,500	2,069,700
Investment Fund	10,156,929	9,295,169
Externally Restricted Funds	12,587,500	11,669,900
	<u>40,322,880</u>	<u>38,751,938</u>
	<u>44,669,429</u>	<u>43,263,656</u>
Commitments (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, 2016

	Balance - Beginning of year \$	Net revenue (expense) for the year \$	Remeasurements and other items \$	Transfers from (to) \$	Balance - End of year \$
General Fund					
Unrestricted	5,310,452	(450,686)	42,500	619,204	5,521,470
Invested in capital assets (note 5)	5,535,326	(206,081)	-	111,545	5,440,790
Other internally restricted (note 9)	4,871,391	-	-	(195,700)	4,675,691
	15,717,169	(656,767)	42,500	535,049	15,637,951
Pension Plan Fund (note 6)	2,069,700	(184,435)	(248,000)	303,235	1,940,500
Investment Fund (note 4)	9,295,169	958,044	-	(96,284)	10,156,929
	27,082,038	116,842	(205,500)	742,000	27,735,380
Externally Restricted Funds					
Poppy Trust Fund	8,889,922	1,389,244	-	(742,000)	9,537,166
Centennial Fund	1,918,078	134,886	-	-	2,052,964
RCEL Fund	771,847	134,967	-	-	906,814
Benevolent Fund	90,053	503	-	-	90,556
Total externally restricted funds	11,669,900	1,659,600	-	(742,000)	12,587,500
	38,751,938	1,776,442	(205,500)	-	40,322,880

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, 2016

	2016 \$	2015 \$
Revenue		
Administrative fees (note 8)	110,000	110,000
Building rental (note 8)	82,920	82,920
Dividends	144,244	171,768
Estate bequests	87,099	-
Interest	347,527	266,264
MasterCard royalties	65,188	61,713
Miscellaneous (note 8)	82,481	68,838
Per capita tax	5,710,008	5,944,705
Subscription agency fee (note 8)	400,000	377,854
Supply sales	2,293,129	2,475,575
	<hr/> 9,322,596	<hr/> 9,559,637
Expense		
Administration	734,965	710,346
Building	305,787	303,644
Committees	857,735	569,991
Marketing, advertising and promotion	457,705	379,458
Finance	482,901	446,364
Information technology	320,937	260,414
Legion Magazine - Subscriptions (note 8)	2,831,045	2,925,054
Marketing, membership and communications	1,157,865	1,005,446
Other program expenses	221,276	159,135
Service bureau	753,928	704,116
Supply -		
Operation	645,484	587,211
Cost of sales	1,003,654	985,328
Amortization -		
Furniture and equipment and computers	60,045	58,266
Building	146,036	146,036
	<hr/> 9,979,363	<hr/> 9,240,809
Net revenue (expense) for the year	<hr/> (656,767)	<hr/> 318,828

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, 2016

					2016	2015
	Poppy Trust Fund \$	Centennial Fund \$	RCEL Fund \$	Benevolent Fund \$	Total \$	Total \$
Revenue						
Donations	115,442	-	416,487		531,929	829,259
Interest	150,666	41,908	2,707	503	195,784	148,900
Dividends	40,475	16,225	-	-	56,700	164,746
Poppies and wreaths	3,166,844	-	-	-	3,166,844	3,137,012
Promotional aids	464,999	-	-	-	464,999	485,464
Other	12,440	-	-	-	12,440	1,432
	3,950,866	58,133	419,194	503	4,428,696	4,766,813
Expense						
Advertising and promotional materials	39,033	-	-	-	39,033	55,814
Poppy contests	24,112	-	-	-	24,112	23,593
Poppies and wreaths	1,507,647	-	-	-	1,507,647	1,499,837
Promotional aids	234,593	-	-	-	234,593	248,593
Trademark defence	37,311	-	-	-	37,311	65,390
Freight	223,585	-	-	-	223,585	237,137
General	65,200	11,106	-	-	76,306	80,138
Support - Supply department	263,800	-	-	-	263,800	258,706
Support - Administration department	145,800	-	-	-	145,800	142,949
Amortization - Warehouse shelving	-	-	-	-	-	1,885
Caribbean Liaison	604	-	-	-	604	19,842
Remembrance ceremony and videos	23,730	-	-	-	23,730	5,368
National Remembrance Ceremony	27,684	-	-	-	27,684	18,906
Bursaries	2,000	-	-	-	2,000	2,000
Grant - Fort McMurray fire	100,000	-	-	-	100,000	-
Grant - MRI/PET Scanner	-	-	-	-	-	575,000
Grants - Queen's Scholarships	60,000	-	-	-	60,000	-
Grants - Other	-	-	-	-	-	5,000
Benevolent support and assistance	87,655	-	284,227	-	371,882	306,613
	2,842,754	11,106	284,227	-	3,138,087	3,546,771

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, 2016

				2016	2015	
	Poppy Trust Fund \$	Centennial Fund \$	RCEL Fund \$	Benevolent Fund \$	Total \$	Total \$
Revenue before the undernoted	1,108,112	47,027	134,967	503	1,290,609	1,220,042
Net changes in fair value of marketable investments						
Realized	18,419	17,513	-	-	35,932	(67,186)
Unrealized	262,713	70,346	-	-	333,059	(243,841)
	281,132	87,859	-	-	368,991	(311,027)
Net revenue for the year	1,389,244	134,886	134,967	503	1,659,600	909,015

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, 2016

	2016 \$	2015 \$
Cash provided by (used in)		
Operating activities		
Net revenue (expense) for the year -		
General Fund	(656,767)	318,828
Pension Plan Fund	(184,435)	(223,927)
Investment Fund	958,044	(399,864)
Externally Restricted Funds	1,659,600	909,015
Items not affecting cash -		
Provision for pension plan	184,435	223,927
Provision for retirement obligation	64,800	62,100
Amortization	206,081	206,187
Realized gains on sales of marketable investments	(222,736)	(25,401)
Unrealized gains on marketable investments	(1,104,795)	736,292
Contributions to pension plan	(303,235)	(333,127)
Cash paid for retirement obligation	-	(11,600)
Net change in non-cash working capital items	850,233	481,440
	<u>1,451,225</u>	<u>1,943,870</u>
Investing activities		
Proceeds on sale of marketable investments	8,162,692	3,361,950
Purchase of marketable investments	(10,460,529)	(7,876,467)
Purchase of capital assets	(111,545)	(33,009)
	<u>(2,409,382)</u>	<u>(4,547,526)</u>
Net change in cash for the year	(958,157)	(2,603,656)
Cash and cash equivalents - Beginning of year	5,083,959	7,687,615
Cash and cash equivalents - End of year	<u>4,125,802</u>	<u>5,083,959</u>
Net change in non-cash working capital items -		
Accounts receivable	685,178	(347,013)
Inventory -		
General	120,906	(82,109)
Poppy promotional material	(976)	(11,975)
Prepaid expense	25,008	(29,204)
Prepaid subscriptions	207,586	(566,378)
Accounts payable and accrued liabilities	17,297	434,966
Per capita tax received in advance	(293,230)	1,172,774
Due to Canvet Publications Ltd.	88,464	(89,621)
	<u>850,233</u>	<u>481,440</u>

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

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

December 31, 2016

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.

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Notes to Financial Statements

December 31, 2016

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 pension 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 remeasurements 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.

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Notes to Financial Statements

December 31, 2016

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

	2016 \$	2015 \$
Commands, branches and members		
General	377,730	450,675
Poppy Trust Fund	808,958	1,419,354
Other		
General	92,383	106,712
Poppy Trust Fund	292,711	280,043
Accrued interest	30,929	31,105
	<hr/> 1,602,711	<hr/> 2,287,889

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

December 31, 2016

4 Marketable investments

	2016		2015	
	Fair value \$	Cost \$	Fair value \$	Cost \$
General Fund	20,425,230	19,789,761	17,718,210	17,854,477
Poppy Trust Fund	6,430,495	6,347,793	5,656,596	5,836,607
Centennial Fund	1,956,829	1,922,938	1,812,380	1,848,835
	<u>28,812,554</u>	<u>28,060,492</u>	<u>25,187,186</u>	<u>25,539,919</u>

Net gains on sales of marketable investments of \$186,304 (2015 - \$92,587) and net increases in unrealized gains and losses of \$771,736 (2015 - net decreases in unrealized gains and losses of \$492,451) relate to the general investment portfolio and are accounted for in the Investment Fund.

	2016		2015	
	Fair value \$	Cost \$	Fair value \$	Cost \$
Government and government guaranteed bonds	2,960,780	2,970,136	3,386,992	3,332,153
Corporate bonds and pooled bond funds	13,156,274	13,385,675	11,045,004	11,183,240
Corporate stocks and pooled equity funds	12,695,500	11,704,681	10,755,190	11,024,526
	<u>28,812,554</u>	<u>28,060,492</u>	<u>25,187,186</u>	<u>25,539,919</u>

Government and government guaranteed bonds bear interest at fixed rates ranging from 1.25% to 2.10% and mature between 2017 and 2022 (2015 - 1.30% to 2.10% and mature between 2017 and 2019).

Corporate bonds bear interest at fixed rates ranging from 2.0% to 3.5% and mature between 2017 and 2022 (2015 - 2.00% to 3.50% 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.

17% (2015 - 19%) of marketable investments are denominated in U.S. dollars.

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

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5 Capital assets

	2016		2015	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	950,220	-	950,220	950,220
Building	5,841,416	1,496,869	4,344,547	4,490,583
Furniture and equipment	207,581	180,596	26,985	30,626
Computers	246,804	127,766	119,038	63,897
	7,246,021	1,805,231	5,440,790	5,535,326
			2016	2015
	Cost \$	Accumulated amortization \$	Net \$	Net \$
General Fund	7,227,155	1,786,365	5,440,790	5,535,326
Poppy Trust Fund	18,866	18,866	-	-
	7,246,021	1,805,231	5,440,790	5,535,326

6 Employee future benefits

Extrapolations of actuarial valuation reports prepared as at January 1, 2016 and January 1, 2014 (2015 - January 1, 2015 and January 1, 2014), for the retirement allowance and the overall defined benefit plan, respectively, indicated the following.

	2016		2015	
	Retirement obligation \$	Pension plan \$	Retirement obligation \$	Pension plan \$
Fair value of plan assets	-	17,701,800	-	16,701,500
Defined benefit obligation	(515,400)	(15,761,300)	(493,100)	(14,631,800)
Pension asset (retirement obligation)	(515,400)	1,940,500	(493,100)	2,069,700

7 Government remittances

Government remittances (GST/HST payable) of \$27,795 (2015 - \$27,831) 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, 2016 and 2015 is as follows.

	2016 \$	2015 \$
Financial position		
Total assets	4,189,594	4,033,944
Total liabilities	1,833,787	2,026,337
Shareholders' equity	2,355,807	2,007,607
	<u>4,189,594</u>	<u>4,033,944</u>
	2016 \$	2015 \$
Results of operations		
Total revenue	4,381,906	4,439,885
Total expense	4,031,706	3,930,977
Net earnings for the year	<u>350,200</u>	<u>508,908</u>
Cash provided by (used in)		
Operating activities	10,631	1,279,098
Investing activities	(287,692)	(1,019,369)
	<u>(277,061)</u>	<u>259,729</u>

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

	2016	2015
	\$	\$
Legion Magazine - Subscriptions	2,581,410	2,668,945
Advertising	68,041	82,140
Design services	14,210	11,906
Special issue publications	3,510	2,107
Other	150	-

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

	2016	2015
	\$	\$
Administrative fees	110,000	110,000
Building rental	68,640	68,640
Miscellaneous - Network support charge (included in miscellaneous revenue)	3,000	3,000
Subscription agency fee	400,000	377,854

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 \$48,636 (2015 - \$48,402) 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.

	2016	2015
	\$	\$
Legion Magazine	1,445,000	1,445,000
Building	270,053	240,053
RCEL conference	19,300	45,000
Convention	-	200,000
Special purpose	26,979	26,979
Per capita tax	2,914,359	2,914,359
	<hr/>	<hr/>
	4,675,691	4,871,391

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Notes to Financial Statements

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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, 2017	35,880
2018	35,880
2019	35,880
2020	35,880
2021	24,576

The Dominion Command is currently in a dispute with a supplier who is requesting a payment of \$59,000 for services rendered at the 2016 Dominion Convention. Dominion Command does not dispute that services were rendered but disagrees with the amount charged. This is currently under negotiation with the supplier and an estimate of a final amount to be recognized cannot be determined.

11 Allocation of expenses

A portion of Information technology expenses (system maintenance, programming, computer parts and internet connectivity) have been allocated within the General Fund as follows.

	2016 \$	2015 \$
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

A portion of Administration expenses (salaries and general office) have been allocated as follows.

	2016 \$	2015 \$
General Fund - Marketing, membership and communications	30,000	30,000
General Fund - Service bureau	30,000	30,000
Poppy Trust Fund - General	145,800	142,949

A portion of Supply - Operation expenses (salaries and general warehouse) of \$263,800 (2015 - \$258,706) have been allocated to General expense of the Poppy Trust Fund.