

The Royal Canadian Legion - Dominion Command

Financial Statements
December 31, 2018



Independent auditor's report

To the Members of The Royal Canadian Legion - Dominion Command

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Royal Canadian Legion - Dominion Command (the Dominion Command) as at December 31, 2018 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.

What we have audited

The Dominion Command's financial statements comprise:

- the statement of financial position as at December 31, 2018;
 - the statement of changes in fund balances for the year then ended;
 - the statement of operations – general fund for the year then ended;
 - the statement of operations – externally restricted funds for the year then ended;
 - the statement of cash flows for the year then ended; and
 - the notes to the financial statements, which include a summary of significant accounting policies.
-

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Dominion Command in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
99 Bank Street, Suite 710, Ottawa, Ontario, Canada K1P 1E4
T: +1 613 237 3702, F: +1 613 237 3963

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



Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Dominion Command's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Dominion Command or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Dominion Command's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Dominion Command's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or



conditions that may cast significant doubt on the Dominion Command's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Dominion Command to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Ontario
May 8, 2019

The Royal Canadian Legion - Dominion Command

Statement of Financial Position

As at December 31, 2018

| | 2018 \$ | 2017 \$ |
|--|-------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 1,923,007 | 4,484,330 |
| Accounts receivable (note 3) | 2,432,695 | 1,943,850 |
| Due from The Legion National Foundation (note 8) | 32,625 | 1,638 |
| Inventory | | |
| General | 1,289,266 | 1,283,768 |
| Poppy promotional material | 197,703 | 131,451 |
| Prepaid expense | 153,862 | 181,182 |
| Prepaid subscriptions | 1,305,195 | 1,414,122 |
| | <u>7,334,353</u> | <u>9,440,341</u> |
| Marketable investments (note 4) | 28,635,638 | 29,563,994 |
| Capital assets (note 5) | 5,126,213 | 5,279,109 |
| Pension plan – accrued benefit asset (note 6) | 183,600 | 1,728,300 |
| | <u>41,279,804</u> | <u>46,011,744</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 7) | 2,296,544 | 1,745,780 |
| Per capita tax received in advance | 3,140,673 | 3,379,437 |
| Due to Canvet Publications Ltd. (note 8) | 1,643,383 | 2,743,846 |
| | <u>7,080,600</u> | <u>7,869,063</u> |
| Retirement obligation (note 6) | 517,800 | 535,400 |
| | <u>7,598,400</u> | <u>8,404,463</u> |
| Fund Balances | | |
| General Fund | | |
| Unrestricted | 3,226,628 | 3,658,210 |
| Invested in capital assets (note 5) | 5,126,213 | 5,279,109 |
| Other internally restricted (note 9) | 3,270,691 | 3,465,691 |
| Pension Plan Fund | 183,600 | 1,728,300 |
| Investment Fund | 9,287,432 | 10,570,064 |
| Externally Restricted Funds | 12,586,840 | 12,905,907 |
| | <u>33,681,404</u> | <u>37,607,281</u> |
| | <u>41,279,804</u> | <u>46,011,744</u> |
| 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, 2018

| | Balance - Beginning of year \$ | Net revenue (expense) for the year \$ | Remeasurements and other items \$ | Transfers from (to) \$ | Balance - End of year \$ |
|--|---|--|---|------------------------------|--------------------------------|
| General Fund | | | | | |
| Unrestricted | 3,658,210 | (1,332,311) | 52,900 | 847,829 | 3,226,628 |
| Invested in capital assets (note 5) | 5,279,109 | (208,427) | - | 55,531 | 5,126,213 |
| Other internally restricted (note 9) | 3,465,691 | - | - | (195,000) | 3,270,691 |
| | 12,403,010 | (1,540,738) | 52,900 | 708,360 | 11,623,532 |
| Pension Plan Fund (note 6) | 1,728,300 | (238,224) | (1,629,000) | 322,524 | 183,600 |
| Investment Fund (note 4) | 10,570,064 | (1,186,348) | - | (96,284) | 9,287,432 |
| | 24,701,374 | (2,965,310) | (1,576,100) | 934,600 | 21,094,564 |
| Externally Restricted Funds | | | | | |
| Poppy Trust Fund | 9,686,511 | 621,696 | - | (934,600) | 9,373,607 |
| Centennial Fund | 2,168,682 | (65,242) | - | - | 2,103,440 |
| RCEL Fund | 960,057 | 59,079 | - | - | 1,019,136 |
| Benevolent Fund | 90,657 | - | - | - | 90,657 |
| Total Externally Restricted Funds | 12,905,907 | 615,533 | - | (934,600) | 12,586,840 |
| | 37,607,281 | (2,439,777) | (1,576,100) | - | 33,681,404 |

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, 2018

| | 2018 \$ | 2017 \$ |
|--|--------------------------|--------------------------|
| Revenue | | |
| Administrative fees (note 8) | 110,000 | 110,000 |
| Building rental (note 8) | 82,920 | 82,920 |
| Dividends | 117,606 | 142,035 |
| Estate bequests | - | 4,443 |
| Interest | 477,340 | 448,077 |
| MasterCard royalties | 70,385 | 85,112 |
| Miscellaneous (note 8) | 129,967 | 197,864 |
| Per capita tax (note 10) | 5,966,520 | 5,323,846 |
| Royalties – Legion Lager | 22,890 | - |
| Subscription agency fee (note 8) | 400,000 | 400,000 |
| Supply sales | 2,362,183 | 2,693,279 |
| Veterans Visitation Program | 141,960 | 193,080 |
| | <hr/> 9,881,771 | <hr/> 9,680,656 |
| Expense | | |
| Corporate services | 713,388 | 725,600 |
| Building | 463,122 | 313,263 |
| Committees | 973,376 | 710,310 |
| Marketing – Hearts and Minds | 412,326 | 400,000 |
| Marketing, advertising and promotion | 528,122 | 425,547 |
| Financial services | 585,012 | 574,654 |
| Information technology | 355,264 | 340,915 |
| Legion Magazine – Subscriptions (note 8) | 3,158,230 | 2,756,273 |
| Marketing and communications | 306,888 | 434,625 |
| Member services | 555,691 | 784,976 |
| Other program expenses | 310,008 | 211,874 |
| Veterans services | 941,824 | 829,678 |
| Veterans Visitation Program | 103,633 | 137,472 |
| Supply chain management | | |
| Operation | 760,593 | 760,183 |
| Cost of sales | 1,046,605 | 1,115,476 |
| Amortization | | |
| Furniture and equipment and computers | 62,391 | 59,238 |
| Building | 146,036 | 146,036 |
| | <hr/> 11,422,509 | <hr/> 10,726,120 |
| Net expense for the year | <hr/> (1,540,738) | <hr/> (1,045,464) |

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, 2018

| | | | | 2018 | 2017 |
|---------------------------------------|---------------------|--------------------|--------------|-----------|-----------|
| | Poppy Trust Fund | Centennial Fund | RCEL Fund | Total | Total |
| | \$ | \$ | \$ | \$ | \$ |
| Revenue | | | | | |
| Donations | 225,491 | - | 361,595 | 587,086 | 524,437 |
| Interest | 231,606 | 63,733 | 18,121 | 313,460 | 250,030 |
| Dividends | 38,712 | 13,864 | 1,900 | 54,476 | 52,377 |
| Poppies and wreaths | 2,786,053 | - | - | 2,786,053 | 3,028,277 |
| Promotional aids | 536,515 | - | - | 536,515 | 467,550 |
| Bells of Peace – VAC Grant | 30,000 | - | - | 30,000 | - |
| Bells of Peace – Sales | 45,505 | - | - | 45,505 | - |
| Other | 23,056 | - | - | 23,056 | 35,838 |
| | 3,916,938 | 77,597 | 381,616 | 4,376,151 | 4,358,509 |
| Expense | | | | | |
| Advertising and promotional materials | 40,864 | - | - | 40,864 | 40,712 |
| Poppy contests | 18,688 | - | - | 18,688 | 22,220 |
| Poppies and wreaths | 1,315,020 | - | - | 1,315,020 | 1,405,782 |
| Promotional aids | 259,763 | - | - | 259,763 | 239,559 |
| Trademark defence | 57,609 | - | - | 57,609 | 50,773 |
| Freight | 282,074 | - | - | 282,074 | 234,944 |
| General | 68,327 | 11,930 | 3,145 | 83,402 | 76,128 |
| Support – Supply department | 274,482 | - | - | 274,482 | 269,100 |
| Support – Administration department | 148,700 | - | - | 148,700 | 148,700 |
| Operation Santa Claus and Canada Day | 80,589 | - | - | 80,589 | 56,012 |
| Caribbean liaison | 561 | - | - | 561 | 18,747 |
| Remembrance ceremony and videos | 44,580 | - | - | 44,580 | 18,921 |
| National Remembrance Ceremony | 23,368 | - | - | 23,368 | 12,896 |
| Marketing and promotion | 79,918 | - | - | 79,918 | - |
| Bursaries | 2,000 | - | - | 2,000 | 2,000 |
| Bells of Peace | 46,403 | - | - | 46,403 | - |
| Grant – Invictus Games | - | - | - | - | 500,000 |
| Grants – Queen's Scholarships | 20,000 | - | - | 20,000 | 30,000 |

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, 2018

| | | | | 2018 | 2017 |
|---|------------------------------------|-----------------------------------|-----------------------------|---------------------|---------------------|
| | Poppy Trust Fund \$ | Centennial Fund \$ | RCEL Fund \$ | Total \$ | Total \$ |
| Grants – Other | 5,000 | - | - | 5,000 | - |
| Benevolent support and assistance | 92,396 | - | 291,610 | 384,006 | 365,460 |
| Total expense | 2,860,342 | 11,930 | 294,755 | 3,167,027 | 3,491,954 |
| Revenue before the undernoted | 1,056,596 | 65,667 | 86,861 | 1,209,124 | 866,555 |
| Net changes in fair value of marketable investments | | | | | |
| Realized | (33,527) | (4,362) | (216) | (38,105) | 58,210 |
| Unrealized | (401,373) | (126,547) | (27,566) | (555,486) | 165,270 |
| | (434,900) | (130,909) | (27,782) | (593,591) | 223,480 |
| Net revenue (expense) for the year | 621,696 | (65,242) | 59,079 | 615,533 | 1,090,035 |

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, 2018

| | 2018 \$ | 2017 \$ |
|---|--------------------|------------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| Net revenue (expense) for the year | | |
| General Fund | (1,540,738) | (1,045,464) |
| Legion Magazine Fund (note 8) | - | (2,734,330) |
| Pension Plan Fund | (238,224) | (266,059) |
| Investment Fund | (1,186,348) | 509,419 |
| Externally Restricted Funds | 615,533 | 1,090,035 |
| Items not affecting cash | | |
| Provision for pension plan | 238,224 | 266,059 |
| Provision for retirement obligation | 60,520 | 62,244 |
| Amortization | 208,427 | 205,264 |
| Realized losses (gains) on sales of marketable investments | 85,823 | (255,920) |
| Unrealized losses (gains) on marketable investments | 1,695,960 | (476,969) |
| Contributions to pension plan | (322,524) | (337,759) |
| Cash paid for retirement obligation | (25,220) | (27,544) |
| Net change in non-cash working capital items | (1,243,798) | 3,431,686 |
| | <u>(1,652,365)</u> | <u>420,662</u> |
| Investing activities | | |
| Proceeds on sales of marketable investments | 5,682,416 | 6,018,630 |
| Purchase of marketable investments | (6,535,843) | (6,037,171) |
| Purchase of capital assets | (55,531) | (43,593) |
| | <u>(908,958)</u> | <u>(62,134)</u> |
| Net change in cash and cash equivalents for the year | <u>(2,561,323)</u> | <u>358,538</u> |
| Cash and cash equivalents – Beginning of year | <u>4,484,330</u> | <u>4,125,802</u> |
| Cash and cash equivalents – End of year | <u>1,923,007</u> | <u>4,484,330</u> |
| Net change in non-cash working capital items | | |
| Accounts receivable | (488,845) | (341,139) |
| Due from The Legion National Foundation | (30,987) | (1,638) |
| Inventory | | |
| General | (5,498) | 28,679 |
| Poppy promotional material | (66,252) | 14,652 |
| Prepaid expense | 27,320 | (19,711) |
| Prepaid subscriptions | 108,927 | (287,071) |
| Accounts payable and accrued liabilities | 550,764 | 458,136 |
| Per capita tax received in advance | (238,764) | 939,494 |
| Due to Canvet Publications Ltd. | (1,100,463) | 2,640,284 |
| | <u>(1,243,798)</u> | <u>3,431,686</u> |

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

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

December 31, 2018

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 Summary of 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 Dominion Command Veteran Services 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, 2018

Cash equivalents

Investments with maturities at the date of acquisition of three months or less are considered cash equivalents as they are short-term, highly liquid investments that 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 (expense) for 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.

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

December 31, 2018

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 Corporate services, Financial services, Marketing and communications, Member services, Veterans services and Supply chain management - Operation expenses 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 Corporate services expenses (salaries and general office) is allocated to Marketing and communications, Member services and Veterans services expenses in the General Fund, and to Support – department administration 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 chain management – Operation expenses (salaries and general warehouse) is allocated to Support – Supply department 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

| | 2018 \$ | 2017 \$ |
|--------------------------------|-----------------|-----------------|
| Commands, branches and members | | |
| General | 916,488 | 695,695 |
| Poppy Trust Fund | 1,025,615 | 760,406 |
| Other | | |
| General | 101,006 | 118,952 |
| Poppy Trust Fund | 357,871 | 334,430 |
| Accrued interest | 31,715 | 34,367 |
| | <hr/> 2,432,695 | <hr/> 1,943,850 |

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

December 31, 2018

4 Marketable investments

| | 2018 | | 2017 | |
|------------------|-------------------|-------------------|-------------------|-------------------|
| | Fair value \$ | Cost \$ | Fair value \$ | Cost \$ |
| General Fund | 18,717,614 | 18,910,919 | 20,809,516 | 19,862,347 |
| Poppy Trust Fund | 7,120,052 | 7,309,235 | 6,742,061 | 6,529,872 |
| Centennial Fund | 2,030,406 | 2,087,279 | 2,012,417 | 1,942,743 |
| RCEL Fund | 767,566 | 795,132 | - | - |
| | <u>28,635,638</u> | <u>29,102,565</u> | <u>29,563,994</u> | <u>28,334,962</u> |

Net losses on sales of marketable investments of \$45,874, (2017 – net gain of \$197,720) and net decreases in unrealized gains and losses of \$1,140,474, (2017 – net increases of \$311,699) relate to the general investment portfolio and are accounted for in the Investment Fund.

| | 2018 | | 2017 | |
|--|-------------------|-------------------|-------------------|-------------------|
| | Fair value \$ | Cost \$ | Fair value \$ | Cost \$ |
| Government and government guaranteed bonds | 3,040,635 | 3,092,984 | 2,976,190 | 3,027,520 |
| Corporate bonds and pooled bond funds | 14,766,710 | 15,378,231 | 14,605,692 | 14,957,659 |
| Corporate stocks and pooled equity funds | 10,828,293 | 10,631,350 | 11,982,112 | 10,349,783 |
| | <u>28,635,638</u> | <u>29,102,565</u> | <u>29,563,994</u> | <u>28,334,962</u> |

Government and government guaranteed bonds bear interest at fixed rates ranging from 1.75% to 3.75% and mature between 2019 and 2025 (2017 – 1.25% to 3.75% and mature between 2018 and 2025).

Corporate bonds bear interest at fixed rates ranging from 1.9% to 3.5% and mature between 2019 and 2025. 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.

23% (2017 – 22%) of marketable investments are denominated in US dollars.

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

December 31, 2018

5 Capital assets

| | | | 2018 | 2017 |
|-------------------------|------------------|-----------------------------------|------------------|------------------|
| | Cost \$ | Accumulated amortization \$ | Net \$ | Net \$ |
| Land | 950,220 | - | 950,220 | 950,220 |
| Building | 5,841,416 | 1,788,941 | 4,052,475 | 4,198,511 |
| Furniture and equipment | 155,850 | 137,010 | 18,840 | 19,814 |
| Computers | 265,081 | 160,403 | 104,678 | 110,564 |
| | <u>7,212,567</u> | <u>2,086,354</u> | <u>5,126,213</u> | <u>5,279,109</u> |

6 Employee future benefits

Extrapolations of actuarial valuation reports prepared as at December 31, 2018 and January 1, 2017 (2017 - December 31, 2017 and January 1, 2017), for the retirement obligations and the overall defined benefit plan, respectively, indicated the following:

| | 2018 | | 2017 | |
|---------------------------------------|--------------------------------|--------------------|--------------------------------|--------------------|
| | Retirement obligation \$ | Pension plan \$ | Retirement obligation \$ | Pension plan \$ |
| Fair value of plan assets | - | 17,565,500 | - | 19,203,800 |
| Defined benefit obligation | (517,800) | (17,381,900) | (535,400) | (17,475,500) |
| Pension asset (retirement obligation) | (517,800) | 183,600 | (535,400) | 1,728,300 |

7 Government remittances

Government remittances (GST/HST payable) of \$61,136 (2017 – \$34,728) are included within accounts payable and accrued liabilities.

During the year, the Dominion Command filed a submission under the Voluntary Disclosures Program with the Canada Revenue Agency (note 10).

8 Controlled entities

Canvet Publications Ltd.

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.

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

December 31, 2018

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, 2018 and 2017 is as follows:

| | 2018 \$ | 2017 \$ |
|-----------------------------------|------------------|------------------|
| Financial position | | |
| Total assets | 7,854,081 | 8,013,964 |
| Total liabilities | 2,130,604 | 3,102,838 |
| Shareholders' equity | 5,723,477 | 4,911,126 |
| | <u>7,854,081</u> | <u>8,013,964</u> |
| | 2018 \$ | 2017 \$ |
| Results of operations | | |
| Total revenue | 4,947,970 | 7,339,245 |
| Total expense | 3,947,612 | 4,789,926 |
| | <u>1,000,358</u> | <u>2,549,319</u> |
| Net earnings for the year | | |
| | <u>1,000,358</u> | <u>2,549,319</u> |
| Cash provided by (used in) | | |
| Operating activities | 1,256,780 | 962,752 |
| Investing activities | (2,220,294) | (842,183) |
| Financing activities | (1) | - |
| | <u>(963,515)</u> | <u>120,569</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.

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

| | 2018 \$ | 2017 \$ |
|--|------------|------------|
| Legion Magazine – Subscriptions current year | 2,498,360 | 2,623,996 |
| Advertising | 56,286 | 80,482 |
| Design services | 15,554 | 15,993 |
| Special issue publications | 1,054 | 1,851 |

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

December 31, 2018

The following transactions with Canvet are included in expenses of the Legion Magazine Fund:

| | 2018 \$ | 2017 \$ |
|---|------------|------------|
| Legion Magazine – subscriptions – prior years | - | 1,445,000 |
| Interest on prior years' subscriptions | - | 1,289,330 |
| | - | 2,734,330 |

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

| | 2018 \$ | 2017 \$ |
|--|------------|------------|
| Administrative fees | 110,000 | 110,000 |
| Building rental | 68,640 | 68,640 |
| Miscellaneous – Network support charge (included in miscellaneous revenue) | 5,000 | 3,000 |
| Subscription agency fee | 400,000 | 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 \$4,371 (2017 – \$345) owing from Canvet.

The Legion National Foundation

The Dominion Command controls The Legion National Foundation (the Foundation). The Foundation is a registered charity, federally incorporated on April 8, 2016. The Foundation received charitable status on September 11, 2017. The Foundation's purpose is to raise funds for programs of remembrance, and to provide scholarships, bursaries and assistance for the veterans' community.

The Foundation has not been consolidated in the Dominion Command's financial statements. A summary of the financial position, results of operations and cash flows of the Foundation as at December 31, 2018 and 2017 is as follows:

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

December 31, 2018

| | 2018 \$ | 2017 \$ |
|------------------------------------|----------------|------------|
| Financial position | | |
| Total assets | 102,903 | 792 |
| Total liabilities | 36,472 | 9,638 |
| Net assets (liabilities) | 66,432 | (8,846) |
| | <u>102,904</u> | <u>792</u> |
| | | |
| | 2018 \$ | 2017 \$ |
| Results of operations | | |
| Total revenue | 102,444 | - |
| Total expense | 27,278 | 8,846 |
| Net revenue (expense) for the year | 75,166 | (8,846) |
| | | |
| Cash provided by (used in) | | |
| Operating activities | 100,037 | - |

Balances with the Foundation are non-interest bearing and have no specified terms of repayment.

9 Internally restricted fund balance

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

| | 2018 \$ | 2017 \$ |
|-----------------|------------------|------------------|
| Building | 300,053 | 300,053 |
| RCEL conference | 29,300 | 24,300 |
| Convention | - | 200,000 |
| Special purpose | 26,979 | 26,979 |
| Per capita tax | 2,914,359 | 2,914,359 |
| | <u>3,270,691</u> | <u>3,465,691</u> |

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

December 31, 2018

10 Commitments and contingencies

The Dominion Command is committed to the following payments for equipment, poppies and related remembrance materials under various agreements as follows:

| | \$ |
|-------------------------------|---------|
| Year ending December 31, 2019 | 982,996 |
| 2020 | 952,260 |
| 2021 | 936,746 |
| 2022 | 926,279 |
| 2023 | 904,068 |
| thereafter | 24,408 |

During the year, the Dominion Command filed a submission under the Voluntary Disclosures Program with the Canada Revenue Agency. Further, discussions with the Canada Revenue Agency regarding HST on per capita tax revenue, whether it applied, and to which prior years, if any, are not expected to occur until later in 2019. An exposure exists in excess of estimates accrued to date. It is possible that these estimates could change by a material amount and any such changes will be reflected in the periods in which they become known.

| | 2018 \$ | 2017 \$ |
|---|------------------|------------------|
| Per capita tax revenue | 6,045,320 | 5,883,846 |
| Adjustment to estimated HST on per capita tax revenue | (78,800) | (560,000) |
| | <u>5,966,520</u> | <u>5,323,846</u> |

11 Allocation of expenses

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

| | 2018 \$ | 2017 \$ |
|-------------------------------------|------------|------------|
| Corporate services | 3,500 | 3,000 |
| Financial services | 7,500 | 3,000 |
| Marketing and communications | 2,500 | 1,000 |
| Member services | 7,500 | 5,000 |
| Veteran services | 4,500 | 3,000 |
| Supply chain management – Operation | 7,000 | 6,000 |

The Royal Canadian Legion - Dominion Command

Notes to Financial Statements

December 31, 2018

A portion of Corporate services expenses (salaries and general office) has been allocated as follows:

| | 2018 | 2017 |
|--|-------------|-------------|
| | \$ | \$ |
| General Fund – Marketing and communications | 15,000 | 15,000 |
| General Fund – Member services | 15,000 | 15,000 |
| General Fund – Veterans services | 30,000 | 30,000 |
| Poppy Trust Fund – Support Administration department | 148,700 | 148,700 |

A portion of Supply chain management – Operation expenses (salaries and general warehouse) of \$274,482 (2017 – \$269,100) has been allocated to Support – Administration department expense of the Poppy Trust Fund.