

**ROYAL MILITARY COLLEGES OF CANADA FOUNDATION INC.**  
**FINANCIAL STATEMENTS**  
**AS AT DECEMBER 31, 2020**

**ROYAL MILITARY COLLEGES OF CANADA FOUNDATION INC.**  
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**AS AT DECEMBER 31, 2020**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Royal Military Colleges of Canada Foundation Inc.

### **Qualified Opinion**

We have audited the financial statements of Royal Military Colleges of Canada Foundation Inc. (the Foundation), which comprise the statement of financial position as at December 31, 2020, and the statements of operations and changes in fund balances, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at December 31, 2020, 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.

### **Basis for Qualified Opinion**

In common with many charitable organizations, the Foundation derives revenue from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Foundation and we were not able to determine whether, as at and for the years ended December 31, 2020 and January 1, 2020, any adjustments might be necessary to donations revenue, excess of revenues over expenditures, assets and fund balances.

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 are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **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 these financial statements, management is responsible for assessing the Foundation'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 Foundation, or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation'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 Foundation'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 Foundation'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 Foundation 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.

*Wilkinson & Company LLP*

KINGSTON, Canada  
May 13, 2021

Chartered Professional Accountants  
Licensed Public Accountants

**WILKINSON & COMPANY LLP - CHARTERED PROFESSIONAL ACCOUNTANTS**

**ROYAL MILITARY COLLEGES OF CANADA FOUNDATION INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	Operating Fund \$	Restricted Fund \$	Endowment Fund \$	2020 Total \$	2019 Total \$
<b>ASSETS</b>					
<b>CURRENT</b>					
Cash and bank	169,966	142,124	259,004	571,094	482,903
Short term investments	400,147	2,711,987		3,112,134	3,630,603
Accounts receivable	10,478	14,564		25,042	15,476
Accrued investment income	3,134			3,134	5,048
Due from the Royal Military Colleges Club of Canada - current - Note 11	3,250			3,250	3,250
Government remittances receivable	11,791			11,791	14,153
Prepaid expenses	5,326			5,326	5,409
Inter - fund receivables		333,623		333,623	395,870
<b>LONG-TERM</b>	<b>604,092</b>	<b>3,202,298</b>	<b>259,004</b>	<b>4,065,394</b>	<b>4,552,712</b>
Due from the Royal Military Colleges Club of Canada - Note 11	6,238			6,238	9,488
Tangible capital assets - Note 2 (f)	10,350			10,350	
Life insurance policy - cash surrender value		18,901		18,901	17,740
Investments - Note 4		16,528,565	10,116,765	26,645,330	22,403,808
	<b>620,680</b>	<b>19,749,764</b>	<b>10,375,769</b>	<b>30,746,213</b>	<b>26,983,748</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>CURRENT</b>					
Accounts payable and accrued liabilities	27,284			27,284	17,925
Deferred revenue	9,000			9,000	4,800
Monies held in trust - Note 5		8,065,428		8,065,428	7,055,938
Inter - fund payables	333,623			333,623	395,870
	<b>369,907</b>	<b>8,065,428</b>		<b>8,435,335</b>	<b>7,474,533</b>
<b>FUND BALANCES</b>					
Unrestricted	250,773			250,773	162,392
Externally restricted		11,684,336		11,684,336	9,280,388
Externally restricted - Note 6			10,375,769	10,375,769	10,066,435
	<b>250,773</b>	<b>11,684,336</b>	<b>10,375,769</b>	<b>22,310,878</b>	<b>19,509,215</b>
	<b>620,680</b>	<b>19,749,764</b>	<b>10,375,769</b>	<b>30,746,213</b>	<b>26,983,748</b>

APPROVED ON BEHALF OF THE BOARD  
  
 J. Carleton, President  
  
 J. Carleton, Treasurer

The accompanying notes form an integral part of these financial statements

**ROYAL MILITARY COLLEGES OF CANADA FOUNDATION INC.**  
**STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	Operating Fund		Restricted Fund		Endowed Fund	
	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$
<b>Revenue</b>						
Administration fee	186,698	145,718				
Canada Emergency Wage Subsidy - Note 3	93,849					
Donations	542	7,710	818,672	668,608	177,770	2,211,505
Investment income	22,304	31,602	2,368,122	2,391,115		
RMC Research Services - Note 5	194,651	143,753				
Special projects	5,798	86,152				
	<b>503,842</b>	<b>414,935</b>	<b>3,186,794</b>	<b>3,059,723</b>	<b>177,770</b>	<b>2,211,505</b>
<b>Expenditures</b>						
Administration fee			186,698	145,718		
Administrative	71,739	103,192				
College benefactions			221,080	561,128		
Distributions from endowments			222,114	358,834		
Gifts to other qualified donees		15,164	14,069			
Personnel	303,206	354,605				
RMC Research Services - Note 5	37,978	52,203				
Special projects	2,538	21,165				
Endowed capital expended - Note 8					7,321	
	<b>415,461</b>	<b>546,329</b>	<b>643,961</b>	<b>1,065,680</b>	<b>7,321</b>	<b>NIL</b>
<b>EXCESS OF REVENUE OVER EXPENDITURES (EXPENDITURES OVER REVENUE) FOR YEAR</b>	<b>88,381</b>	<b>(131,394)</b>	<b>2,542,833</b>	<b>1,994,043</b>	<b>170,449</b>	<b>2,211,505</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>162,392</b>	<b>293,786</b>	<b>9,280,388</b>	<b>7,433,584</b>	<b>10,066,435</b>	<b>7,707,691</b>
<b>INTERFUND TRANSFERS - Note 7</b>			<b>(138,885)</b>	<b>(147,239)</b>	<b>138,885</b>	<b>147,239</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>250,773</b>	<b>162,392</b>	<b>11,684,336</b>	<b>9,280,388</b>	<b>10,375,769</b>	<b>10,066,435</b>

The accompanying notes form an integral part of these financial statements

**ROYAL MILITARY COLLEGES OF CANADA FOUNDATION INC.**  
**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 2020**

	2020 Operating Fund \$	2020 Research \$	2020 Restricted Fund \$	2020 Endowment Fund \$	2020 Total \$	2019 Total \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
<b>Sources of cash</b>						
Canadian Emergency Wage Subsidy	93,849				93,849	2,868,077
Donations	199,473		806,696	177,770	994,939	146,213
Research services contract		2,281,242			2,281,242	7,281,065
Grant monies received					2,362	6,076
Government remittances receivable	2,362				175	(175)
Other receivables	175				9,963	89,452
Special projects	9,963				3,250	3,250
Due from Royal Military Colleges Club of Canada	3,250					
<b>Uses of cash</b>						
Personnel	(301,662)				(301,662)	(353,954)
Administrative	(75,789)				(75,789)	(90,160)
Research services contract	(37,612)				(37,612)	(52,007)
Grant monies disbursed		(1,932,322)			(1,932,322)	(1,888,703)
Benefactions			(231,137)		(231,137)	(348,019)
Endowment distributions			(221,966)		(229,287)	(561,128)
Gifts to other qualified donees			(14,069)	(7,321)	(14,069)	(15,164)
Special projects	(763)				(763)	(19,149)
<b>CASH FLOWS PROVIDED FROM (USED IN) OPERATING ACTIVITIES</b>	<b>(106,754)</b>	<b>348,920</b>	<b>339,524</b>	<b>170,449</b>	<b>752,139</b>	<b>7,065,674</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
(Increase) in investments		(1,777,271)	(2,444,308)	(227,618)	(4,449,197)	(7,601,884)
Investment income	24,253	874,406	2,368,121		3,266,780	2,447,227
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>24,253</b>	<b>(902,865)</b>	<b>(76,187)</b>	<b>(227,618)</b>	<b>(1,182,417)</b>	<b>(5,154,657)</b>
<b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS FOR YEAR</b>						
	(82,501)	(553,945)	263,337	(57,169)	(430,278)	1,911,017
<b>CASH AND EQUIVALENTS - BEGINNING OF YEAR</b>						
Interfund cash adjustments	124,451	1	(263,337)	138,885	4,113,506	2,202,489
<b>CASH AND EQUIVALENTS - END OF YEAR</b>	<b>570,113</b>	<b>2,854,111</b>	<b>NIL</b>	<b>259,004</b>	<b>3,683,228</b>	<b>4,113,506</b>
<b>REPRESENTED BY:</b>						
Cash and short term investments	570,113	2,854,111	NIL	259,004	3,683,228	4,113,506

The accompanying notes form an integral part of these financial statements

**ROYAL MILITARY COLLEGES OF CANADA FOUNDATION INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**1. PURPOSE OF THE ORGANIZATION**

The Royal Military Colleges of Canada Foundation Inc. was incorporated without share capital under the *Canada Business Corporations Act* and was continued on October 24, 2013 under the *Canada Not-for-Profit Corporations Act*. The principal purpose of the Foundation is to support the Royal Military Colleges of Canada and its students.

The Foundation is exempt from tax under subparagraph 149 (1)(f) of the *Income Tax Act*. In order to maintain its status as a registered charity under the *Income Tax Act*, the Foundation must meet certain requirements within the *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.



**ROYAL MILITARY COLLEGES OF CANADA FOUNDATION INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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

**(c) Fund Accounting (Cont'd)**

**(iii) Operating Fund**

The operating fund reports resources available for the Foundation's general operating activities. The costs of supporting these activities are reported as expenditures in the operating fund.

**(d) Revenue Recognition**

Donor-restricted contributions for endowment purposes are recognized as revenue in the endowment funds. Other contributions are recognized as revenue in the restricted fund depending on the nature of the donor's direction. Investment income earned on RMC Research Services investments is recognized as revenue in the operating fund when received. Contributions are recognized as revenue when received.

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) Tangible Capital Assets**

Tangible capital assets consist of computer equipment. Tangible capital assets are recorded at acquisition cost. Gains or losses on the disposal of individual assets are recognized in earnings in the year of disposition. Amortization, which is based on the estimated useful life, is recorded on a straight-line basis over 3 years. In 2020 no amortization was recorded as the computer equipment was purchased at year end.

**ROYAL MILITARY COLLEGES OF CANADA FOUNDATION INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

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

**(g) 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.

**(h) 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 application 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.

**(i) Cash and Equivalents**

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

**3. IMPACTS OF COVID-19**

Since the beginning of 2020, the coronavirus disease COVID-19 has had considerable impact, both globally and locally. During 2020 the Foundation has been financially impacted in the following ways:

- A Temporary Wage Subsidy in the amount of \$4,635 and a Canadian Emergency Wage Subsidy in the amount of \$107,875 was received during the year. Of the receipts, \$18,661 was offset against payroll expenses charged to RMC Research Services. The remaining \$93,849 has been reported as Canada Emergency Wage Subsidy revenue;
- Various annual fundraising events were cancelled due to COVID-19;
- College benefactions and distributions from endowments were substantially reduced due to fewer activities at the Colleges.

At the time that these financial statements were finalized, COVID-19 continues to be of global concern and has the potential to create financial stress on the economy and the entity. The amount of this financial impact could not be determined.

**ROYAL MILITARY COLLEGES OF CANADA FOUNDATION INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**4. LONG-TERM INVESTMENTS**

The investments held at December 31, 2020 consist of bonds and equities. Investments have been recorded at the fair market value provided by Canso Investment Counsel Ltd. as at December 31, 2020 and December 31, 2019.

	<b>2020</b>	2019
	\$	\$
Restricted and Endowment Fund Investments		
Canadian fixed income	<b>11,843,573</b>	8,112,118
Foreign fixed income		2,561,623
Canadian equity	<b>4,472,690</b>	3,863,576
Foreign equity	<b>5,117,750</b>	4,218,609
<b>Subtotal Restricted and Endowment Fund Investments</b>	<b>21,434,013</b>	18,755,926
Monies Held in Trust (Note 5)		
Canadian fixed income	<b>4,095,943</b>	3,376,007
Canadian equity	<b>645,898</b>	162,720
Foreign equity	<b>469,476</b>	109,155
<b>Subtotal Monies Held in Trust</b>	<b>5,211,317</b>	3,647,882
<b>Total Long Term Investments</b>	<b>26,645,330</b>	22,403,808

In 2019 fixed income securities had varying maturity dates and interest rates ranging from 2.15% to 9.75% if held until maturity. In 2020, the fixed income securities were converted to bond funds and are no longer managed as individual securities.

**5. MONIES HELD IN TRUST**

In 2005, the Foundation 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 2020 this Memorandum of Understanding was extended until 2030.

In 2018, the Foundation entered into a contract with the Principal's Office of the Royal Military College to provide services on a trust basis as outlined in the Agreement between the parties.

During the year, the provision of services under the aforementioned Memorandum of Understanding and Agreement resulted in net contributions to the operating fund of \$156,673 (2019 - \$91,550).

**ROYAL MILITARY COLLEGES OF CANADA FOUNDATION INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**6. EXTERNALLY RESTRICTED - ENDOWMENT FUNDS**

	Opening Balance	Donations	Inter-Fund Transfer	Endowed Capital Expended	Ending Balance
	\$	\$	\$	\$	\$
<b>(a) Major Giving Endowed Funds</b>					
Battlefield Tour	3,003,297				3,003,297
Captain Bart Leadership Award	41,594				41,594
Captain Bart Teamwork Prize	148,841				148,841
Carswell ROTP Gala Travel	170,000				170,000
Carswell TDV	98,010				98,010
Chaudry Operations Research Prize	40,000				40,000
Dacey Memorial Fund/ Chemical and Mechanical Engineering Fund	19,589				19,589
Danny McLeod Athletics	371,305	1,410			372,715
Howard B. Ripstein First Year Endowment Fund	60,000				60,000
Howard B. Ripstein Reserve Entry Fund	60,000				60,000
Howard B. Ripstein Third Year Endowment Fund	125,000				125,000
J.W. Brown Memorial Fund	11,086				11,086
James Carruthers Endowment Fund	625,559				625,559
Keyser Red & White	25,000				25,000
Mech Eng P.G. Scholarship Fund	222,174	11,000			233,174
Netherlands Liberation	172,365				172,365
No. 1 Fund - Wurtele	143,759				143,759
P Cadieux Memorial Award Fund	40,000				40,000
Phil Cowie Endowment	25,000	700			25,700
RG Haycock Grad Student Fund	35,575				35,575
Ripstein Library Endowment Fund	20,000				20,000
RMC Excellence in Research	110,820				110,820
Sandhurst Endowment Fund	23,450				23,450
Sea Log Sword Endowment			25,000		25,000
Seath Endowment Fund	102,688				102,688
TDV Endowment Fund	80,115	12,800			92,915
Toronto Branch	25,655				25,655
UTPNCM Fund (Otter Sqn)	19,023	140			19,163
W.A. Ferguson	10,000				10,000
Wall of Honour	218,695	1,700			220,395
Young Memorial Fund	100,000				100,000
	<b>6,148,600</b>	<b>27,750</b>	<b>25,000</b>	<b>NIL</b>	<b>6,201,350</b>
<b>(b) Endowed Class Funds</b>					
Class of 56	121,555				121,555
Class of 57	44,635	375			45,010
Class of 59	87,908	1,900		7,321	82,487
Class of 60	162,252	35,314			197,566
Class of 62	207,306	18,900			226,206
Class of 62 - Recreation Club	632,550	5,096			637,646
Class of 64	350,561	2,720			353,281
Class of 65 - Teaching Excellence	477,250	14,170			491,420
Class of 66	1,163,856	7,100	113,885		1,284,841
Class of 68	133,655	500			134,155
Class of 69 - Bade Bursary	102,087	7,746			109,833
Class of 70	219,832	2,750			222,582
Class of 72	56,735	20,000			76,735
Class of 76	117,303	33,449			150,752
Class of 80	40,350				40,350
	<b>3,917,835</b>	<b>150,020</b>	<b>113,885</b>	<b>7,321</b>	<b>4,174,419</b>
<b>Total Endowed Funds</b>	<b>10,066,435</b>	<b>177,770</b>	<b>138,885</b>	<b>7,321</b>	<b>10,375,769</b>

**ROYAL MILITARY COLLEGES OF CANADA FOUNDATION INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**7. INTERFUND TRANSFERS**

During 2020 the Foundation transferred a net total of \$138,885 from the restricted fund to the endowed class funds and major giving endowed funds, and a net total of \$2,842 from the major giving endowed restricted fund to the restricted funds. All transfers were approved by the Board of Directors of the Foundation or were in accordance with the Donor Agreements.

**8. ENDOWED CAPITAL EXPENDED**

In 2020, \$7,321 was approved for expenditure from the Class of 59 Endowment Capital fund to satisfy payment of a class benefaction.

**9. FINANCIAL INSTRUMENTS**

The Foundation's financial instruments consist of cash and bank, accounts receivable, short-term investments, long-term investments and accounts payable and accrued liabilities. The carrying amounts approximate their fair market value due to the immediate or short-term maturity of these financial instruments except for long-term investments which are disclosed in Note 4 to these financial statements.

**(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 17.6% is denominated in the United States dollar, and 0.2% in British pounds.

**(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.

**ROYAL MILITARY COLLEGES OF CANADA FOUNDATION INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

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

**(a) Market Risk (Cont'd)**

**(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.

**(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.

**10. 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 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.

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**11. 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 Foundation. The result is a net annual transfer from the Foundation to the Club in the amount of \$15,560 (2019 - \$13,293).

In a previous year, the Foundation made an arrangement with the Club to repay the amount owing 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 a long-term asset.