

THE NAVAL ASSOCIATION OF CANADA
L'ASSOCIATION NAVALE DU CANADA

FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Unaudited)

DRAFT

REVIEW ENGAGEMENT REPORT

To the Members of
The Naval Association of Canada L'Association Navale du Canada

We have reviewed the statement of financial position of The Naval Association of Canada L'Association Navale du Canada as at December 31, 2016 and the statements of activities and changes in fund balances, and cash flow for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to the information supplied to us by the society.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for not-for-profit organizations.

Victoria, BC
June xx, 2017

Allen & Krauel Inc.
Chartered Professional Accountants

THE NAVAL ASSOCIATION OF CANADA L'ASSOCIATION NAVALE DU CANADA

STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2016 (Unaudited)

	2016	2015
ASSETS		
Current		
Cash	\$ 120,710	\$ 82,517
Investments (note 3)	59,364	43,997
Accounts receivable (note 4)	244,443	152,424
GST/HST recoverable	7,410	4,618
Inventory	2,523	2,966
Prepaid expenses	2,047	1,291
	436,497	287,813
Endowment fund - externally restricted (note 5)		
Cash	33,266	47,936
Investments	777,068	825,755
Accounts receivable	3,961	1,007
	814,295	874,698
Tangible capital assets (note 6)		
	1	1
	\$ 1,250,793	\$ 1,162,512
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 4,483	\$ 6,197
- Endowment fund	2,500	100,000
Deferred revenue (note 4)	244,443	152,424
	251,426	258,621
NET ASSETS		
General fund - unrestricted	187,572	129,193
Endowment fund - externally restricted (note 7)	811,795	774,698
	999,367	903,891
	\$ 1,250,793	\$ 1,162,512

Approved by the directors

_____ Director

_____ Director

THE NAVAL ASSOCIATION OF CANADA L'ASSOCIATION NAVALE DU CANADA

STATEMENT OF ACTIVITIES AND CHANGES IN FUND BALANCES GENERAL FUND YEAR ENDED DECEMBER 31, 2016 (Unaudited)

	2016	2015
Revenue		
Battle of Atlantic Gala	\$ 82,304	\$ 8,401
Membership revenues	40,208	39,033
Donations received	14,449	21,098
Memorabilia sales	761	377
	137,722	68,909
Expenses		
Starshell publication	32,931	26,985
Naval affairs	32,737	1,000
Executive director stipend	12,000	9,000
Travel expenses	8,069	6,431
Professional fees	4,230	4,230
General office expenses	1,271	991
Telecommunications	1,148	836
AGM costs	988	-
Membership and liaison	869	8,712
Presentations and awards	673	1,368
Insurance	569	553
Cost of memorabilia	443	651
Website	156	2,256
Wreaths and memorials	104	-
	96,188	63,013
Excess of revenue over expenses before other items	41,534	5,896
Investment income (loss)	16,845	(9,391)
Excess (deficiency) of revenue over expenses	58,379	(3,495)
Fund balance, beginning of year	129,193	132,688
Fund balance, end of year	\$ 187,572	\$ 129,193

THE NAVAL ASSOCIATION OF CANADA L'ASSOCIATION NAVALE DU CANADA

STATEMENT OF ACTIVITIES AND CHANGES IN FUND BALANCES ENDOWMENT FUND YEAR ENDED DECEMBER 31, 2016 (Unaudited)

	2016	2015
Revenue		
Investment income	\$ 37,290	\$ 10,179
Donations	31,896	34,118
	69,186	44,297
Expenses		
Grants paid (note 8)	30,000	30,000
Postal and administrative costs	2,074	4,957
Bank charges	15	6
	32,089	34,963
Excess of revenue over expenses	37,097	9,334
Fund balance, beginning of year	774,698	765,364
Fund balance, end of year	\$ 811,795	\$ 774,698

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THE NAVAL ASSOCIATION OF CANADA L'ASSOCIATION NAVALE DU CANADA

**STATEMENT OF CASH FLOW
GENERAL FUND
YEAR ENDED DECEMBER 31, 2016
(Unaudited)**

	2016	2015
Operating activities		
Excess (deficiency) of revenue over expenses	\$ 58,379	\$ (3,495)
Add charges to operations not requiring a current cash payment:		
Unrealized (gain) loss on investments	(15,339)	10,595
	43,040	7,100
Net change in non-cash working capital balances:		
Accounts receivable	(92,019)	(66,404)
GST/HST recoverable	(2,792)	(2,051)
Inventory	443	651
Prepaid expenses	(756)	(622)
Accounts payable	(1,714)	2,697
Deferred revenue	92,019	67,190
	38,221	8,561
Investing activities		
Purchase of investments	(28)	(183)
Net increase in cash during the year	38,193	8,378
Cash position, beginning of year	82,517	74,139
Cash position, end of year	\$ 120,710	\$ 82,517

Cash position consists of unrestricted cash on deposit.

THE NAVAL ASSOCIATION OF CANADA L'ASSOCIATION NAVALE DU CANADA

**STATEMENT OF CASH FLOW
ENDOWMENT FUND
YEAR ENDED DECEMBER 31, 2016
(Unaudited)**

	2016	2015
Operating activities		
Excess of revenue over expenses	\$ 37,097	\$ 9,334
Add charges to operations not requiring a current cash payment:		
Unrealized loss on investments	7,704	6,702
	44,801	16,036
Net change in non-cash working capital balances:		
Accounts receivable	(2,954)	(1,007)
Accounts payable and accrued liabilities	(97,500)	100,000
Cash (used in) provided by operating activities	(55,653)	115,029
Investing activities		
Purchase of investments	40,983	(88,097)
Net (decrease) increase in cash during the year	(14,670)	26,932
Cash position, beginning of year	47,936	21,004
Cash position, end of year	\$ 33,266	\$ 47,936

Cash position consists of restricted cash on deposit as disclosed in note 5.

THE NAVAL ASSOCIATION OF CANADA L'ASSOCIATION NAVALE DU CANADA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016
(Unaudited)

1. Purpose of the organization

The Naval Association of Canada L'Association Navale du Canada is dedicated to promoting national awareness of Canada as a maritime nation with vital interests in our three oceans and the role of the maritime power, and in particular, the role the Canadian Forces plays in their preservation and protection. The objective is pursued through seminars, publications, speaking engagements, media commentaries and public meetings.

The Naval Association of Canada L'Association Navale du Canada is incorporated under the Canada Not-for-Profit Corporations Act and is a registered charity under the Income Tax Act.

2. Significant accounting policies

The financial statements of the association have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. Items subject to estimation and assumptions include inventory valuation and amortization of tangible capital assets.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Fund accounting

The association follows the restricted fund method of accounting for contributions.

The general fund reports operating revenue and expenses related to the association's educational and promotional activities.

The endowment fund reports fundraising revenue and expenses related to the association's declaration of trust of the endowment fund.

Inventory

Inventory is valued at the lower of cost and net realizable value.

THE NAVAL ASSOCIATION OF CANADA L'ASSOCIATION NAVALE DU CANADA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016
(Unaudited)

2. Significant accounting policies (continued)

Restricted cash, accounts receivable, and investments

Restricted cash, accounts receivable, and investments are recorded at market value.

Tangible capital assets

Tangible capital assets are stated at cost and are amortized in full in the year of acquisition, and carried at a nominal book value of \$1.00 as set out in note 6.

Revenue recognition

Revenue from seminars, public meetings, publications, memberships, and memorabilia sales is recognized when the service is performed.

Externally restricted contributions of the endowment fund and unrestricted contributions of the general fund are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Changes in market value of restricted and unrestricted investments are recognized in net income in the period incurred.

Financial Instruments

Measurement of financial instruments

The association initially measures its financial assets and liabilities at fair value. The association subsequently measures all its financial assets and liabilities at amortized cost.

Financial assets, restricted and unrestricted, measured at amortized cost include cash, investments, accounts receivable, GST/HST recoverable, restricted cash, and restricted investments. Financial liabilities, restricted and unrestricted, measured at amortized cost include, accounts payable and accrued liabilities.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down or subsequent reversal, if any, is recognized in net income.

THE NAVAL ASSOCIATION OF CANADA L'ASSOCIATION NAVALE DU CANADA

NOTES TO THE FINANCIAL STATEMENTS
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2. Significant accounting policies (continued)

Transaction costs

The association recognizes its transaction costs in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

3. Investments

The association records its investments at market value. Changes in market value are recognized in net income in the period incurred. Investments are summarized as follows:

	2016		2015	
	Cost	Market Value	Cost	Market Value
Common shares	15,608	21,475	15,214	13,228
Mutual funds	13,802	17,361	13,698	14,793
Foreign securities	5,254	20,528	5,721	15,976
	<u>\$ 34,664</u>	<u>\$ 59,364</u>	<u>\$ 34,633</u>	<u>\$ 43,997</u>

4. Related party transaction

Included in accounts receivable and deferred revenue is a balance of \$70,120 due from the Naval Association of Canada - Ottawa branch related to the excess of revenues over expenses for the 2015 Battle of Atlantic Gala. Also included in accounts receivable and deferred revenues is a balance of \$174,323 due from the Naval Association of Canada - Ottawa branch related to the excess of revenues over expenses for the 2016 Battle of Atlantic Gala and the 2016 National annual general meeting and conference. In accordance with an agreement between the association and the Ottawa branch, these monies are to be used exclusively for future Naval Affairs activities, and will be recognized as revenue when paid to the association upon proof of expenditures incurred.

THE NAVAL ASSOCIATION OF CANADA L'ASSOCIATION NAVALE DU CANADA

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5. Restricted cash and investments - Endowment fund

The association records its restricted cash and investments at market value. Changes in market value are recognized in net income in the period incurred. The restricted cash and investments are summarized as follows:

	2016		2015	
	Cost	Market Value	Cost	Market Value
Cash	\$ 33,266	\$ 33,266	\$ 47,936	\$ 47,936
Investments				
Savings bonds and GIC's	-	-	15,000	15,000
Common shares	275,271	439,916	307,600	482,623
Fixed income	332,053	332,669	317,110	318,642
Trust units	3,770	4,483	9,145	9,490
	611,094	777,068	648,855	825,755
	\$ 644,360	\$ 810,334	\$ 696,791	\$ 873,691

6. Tangible capital assets

	Cost	Accumulated Amortization	Net Book Value		Amortization Rate
			2016	March 31 2016	
Furniture and fixtures	\$ 718	\$ 717	\$ 1	\$ 1	100%

7. Endowment fund - externally restricted

In 1983, the association established a trust known as the NAC Endowment Fund (formerly the NOAC Endowment Fund, name changed June 2013). The objective of the fund is to promote and maintain interest in maritime affairs generally, and particularly in the maritime affairs of Canada. Amounts contributed for this purpose have been set aside in an externally restricted endowment fund after deducting related costs.

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8. Grants paid

The following organizations were the beneficiaries of funding grants from the association:

	<u>2016</u>	<u>2015</u>
NAC Ottawa - RCSCEF Scholarships	\$ 5,000	\$ 5,000
Friends of HMCS Haida	4,500	6,000
NAC London - BOA Memorial Expansion	4,500	3,500
NAC Winnipeg - Naval Museum of Manitoba	4,500	-
NAC Victoria - Broadmead Care Society	2,500	1,000
NAC Victoria - Hampton Grey Memorial	2,500	-
NAC Ottawa - Omaha Beach Plaque	2,000	-
NAC Newfoundland - Crowsnest Military Artifacts Grant	1,500	3,000
NAC Ottawa - Haida Prints Grant	1,000	1,000
NAC Ottawa - Omaha Beach Plaque	1,000	-
NAC Toronto - Submarine Service Workshop Support	-	500
NAC Montreal - RCSCC Victory Project	1,000	500
NAC Montreal - Donnacona Past Coxswain Boards	-	500
Canadian Naval Memorial Trust	-	3,000
Maritime Museum of BC	-	3,000
David J. Freeman	-	2,000
University of Victoria - Maritime Oral History Program	-	1,000
	<u>\$ 30,000</u>	<u>\$ 30,000</u>

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9. Financial instruments and risk management

The association's financial instruments, restricted and unrestricted, consist of cash, investments, accounts receivable, GST/HST recoverable, and accounts payable and accrued liabilities. Transactions in financial instruments may result in financial risks being assumed by the association. The risks identified by the association are as follows:

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk that the society will encounter difficulty in meeting obligations associated with financial liabilities.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

It is management's opinion that the association is not exposed to significant credit, interest, liquidity or market risk arising from these financial instruments.