

THE NAVAL ASSOCIATION OF CANADA
L'ASSOCIATION NAVALE DU CANADA

FINANCIAL STATEMENTS

DECEMBER 31, 2017

(Unaudited)

INDEPENDENT PRACTITIONER'S REVIEW ENGAGEMENT REPORT

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

We have reviewed the accompanying financial statements of The Naval Association of Canada L'Association Navale du Canada that comprise the statement of financial position as at December 31, 2017 and the statements of activities and changes in fund balances, and cash flow for the year then ended, and 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.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects, the financial position of The Naval Association of Canada L'Association Navale du Canada as at December 31, 2017, and the results of its changes in fund balances, activities and its cash flows for the year then ended, in accordance with Canadian accounting standards for not-for-profit organizations.

Victoria, BC

June 13, 2018

Allen & Krauel Inc.
Chartered Professional Accountants

THE NAVAL ASSOCIATION OF CANADA L'ASSOCIATION NAVALE DU CANADA

STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2017 (Unaudited)

	2017	2016
ASSETS		
Current		
Cash	\$ 284,368	\$ 120,710
Investments (note 3)	68,102	59,364
Accounts receivable (note 4)	169,365	244,443
GST/HST recoverable	9,932	7,410
Inventory	2,327	2,523
Prepaid expenses	922	2,047
	535,016	436,497
Endowment fund - externally restricted (note 5)		
Cash	31,026	33,266
Investments	844,335	777,068
Accounts receivable	1,387	3,961
	876,748	814,295
Tangible capital assets (note 6)	1	1
	\$ 1,411,765	\$ 1,250,793
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 8,761	\$ 4,483
- Endowment fund	2,500	2,500
Deferred revenue (note 4)	127,710	244,443
	138,971	251,426
NET ASSETS		
General fund - unrestricted	398,546	187,572
Endowment fund - externally restricted (note 7)	874,248	811,795
	1,272,794	999,367
	\$ 1,411,765	\$ 1,250,793

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, 2017 (Unaudited)

	2017	2016
Revenue		
Battle of Atlantic Gala	\$ 244,444	\$ 82,304
Membership revenues	34,580	40,208
Donations received	20,002	14,449
Memorabilia sales	409	761
	299,435	137,722
Expenses		
Starshell publication	37,794	32,931
Naval affairs	21,375	32,737
Travel expenses	13,342	8,069
Executive director stipend	12,000	12,000
Professional fees	4,471	4,230
Website	2,800	156
General office expenses	2,377	1,271
Membership and liaison	1,884	869
Presentations and awards	1,459	673
Telecommunications	675	1,148
Insurance	569	569
Cost of memorabilia	196	443
Wreaths and memorials	104	104
AGM costs	-	988
	99,046	96,188
Excess of revenue over expenses before other items	200,389	41,534
Investment income	10,585	16,845
Excess of revenue over expenses	210,974	58,379
Fund balance, beginning of year	187,572	129,193
Fund balance, end of year	\$ 398,546	\$ 187,572

THE NAVAL ASSOCIATION OF CANADA L'ASSOCIATION NAVALE DU CANADA

STATEMENT OF ACTIVITIES AND CHANGES IN FUND BALANCES ENDOWMENT FUND YEAR ENDED DECEMBER 31, 2017 (Unaudited)

	<u>2017</u>	<u>2016</u>
Revenue		
Donations	\$ 71,933	\$ 31,896
Investment income	26,384	37,290
	<u>98,317</u>	<u>69,186</u>
Expenses		
Grants paid (note 8)	33,500	30,000
Postal and administrative costs	2,343	2,074
Bank charges	21	15
	<u>35,864</u>	<u>32,089</u>
Excess of revenue over expenses	62,453	37,097
Fund balance, beginning of year	<u>811,795</u>	<u>774,698</u>
Fund balance, end of year	<u>\$ 874,248</u>	<u>\$ 811,795</u>

THE NAVAL ASSOCIATION OF CANADA L'ASSOCIATION NAVALE DU CANADA

**STATEMENT OF CASH FLOW
GENERAL FUND
YEAR ENDED DECEMBER 31, 2017
(Unaudited)**

	2017	2016
Operating activities		
Excess of revenue over expenses	\$ 210,974	\$ 58,379
Add charges to operations not requiring a current cash payment:		
Unrealized gain on investments	(8,895)	(15,339)
	202,079	43,040
Net change in non-cash working capital balances:		
Accounts receivable	75,078	(92,019)
GST/HST recoverable	(2,522)	(2,792)
Inventory	196	443
Prepaid expenses	1,125	(756)
Accounts payable	4,278	(1,714)
Deferred revenue	(116,733)	92,019
	163,501	38,221
Investing activities		
Purchase of investments	157	(28)
Net increase in cash during the year	163,658	38,193
Cash position, beginning of year	120,710	82,517
Cash position, end of year	\$ 284,368	\$ 120,710

Cash position consists of unrestricted cash on deposit.

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STATEMENT OF CASH FLOW ENDOWMENT FUND YEAR ENDED DECEMBER 31, 2017 (Unaudited)

	2017	2016
Operating activities		
Excess of revenue over expenses	\$ 62,453	\$ 37,097
Add charges to operations not requiring a current cash payment:		
Unrealized (gain) loss on investments	(4,209)	7,704
	58,244	44,801
Net change in non-cash working capital balances:		
Accounts receivable	2,574	(2,954)
Accounts payable and accrued liabilities	-	(97,500)
	60,818	(55,653)
Investing activities		
Purchase of investments	(63,058)	40,983
Net decrease in cash during the year	(2,240)	(14,670)
Cash position, beginning of year	33,266	47,936
Cash position, end of year	\$ 31,026	\$ 33,266

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, 2017

(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, 2017

(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
DECEMBER 31, 2017
(Unaudited)

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:

	2017		2016	
	Cost	Market Value	Cost	Market Value
Common shares	16,066	24,137	15,608	21,475
Mutual funds	13,853	18,199	13,802	17,361
Foreign securities	4,585	25,766	5,254	20,528
	<u>\$ 34,504</u>	<u>\$ 68,102</u>	<u>\$ 34,664</u>	<u>\$ 59,364</u>

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4. Related party transaction

Included in accounts receivable and deferred revenue is a balance of \$5,000 due from the Naval Association of Canada - Ottawa branch related to the excess of revenues over expenses for the 2016 Battle of Atlantic Gala. Also included in accounts receivable and deferred revenues is a balance of \$122,710 due from the Naval Association of Canada - Ottawa branch related to the excess of revenues over expenses for the 2017 Battle of Atlantic Gala. 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.

Also included in accounts receivable is a balance of \$19,233 due from the Naval Association of Canada - Ottawa branch related to an advance on GST/HST recoverable at year end. The provision of this advance enabled the Ottawa branch to release the Battle of Atlantic Gala dinner proceeds from 2016 and in turn allowed the Naval Association of Canada L'Association Navale du Canada to provide funds to the Naval Affairs program during the year.

Also included in accounts receivable is a balance of \$700 due from the Naval Association of Canada - Ottawa branch, \$720 due from the Naval Association of Canada - Quebec branch and \$1,000 due from the Naval Association of Canada - Edmonton branch related to 2017 membership dues.

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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:

	2017		2016	
	Cost	Market Value	Cost	Market Value
Cash	\$ 31,026	\$ 31,026	\$ 33,266	\$ 33,266
Investments				
Common shares	306,967	481,564	275,271	439,916
Fixed income	360,192	357,846	332,053	332,669
Trust units	3,770	4,925	3,770	4,483
	670,929	844,335	611,094	777,068
	\$ 701,955	\$ 875,361	\$ 644,360	\$ 810,334

6. Tangible capital assets

	Cost	Accumulated Amortization	Net Book Value		Amortization Rate
			March 31		
			2017	2017	
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>2017</u>	<u>2016</u>
NAC Nova Scotia - HMCS Sackville	\$ 8,000	\$ -
NOA British Columbia - Metro Vancouver Naval Monument Society	7,000	-
NAC Ottawa - RCSCEF Scholarships	5,000	5,000
NAC Calgary - Naval Museum of Alberta	3,000	-
NAC London - BOA Memorial Expansion	3,000	4,500
NAC Victoria - Quadra Foundation	2,500	-
NAC Ottawa - NL Kanata	2,500	-
NAC Newfoundland - Crow's Nest	1,000	1,500
NAC Montreal - Essay Contest	1,000	-
NAC London - Royal Canadian Military Institute	500	-
Friends of HMCS Haida	-	4,500
NAC Winnipeg - Naval Museum of Manitoba	-	4,500
NAC Victoria - Broadmead Care Society	-	2,500
NAC Victoria - Hampton Grey Memorial	-	2,500
NAC Ottawa - Omaha Beach Plaque	-	2,000
NAC Ottawa - Omaha Beach Plaque	-	1,000
NAC Ottawa - Haida Prints Grant	-	1,000
NAC Montreal - RCSCC Victory Project	-	1,000
	<u>\$ 33,500</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.