Financial Statements of

ROYAL CANADIAN NAVAL BENEVOLENT FUND

And Independent Auditors' Report thereon

Year ended March 31, 2022

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INDEPENDENT AUDITORS' REPORT

To the Directors of Royal Canadian Naval Benevolent Fund

Opinion

We have audited the financial statements of Royal Canadian Naval Benevolent Fund (the Entity), which comprise:

- the statement of financial position as at March 31, 2022
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2022 and its results of operations, its changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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 ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity 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 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 the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada
August 10, 2022

ROYAL CANADIAN NAVAL BENEVOLENT FUND

Statement of Financial Position

March 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Current assets:		
Cash	$ 758,331	$ 217,332
Accrued interest and dividends receivable	–	24,931
Current portion of non-interest bearing loans receivable	–	104,332
Other receivables	11,226	1,414
	769,557	348,009
Non-interest bearing loans receivable	–	214,553
Long-term investments (note 2)	3,980,250	3,798,927
Equipment (note 3)	3,523	–
	$ 4,753,330	$ 4,361,489
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 21,068	$ 8,148
Accrued employee termination benefits	–	33,453
Deferred revenue related to government grant	–	76,489
	21,068	118,090
Net assets:		
Unrestricted	4,632,262	4,243,399
Marcelle Fontaine Hurst and the Douglas Charles Hurst Educational Fund (note 5)	100,000	–
	4,732,262	4,243,399
	$ 4,753,330	$ 4,361,489

See accompanying notes to financial statements.

On behalf of the Board:

______________ Director

______________ Director

ROYAL CANADIAN NAVAL BENEVOLENT FUND

Statement of Operations

Year ended March 31, 2022, with comparative information for 2021

	2022	2021
Revenue:		
Investment income	$ 815,731	$ 962,571
Government grant revenue	76,489	3,511
Contributions	59,994	17,172
	952,214	983,254
Expenses:		
Grants to former and serving members of the Naval Forces of Canada and their dependents	333,864	67,578
Salaries and employee benefits	119,778	85,555
Sub-contracts	36,864	–
Investment management fees	18,362	13,954
Amortization of capital assets	1,336	–
Office and general	6,623	–
Professional fees	10,763	–
Audit	13,846	8,500
Rental of premises	8,731	8,731
Communications	4,283	12,295
Interest and bank charges	3,149	–
Insurance	3,089	–
Office equipment and maintenance	2,311	968
Printing, stationery and postage	352	649
Miscellaneous	–	7,082
Contribution to Andrew McQueen Jack Educational	–	1,000
Strategic planning	–	3,511
	563,351	209,823
Excess of revenue over expenses	$ 388,863	$ 773,431

See accompanying notes to financial statements.

ROYAL CANADIAN NAVAL BENEVOLENT FUND
Statement of Changes in Net Assets

Year ended March 31, 2022, with comparative information for 2021

	Marcelle Fontaine Hurst and the Douglas Charles Hurst Educational	Unrestricted	2022	2021
Net assets, beginning of year	$ –	$ 4,243,399	$ 4,243,399	$ 3,469,968
Excess of revenue over expenses	–	388,863	388,863	773,431
Endowment contributions	100,000	–	100,000	–
Net assets, end of year	$ 100,000	$ 4,632,262	$ 4,732,262	$ 4,243,399

See accompanying notes to financial statements.

ROYAL CANADIAN NAVAL BENEVOLENT FUND

Statement of Cash Flows

Year ended March 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	$ 388,863	$ 773,431
Items not involving cash:		
Unrealized loss (gain) on investments	(392,344)	(797,526)
Amortization of capital assets	1,336	–
Forgiveness of non-interest bearing loans receivable	271,930	–
Changes in non-cash operating working capital:		
Decrease (increase) in accrued interest and dividends receivable	24,931	(8,273)
(Increase) decrease in other receivables	(9,812)	457
Increase in accounts payable and accrued liabilities	12,920	–
(Decrease) increase in accrued employee termination benefits	(33,453)	1,887
(Decrease) increase in deferred revenue related to government grant	(76,489)	76,489
	187,882	46,465
Financing:		
Endowment contributions	100,000	–
Investing:		
Net decrease (increase) in investments	211,021	(61,158)
Issue of non-interest bearing loans	–	(40,348)
Repayment of non-interest bearing loans	46,955	95,246
Purchase of equipment	(4,859)	–
	353,117	(6,260)
Increase in cash	540,999	40,205
Cash, beginning of year	217,332	177,127
Cash, end of year	$ 758,331	$ 217,332

See accompanying notes to financial statements.

Authority, objectives and operations:

Royal Canadian Naval Benevolent Fund (the "Not for profit corporation") is incorporated under Part II of the Canada Corporations Act and commenced operations in 1942. Its objectives are to relieve distress and promote the well-being of former members of the Naval Forces of Canada and their dependents. Merchant Navy Veterans and their dependents were included by Supplementary Letters Patent effective July 26, 1993. These objectives are achieved by means of assistance in the form of grants and non-interest bearing loans, and counselling on financial matters. The Fund currently derives most of its revenues from investments.

The Fund is a charitable organization registered with Canada Revenue Agency and is exempt from income taxes.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not for profit organizations in Part III of the CPA Canada Handbook – Accounting. The significant accounting policies are as follows:

(a) Basis of presentation:

The Fund follows the deferral method of accounting for contributions for not-for-profit organizations.

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Fund's investments are carried at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight line method.

1. Significant accounting policies (continued):

(b) Financial instruments (continued):

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Fund determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Fund expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future year, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(c) Grants:

Grants are recorded as an expense when paid or when conversions of loans to grants are approved by the Board of Directors. As of November 21, 2021 all loans outstanding were forgiven and considered grants to former and serving members of the Naval Forces of Canada and their dependents to continue to meet the not for profit corporation's objective.

(d) Revenue recognition:

Contributions are recognized when received.

Investment gains and losses are recognized in the period in which they occur.

Externally restricted contributions are recognized when the related expenditures have been incurred.

Grant revenue is recognized when the related expenditures have been incurred or when received or receivable.

(e) Equipment:

Purchased tangible capital assets are recorded at cost. Contributed tangible capital assets are recorded at fair value at the date of contribution. Assets acquired under capital leases are amortized over the estimated life of the assets or over the lease term, as appropriate. When a tangible capital asset no longer contributes to the Organization's ability to provide services, its carrying amount is written down to its residual value. Computer equipment is amortized at a rate of 3 years.

1. Significant accounting policies (continued):

(f) Use of estimates:

The preparation of the financial statements 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 revenue and expenses during the year. Actual results could differ from those estimates.

2. Long term investments:

	2022 Fair value	2021 Fair value
Long term bonds	$ 921,232	$ 1,007,035
Public company shares and investment trusts	3,059,018	2,791,892
	$ 3,980,250	$ 3,798,927

The Fund's fixed income investments have effective interest rates ranging from 2.65% to 5.00% (2021 - 2.65% to 5.4%) and mature between 2023 and 2030.

3. Equipment:

	Cost	Accumulated amortization	2022 Net book value	2021 Net book value
Office equipment	$ 6,965	$ 6,965	$ –	$ –
Computer equipment	10,339	6,816	3,523	–
	$ 17,304	$ 13,781	$ 3,523	$ –

4. Capital:

The Fund defines capital as unrestricted net assets and net assets invested in capital assets. The objective of the Fund with respect to net assets invested in capital assets is to fund the acquisition of capital assets required for operational purposes. The objective of the Fund with respect to unrestricted net assets is to fund ongoing operations, grants to former members of the Naval Forces of Canada and their dependents. The Fund is not subject to externally imposed capital requirements and its overall strategy with respect to capital remains unchanged from the year ended March 31, 2021.

5. Marcelle Fontaine Hurst and the Douglas Charles Hurst Educational Fund:

The bequest was received in the current year in memory of Mr. Douglas Hurst. Only income earned by the capital of the Fund may be distributed for educational purposes.

6. Financial risks and concentration of risk:

The Fund's financial instruments consist of cash, investments, accrued interest and dividends receivable, non-interest bearing loans receivable, other receivables, accounts payable and accrued liabilities.

(a) Liquidity risk:

Liquidity risk is the risk that the Fund will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Fund manages its liquidity risk by monitoring its operating requirements. The Fund prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. Credit exposure of fixed income investments is minimized by holding no Canadian bond issues below BB+ grade and holding TSX 300 listed corporations' P1 or P2 grade preferred shares.

(c) Interest rate risk:

The Fund is exposed to interest rate risk on its fixed interest rate financial instruments. Further details about the fixed rate investments are included in note 3.

(d) Market risk:

The Fund's investment income is largely derived from publicly traded shares and trusts which are subject to fluctuations in the capital markets.