

Canadian Rugby Union - Fédération canadienne de Rugby
Financial Statements
For the year ended December 31, 2018

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Independent Auditor's Report

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Independent Auditor's Report

**To the directors of
Canadian Rugby Union - Fédération canadienne de Rugby**

Opinion

We have audited the financial statements of Canadian Rugby Union - Fédération canadienne de Rugby (the Entity), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in deficiency of assets over liabilities and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Canadian Rugby Union - Fédération canadienne de Rugby as at December 31, 2018, and its results of operations 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our 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 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.

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.

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 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 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 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.

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.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to Note 2 in the financial statements, which indicates the existence of a material uncertainty that may cast significant doubt about the Union's ability to continue as a going concern.

BDO Canada LLP

Chartered Professional Accountants

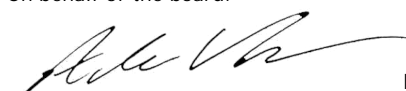
Vancouver, British Columbia
April 9, 2020

Canadian Rugby Union - Fédération canadienne de Rugby
Statement of Financial Position

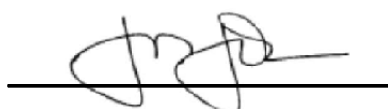
December 31	2018	2017
Assets		
Current		
Cash	\$ 764,095	\$ 310,465
Cash - restricted (Note 9(c))	41,982	228,990
Temporary investments (Note 3)	115,123	170,792
Accounts receivable	927,242	1,116,390
Grants receivable	460,912	107,015
Inventories (Note 4)	265,496	341,935
Prepaid expenses	147,297	313,275
	2,722,147	2,588,862
Investments in controlled organizations (Note 14)	416,137	296,467
Tangible capital assets (Note 5)	8,610,202	8,312,602
	\$ 11,748,486	\$ 11,197,931
Liabilities and Net Deficiency		
Current		
Accounts payable and accrued liabilities (Note 7)	2,464,769	1,565,054
Deferred contributions (Note 9(a))	1,601,425	1,588,091
Deferred fees (Note 9(b))	1,034,167	694,696
Construction costs payable (Note 8)	591,923	1,043,320
Current portion of obligations under capital leases (Note 8)	128,407	122,339
	5,820,691	5,013,500
Note payable to City of Langford (Note 8)	1,021,000	1,000,000
Obligations under capital leases (Note 8)	1,822,841	1,926,793
Deferred contributions related to tangible capital assets (Note 9(c))	3,662,236	3,747,999
Due to controlled organizations (Note 14)	35,939	221,626
Deferred lease inducement (Note 10)	82,984	96,814
	12,445,691	12,006,732
Deficiency in net assets		
Contribution of Land	290,206	-
Internally restricted (Note 16)	48,721	48,721
Unrestricted	(1,036,132)	(857,522)
	(697,205)	(808,801)
	\$ 11,748,486	\$ 11,197,931

Contractual obligations (Note 11)
Contingencies (Note 12)
Subsequent event (Note 13)
Going concern (Note 2)

On behalf of the board:



Director



Director

Canadian Rugby Union - Fédération canadienne de Rugby
Statement of Changes in Net Deficiency

For the year ended December 31

	Unrestricted	Contribution of Land	Internally Restricted	2018	2017
Balance, beginning of the year	\$ (857,522)	\$ -	\$ 48,721	\$ (808,801)	\$ (419,660)
(Deficiency) excess of revenues over expenses	(178,610)	290,206	-	111,596	(389,141)
Balance, end of the year	\$ (1,036,132)	\$ 290,206	\$ 48,721	\$ (697,205)	\$ (808,801)

Canadian Rugby Union - Fédération canadienne de Rugby Statement of Operations

For the year ended December 31	2018	2017
Revenues		
External Funding		
World Rugby Limited	\$ 2,396,276	\$ 2,213,444
Sport Canada	2,505,495	2,309,270
Other Grants	585,264	395,654
	<u>5,487,035</u>	<u>4,918,368</u>
Membership		
National insurance	759,954	679,314
National registration	1,237,449	1,109,223
	<u>1,997,403</u>	<u>1,788,537</u>
Rugby Canada		
Sponsorships	1,542,361	1,905,955
Fundraising	116,507	209,553
Donations	1,174,704	954,172
Domestic competitions	144,184	193,757
International events	1,022,217	1,831,301
National teams	2,117,825	2,042,855
Development - coaching and refereeing	34,333	44,029
Sales of merchandise	774,712	916,068
Other income	697,973	241,050
	<u>7,624,816</u>	<u>8,338,740</u>
Other		
Equity in income of controlled organizations (Note 14)	1,549,564	1,195,104
	<u>16,658,818</u>	<u>16,240,749</u>
Expenses		
Accounting, legal and professional fees	187,835	122,513
Amortization of tangible capital assets and leased tangible capital assets	420,069	105,127
Board of directors and planning meetings	145,358	253,747
Domestic competitions	378,730	611,029
Donations	183,856	326,140
Exchange loss (gain)	(15,347)	4,146
Fundraising	48,264	274,276
Centre of Excellence	334,385	145,621
International events	1,187,972	1,451,762
National insurance	581,612	574,816
National office and general administration	1,216,813	760,994
National registration (recovery)	6,250	(2,000)
National teams (Note 4)	8,786,180	8,709,365
Marketing	191,985	401,360
Program development	362,194	478,431
Costly sales (Note 4)	713,358	649,886
Interest and bank charges	178,300	142,316
Staff salaries, benefits and commissions	1,929,614	1,620,361
	<u>16,837,428</u>	<u>16,629,890</u>
Deficiency of revenues over expenses	\$ (178,610)	\$ (389,141)

The notes are an integral part of these non-consolidated financial statements.

Canadian Rugby Union - Fédération canadienne de Rugby
Statement of Cash Flows

For the year ended December 31	2018	2017
Cash flows from operating activities		
Deficiency of revenues over expenses	\$ (178,610)	\$ (389,141)
Items not affecting cash:		
Amortization of tangible capital assets	(404,495)	(105,127)
Amortization of deferred capital contributions	(85,763)	-
Capital contribution equity affect	290,206	-
	<u>(378,662)</u>	<u>(494,268)</u>
Changes in non-cash working capital:		
Accounts receivable	189,148	(482,503)
Grants receivable	(353,897)	172,175
Inventory	76,439	55,494
Prepaid expenses	165,978	(109,446)
Accounts payable and accrued liabilities	899,715	330,875
Deferred fees and contributions	339,471	(1,604,372)
Constructions costs payable	(451,397)	1,043,320
	<u>486,795</u>	<u>(1,088,725)</u>
Cash flows from investing activities		
Decrease in restricted cash	187,008	98,240
Temporary investments	55,669	-
Decrease in deposit	-	100,000
Additions of tangible capital assets	107,109	(7,801,629)
Investments in controlled organizations	(119,884)	(11,936)
Additions to deferred contributions	13,334	1,588,091
Additions to deferred contributions of tangible capital assets	-	3,747,999
	<u>243,236</u>	<u>(2,279,235)</u>
Cash flows from financing activities		
Bank overdraft and line of credit	-	(115,836)
Due from controlled organizations	-	306,922
Proceeds from note payable to the City of Langford	21,000	1,000,000
Current portion of obligations under capital lease	6,068	122,339
Obligations under capital lease	(103,952)	1,926,793
Due to controlled organizations	(185,687)	157,369
Decrease in deferred lease inducements	(13,830)	(13,831)
	<u>(276,401)</u>	<u>3,383,756</u>
Net increase in cash	453,630	15,796
Cash, beginning of the year	310,465	294,669
Cash, end of year	\$ 764,095	\$ 310,465

The notes are an integral part of these non-consolidated financial statements.

Canadian Rugby Union - Fédération canadienne de Rugby

Notes to Financial Statements

December 31, 2018

1. Accounting Policies

Status and Purpose of Organization Canadian Rugby Union - Fédération canadienne de Rugby (the Union) is a not-for-profit organization incorporated without share capital under the Canada Not-for-profit Corporations Act. The Union's purpose is the development and promotion of the sport of rugby. The Union is a registered charity under the Income Tax Act and, as such, is exempt from income taxes and may issue income tax receipts to donors.

Basis of Accounting These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO").

Presentation of the Controlled Organizations Canada International Sevens GP Ltd., Canada Men's International Sevens Limited Partnership and Canada Women's International Sevens Limited Partnership are for-profit entities controlled and wholly owned by the Union. In accordance with ASNPO, the Union has chosen to account for its interest in the controlled organizations using the equity method. The investment is initially recorded at cost and is adjusted thereafter to include the Union's income and losses of the controlled organizations computed by the consolidation method. Information regarding these controlled organizations is presented in Note 14. Any unrealized gains or losses relating to inter-entity transactions are eliminated.

Use of Estimates The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses for the year covered. Significant estimates include the net realizable value of inventories, the estimated useful lives of tangible capital assets and insurance claims payable.

Revenue Recognition The Union follows the deferral method of accounting for restricted contributions, which include grants, donations and fundraising for specific purposes. Restricted contributions are initially deferred and subsequently recognized as revenue in the year in which the related expenses are incurred or the restrictions are met.

Unrestricted contributions are recognized as revenue when they are subsequently received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions of or restricted for the acquisition of capital assets are deferred and amortized to revenue on the same basis as the amortization of the related assets.

National insurance and national registration are recognized as revenue proportionately over the membership year to which they relate.

Canadian Rugby Union - Fédération canadienne de Rugby
Notes to Financial Statements

December 31, 2018

1. Accounting Policies (continued)

Revenue Recognition (continued) International events, domestic competitions, sponsorships and other income are recognized when the event occurs.

Revenue from sales of merchandise is recognized when the goods have been transferred and collection is reasonable assured.

National teams revenue is comprised of external funding, national registration, sponsorships, other income and donations. These amounts are recognized in accordance with the respective policies as noted above.

**Cash, Cash
Equivalents and
Restricted Cash**

Cash and cash equivalents are comprised of cash balances.

Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

Financial Instruments

Initial and subsequent measurement

The Union initially measures its financial assets and liabilities at fair value. The Union has no financial instruments required to be carried at fair value and, as a result, subsequently measures all its financial assets and financial liabilities at amortized cost.

Impairment

Financial assets measured at cost or amortized cost are tested for impairment when there are indicators of impairment. If indicators of impairment are present, the assessed impairment is expensed in the year the impairment becomes known.

Transaction costs

Transaction costs related to financial instruments subsequently measured at amortized cost are included in the original cost of the asset or liability and recognized in the non-consolidated statement of operations over the life of the instrument using the straight-line method.

Canadian Rugby Union - Fédération canadienne de Rugby
Notes to Financial Statements

December 31, 2018

1. Accounting Policies (continued)

Tangible Capital Assets	<p>Tangible capital assets are accounted for at cost, which includes all costs necessary to bring the asset to its useful state. Contributed or partially contributed capital assets are initially recorded at their fair value with the contributed portion being recorded as a deferred capital contribution. Tangible capital assets are amortized over their useful lives using the following methods and annual rates or period:</p> <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-right: 20px;">Centre of Excellence Facility</td> <td>40 years straight-line</td> </tr> <tr> <td>Computers</td> <td>30% diminishing balance basis</td> </tr> <tr> <td>Donated rugby equipment</td> <td>20% diminishing balance basis</td> </tr> <tr> <td>Office equipment</td> <td>20% diminishing balance basis</td> </tr> <tr> <td>Office furniture</td> <td>20% diminishing balance basis</td> </tr> <tr> <td>Software</td> <td>30% diminishing balance basis</td> </tr> <tr> <td>Leased software</td> <td>20% diminishing balance basis</td> </tr> <tr> <td>Vehicle</td> <td>30% diminishing balance basis</td> </tr> <tr> <td>Leasehold improvements</td> <td>straight-line basis over the term of the lease</td> </tr> </table>	Centre of Excellence Facility	40 years straight-line	Computers	30% diminishing balance basis	Donated rugby equipment	20% diminishing balance basis	Office equipment	20% diminishing balance basis	Office furniture	20% diminishing balance basis	Software	30% diminishing balance basis	Leased software	20% diminishing balance basis	Vehicle	30% diminishing balance basis	Leasehold improvements	straight-line basis over the term of the lease
Centre of Excellence Facility	40 years straight-line																		
Computers	30% diminishing balance basis																		
Donated rugby equipment	20% diminishing balance basis																		
Office equipment	20% diminishing balance basis																		
Office furniture	20% diminishing balance basis																		
Software	30% diminishing balance basis																		
Leased software	20% diminishing balance basis																		
Vehicle	30% diminishing balance basis																		
Leasehold improvements	straight-line basis over the term of the lease																		
Contributed Materials and Services	<p>Contributed materials and services that are used in the normal course of the Union's operations and would otherwise have been purchased are recorded at their fair value at the date of contribution. A corresponding amount of revenue is recorded on the same basis as the expense is recognized.</p>																		
Deferred Lease Inducement	<p>The lease inducement is deferred and amortized over the term of the lease.</p>																		
Translation of Foreign Currency Transactions and Balances	<p>Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date. Other assets, other liabilities, revenues and expenses are translated at the rate of exchange prevailing on the transaction date. Exchange gains and losses are included in the statement of operations.</p>																		

Canadian Rugby Union - Fédération canadienne de Rugby
Notes to Financial Statements

December 31, 2018

1. Accounting Policies (continued)

Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset is recorded at an amount equal to the present value of the minimum lease payments including any bargain purchase option provided such amount does not exceed the fair value of the asset at the time, in which case the asset is recorded at its fair value and the fair value at the beginning of the lease. If the fair value of the leased asset exceeds the present value of lease payments, in accordance with with ASNPO, the asset is recorded at its fair value and the difference is accounted for as deferred capital contribution. The obligation is recorded at the present value of future minimum lease payments, including any bargain purchase option. Amortization relating to capital leases is recorded in accordance with the policy stated above. All other leases are accounted for as operating leases wherein lease payments are expensed as incurred.

Canadian Rugby Union - Fédération canadienne de Rugby

Notes to Financial Statements

December 31, 2018

2. Going Concern

These financial statements have been prepared in accordance with accounting principles applicable to a going concern, which assumes that the Union will be able to continue its operations in the foreseeable future and realize its assets and discharge its liabilities in the normal course of business.

The Union has incurred a deficiency of revenue over expenses of \$178,610 and has a deficit in working capital and net assets at December 31, 2018 in the amounts of \$3,095,544 and \$697,205, respectively. Of the deficiency for the year ended December 31, 2018, \$318,732 was the result of an excess of amortization expense over revenue recognized from deferred contributions relating to the new National Training Centre. Preliminary operating results for the year ended December 31, 2019 indicate a further deficiency of revenue over expenses. Management continues to expand upon extensive expense management procedures and conservative revenue projections and remains committed to providing a sound financial platform designed to reduce the deficit position.

In order to continue as a going concern, the Union will require a reduction in operating expenses, increased revenue from operating activities, and/or increased support from its funding partners, donors and lenders. Should the going concern basis not be appropriate, material adjustments may be necessary to the stated amounts of assets and liabilities.

Prior to the events described in note 13 relating to COVID-19, management had budgeted for net positive cash flows to the Union for the year ending December 31, 2020 of approximately \$250,000. The uncertainty caused by the events described in note 13 are expected to impact the Union's budget materially. Management is not able to determine the potential impact on the revenue, expenses and cash flows of the Union for its year ending December 31, 2020. Management and the board have begun planning reductions in operations, events and activities to further reduce expenses should various sources of revenue as described in note 13 be reduced or eliminated as a result of COVID-19.

3. Temporary Investments

Short-term investments are comprised of two redeemable guaranteed investment certificates held at a chartered bank with effective interest rates of 0.85% and 0.75%, maturing in December 2019.

Canadian Rugby Union - Fédération canadienne de Rugby
Notes to Financial Statements

December 31, 2018

4. Inventories

	2018	2017
Retail merchandise and rugby equipment	\$ 241,227	\$ 273,595
Gift of kit	24,269	68,340
	\$ 265,496	\$ 341,935

The amount of inventories recognized as an expense during the year is \$1,342,751 (2017 - \$1,245,650).

5. Tangible Capital Assets and Leased Tangible Capital Assets

	2018		2017	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Operating				
Computers	\$ 218,099	\$ 171,855	\$ 46,244	\$ 60,198
Donated rugby equipment	254,245	145,829	108,416	135,519
Leased equipment	593,339	129,738	463,601	579,502
Office equipment	94,550	51,422	43,128	7,979
Office furniture	154,538	127,377	27,161	29,380
Software	232,490	152,170	80,320	103,976
Leased software	56,271	38,108	18,163	22,704
Leasehold improvements	240,882	159,319	81,563	105,651
Centre of Excellence				
Land	496,000	-	496,000	459,179
Building	7,431,391	185,785	7,245,606	6,808,514
	\$ 9,771,805	\$ 1,161,603	\$ 8,610,202	\$ 8,312,602

Canadian Rugby Union - Fédération canadienne de Rugby
Notes to Financial Statements

December 31, 2018

6. Bank Overdraft and Line of Credit

The Union has two operating lines with authorized amounts of \$150,000 and \$165,000 that are due on demand and bear interest at the bank's prime rate plus 2.75% and 1% respectively, calculated and payable monthly. They are both secured by a general security agreement covering all assets including the temporary investments as disclosed in Note 3. At December 31, 2018, the Union had undrawn credit capacity of \$315,000 under both these facilities.

7. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are government remittances payable of \$8,830 (2017 - \$60,574). Also included in accounts payable and accrued liabilities is an amount payable in respect of the Players Legacy Fund in the amount of 194,404 (2017 - 84,892).

Canadian Rugby Union - Fédération canadienne de Rugby
Notes to Financial Statements

December 31, 2018

8. Obligations Under Capital Leases

	2018	2017
Royal Bank of Canada, with an implicit rate of 5.34%, payable monthly in the amount of \$10,320, principal and interest.	\$ 450,147	\$ 549,913
City of Langford, 5.20%, due December 2033, payable monthly in the amount of \$8,333, and a final payment of \$1,000,000 at the end of the lease term. (a)	1,501,101	1,499,219
	1,951,248	2,049,132
Less: principal portion due within one year	128,407	122,339
	\$ 1,822,841	\$ 1,926,793

Minimum lease payments required under capital leases are as follows:

2019	\$	223,836
2020		223,836
2021		223,836
2022		223,836
2023		99,996
Thereafter		999,960
		1,995,300
Less: interest included in payments		44,052
	\$	1,951,248

(a) In 2017, the Union entered into an agreement (the "Agreement") with the City of Langford (the "City") for the construction and lease of the Centre of Excellence (the "Facility").

Canadian Rugby Union - Fédération canadienne de Rugby
Notes to Financial Statements

December 31, 2018

8. Obligations Under Capital Leases (Continued)

Under the Agreement, the City constructed the Centre of Excellence Facility on property owned by the City. The cost of construction of the Facility including the fair value of the land totaled \$7,927,391, of which \$591,923 was incurred in 2018. The lease agreement is for a term of 15 years commencing January 2018. During the lease term, monthly payments of \$8,333 will be made to the City. At the end of the lease term, the Union has the option to acquire the land and building for a final payment of \$1,000,000. As this is considered to be a bargain purchase option, the lease is accounted for as a capital lease. ASNPO requires tangible capital assets to be recorded at their fair value at the date of acquisition. As a result, the Union has recorded the land and buildings at their fair values of \$496,000 and \$7,431,391, respectively.

The Union has financed the Facility as follows:

- Contribution from Economic Development Agency Canada in the amount of \$2,935,250
- Contribution from the City of Langford in the amount of \$1,111,095
- Loan payable to the City of Langford in the amount of \$1,000,000
- Present value of future minimum lease payments in the amount of \$1,499,219
- Paid by Rugby Canada in the amount of \$789,904
- Construction costs payable to the City of Langford in the amount of \$591,923

The loan payable to the City has initial due dates of December 31, 2018, and August 31, 2018. Any balance and accrued upfront interest will incur interest at 7.1% between January 1, 2019 and August 31, 2021, and 12.1% between August 31, 2021 and August 31, 2022.

Canadian Rugby Union - Fédération canadienne de Rugby
Notes to Financial Statements

December 31, 2018

9. Deferred Contributions and fees

(a) The change in deferred contributions for the year is as follows:

	December 31, 2017	Received	Spent	December 31, 2018
Sport Canada	553,945	2,600,449	(2,466,745)	687,649
World Rugby Limited	288,105	1,944,641	(2,232,746)	-
Miscellaneous	261,299	38,750	(261,299)	38,750
Other restricted donations	484,742	390,284	-	875,026
	\$ 1,588,091	\$ 4,974,124	\$(4,960,790)	\$1,601,425

(b) The change in deferred fees for the year is as follows:

	December 31, 2017	Received	Spent	December 31, 2018
Dues and insurance	\$ 694,696	\$ 2,697,583	\$(2,757,779)	\$ 634,500
Sponsorships	-	1,934,516	(1,534,849)	399,667
	\$ 694,696	\$ 4,632,099	\$(4,292,628)	\$1,034,167

(c) Deferred Contributions Related to Tangible Capital Assets

Deferred contributions related to tangible capital assets represents contributions received for tangible capital assets and restricted donations relating to the acquisition of a building. The balance is comprised of the following:

The amount recorded as deferred contributions related to leased tangible capital assets is as follows:

	2018	2017
Balance, beginning of year	\$ 3,747,999	\$ -
Plus: amount received during the year	-	3,747,999
Less: amount amortized to operations	(85,763)	-
Balance, end of year	\$ 3,662,236	\$ 3,747,999

The capital campaign donations received which are not yet spent in the amount of \$41,982 (2017 - \$228,990) have been reflected as restricted cash in the non-consolidated statement of financial position.

Canadian Rugby Union - Fédération canadienne de Rugby
Notes to Financial Statements

December 31, 2018

10. Deferred Lease Inducement

Under the terms of a lease agreement for the Toronto office premises entered in 2011 and extended in 2014, the Union received one month's tenancy on a rent free basis, as well as an allowance for leasehold improvements. The amount that would have otherwise been paid has been set up as a deferred liability and is amortized over the 10 year term of the lease, as other income (2018 - \$13,831; 2017 - \$13,831).

11. Contractual Obligations

In addition to the obligations under capital lease disclosed in note 8, the Union has two operating leases for its premises at \$12,407 and \$8,500 per month, expiring in September 2024 and December 2026 respectively. The Union also has operating leases for various office equipment expiring, at the latest, in February 2021. Future minimum lease payments as follows:

2019	\$	262,913
2020	\$	259,286
2021	\$	252,847
2022	\$	263,335
2023	\$	152,574
Thereafter	\$	<u>349,761</u>
	\$	<u>1,540,716</u>

In 2019, the Union subleased one of the premises for annual lease payments of \$13,739 until September 30, 2020, increasing to \$14,988 for the period of October 1, 2020 to September 29, 2024.

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12. Contingencies

The Union is party to legal claims relating to accidents that occurred to participants during scheduled rugby games. The claims have been made against the Union's insurance policy and each incident is for an amount less than the single occurrence coverage available under the policy. Management cannot estimate the likelihood of the obligation under each claim but estimates that any resulting settlement will be covered under the terms of the insurance coverage in place for the Union. The Union's deductible related to these insurance claims is \$50,000 per claim up to a maximum of \$200,000 per year. Once this amount is reached, the deductible decreases to \$25,000 per claim. The estimated insurance deductible payable at December 31, 2018 of \$250,000 (2017 - \$183,914) has been recorded in accounts payable and accrued liabilities. Any difference between the actual settlement or claim payment and the amount recorded is not expected to be material and will be recorded as a gain or loss in the period it becomes known.

The Union also entered into a supply agreement for merchandise expiring December 31, 2023 which requires that the Union spend an annual minimum amount of \$250,000 for the purchase of merchandise and other supplies.

13. Subsequent Event

Subsequent to the year-end, in winter 2020, the impact of COVID-19 in Canada and on the global economy increased significantly. As the effects of COVID-19 continue, there could be specific impacts on the Union, its funders, members, employees, suppliers and other third party business associates that could impact the timing and amounts of revenue generated and future ability to conduct operations, and deliver services and hold and attend events. At this time, the full potential impact of COVID-19 on the Union is not known. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of disruption and the related financial impact cannot be reasonably estimated at this time. Revenue streams that could potentially be impacted include funding from World Rugby and Sport Canada, revenue from participant registrations, sponsors, events, fundraising, and sales of goods. Management expects operations of the Union to be reduced significantly in 2020. The Union will continue to focus on collecting amounts receivable and on-going funding, managing expenditures, and, if necessary, leveraging available credit facilities to ensure it is able to continue essential operations.

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14. Investments in Controlled Organizations and Due to/from Controlled Organizations

Canada International Sevens GP Ltd. ("CISGP"), which is the general partner of the Canada Men's International Sevens Limited Partnership and the Canada Women's International Sevens Limited Partnership, was incorporated under the laws of the Province of Alberta on February 20, 2015.

CISGP is controlled by the Union since the Union owns 100% of the Class "A" common shares, management of the Union is closely involved in developing the policies of CISGP and can influence their content.

Canada Men's International Sevens Limited Partnership ("Canada Men's"), and Canada Women's International Sevens Limited Partnership ("Canada Women's"), which were created to manage the activities of the World Rugby Sevens Series, were incorporated under the laws of the Province of Alberta on February 26, 2015.

Canada Men's and Canada Women's are controlled by the Union since the Union owns 100% of the Limited Units and owns 100% of the General Units through CISGP.

	2018	2017
Investments in Controlled Organizations		
Canada International Sevens GP Ltd.	\$ 4	\$ 23,030
Canada Men's International Sevens Limited Partnership	475,828	294,819
Canada Women's International Sevens Limited Partnership	(59,695)	(21,382)
	\$ 416,137	\$ 296,467
Due to Controlled Organizations		
Canada Men's International Sevens Limited Partnership	2,604	185,896
Canada Women's International Sevens Limited Partnership	33,335	35,730
	\$ 35,939	\$ 221,626

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14. Investments in Controlled Organizations and Due from Controlled Organizations
(continued)

Summarized financial information relating to controlled organizations is as follows:

June 30, 2018:

	CISGP	Canada Men's	Canada Women's	Total
Total assets	\$ 4	\$ 1,296,193	\$ 520,668	\$ 1,816,865
Total Liabilities	-	820,365	580,365	1,400,730
Partner's/Shareholder's equity	\$ 4	\$ 475,828	\$ (59,695)	\$ 416,137

The results of operations for the year ended June 30, 2018 are as follows:

	CISGP	Canada Men's	Canada Women's	Total
Total revenue	\$ 1	\$ 6,868,125	\$ 882,311	\$ 7,750,437
Total expenses	-	5,478,060	920,410	6,398,470
Net income	\$ 1	\$ 1,390,065	\$ (38,099)	\$ 1,351,967

Cash flows for the year ended June 30, 2018 are as follows:

	CISGP	Canada Men's	Canada Women's	Total
Operating	\$ -	\$ 1,901,946	\$ (107,012)	\$ 1,794,934
Financing	-	(1,200,000)	108,563	(1,091,437)
Investing	-	(1,074,448)	-	(1,074,448)
Net cash flows	\$ -	\$ (372,502)	\$ 1,551	\$ (370,951)

The amounts recorded in these financial statements as investment in CISGP, Canada's Men's and Canada Women's are based on their statements of financial position and results of operations for their ended June 30, 2018 and 2017. The results for the period from July 1 to December 31 are not recorded as they are not representative of a full year's activities due to the revenues being recognized at the time of the events in March.

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15. Financial Instruments

Liquidity risk

The Union is exposed to this risk mainly in respect of its current liabilities.

The Union manages its liquidity risk by constantly monitoring forecasted and actual cash flows and financial liability maturities, by holding assets that can be readily converted into cash, and by managing the term dates of its financial liabilities.

Credit risk

The Union is exposed to credit risk for its accounts and grants receivable. The majority of the Union's receivables are from government sources and provincial Unions. The Union works to ensure it continues to meet all eligibility criteria in order to qualify to receive the corresponding funding. The Union provides credit to its members in the normal course of its operations.

Currency risk

Approximately 14% of the Union's revenues are in foreign currency. Consequently, some assets are exposed to foreign exchange fluctuations. As at December 31, 2018, cash, accounts receivable and accounts payable of £172,967, £221,675 and £37,838 respectively (2017 - £36,102, £6,556 and £3,503 respectively) are denominated in Great Britain Pounds and converted into Canadian dollars. As at December 31, 2018, cash, accounts receivable and accounts payable of \$27,003, \$107,688 and \$28,701 respectively (2017 - \$61,038, \$85,000 and \$12,606 respectively) are denominated in US dollars and converted into Canadian dollars.

16. Internally Restricted Net Assets

The Board of Directors of the Union and provincial Unions have established the internally restricted net assets to keep monies in reserve for potential insurance claims in excess of the insurance policy coverage which may arise in the future. The internally restricted net assets have been established based on half the surplus from the insurance program with the provincial Unions unless otherwise resolved by the provincial Unions at the Annual General Meeting. As at December 31, 2018 cash of \$117,253 has been restricted in a separate bank account.

17. Comparative Information

Certain comparative figures have been reclassified to reflect the financial statement presentation adopted in the current year.