

Canadian Rugby Union - Fédération canadienne de Rugby
Non-Consolidated Financial Statements
For the year ended December 31, 2019

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Independent Auditor's Report

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

Opinion

We have audited the non-consolidated financial statements of Canadian Rugby Union - Fédération canadienne de Rugby (the Union), which comprise the non-consolidated statement of financial position as at December 31, 2019, and the non-consolidated statements of operations, changes in net deficiency and cash flows for the year then ended, and notes to the non-consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects, the financial position of Canadian Rugby Union - Fédération canadienne de Rugby as at December 31, 2019, 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 Non-Consolidated Financial Statements section of our report. We are independent of the Union 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.

Emphasis of Matter

Without modifying our opinion, we draw your attention to Note 2 in the non-consolidated financial statements, which indicates that the Union incurred a deficiency of revenues over expenses of \$41,336 during the year ended December 31, 2019 and an unrestricted net asset deficiency of \$1,077,468 at December 31, 2019. This condition along with the other matters as set forth in Note 2 indicate the existence of a material uncertainty that may cast significant doubt about the Union's ability to continue as a going concern.

Responsibilities of Management and Those Charged with Governance for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated 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 non-consolidated financial statements, management is responsible for assessing the Union'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 Union or to cease operations, or has no realistic alternative but to do so.

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



Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the non-consolidated 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 non-consolidated 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 non-consolidated 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 Union'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 Union'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 non-consolidated 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 Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-consolidated 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.

BDO Canada LLP

Chartered Professional Accountants

Ottawa, Ontario
July 22, 2020

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

December 31	2019	2018
Assets		
Current		
Cash	\$ 207,795	\$ 764,095
Cash - restricted (Note 11)	72,081	41,982
Temporary investments (Note 4)	106,822	115,123
Accounts receivable (Note 3)	826,396	927,242
Grants receivable	339,036	460,912
Inventories (Note 5)	179,918	265,496
Prepaid expenses	165,965	147,297
Due from controlled organizations (Note 16)	109,609	-
	2,007,622	2,722,147
Investments in controlled organizations (Note 16)	629,395	416,137
Tangible capital assets and leased tangible capital assets (Note 6)	8,254,702	8,610,202
	\$ 10,891,719	\$ 11,748,486
Liabilities and Net Deficiency		
Current		
Bank overdraft and line of credit (Note 7)	\$ 30,000	\$ -
Accounts payable and accrued liabilities (Note 8)	2,780,228	2,464,768
Deferred fees (Note 10)	857,886	1,034,167
Deferred contributions (Note 10)	855,180	1,601,426
Construction costs payable (Note 9)	591,923	591,923
Current portion of obligations under capital leases (Note 9)	136,142	128,407
Due to controlled organizations (Note 16)	20,108	35,939
	5,271,467	5,856,630
Note payable to City of Langford (Note 9)	1,050,467	1,021,000
Obligations under capital leases (Note 9)	1,670,840	1,822,841
Deferred contributions related to leased tangible capital assets (Note 11)	3,568,333	3,662,236
Deferred lease inducement (Note 12)	69,153	82,984
	11,630,260	12,445,691
Contractual obligations (Note 13)		
Contingencies (Note 14)		
Subsequent event (Note 15)		
Going concern (Note 2)		
Deficiency in net assets		
Contribution of land	290,206	290,206
Internally restricted (Note 19)	48,721	48,721
Unrestricted	(1,077,468)	(1,036,132)
	(738,541)	(697,205)
	\$ 10,891,719	\$ 11,748,486

On behalf of the board:


 _____ Director


 _____ Director

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

For the year ended December 31

	Unrestricted	Contribution of Land	Internally Restricted	2019	2018
Balance, beginning of the year	\$ (1,036,132)	\$ 290,206	\$ 48,721	\$ (697,205)	\$ (808,801)
Deficiency of revenues over expenses	(41,336)	-	-	(41,336)	(178,610)
Contribution of land	-	-	-	-	290,206
Balance, end of the year	\$ (1,077,468)	\$ 290,206	\$ 48,721	\$ (738,541)	\$ (697,205)

Canadian Rugby Union - Fédération canadienne de Rugby Non-Consolidated Statement of Operations

For the year ended December 31	2019	2018
Revenues		
External Funding		
World Rugby Limited	\$ 1,957,256	\$ 2,396,276
Sport Canada	2,430,540	2,505,495
Other Grants	419,357	588,764
	4,807,153	5,490,535
Membership		
National insurance	974,744	873,738
National registration	1,601,807	1,094,935
	2,576,551	1,968,673
Rugby Canada		
Amortization of contributions related to leased tangible capital assets (Note 11)	93,903	93,903
Cost recoveries	628,146	188,611
Domestic competitions	398,800	905,886
Donations	974,714	1,233,404
Fundraising	231,421	56,208
National teams	926,748	2,117,825
Other income	147,695	146,833
Sales of merchandise	616,357	731,606
Sponsorships	1,754,269	2,195,377
	5,772,053	7,669,653
Other		
Revenue from controlled organizations (Note 16)	1,753,155	1,549,564
	14,908,912	16,678,425
Expenses		
Accounting, legal and professional fees	216,693	193,631
Amortization of tangible capital assets and leased tangible capital assets	393,004	420,069
Domestic competitions	322,349	330,967
Donations	-	10,000
Exchange loss (gain)	51,534	(15,347)
National Training Centre	129,418	334,385
National insurance	607,471	581,612
National office and general administration	517,716	1,020,526
National registration	35	6,250
National teams	8,973,544	8,786,180
Marketing	256,583	571,304
Program development	70,730	-
Cost of sales (Note 5)	408,675	710,795
Interest and bank charges	126,329	146,485
Interest on obligations under capital leases	152,972	43,572
Staff salaries, benefits and commissions	1,202,189	2,395,433
Team costs	541,467	137,190
Travel	979,539	1,183,983
	14,950,248	16,857,035
Deficiency of revenues over expenses	\$ (41,336)	\$ (178,610)

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

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

For the year ended December 31	2019	2018
Cash flows from operating activities		
Deficiency of revenues over expenses	\$ (41,336)	\$ (178,610)
Items not affecting cash:		
Amortization of tangible capital assets	393,004	420,069
Amortization of deferred capital contributions	(93,903)	(93,903)
Unrealized foreign exchange loss (gain)	331,268	(236,454)
Amortization of deferred lease inducement	(13,831)	(13,831)
Revenue from controlled organizations	(1,588,258)	(1,331,670)
Accretion expense related to the obligations under capital lease	1,266	1,882
	<u>(1,011,790)</u>	<u>(1,432,517)</u>
Changes in non-cash working capital:		
Accounts receivable	(52,802)	347,326
Grants receivable	121,876	(353,897)
Inventories	85,578	76,439
Prepaid expenses	(18,668)	165,978
Accounts payable and accrued liabilities	264,587	884,437
Deferred fees	(176,281)	(473,276)
Deferred contributions	(746,246)	13,334
	<u>(1,533,746)</u>	<u>(772,176)</u>
Cash flows from investing activities		
(Increase) decrease in cash - restricted	(30,099)	187,008
Purchase of temporary investments	(106,822)	(115,123)
Redemption of temporary investments	115,123	170,792
Advances to controlled organizations	(109,609)	-
Acquisition of tangible capital assets	(37,504)	(57,968)
Distributions from controlled organizations	1,375,000	1,212,000
	<u>1,206,089</u>	<u>1,396,709</u>
Cash flows from financing activities		
Increase in bank overdraft and line of credit	30,000	-
Proceeds from note payable to the City of Langford	29,467	21,000
Repayments of obligations under capital lease	(145,532)	(99,766)
Repayments to controlled organizations	(15,831)	(185,687)
	<u>(101,896)</u>	<u>(264,453)</u>
Other activity		
Foreign exchange loss (gain) on cash held in foreign currency	(126,747)	93,550
Net (decrease) increase in cash	(556,300)	453,630
Cash, beginning of the year	<u>764,095</u>	<u>310,465</u>
Cash, end of year	<u>\$ 207,795</u>	<u>\$ 764,095</u>

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

Canadian Rugby Union - Fédération canadienne de Rugby

Notes to Non-Consolidated Financial Statements

December 31, 2019

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 Canadian Amateur Athletic Association 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 non-consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.
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. 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 share of income and losses of the controlled organizations computed by the consolidation method. Information regarding these controlled organizations is presented in Note 16.
Use of Estimates	The preparation of non-consolidated 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. The main estimates relate to the net realizable value of inventories, the estimated useful lives of tangible capital assets and leased capital assets and insurance claims payable included in accounts payable and accrued liabilities.
Revenue Recognition	<p>The Union follows the deferral method of accounting for external funding. Restricted contributions, which include grants, donations and fundraising for specific purposes, are recognized as revenue in the year in which the related expenses are incurred.</p> <p>Unrestricted contributions are recognized as revenue when they are received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.</p> <p>Contributions related to tangible capital assets are deferred and amortized on the same basis as the related tangible capital assets.</p> <p>National insurance and national registration are recognized as revenue proportionately over the year to which they relate.</p>

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

December 31, 2019

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.

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.

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 Non-Consolidated Financial Statements

December 31, 2019

1. Accounting Policies (continued)

Tangible Capital Assets	<p>Tangible capital assets are accounted for at cost and amortized over their useful lives using the following methods and annual rates or period:</p> <table><tr><td>Building</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>Leased 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>Leasehold improvements</td><td>straight-line basis over the term of the lease</td></tr></table>	Building	40 years straight-line	Computers	30% diminishing balance basis	Donated rugby equipment	20% diminishing balance basis	Leased 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	Leasehold improvements	straight-line basis over the term of the lease
Building	40 years straight-line																		
Computers	30% diminishing balance basis																		
Donated rugby equipment	20% diminishing balance basis																		
Leased 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																		
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 non-consolidated statement of operations.</p>																		
Leases	<p>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 and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments including any bargain purchase option and the property's fair value at the beginning of the lease. 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 over the term of the lease.</p>																		

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

December 31, 2019

2. Going Concern

These non-consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern in accordance with Canadian accounting standards for not-for-profit organizations, 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. If the going concern assumption were not appropriate for these non-consolidated financial statements then adjustments would be required to the carrying value of the assets and liabilities.

The Union has incurred a deficiency of revenue over expenses of \$41,336 and has a deficit in working capital and unrestricted net assets at December 31, 2019 in the amounts of \$3,263,845 and \$1,077,468 respectively. Preliminary operating results for the year ended December 31, 2020 indicate a further deficiency of revenue over expenses. As a result, there is material uncertainty that may cast significant doubt as to whether the Union will have the ability to continue as a going concern.

Prior to the events described in note 15 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 15 are expected to have a significant impact the Union's budget and cash flows. Management and the board of directors have begun planning reductions in operations, events and activities to further reduce expenses should various sources of revenue as described in Note 15 be reduced or eliminated as a result of COVID-19. Management has also prepared cash-flow projections to March 31, 2021.

In order to continue as a going concern, the Union will require a significant reduction in operating expenses and secure some additional funding from its two main external funders. Combined the funders have agreed to provide additional funding in the amount of \$1,200,000 for 2020.

3. Accounts Receivable

	2019	2018
Trade	\$ 606,334	\$ 921,093
Trade - controlled organizations	27,510	6,149
HST Receivable	211,000	-
Allowance for doubtful accounts	(18,448)	-
	<u>\$ 826,396</u>	<u>\$ 927,242</u>

4. Temporary Investments

Short-term investments are comprised of two non-redeemable guaranteed investment certificates held at a chartered bank with effective interest rates of 1.78% and 1.20%, maturing in December 2020. They are held as security for the Union's bank overdraft.

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

December 31, 2019

5. Inventories

	2019	2018
Retail merchandise and rugby equipment	\$ 157,783	\$ 241,227
Gift of kit	22,135	24,269
	\$ 179,918	\$ 265,496

The amount of inventories recognized as an expense during the year is \$950,281 (2018 - \$1,342,751). This expense has been recorded as cost of sales, national team and team expenses in the non-consolidated statement of operations.

6. Tangible Capital Assets and Leased Tangible Capital Assets

	2019		2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Operating				
Computers	\$ 255,605	\$ 196,980	\$ 218,099	\$ 171,855
Donated rugby equipment	254,245	167,513	254,245	145,829
Leased equipment	593,339	222,458	593,339	129,738
Office equipment	94,550	60,048	94,550	51,422
Office furniture	154,538	132,809	154,538	127,377
Software	232,490	176,266	232,490	152,170
Leased software	56,271	43,557	56,271	38,108
Leasehold improvements	240,882	183,408	240,882	159,319
National Training Centre				
Land	496,000	-	496,000	-
Building	7,431,391	371,570	7,431,391	185,785
	\$ 9,809,311	\$ 1,554,609	\$ 9,771,805	\$ 1,161,603
Net carrying amount		\$ 8,254,702		\$ 8,610,202

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

December 31, 2019

7. Bank Overdraft and Line of Credit

The Union has two operating lines with an authorized amount 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 4. At December 31, 2019, the Union had undrawn credit capacity of \$285,000 under both these facilities.

8. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are government remittances payable of \$29,607 (2018 - \$8,830). Also included in accounts payable and accrued liabilities is an amount payable in respect of the Players Legacy Fund in the amount of \$440,411 (2018 - \$194,404).

9. Obligations Under Capital Leases

	2019	2018
Royal Bank of Canada, with an implicit rate of 5.34%, due December 2022, payable by monthly instalments of \$10,320, principal and interest.	\$ 345,515	\$ 450,147
City of Langford, 5.20%, due December 2033, payable by monthly instalments of \$8,333 principal and interest, and a purchase option of \$1,000,000 at the end of the lease term.	1,461,467	1,501,101
	1,806,982	1,951,248
Less: principal portion due within one year	136,142	128,407
	\$ 1,670,840	\$ 1,822,841

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

December 31, 2019

9. Obligation Under Capital Leases (continued)

Minimum lease payments required under capital leases are as follows:

2020	\$ 223,836
2021	223,836
2022	223,836
2023	99,996
2024	99,996
Thereafter	<u>999,960</u>
	1,871,460
Less: interest included in payments	<u>64,478</u>
	<u>\$ 1,806,982</u>

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

Under the Agreement, the City constructed the 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.

The Union has financed the Facility as follows:

- A contribution from Economic Development Agency Canada in the amount of \$2,935,250;
- a contribution from the City in the amount of \$1,111,095;
- a loan payable to the City in the amount of \$1,000,000;
- lease payments of \$100,000 a year until 2033, payable to the City,
- payments by the Union in the amount of \$789,904; and
- construction costs payable to the City in the amount of \$591,923.

The loan payable to the City has a first extended due date of August 31, 2021. In the event that the loan is not paid by the first extended due date, the due date will be further extended to August 31, 2022. Interest on any outstanding principal and interest accrues at a rate of 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 Non-Consolidated Financial Statements

December 31, 2019

10. Deferred Fees and Contributions

Deferred fees and contributions represent funds received to cover operating expenses in the subsequent year. The balance is comprised of the following:

	2019	2018
Deferred fees		
Dues and insurance from players	\$ 796,886	\$ 634,500
Sponsorships	61,000	399,667
	<u>\$ 857,886</u>	<u>\$ 1,034,167</u>

	2018	Received in the year	Recognized as revenue	2019
Deferred contributions				
Sport Canada	\$ 687,649	\$1,742,891	\$(2,430,540)	\$ -
World Rugby Limited	-	2,267,763	(1,957,256)	310,507
Other contributions	38,750	418,300	(336,604)	120,446
Restricted donations	875,027	20,000	(470,800)	424,227
	<u>\$1,601,426</u>	<u>\$4,448,954</u>	<u>\$(5,195,200)</u>	<u>\$ 855,180</u>

11. Deferred Contributions Related to Leased Tangible Capital Assets

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

	2019	2018
Balance, beginning of the year	\$ 3,662,236	\$ 3,747,999
Plus: amount received during the year	-	8,140
Less: amount amortized to operations	(93,903)	(93,903)
Balance, end of the year	<u>\$ 3,568,333</u>	<u>\$ 3,662,236</u>

The capital campaign donations received which are not yet spent in the amount of \$72,081 (2018 - \$41,982) have been reflected as restricted cash in the non-consolidated statement of financial position.

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

December 31, 2019

12. 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 in the amount of \$13,831 (2018 - \$13,831) .

13. Contractual Obligations

In addition to the obligations under capital lease disclosed in note 9, the Union has two operating leases for its premises at \$12,437 and \$8,500 per month, ending in September 2024 and June 2020 respectively. The Union also has operating leases for various office equipment expiring, at the latest, in February 2021. Future minimum lease payments as follows:

2020	\$	205,119
2021	\$	153,199
2022	\$	155,862
2023	\$	156,058
2024	\$	117,544
Thereafter	\$	<u>6,000</u>
	\$	<u>793,782</u>

In 2019, the Union subleased one of the premises for annual lease payments of \$120,080 until May 2021, increasing to \$122,784 from June 2021 to May 2023 and increasing to \$128,193 from June 2023 to September 2024.

The Union also entered into a supply agreement for technical kits and merchandise expiring December 31, 2029 which requires that the Union spend an annual minimum amount of \$325,000 for the purchase of merchandise and other supplies starting in 2022. If the Union does not meet its obligation for minimum spending, then 50% of the difference between the amount purchased and the minimum obligation is owed to the supplier.

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14. 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, 2019 of \$148,534 (2018 - \$250,000) 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.

15. Subsequent Event

Subsequent to the year-end, the impact of COVID-19 in Canada and on the global economy increased significantly. Because of the pandemic and the health risks associated with the virus, the 2020 rugby playing season was suspended for a period of approximately three months which resulted in significant impact on the Union's operations.

This will have a significant impact on the revenues of the Union including grants, membership, domestic competition, donations, fundraising, international event, national teams sale of merchandise and sponsorship revenue. The grants from Sport Canada and World Rugby Limited have been amended to reflect additional support to the Union for the 2020 fiscal year as indicated at Note 2.

In addition, if the impact of COVID-19 continues, there could be further effects on the Union, its funders, members, employees, suppliers, donors and sponsors that could impact the timing and amounts of revenue generated, the ability of the Union to conduct operations and host events, including the Sevens tournaments managed by the Canada Men's International Sevens Limited Partnership and Canada Women's International Sevens Limited Partnership, which are a significant source of revenue for the Union. At this time, the full potential impact of COVID-19 on the Union is not known.

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16. 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), were created to manage the activities of the World Rugby Sevens Series and 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.

	2019	2018
Investments in Controlled Organizations		
Canada International Sevens GP Ltd.	\$ 1	\$ 4
Canada Men's International Sevens Limited Partnership	711,742	475,828
Canada Women's International Sevens Limited Partnership	(82,348)	(59,695)
	\$ 629,395	\$ 416,137
Due from Controlled Organizations		
Canada Men's International Sevens Limited Partnership	\$ 109,609	\$ -
Due to Controlled Organizations		
Canada Men's International Sevens Limited Partnership	\$ -	\$ 2,604
Canada Women's International Sevens Limited Partnership	20,108	33,335
	\$ 20,108	\$ 35,939

The amounts due from (to) the controlled organizations are unsecured, interest free with no specified terms of repayment.

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

Summarized financial information relating to controlled organizations is as follows:

	CISGP	Canada Men's	Canada Women's
June 30, 2019			
Total assets	\$ 1	\$ 1,542,350	\$ 483,598
Total liabilities	-	830,603	565,950
Partners'/shareholder's equity (deficit)	\$ 1	\$ 711,747	\$ (82,352)
June 30, 2018			
Total assets	\$ 4	\$ 1,289,691	\$ 520,668
Total liabilities	-	813,859	580,365
Partners'/shareholder's equity (deficit)	\$ 4	\$ 475,832	\$ (59,697)

The results of operations are as follows:

	CISGP	Canada Men's	Canada Women's
For the year ended June 30, 2019			
Total revenue	\$ (3)	\$ 6,965,101	\$ 857,261
Total expenses	-	5,354,186	879,916
Net income (loss)	\$ (3)	\$ 1,610,915	\$ (22,655)
For the year ended June 30, 2018			
Total revenue	\$ 1	\$ 6,868,125	\$ 882,311
Total expenses	-	5,478,060	920,412
Net income (loss)	\$ 1	\$ 1,390,065	\$ (38,101)

Cash flows are as follows:

	CISGP	Canada Men's	Canada Women's
For the year ended June 30, 2019			
Operating activities	\$ -	\$ 1,352,351	\$ (2,601)
Investing activities	-	(106,899)	-
Financing activities	-	(1,163,060)	137,021
Net cash flows	\$ -	\$ 82,392	\$ 134,420

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

	CISGP	Canada Men's	Canada Women's
For the year ended June 30, 2018			
Operating activities	\$ -	\$ 1,901,947	\$ (107,012)
Investing activities	-	(264,601)	-
Financing activities	-	(2,021,848)	108,563
Net cash flows	<u>\$ -</u>	<u>\$ (384,502)</u>	<u>\$ 1,551</u>

The Union's investment in CISGP, Canada Men's and Canada Women's are disclosed in these non-consolidated financial statements using financial information prepared as of June 30, 2019, covering the year from July 1, 2018 to June 30, 2019.

As the fiscal years of the Union and CISGP, Canada Men's and Canada Women's are not coterminous, significant financial transactions that occurred during the intervening period would be disclosed. However, the results for the period from July 1 to December 31 2019 are not recorded in these non-consolidated financial statements as they are not significant to the Union's operations due to the timing of the events in March.

During the year, the Union Union incurred total costs of \$488,067 (2018 - \$283,292) and \$73,977 (2018 - \$158,101) for salaries, benefits and other expenses on behalf of the Canada Men's and Canada Women's, respectively, which were subsequently reimbursed. The Union received cash disbursements of \$1,375,000 (2018 - \$1,212,000) from the Canada Men's, \$nil (2018 - \$10,000) and \$5,000 (2018 - \$143,000) for grants and other revenue which were received by the Union on behalf of the Canada Men's and Canada Women's, respectively which were subsequently paid to the relevant organization. The Union also received \$169,000 (2018 - \$340,000) for event sponsorships from the Canada Men's and paid \$nil (2018 - \$12,706) to the Canada Women's for ticket purchases. These revenue amounts have been eliminated from the non-consolidated statement of operations under the consolidation method of accounting for the Union's share of income.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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17. Statement of Cash Flows

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statement of cash flows. The following summarizes significant non-cash transactions during the year:

	2019	2018
Acquisition of tangible capital assets	\$ -	\$ (659,698)
Decrease in construction costs payable	\$ -	\$ (451,397)
Increase in deferred contributions	\$ -	\$ 820,889
Increase in deficit	\$ -	\$ 290,206

18. Financial Instruments

Liquidity risk

The Union is exposed to this risk mainly in respect of the accounts payable and accrued liabilities and the construction costs payable.

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 13% of the Union's revenues are in foreign currency. Consequently, some assets are exposed to foreign exchange fluctuations. As at December 31, 2019, cash, accounts receivable and accounts payable of £nil, £35,360 and £22,633 respectively (2018 - £172,967, £221,675 and £37,838 respectively) are denominated in Great Britain Pounds and converted into Canadian dollars. As at December 31, 2019, cash, accounts receivable and accounts payable of \$24,984, \$19,023 and \$191,939 respectively (2018 - \$27,003, \$107,688 and \$28,701 respectively) are denominated in US dollars and converted into Canadian dollars.

Subsequent to year end, the risk on financial instruments increased as a result of the Covid-19 pandemic.

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19. 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, 2019 cash of \$17,251 has been restricted in a separate bank account.

20. Comparative Information

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