

Canadian Rugby Union - Fédération canadienne de Rugby Financial Statements

For the year ended December 31, 2014

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Canadian Rugby Union - Fédération canadienne de Rugby, which comprise the statement of financial position as at December 31, 2014, and the statements of operations, changes in net deficiency and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.



Basis for Qualified Opinion

In common with many charitable organizations, the Union derives revenue from donations, fundraising activities, events and competitions, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Union. Therefore, we were not able to determine whether any adjustments might be necessary to these revenues, excess (deficiency) of revenues over expenses and cash flows from operations for the years ended December 31, 2014 and 2013, current assets as at December 31, 2014 and 2013 and net deficiency as at January 1 and December 31 for both the 2014 and 2013 years. Our audit opinion on the financial statements for the year ended December 31, 2013 was modified accordingly because of the possible effects of this limitation in scope.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Canadian Rugby Union - Fédération canadienne de Rugby as at December 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Supplementary Financial Information

Our audit was performed to form an opinion on the financial statements of Canadian Rugby Union - Fédération canadienne de Rugby as a whole. The supplementary financial information included in Schedule 1 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such supplementary information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves.

A handwritten signature in black ink that reads "BDO Canada LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Ontario
April 22, 2015

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

December 31	2014	2013
Assets		
Current		
Cash	\$ -	\$ 8,784
Temporary investments (Note 2)	170,792	170,792
Accounts receivable	710,325	484,628
Grants receivable	208,360	124,778
Inventories (Note 3)	419,297	358,759
Prepaid expenses	441,475	285,822
	<u>1,950,249</u>	<u>1,433,563</u>
Tangible capital assets and assets under capital leases (Note 4)	422,159	370,390
	<u>\$2,372,408</u>	<u>\$ 1,803,953</u>
Liabilities and Net Deficiency		
Current		
Bank overdraft (Note 5)	\$ 299,689	\$ -
Demand loan (Note 6)	139,604	271,580
Accounts payable and accrued liabilities (Note 7)	1,024,821	847,676
Deferred fees and contributions (Note 9)	1,241,979	1,047,815
Current portion of obligations under capital leases (Note 8)	29,454	6,812
	<u>2,735,547</u>	<u>2,173,883</u>
Obligations under capital leases (Note 8)	19,319	8,716
Deferred lease inducement (Note 10)	138,306	125,233
	<u>2,893,172</u>	<u>2,307,832</u>
Contractual obligations (Note 11)		
Contingencies (Note 12)		
Subsequent event (Note 13)		
Net Deficiency		
Internally restricted (Note 15)	150,884	173,701
Unrestricted	(671,648)	(677,580)
	<u>(520,764)</u>	<u>(503,879)</u>
	<u>\$2,372,408</u>	<u>\$ 1,803,953</u>

On behalf of the board:

 _____ Director

 _____ Director

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

<u>For the year ended December 31</u>	<u>Unrestricted</u>	<u>Internally Restricted</u>	<u>2014</u>	<u>2013</u>
Balance, beginning of the year	\$ (677,580)	\$ 173,701	\$ (503,879)	\$ (400,146)
Excess (deficiency) of revenues over expenses	5,932	(22,817)	(16,885)	(103,733)
Balance, end of the year	\$ (671,648)	\$ 150,884	\$ (520,764)	\$ (503,879)

The notes are an integral part of these financial statements.

Canadian Rugby Union - Fédération canadienne de Rugby Statement of Operations

For the year ended December 31	2014	2013
Revenues		
External Funding		
World Rugby Limited	\$ 2,888,344	\$ 2,557,892
Sport Canada	3,020,018	2,552,446
	5,908,362	5,110,338
Membership		
National insurance	762,667	882,207
National registration	889,864	908,600
	1,652,531	1,790,807
Rugby Canada		
Sponsorships	779,208	793,767
Fundraising	366,089	402,246
Donations	1,091,519	830,463
Domestic competitions	413,603	152,589
International events	1,132,363	2,190,923
National teams	877,035	1,190,315
Development - coaching & refereeing	20,475	78,924
Sales of merchandise	510,192	562,579
Other income	85,773	200,867
	5,276,257	6,402,673
	12,837,150	13,303,818
Expenses		
Accounting, legal and professional fees	469,323	382,913
Amortization of tangible capital assets and leased tangible capital assets	93,474	85,882
Bad debts	1,425	4,669
Board of directors and planning meetings	207,590	227,393
Domestic competitions	616,702	360,126
Donations	750,639	626,590
Fundraising	232,821	215,793
International events	1,421,605	2,524,615
National insurance	580,215	743,471
National office and general administration	878,067	726,107
National registration	26,462	35,941
National teams	5,204,858	5,213,022
Marketing	521,310	554,840
Program development	317,135	281,606
Purchase of merchandise items	305,338	317,718
Short-term interest, bank charges and exchange rate	54,211	77,624
Staff salaries, benefits and commissions	1,114,692	1,029,241
	12,795,867	13,407,551
Excess (deficiency) of revenues over expenses before player injury settlement	41,283	(103,733)
Player injury settlement (Note 15)	58,168	-
Deficiency of revenues over expenses	\$ (16,885)	\$ (103,733)

The notes are an integral part of these financial statements.

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

For the year ended December 31	2014	2013
Cash flows from operating activities		
Cash receipts from funders, members, clients and donors	\$ 12,733,684	\$ 13,403,196
Cash paid to suppliers and employees	(12,743,972)	(13,207,676)
Short-term interest and bank charges paid	(50,602)	(98,497)
	(60,890)	97,023
Cash flows from investing activities		
Acquisition of tangible capital assets	(88,971)	(32,701)
Cash flows from financing activities		
Repayment of capital lease	(23,027)	(5,052)
Repayment of demand loan	(131,976)	(179,292)
	(155,003)	(184,344)
Other activity		
Foreign exchange (loss) gain on cash held in foreign currency	(3,609)	20,872
Net decrease in cash	(308,473)	(99,150)
Cash, beginning of the year	8,784	107,934
(Bank overdraft) cash, end of year	\$ (299,689)	\$ 8,784

Canadian Rugby Union - Fédération canadienne de Rugby

Notes to Financial Statements

December 31, 2014

1. Accounting Policies

Status and Purpose of Organization	Canadian Rugby Union - Fédération canadienne de Rugby 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	The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.
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. The main estimates relate to the net realizable value of inventories and the estimated useful life of tangible capital assets and assets under capital leases.
Revenue Recognition	<p>The Union follows the deferral method of accounting for external funding. Restricted revenue is recognized as revenue in the year in which the related expenses are incurred. Unrestricted revenue is 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>National insurance and national registration are recognized as revenue proportionately over the year to which they relate.</p> <p>International events, domestic competitions, sponsorships and other income are recognized when the event occurs.</p> <p>Donation and fundraising revenues are recognized when the amounts are received.</p> <p>Revenue from sales of merchandise is recognized when the goods have been transferred and collection is reasonable assured.</p> <p>National team revenue is comprised of external funding, national registration, sponsorships, other income and donations. These amounts are recognized in accordance with the respective policies.</p>
Inventories	Inventories are measured at the lower of cost and net realizable value. The cost is determined using the first-in, first-out method.

Canadian Rugby Union - Fédération canadienne de Rugby

Notes to Financial Statements

December 31, 2014

1. Accounting Policies (continued)

Financial Instruments	<p><u>Initial and subsequent measurement</u> The Union initially measures its financial assets and liabilities at fair value. The Union subsequently measures all its financial assets and financial liabilities at amortized cost.</p> <p>The financial instruments measured at amortized cost are temporary investments, trade and other receivables, grants receivable, bank overdraft, demand loan and accounts payable and accrued liabilities.</p> <p><u>Impairment</u> Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment.</p> <p><u>Transaction costs</u> 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 statement of operations over the life of the instrument using the straight-line method.</p>														
Tangible Capital Assets	<p>Tangible capital assets are accounted for at cost and amortized on the basis of their useful lives using the following methods and annual rates or period:</p> <table border="0" style="margin-left: 40px;"> <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>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>	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	Vehicle	30% diminishing balance basis	Leasehold improvements	straight-line basis over the term of the lease
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														
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 which 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.</p>														
Deferred Lease Inducement	<p>The lease inducement, which is recorded as a reduction to rent expense in National office and general administration, is deferred and amortized over the term of the lease.</p>														

Canadian Rugby Union - Fédération canadienne de Rugby

Notes to Financial Statements

December 31, 2014

1. Accounting Policies (continued)

Foreign Currency Transactions	The Union uses the temporal method to translate its foreign currency transactions. Monetary assets and liabilities 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.
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 and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. Assets under capital leases are stated at cost less accumulated amortization. They are amortized on a 20% diminishing balance basis. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

2. Temporary Investments

Short-term investments are comprised of cash balance of \$68,997 and two redeemable guaranteed investment certificates held at a chartered bank with effective interest rates of 0.15%, maturing in December 2015. They were purchased with donated funds from a previous year and are held as security for the Union's bank overdraft.

3. Inventories

	<u>2014</u>	<u>2013</u>
Merchandise and Rugby Equipment	\$ 349,584	\$ 260,721
Gift of Kit	69,713	98,038
	<u>\$ 419,297</u>	<u>\$ 358,759</u>

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

December 31, 2014

4. Tangible Capital Assets and Assets Under Capital Leases

	2014		2013	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computers	\$ 140,466	\$ 93,102	\$ 119,781	\$ 72,804
Donated rugby equipment	88,407	41,833	80,767	30,189
Office equipment	45,983	33,351	44,936	30,194
Office furniture	149,967	92,585	127,912	78,239
Software	100,801	83,387	100,801	75,923
Vehicle	12,848	9,763	12,848	8,441
Leasehold improvements	240,882	60,689	203,338	40,668
Leased equipment	20,581	8,084	20,581	4,116
Leased software	56,272	11,254	-	-
	<u>\$ 856,207</u>	<u>\$ 434,048</u>	<u>\$ 710,964</u>	<u>\$ 340,574</u>
Net carrying amount		<u>\$ 422,159</u>		<u>\$ 370,390</u>

During the year, the Union acquired software under a capital lease. This software was recorded initially in the financial statements at its fair value of \$56,272.

5. Bank Overdraft

The Union has two operating loans with authorized amounts of \$150,000 and \$165,000 that are both 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 2. At December 31, 2014, the Union had undrawn credit capacity under these facilities of \$20,000 and \$3,877 respectively.

6. Demand loan

Non-Revolving, prime rate plus 1%, payable by monthly instalments of \$10,998, principal plus interest, secured by a guarantee of \$586,000 issued by IRB Services (Ireland) Limited.

2014	2013
<u>\$ 139,604</u>	<u>\$ 271,580</u>

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

December 31, 2014

7. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are government remittances payable of \$27,090 (2013 - \$16,503).

8. Obligations Under Capital Leases

	2014	2013
Equipment		
2.08%, due March 2016, payable by monthly instalments of \$589, principal and interest.	\$ 8,716	\$ 15,528
Software		
4.56%, due September 2016, payable by monthly instalments of \$1,988, principal and interest.	40,057	-
	48,773	15,528
Less: principal portion due within one year	29,454	6,812
	\$ 19,319	\$ 8,716

Future minimum lease payments over the next two years are as follows:

2015	\$ 30,928
2016	19,661
	50,589
Less: interest	1,816
	\$ 48,773

Canadian Rugby Union - Fédération canadienne de Rugby

Notes to Financial Statements

December 31, 2014

9. Deferred Fees and Contributions

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

	2014	2013
Dues and insurance from players	\$ 535,215	\$ 566,523
Government of Canada	-	55,001
World Rugby Limited	43,938	30,281
UnderArmour sponsorship - gift of kit	69,713	-
Gilbert sponsorship - gift of kit	-	83,462
World Cup Legacy Fund	322,545	260,399
Other programs and events	270,568	52,149
	\$ 1,241,979	\$ 1,047,815

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 a reduction in rent expense (2014 - \$16,404; 2013 - \$15,654).

11. Contractual Obligations

The Union has two operating leases for its premises at \$11,730 and \$8,667 per month, expiring in September 2024 and December 2026 respectively. The Union also has operating leases for its vehicles and different office equipment expiring, at the latest, in January 2019. Future minimum lease payments total \$2,698,261 and include the following payments over the next five years:

2015	\$	293,264
2016	\$	287,955
2017	\$	253,519
2018	\$	251,386
2019	\$	247,383

Canadian Rugby Union - Fédération canadienne de Rugby

Notes to Financial Statements

December 31, 2014

12. Contingencies

Rugby Canada 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 is confident that any resulting settlement will be covered under the terms of the insurance coverage in place for the Union.

13. Subsequent Event

Subsequent to the year end, the Union established the Canada Men's International Sevens Limited Partnership and the Canada Women's International Sevens Limited Partnership for the activities of the men's and women's Sevens World Rugby Cup. The Union received 100% of the limited partnership units. The Union also received 100% of the general partnership units through Canada International Sevens GP Ltd. of which it purchased 100 Class A common shares of the Canada International Sevens GP Ltd. for consideration of \$100.

As the Union controls both limited partnerships, they will be accounted for on a consolidated basis in the Union's financial statements in the future.

The Union has entered into an agreement with IB Tournaments Limited, a wholly-owned subsidiary of World Rugby to receive an aggregate performance fee of £745,000 and an aggregate hosting fee of £1,235,000 in respect of the series commencing in 2015/2016 season and ending in the 2017/2018 season. The amounts will be distributed annually according to the agreed upon schedule, provided the Union meets the required key performance indicators for the performance fee.

14. Financial Instruments

Liquidity risk

The Union is exposed to this risk mainly in respect of the bank overdraft, demand loan and the accounts payable and accrued liabilities.

The Union's operations and cash flows are cyclical in nature and as such after year end, current assets increased significantly thereby eliminating the liquidity risk. When it is required, the Union manages its liquidity risk by constantly monitoring forecasted and actual cash flows and financial liability maturities, and by holding assets that can be readily converted into cash.

Credit risk

The Union is exposed to credit risk for its trade and grants receivable. The majority of the Union's receivables are from government sources and provincial Unions. The Union works to ensure they 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.

Canadian Rugby Union - Fédération canadienne de Rugby

Notes to Financial Statements

December 31, 2014

14. Financial Instruments (continued)

Currency risk

Approximately 22% of the Union's activities are in foreign currency. Consequently, some assets are exposed to foreign exchange fluctuations. As at December 31, 2014, cash of \$- (2013 - \$16,795) are denominated in Great Britain Pounds and converted into Canadian dollars.

Interest rate risk

The Union is exposed to interest rate risk on its bank overdraft and demand loan since it is subject to a variable interest rate. Variable rate instruments subject the Union to a related cash flow risk.

15. Internally Restricted Net Assets

The Board of Directors of the Union and member 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 net assets have been established based on half the surplus from the insurance program with the member unions.

In 2014, the Board of Directors approved that expenses totalling \$111,750 should be reflected in the insurance program surplus calculation. They were allocated as follows: \$50,000 to the Senior Women's Fifteen, \$25,000 to the Centre of Excellence and \$36,750 to Community Rugby. These expenses correspond to the decrease in National insurance expense due to cost savings.

In 2014, two incidents occurred for which the insurance company denied coverage under the insurance policy. The amount of \$58,168 was incurred by the Union to cover the cost of the injured athletes.

Canadian Rugby Union - Fédération canadienne de Rugby
Schedule 1 - National Teams (unaudited)

For the year ended December 31

	NSMT	NSM7's	U20M	U18M	U17M	NSWT	NSW7's	U20W	COE	2014	2013
Revenues											
Grant / donation	\$ -	\$ 9,100	\$ -	\$ 24,509	\$ 540	\$ 62,997	\$ 7,954	\$ -	\$ -	\$ 105,100	\$ 107,556
Players World Cup and Olympic Legacy Fund	-	21,600	-	34,506	23,483	3,061	-	51,683	-	134,333	320,404
Sponsorship and other	-	-	75,000	-	-	174,000	-	-	-	249,000	303,000
	224,000	41,362	(67)	1,550	500	84,302	24,926	-	12,029	388,602	459,355
	224,000	72,062	74,933	60,565	24,523	324,360	32,880	51,683	12,029	877,035	1,190,315
Expenses											
Payroll & administration	664,000	340,524	68,485	-	-	12,254	571,188	-	15,556	1,672,007	1,290,199
Program costs	942,437	786,496	183,751	60,565	24,523	362,106	985,494	51,683	135,796	3,532,851	3,922,823
	1,606,437	1,127,020	252,236	60,565	24,523	374,360	1,556,682	51,683	151,352	5,204,858	5,213,022
Shortfall	\$ (1,382,437)	\$ (1,054,958)	\$ (177,303)	\$ -	\$ -	\$ (50,000)	\$ (1,523,802)	\$ -	\$ (139,323)	\$ (4,327,823)	\$ (4,022,707)
Shortfall funding sources											
World Rugby Limited	\$ 1,100,653	\$ 240,091	\$ 185,167	\$ -	\$ -	\$ -	\$ 82,886	\$ -	\$ 68,004	\$ 1,676,801	\$ 1,460,781
Sport Canada	510,972	762,332	12,676	-	-	-	1,444,764	-	-	2,730,744	2,195,459
Rugby Canada	(229,188)	52,535	(20,540)	-	-	50,000	(3,848)	-	71,319	(79,722)	366,467
	\$ 1,382,437	\$ 1,054,958	\$ 177,303	\$ -	\$ -	\$ 50,000	\$ 1,523,802	\$ -	\$ 139,323	\$ 4,327,823	\$ 4,022,707

The full team names are as follows:

- NSMT - Senior Men's Fifteen, includes HP Central
- NSM7's - Senior Men's Sevens
- U20M - Under 20 Men
- U18M - Under 18 Men
- U17M - Under 17 Men
- NSWT - Senior Women's Fifteen
- NSW7's - Senior Women's Sevens
- U20W - Under 20 Women
- COE - Centre of Excellence