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Consolidated financial statements of  
The Royal Canadian  
Geographical Society -  
La Société Géographique  
Royale du Canada

June 30, 2018

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## Independent Auditor's Report

To the Members of  
The Royal Canadian Geographical Society -  
La Société Géographique Royale du Canada

We have audited the accompanying consolidated financial statements of The Royal Canadian Geographical Society - La Société Géographique Royale du Canada (the "Society"), which comprise the consolidated balance sheet as at June 30, 2018, and the consolidated statements of revenue and expenses, changes in net assets (deficiencies) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Society as at June 30, 2018 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.



**The Royal Canadian Geographical Society -  
La Société Géographique Royale du Canada**  
**Consolidated statement of revenue and expenses**  
Year ended June 30, 2018

	<b>2018</b>	2017
	\$	\$
<b>Revenue</b>		
Donations	<b>1,324,065</b>	873,703
Education	<b>58,158</b>	135,611
RCGS/NGS Canadian Geography Education Fund		
Investment earnings	<b>215,271</b>	124,160
Unrealized gain on foreign exchange	<b>14,508</b>	4,564
Magazine		
Circulation	<b>1,871,930</b>	1,944,941
Advertising	<b>498,153</b>	643,342
Canadian Periodical Fund	<b>729,515</b>	720,145
Custom publishing	<b>3,896,217</b>	3,960,680
Fundraising events	<b>350,216</b>	254,075
Other	<b>45,490</b>	30,945
50 Sussex Drive Inc. events revenue	<b>46,843</b>	—
	<b>9,050,366</b>	8,692,166
<b>Expenses</b>		
Fundraising	<b>191,846</b>	168,351
Programs	<b>273,718</b>	228,279
Magazine		
Circulation	<b>1,103,012</b>	1,210,383
Advertising	<b>150,238</b>	177,189
Editorial	<b>317,719</b>	362,341
Production	<b>1,049,722</b>	1,307,038
New media/internet	<b>163,985</b>	203,633
Custom publishing	<b>3,266,161</b>	2,672,544
Administration	<b>1,344,227</b>	1,028,952
Events	<b>213,520</b>	191,493
Rent and occupancy costs	<b>374,406</b>	315,551
Interest	<b>2,329</b>	25
Amortization of capital assets	<b>20,027</b>	24,293
50 Sussex Drive Inc. expenses	<b>215,285</b>	6,000
	<b>8,686,195</b>	7,896,072
<b>Excess of revenue over expenses</b>	<b>364,171</b>	796,094

The accompanying notes are an integral part of the consolidated financial statements.

**The Royal Canadian Geographical Society -  
La Société Géographique Royale du Canada**  
**Consolidated balance sheet**

As at June 30, 2018

	Notes	2018	2017
		\$	\$
<b>Assets</b>			
Current assets			
Short-term assets			
Cash		<b>692,217</b>	1,174,721
Investments	3	<b>114,406</b>	75,611
Accounts and interest receivable		<b>1,025,881</b>	1,327,827
Loan to Lattitude	4	<b>65,000</b>	50,000
Government remittances receivable		<b>118,673</b>	14,790
Prepaid expenses		<b>416,244</b>	378,603
		<b>2,432,421</b>	3,021,552
Education fund	5	<b>1,151,216</b>	985,727
Investment in Lattitude		<b>1</b>	1
Capital assets	6	<b>528,663</b>	41,840
		<b>4,112,301</b>	4,049,120
<b>Liabilities</b>			
Current liabilities			
Short-term liabilities			
Accounts payable and accrued liabilities		<b>1,750,837</b>	1,318,511
Deferred circulation revenue - current portion		<b>1,028,747</b>	1,088,301
Deferred revenue (custom publishing)		<b>555,458</b>	1,123,955
		<b>3,335,042</b>	3,530,767
Deferred circulation revenue		<b>245,252</b>	350,517
		<b>3,580,294</b>	3,881,284
Commitments and contingencies	8		
<b>Net assets (deficiencies)</b>			
Internally restricted for investment in RCGS/NGS			
Canadian Geography Education Fund	5	<b>1,151,216</b>	985,727
Invested in capital assets		<b>528,663</b>	41,840
Internally restricted		<b>114,406</b>	100,611
Unrestricted deficiency		<b>(1,262,278)</b>	(960,342)
		<b>532,007</b>	167,836
		<b>4,112,301</b>	4,049,120

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board

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, Governor

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, Governor

**The Royal Canadian Geographical Society -  
La Société Géographique Royale du Canada**  
**Consolidated statement of changes in net assets (deficiencies)**  
Year ended June 30, 2018

	Notes	<b>Internally restricted for investment in RCGS/NGS Canadian Geography Education Fund</b>	<b>Internally restricted</b>	<b>Invested in capital assets</b>	<b>Unrestricted</b>	<b>Total 2018</b>	<b>Total 2017</b>
		\$	\$	\$	\$	\$	\$
Balance, beginning of year		<b>985,727</b>	<b>100,611</b>	<b>41,840</b>	<b>(960,342)</b>	<b>167,836</b>	(628,258)
Excess of revenue over expenses		—	—	—	<b>364,171</b>	<b>364,171</b>	796,094
Internal restriction	12	—	<b>13,795</b>	—	<b>(13,795)</b>	—	—
Purchase of capital assets		—	—	<b>373,400</b>	<b>(373,400)</b>	—	—
Contributed capital assets	6	—	—	<b>133,450</b>	<b>(133,450)</b>	—	—
Amortization of capital assets		—	—	<b>(20,027)</b>	<b>20,027</b>	—	—
Increase in RCGS/NGS Canadian Geography Education Fund	5	<b>165,489</b>	—	—	<b>(165,489)</b>	—	—
<b>Balance, end of year</b>		<b>1,151,216</b>	<b>114,406</b>	<b>528,663</b>	<b>(1,262,278)</b>	<b>532,007</b>	<b>167,836</b>

The accompanying notes are an integral part of the consolidated financial statements.

**The Royal Canadian Geographical Society -  
La Société Géographique Royale du Canada**  
**Consolidated statement of cash flows**  
Year ended June 30, 2018

	Notes	<b>2018</b>	2017
		\$	\$
<b>Operating activities</b>			
Excess of revenue over expenses		<b>364,171</b>	796,094
Items not affecting cash			
RCGS/NGS Canadian Geography Fund investment earnings	5	<b>(183,126)</b>	(54,372)
Unrealized gain on foreign exchange	5	<b>(14,508)</b>	(4,564)
Amortization of capital assets		<b>20,027</b>	24,293
Contributed works of art and historical treasures	6	<b>(133,450)</b>	—
		<b>53,114</b>	761,451
Changes in non-cash operating working capital items	10	<b>(140,568)</b>	20,931
		<b>(87,454)</b>	782,382
<b>Investing activities</b>			
Purchase of capital assets		<b>(373,400)</b>	(21,896)
RCGS/NGS Canadian Geography Education Fund			
Payout to the Society	5	<b>64,290</b>	139,574
Distribution from the Society	5	<b>(32,145)</b>	(69,787)
Net (increase)/decrease in short-term investments		<b>(38,795)</b>	356,359
Net increase in loan to Lattitude		<b>(15,000)</b>	(50,000)
Net increase in long-term investments		—	(1)
		<b>(395,050)</b>	354,249
Net (decrease)/increase in cash		<b>(482,504)</b>	1,136,631
Cash, beginning of year		<b>1,174,721</b>	38,090
<b>Cash, end of year</b>		<b>692,217</b>	1,174,721

The accompanying notes are an integral part of the consolidated financial statements.

## **1. Activities of the corporation**

The Royal Canadian Geographical Society - La Société Géographique Royale du Canada (the "Society" or "RCGS") is incorporated without share capital under Part II of the Canada Corporations Act. It is a registered charitable educational organization devoted to advancing geographical knowledge and disseminating information on the geography, resources, and people of Canada. The Society controls Canadian Geographic Enterprises (CGE) which operates the Canadian Geographic magazine and its related websites. The Society also controls 50 Sussex Drive Inc., a fully owned subsidiary. 1694144 Ontario Inc. changed its name to 50 Sussex Drive Inc. during the year.

As a registered charity, the Society is exempt from income taxes.

## **2. Significant accounting policies**

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

### *Basis of presentation*

The Society consolidates CGE and 50 Sussex Drive Inc. and presents its financial statements on a consolidated basis. Inter-entity transactions are eliminated. 50 Sussex Drive Inc. has a 50% joint interest in Lattitude, a for-profit corporation. 50 Sussex Drive Inc. accounts for this investment using the cost method.

### *Foreign currency translation*

Financial assets and liabilities denominated in foreign currencies have been translated at the year-end exchange rate. Transactions in foreign currencies have been translated at the rates of exchange in effect at the dates of the transactions.

### *Revenue recognition*

The Society follows the deferral method of accounting for revenue. Unrestricted contributions are recognized as revenue they are received or receivable if the amount to be received can be reasonable assured. Restricted contributions are deferred and are recognized as revenue in the year in which it is earned or the related expenses are incurred.

Sales of products and services to customers are recorded when the product is shipped or the service is performed. Any payment received in advance of shipment is deferred and recorded as deferred circulation revenue. Custom publishing revenues are recognized using the percentage of completion method.

### *Use of estimates*

The preparation of consolidated financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The estimated useful life of capital assets, the net realizable value of the accounts receivable, the amount of certain accrued liabilities and the percentage of completion of custom publishing contract are the most significant items where estimates are used. Actual results could differ from these estimates.



## **2. Significant accounting policies (continued)**

### *Capital assets*

Capital assets are recorded at cost. Contributed capital assets are recorded at fair value on the date of contribution, when fair value can be reasonably estimated. Amortization is calculated using the straight-line method over the estimated useful lives of assets as follows:

Furniture and equipment	5-10 years
Computer equipment and software	5 years
Leasehold improvements	Over the term of the lease

Works of art and historical treasures are not amortized due to their infinite lives.

### *Impairment of long-lived assets*

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the asset no longer has long-term service potential. The amount of the impairment loss is determined as the excess of the carrying value of the assets over its residual value.

### *Financial instruments*

The Society initially measures its financial assets and liabilities at fair value. The Society subsequently measures all its financial assets and liabilities at amortized cost, except for cash and investments which are measured at fair value. Changes in fair value are recognized in the statement of operations.

Interest earned on short-term investments and realized gains and losses on sales of short-term investments are included in investment earnings in the consolidated statement of revenue and expenses.

Transaction costs related to financial instruments measured subsequent to initial recognition at fair value are expensed as incurred. Transaction costs related to other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the effective interest method and recognized in net earnings as interest income or expense. With respect to financial assets measured at cost or amortized cost, the Society recognizes an impairment loss, if any, in net earnings when there are indicators of impairment and it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to net earnings in the period the reversal occurs.

## **3. Investments**

Investments are comprised of guaranteed investment certificates. Their cost approximates its fair value as at June 30, 2018 and 2017. The guaranteed investment certificates mature on June 20, 2019 (on May 28, 2018, in 2017), with an effective interest rate of 1.2% (1% in 2017).

**The Royal Canadian Geographical Society -  
La Société Géographique Royale du Canada**  
**Notes to the consolidated financial statements**  
June 30, 2018

**4. Loan to Lattitude**

As at June 30, 2018, 50 Sussex Drive Inc. has a non-bearing interest loan receivable from Lattitude of \$65,000 (\$50,000 in 2017) with no set terms of repayment.

**5. Investment in RCGS/NGS Canadian Geography Education Fund**

The investment in RCGS/NGS Canadian Geography Education Fund is an investment for which the capital is held in perpetuity. This investment fund is managed by the National Geographic Society Education Foundation located in the United States. The earnings on these investments accrue to the Society. The Society has agreed that a portion of investment earnings received each year will be spent to promote geography education in Canada. The balance of net earnings will be reinvested in the fund.

	<b>2018</b>	2017
	\$	\$
Balance, beginning of year	<b>985,727</b>	996,578
Income on RCGS portion of the Fund	<b>197,634</b>	58,936
Distribution from RCGS portion of the fund	<b>(32,145)</b>	(69,787)
Balance, end of year	<b>1,151,216</b>	985,727

In addition to the above income on RCGS's portion of the Fund, the Society received a matching NGS distribution of investment earnings from the Fund of \$32,145 (\$69,787 in 2017) for a total payout to the Society of \$64,290 (\$139,574 in 2017).

**6. Capital assets**

	<b>2018</b>			2017
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Furniture and equipment	<b>314,893</b>	<b>82,696</b>	<b>232,197</b>	19,513
Computer equipment and software	<b>448,309</b>	<b>415,821</b>	<b>32,488</b>	22,327
Leasehold improvements	<b>131,625</b>	<b>1,097</b>	<b>130,528</b>	—
Works of art and historical treasures	<b>133,450</b>	—	<b>133,450</b>	—
	<b>1,028,277</b>	<b>499,614</b>	<b>528,663</b>	41,840

During the year, the Society recognized \$133,450 (\$Nil in 2017) of contributed works of art and historical treasures.

**7. Line of credit**

The Society has an operating line of credit available by way of a revolving demand facility available of \$800,000 (\$800,000 in 2017) bearing interest at bank prime rate plus 1.0% and secured by a general security agreement guaranteed by the Society. This line of credit was not used as at June 30, 2018 (unused as at June 30, 2017).

## 8. Commitments and contingencies

The Society is committed under operating leases for space and office equipment rental for a total of \$2,086,225. As part of the lease agreement for its office space, the Society has committed to providing in-kind services to the landlord.

Minimum net lease payments for the next five years are as follows:

	Lease payments \$	In-kind services \$	Net lease payments \$
2019	444,756	(200,000)	244,756
2020	444,756	(200,000)	244,756
2021	442,463	(200,000)	242,463
2022	431,000	(200,000)	231,000
2023	323,250	(150,000)	173,250

## 9. Capital management

The Society's objectives when managing its capital (net assets) are to safeguard the Society's ability to continue as a not-for-profit organization and as a charitable organization. The Society manages several grants, donations and funding agreements with external restrictions that specify the conditions for using these financial resources. The Society has complied with the requirements respecting these restricted contributions.

The Society monitors its capital by reviewing various financial metrics including cash flows and variances to forecast and budgets.

Capital management objectives, policies and procedures are unchanged from the preceding year.

## 10. Changes in non-cash operating working capital items

	<b>2018</b>	2017
	\$	\$
Accounts and interest receivable	<b>301,946</b>	(682,425)
Government remittances receivable	<b>(103,883)</b>	(25,327)
Prepaid expenses	<b>(37,641)</b>	(212,323)
Accounts payable and accrued liabilities	<b>432,326</b>	215,513
Deferred revenue (custom publishing)	<b>(568,497)</b>	692,377
Deferred circulation revenue	<b>(164,819)</b>	33,116
	<b>(140,568)</b>	20,931

## **11. Financial instruments**

### *Credit risk*

The Society provides credit to its customers in the normal course of its operations. It carries out, on a continuing basis, credit checks on its clients and maintains provisions for potential credit losses. The Society minimizes its credit risk by concluding transactions with a large number of clients across the country.

### *Liquidity risk*

The Society's objective is to have sufficient liquidity to meet its liabilities when due. The Society monitors its cash balances and cash flows generated from operations to meet its requirements.

### *Foreign currency risk*

Foreign currency exposure arises from the Society's holdings of non-Canadian denominated investments. Management believes that the investment fund described above does not represent excessive risk. The exposure of the Society to foreign exchange resides in its investment in the NGS Education Fund (Note 5).

### *Investment risk*

Investments in financial instruments render the Society subject to investment risks. These include the risks arising from changes in interest rates and risks arising from the failure of a party to a financial instrument to discharge an obligation when it is due.

The Society has adopted investment policies to control the amount of risk to which it is exposed. The investment practices of the Society are designed to avoid undue risk of loss or impairment of assets and to provide a reasonable expectation of fair return given the nature of the investments. The maximum investment risk to the Society is represented by the fair value of the investments.

### *Concentration risk*

Concentrations of risk exist when a significant proportion of the portfolio is invested in securities with similar characteristics and/or subject to similar economic, political and other conditions that may prevail. Management believes that the concentrations which face the Society do not represent excessive risk.

## **12. Internal restriction**

As at June 30, 2018, the Society internally restricted an amount of \$114,406 (\$100,611 in 2017).

## **13. Comparative figures**

Certain comparative figures were adjusted to conform with the current year's presentation.