Consolidated financial statements of

The Royal Canadian Geographical Society - La Société Géographique Royale du Canada

June 30, 2019

Deloitte.

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Independent Auditor's Report

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

Opinion

We have audited the 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, 2019, and the consolidated statements of revenue and expenses, changes in net assets (deficiencies) and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Society as at June 30, 2019, and the results of its consolidated operations and its consolidated 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 ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with ASPE, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Society'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 Society or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the 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 GAAS 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 consolidated financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Society'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 Society'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 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 Society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Society to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
November 7, 2019

The Royal Canadian Geographical Society -
La Société Géographique Royale du Canada
Consolidated statement of revenue and expenses
Year ended June 30, 2019

	2019	2018
	$	$
Revenue		
Donations	**1,461,724**	1,324,065
Education	**—**	58,158
RCGS/NGS Canadian Geography Education Fund		
Investment earnings	**107,260**	215,271
Unrealized gain on foreign exchange	**6,944**	14,508
Magazine		
Circulation	**1,648,804**	1,871,930
Advertising	**426,151**	498,153
Canadian Periodical Fund	**748,048**	729,515
Custom publishing	**4,788,039**	3,896,217
Fundraising events	**405,089**	350,216
Other	**5,100**	45,490
50 Sussex Drive Inc. events revenue	**292,099**	46,843
	9,889,258	9,050,366
Expenses		
Fundraising	**417,597**	287,856
Programs	**254,444**	273,718
Magazine		
Circulation	**1,105,936**	1,103,012
Advertising	**188,032**	150,238
Editorial	**314,769**	317,719
Production	**1,282,879**	1,049,722
New media/internet	**142,672**	163,985
Custom publishing	**3,234,912**	3,266,161
Administration	**1,427,486**	1,248,217
Events	**349,737**	213,520
Rent and occupancy costs	**662,485**	374,406
Interest	**15,085**	2,329
Amortization of capital assets	**94,531**	20,027
50 Sussex Drive Inc. events expenses	**310,019**	124,285
50 Sussex Drive Inc. building and administration expenses	**303,948**	91,000
	10,104,532	8,686,195
(Deficiency) excess of revenue over expenses	**(215,274)**	364,171

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, 2019

	Notes	2019 $	2018 $
Assets			
Current assets			
Short-term assets			
Cash		**412,078**	692,217
Investments	3	**—**	114,406
Accounts and interest receivable		**1,809,252**	1,025,881
Inventory	4	**112,710**	—
Government remittances receivable		**198,887**	118,673
Prepaid expenses		**403,034**	416,244
Loan to Lattitude	5	**65,000**	65,000
		3,000,961	2,432,421
Education fund	6	**1,116,057**	1,151,216
Investment in Lattitude		**1**	1
Capital assets	7	**997,805**	528,663
		5,114,824	4,112,301
Liabilitites			
Current liabilities			
Short-term liabilities			
Bank indebtedness	8	**415,844**	—
Accounts payable and accrued liabilities		**1,569,946**	1,750,837
Government remittances payable		**45,172**	—
Deferred circulation revenue - current portion		**1,002,785**	1,028,747
Deferred revenue (custom publishing)		**1,342,735**	555,458
Obligation under capital lease - current portion	9	**11,137**	—
		4,387,619	3,335,042
Deferred circulation revenue		**400,585**	245,252
Obligation under capital lease	9	**9,887**	—
		4,798,091	3,580,294
Commitments and contingencies	10		
Net assets (deficiencies)			
Internally restricted for investment in RCGS/NGS Canadian Geography Education Fund	6	**1,116,057**	1,151,216
Invested in capital assets		**976,781**	528,663
Internally restricted		**123,629**	114,406
Unrestricted deficiency		**(1,899,734)**	(1,262,278)
		316,733	532,007
		5,114,824	4,112,301

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

Approved by the Board

_______________________, Governor

_______________________, Governor

The Royal Canadian Geographical Society -
La Société Géographique Royale du Canada

Consolidated statement of changes in net assets (deficiencies)

Year ended June 30, 2019

	Notes	Internally restricted for investment in RCGS/NGS Canadian Geography Education Fund $	Internally restricted $	Invested in capital assets $	Unrestricted $	Total $
Balance, July 1, 2017		**985,727**	**100,611**	**41,840**	**(960,342)**	**167,836**
Excess of revenue over expenses		—	—	—	364,171	**364,171**
Internal restriction	14	—	13,795	—	(13,795)	**—**
Purchase of capital assets	7	—	—	373,400	(373,400)	**—**
Contributed capital assets	7	—	—	133,450	(133,450)	**—**
Amortization of capital assets	7	—	—	(20,027)	20,027	**—**
Increase in RCGS/NGS Canadian Geography Education Fund	6	165,489	—	—	(165,489)	**—**
Balance, June 30, 2018		**1,151,216**	**114,406**	**528,663**	**(1,262,278)**	**532,007**
(Deficiency) excess of revenue over expenses		—	—	—	(215,274)	**(215,274)**
Internal restriction	14	—	9,223	—	(9,223)	**—**
Purchase of capital assets		—	—	330,867	(330,867)	**—**
Capital assets financed through capital leas	7	—	—	33,083	(33,083)	**—**
Contributed capital assets	7	—	—	199,723	(199,723)	**—**
Amortization of capital assets		—	—	(94,531)	94,531	**—**
Issuance of obligation under capital lease	7	—	—	(33,083)	33,083	**—**
Repayment of capital lease		—	—	12,059	(12,059)	**—**
Decrease in RCGS/NGS Canadian Geography Education Fund	6	(35,159)	—	—	35,159	**—**
Balance, June 30, 2019		**1,116,057**	**123,629**	**976,781**	**(1,899,734)**	**316,733**

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, 2019

	Notes	2019 $	2018 $
Operating activities			
(Deficiency) excess of revenue over expenses		**(215,274)**	364,171
Items not affecting cash			
RCGS/NGS Canadian Geography Fund investment earnings	6	**(39,607)**	(183,126)
Unrealized gain on foreign exchange	6	**(6,944)**	(14,508)
Amortization of capital assets		**94,531**	20,027
Contributed works of art and historical treasures	7	**(199,723)**	(133,450)
		(367,017)	53,114
Changes in non-cash operating working capital items	12	**(182,156)**	(140,568)
		(549,173)	(87,454)
Investing activities			
Purchase of capital assets		**(330,867)**	(373,400)
RCGS/NGS Canadian Geography Education Fund			
Payout to the Society	6	**163,420**	64,290
Distribution from the Society	6	**(81,710)**	(32,145)
Net decrease (increase) in short-term investments		**114,406**	(38,795)
Net increase in loan to Lattitude		**—**	(15,000)
		(134,751)	(395,050)
Financing activities			
Increase in bank indebtedness	8	**415,844**	—
Repayments of obligation under capital lease		**(12,059)**	
		403,785	—
Decrease in cash		**(280,139)**	(482,504)
Cash, beginning of year		**692,217**	1,174,721
Cash, end of year		**412,078**	692,217
Non-cash transaction			
Purchase of property and equipment financed through capital lease obligation		**(33,083)**	—

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

1. Activities of the organization

The Royal Canadian Geographical Society - La Société Géographique Royale du Canada (the "Society" or "RCGS") was incorporated without share capital under Part II of the Canada Corporations Act. In 2014, the Society received a Certification of Continuance under the Canada Not-for-Profit 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.

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.

Inventory

Finished goods are valued at lower of cost and net realizable value, determined on a first in, first out basis. Net realizable value is the estimated selling price less the estimated cost of completion and the estimated costs necessary to make the sale. Any write-down of inventory to its net realizable value is recognized as an expense in the period. When the net realizable value subsequently increases, the previously recognized impairment loss is reversed and recognized as a reduction in the amount of inventories expensed in the period the reversal occurs.

Capital assets

Capital assets and assets under capital leases are recorded at cost. Contributed capital assets are recorded at fair value. When fair value cannot be determined, contributed capital assets are recorded at nominal value. 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
Equipment under capital lease	Over the term of the lease
Leasehold improvements	Over the term of the lease

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

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 the loan to Lattitude, which is measured at the exchange amount.

Financial instruments (continued)

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.

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 as 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 contracts are the most significant items where estimates are used. Actual results could differ from these estimates.

3. Investments

Investments are comprised of guaranteed investment certificates. Their cost approximates their fair value as at June 30. The guaranteed investment certificates matured on June 20, 2019.

4. Inventory

Included in inventory as at June 30, 2019, is $112,710 ($nil in 2018) of finished goods. Included in custom publishing expenses are $421,410 ($nil in 2018) of costs which were expensed through inventory.

5. Loan to Lattitude

As at June 30, 2019, 50 Sussex Drive Inc. has a non-bearing interest loan receivable from Lattitude of $65,000 ($65,000 in 2018) with no set terms of repayment.

6. 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.

	2019	2018
	$	$
Balance, beginning of year	**1,151,216**	985,727
Income on RCGS portion of the Fund	**46,551**	197,634
Distribution from RCGS portion of the fund	**(81,710)**	(32,145)
Balance, end of year	**1,116,057**	1,151,216

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 $81,710 ($32,145 in 2018) for a total payout to the Society of $163,420 ($64,290 in 2018).

7. Capital assets

	Cost $	Accumulated amortization $	2019 Net book value $	2018 Net book value $
Furniture and equipment	**401,896**	**117,267**	**284,629**	232,197
Computer equipment and software	**465,264**	**432,208**	**33,056**	32,488
Equipment under capital lease	**33,083**	**7,720**	**25,363**	—
Leasehold improvements	**358,534**	**36,950**	**321,584**	130,528
Works of art and historical treasures	**333,173**	**—**	**333,173**	133,450
	1,591,950	**594,145**	**997,805**	528,663

During the year, the Society recognized $199,723 ($133,450 in 2018) of contributed works of art and historical treasures. The Society also acquired capital assets of $33,083 ($nil in 2018) financed through capital lease.

8. Bank indebtedness

The Society has an operating line of credit available by way of a revolving demand facility available of $800,000 ($800,000 in 2018) bearing interest at bank prime rate of 3.70% plus 1.0% (3.45% in 2018) and secured by a general security agreement guaranteed by the Society. As of June 30, 2019, $285,000 of the line had been utilized (unused as at June 30, 2018) and the Society also had a bank overdraft of $130,844 ($nil in 2018).

9. Obligation under capital lease

	2019 $	2018 $
Equipment, 6.92% interest per annum, maturing April 30, 2022.	**21,024**	—
Less: current portion	**11,137**	—
	9,887	—

The Corporation is committed to a capital lease for equipment of $33,083 ($nil in 2018) as at June 30, 2019. The capital lease bears an interest rate of 6.92%, per annum, is repayable in blended monthly payments of principal and interest of $1,014, and matures on April 30, 2022. The lease is secured by the equipment under the capital lease, which has a net book value of $25,364 as at June 30, 2019.

9. Obligation under capital lease (continued)

Minimum lease payments required in the next two years under the capital lease are as follows:

	$
2020	12,173
2021	10,144
	22,317
Interest included in minimum lease payments	1,293
	21,024

10. Commitments and contingencies

The Society is committed under operating leases for office space and equipment rental. 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 four years are as follows:

	Lease payments $	In-kind services $	Net lease payments $
2020	439,091	(200,000)	239,091
2021	436,798	(200,000)	236,798
2022	425,335	(200,000)	225,335
2023	319,001	(150,000)	169,001
	1,620,225	(750,000)	870,225

Amounts included for 2020 to 2021 also include commitments related to office equipment rental.

11. 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.

12. Changes in non-cash operating working capital items

	2019	2018
	$	$
Accounts and interest receivable	**(783,371)**	301,946
Inventory	**(112,710)**	—
Government remittances receivable	**(80,214)**	(103,883)
Prepaid expenses	**13,210**	(37,641)
Accounts payable and accrued liabilities	**(180,891)**	432,326
Government remittances payable	**45,172**	—
Deferred revenue (custom publishing)	**787,277**	(568,497)
Deferred circulation revenue	**129,371**	(164,819)
	(182,156)	(140,568)

13. 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 is exposed to this risk mainly in respect of bank indebtedness, accounts payable and accrued liabilities. The Society monitors its cash balances and cash flows generated from operations to meet its requirements.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

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 Education Fund (Note 6).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Society is exposed to interest rate risk through its investment in the Education Fund (Note 6). The Society also has a line of credit by way of revolving demand facility bearing a variable interest rate. Consequently, the Society's interest rate risk exposure is a function of the change of the prime rate. However, a variation of 1% of the prime rate would not have a significant effect on the financial position of the Society.

The Society's obligation under capital lease bears a fixed interest rate and, as a result, the risk exposure is minimal.

13. Financial instruments (continued)

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Society is exposed to this risk through the investment in the Education Fund (Note 6), as the underlying investments within the Fund are traded on active markets.

14. Internal restriction

As at June 30, 2019, the Society internally restricted an amount of $123,629 ($114,406 in 2018). The Society has chosen to internally restrict these funds in order to honour the donors' requests that the funds be directed to named funds.

15. Comparative figures

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