

The Canadian Kennel Club
Financial Statements
For the year ended December 31, 2019

	Contents
Independent Auditor's Report	2 - 3
Financial Statements	
Statement of Financial Position	4
Statement of Operations	5
Statement of Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 14

Independent Auditor's Report

To the Members of The Canadian Kennel Club

Opinion

We have audited the accompanying financial statements of The Canadian Kennel Club, which comprise the statement of financial position as at December 31, 2019, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Canadian Kennel Club as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of The Canadian Kennel Club in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

Those charged with governance are responsible for overseeing The Canadian Kennel Club's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Canadian Kennel Club'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 Canadian Kennel Club's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause The Canadian Kennel Club to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Mississauga, Ontario
March 14, 2020

The Canadian Kennel Club Statement of Financial Position

As at December 31	2019	2018
Assets		
Current		
Cash	\$ 240,235	\$ 622,384
Short-term investments	2,899,400	3,416,082
Accounts receivable	197,653	334,534
Due from related party (Note 5)	3,489	53
Inventories	48,307	50,685
Prepaid expenses	111,330	74,442
	3,500,414	4,498,180
Capital and intangible assets (Note 3)	1,355,853	995,779
	\$ 4,856,267	\$ 5,493,959
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	\$ 690,389	\$ 598,829
Deferred revenue (Note 4)	212,076	650,744
	902,465	1,249,573
Deferred leasehold inducement	256,863	316,562
	1,159,328	1,566,135
Net assets		
Invested in capital assets fund	1,355,853	995,779
Externally restricted fund	9,630	9,630
General fund		
Unrestricted	2,326,415	2,594,076
Internally restricted	5,041	328,339
	3,696,939	3,927,824
	\$ 4,856,267	\$ 5,493,959

On behalf of the Board:

_____ Director

_____ Director

The Canadian Kennel Club Statement of Operations

For the year ended December 31	2019	2018
Revenue		
Registration revenue	\$ 2,597,440	\$ 3,135,693
Shows and trials fees	1,465,515	1,434,723
Membership fees	922,015	910,430
Product sales	377,766	397,328
Affiliate and corporate sponsorships	170,542	159,908
General revenue	90,784	79,511
Programs, projects and initiatives	27,336	25,489
Regulatory revenue	12,220	16,850
	5,663,618	6,159,932
Expenses		
Human resources	3,416,255	3,206,043
Building	567,540	534,926
IT support services	377,392	220,310
Communications expense	245,413	206,712
Purchases for resale and distribution	210,508	221,239
Equipment	191,395	263,118
Board of Directors	171,376	171,688
Professional fees	162,978	127,945
Administration	115,172	114,679
Bank fees and collection costs	94,129	110,380
Amortization	92,597	98,005
Committees and councils	87,424	73,711
Postage	76,717	88,627
Other general expenses	37,174	39,757
Market expansion	34,031	32,896
Programs, projects and new initiatives	14,402	11,822
	5,894,503	5,521,858
(Deficiency) excess of revenues over expenses for the year	(230,885)	638,074

The Canadian Kennel Club Statement of Changes in Net Assets

For the year ended December 31, 2019

	General Fund						
	Invested in Capital Assets Fund	Externally Restricted DNA Registry Fund	Internally Restricted for IT and Process Improvement Project Fund	Internally Restricted for Junior Handling Fund	Total Internally Restricted	Unrestricted	Total
Net assets,							
beginning of year	\$ 995,779	\$ 9,630	\$ 323,298	\$ 5,041	\$ 328,339	\$ 2,594,076	\$ 3,927,824
(Deficiency) excess of revenues over expenses for the year	(93,423)	-	(44,578)	-	(44,578)	(92,884)	(230,885)
Transfer (to) from unrestricted fund	-	-	110,000	-	110,000	(110,000)	-
Investment in capital assets	453,497	-	(388,720)	-	(388,720)	(64,777)	-
Net assets, end of year	\$ 1,355,853	\$ 9,630	\$ -	\$ 5,041	\$ 5,041	\$ 2,326,415	\$ 3,696,939

For the year ended December 31, 2018

	General Fund						
	Invested in Capital Assets Fund	Externally Restricted DNA Registry Fund	Internally Restricted for IT and Process Improvement Project Fund	Internally Restricted for Junior Handling Fund	Total Internally Restricted	Unrestricted	Total
Net assets,							
beginning of year	\$ 683,627	\$ 9,630	\$ 403,277	\$ 5,041	\$ 408,318	\$ 2,188,175	\$ 3,289,750
Excess (deficiency) of revenues over expenses for the year	(98,005)	-	(10,765)	-	(10,765)	746,844	638,074
Transfer (to) from unrestricted fund	-	-	325,000	-	325,000	(325,000)	-
Investment in capital assets	410,157	-	(394,214)	-	(394,214)	(15,943)	-
Net assets, end of year	\$ 995,779	\$ 9,630	\$ 323,298	\$ 5,041	\$ 328,339	\$ 2,594,076	\$ 3,927,824

The accompanying notes are an integral part of these financial statements.

The Canadian Kennel Club Statement of Cash Flows

For the year ended December 31	2019	2018
Net inflow of cash related to following activities		
Operating activities		
(Deficiency) excess of revenues over expenses for the year	\$ (230,885)	\$ 638,074
Items not affecting cash		
Amortization of capital and intangible assets	92,597	98,005
Gain on disposal of capital assets and tangible assets	(500)	-
Net change in non-cash operating working capital items		
Accounts receivable	136,881	199,048
Inventories	2,378	(2,739)
Prepaid expenses	(36,888)	38,880
Accounts payable and accrued liabilities	91,560	154,936
Deferred revenue	(438,668)	18,139
Deferred leasehold inducement	(59,699)	(54,518)
	(443,224)	1,089,825
Investing activities		
Decrease (increase) in short-term investments	516,682	(416,082)
(Advance to) repayment from related party (Note 5)	(3,436)	72
Proceeds on disposal of capital assets and tangible assets	1,326	-
Purchase of capital and intangible assets	(453,497)	(410,157)
	61,075	(826,167)
(Decrease) increase in cash during the year	(382,149)	263,658
Cash, beginning of year	622,384	358,726
Cash, end of year	\$ 240,235	\$ 622,384

The accompanying notes are an integral part of these financial statements.

The Canadian Kennel Club Notes to Financial Statements

December 31, 2019

1. Significant Accounting Policies

Nature of Business

The Canadian Kennel Club ("CKC" or "the Organization") is a not-for-profit organization incorporated under the Federal Live Stock Pedigree Act, 1949 (currently Animal Pedigree Act, 1988). The objectives of The Canadian Kennel Club are the encouragement and development of pure-bred dogs in Canada, keeping records and issuing certification of pedigree registration of all recognized breeds of pure-bred dogs; establishing standards for breeds, compiling statistics, furnishing official and authentic information with respect to pure-bred dogs and providing governance for events authorized by The Canadian Kennel Club across Canada. The Organization qualifies as a tax-exempt non-profit organization under the terms of the Income Tax Act, Canada.

Basis of Accounting

These financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.

Use of Estimates

The preparation of 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 at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Revenue Recognition

The Organization follows the restricted fund method of accounting for contributions. Restricted contributions are recognized in the DNA Registry Fund. Unrestricted contributions are recognized as revenue in the General Fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Registration revenue is recognized on the basis of the agreement in the year the service is provided.

Shows and trials fees are recognized after the related services are performed and collection is reasonably assured.

Membership fees are recognized on a pro-rata basis over the membership year to which the related services are provided.

Product sales revenue is recognized when the products are sold to the customer, the sale price is fixed and determinable and collectibility is reasonably assured.

Affiliate and corporate sponsorship revenue is recognized when amounts are received and any related obligations to the donor have been performed.

Interest income, which is included in general revenue is recognized as it is earned.

Programs, projects, and initiatives revenue is recognized as the related services are provided and collection is reasonably assured.

Regulatory revenue is recognized as the related services are provided and collection is reasonably assured.

The Canadian Kennel Club Notes to Financial Statements

December 31, 2019

1. Significant Accounting Policies (continued)

Revenue Recognition (continued)

The IT and Process Improvement Project Fund is internally restricted as designated by the Board of Directors. This Fund sets aside reserves to be used on expenditures relating to the upcoming procurement and implementation of digital technologies to support processes across the business. During the year, the Board of Directors approved an additional transfer of \$110,000 (2018 - \$325,000) from unrestricted net assets to the Fund.

The Junior Handling Fund is internally restricted as designated by the Board of Directors. This Fund sets aside reserves to be used on expenditures relating to promotion of the Junior Handling Program.

The DNA Registry Fund is an externally restricted fund that was established to research a potential DNA Registration system for canines.

Inventories

Inventory is valued at the lower of weighted average cost and net realizable value. Included in purchases for resale and distribution expense is \$163,647 (2018 - \$166,333) of inventories expensed during the year.

Capital and Intangible Assets

Capital assets and intangible assets are recorded at acquisition cost, less accumulated amortization and are amortized over their estimated useful lives at the following annual rates:

Machinery and equipment	- straight line over 5 years
Furniture and fixtures	- straight line over 10 years
Computer equipment and software	- straight line over 3 to 5 years
ERP system	- straight line over 8 years

Short-term Investments

Short-term investments consist of Guaranteed Investment Certificates with interest rates ranging from 1.5% to 2.50% (2018 - 1.9% to 2.3%) and maturities ranging from February 13, 2020 to January 23, 2021 (2018 - January 23, 2019 to November 14, 2019).

Investment in Apex Publishing Limited

The investment in Apex Publishing Limited, the Organization's wholly-owned subsidiary, is accounted for using the equity method of accounting whereby the initial investment is recorded at cost and is subsequently adjusted to reflect the Organization's pro-rata share of the post-acquisition earnings of Apex.

The Canadian Kennel Club Notes to Financial Statements

December 31, 2019

1. Significant Accounting Policies (continued)

Deferred Leasehold Inducement

The deferred leasehold inducement represents a free-rent period and escalation clauses on the premises lease and are deferred and amortized on a straight-line basis over the term of the lease.

Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for these items remeasured at fair value at each statement of financial position date and charged to the financial instrument for those measured at amortized cost.

2. Investment in Apex Publishing Limited

The Canadian Kennel Club holds 100% of the common shares of Apex Publishing Limited ("Apex"). Apex is incorporated to operate as a profit oriented enterprise and is taxable under the Income Tax Act. Apex was responsible for the publication and supply of the magazines Dogs in Canada and Dogs Annual.

During the year ended December 31, 2011, the decision was made to substantially cease the operations of Apex and write-down the related investment. During the current and prior year, there was no activity in Apex Publishing Limited.

The financial statements of Apex have not been consolidated in the financial statements of The Canadian Kennel Club but are available upon request. As of December 31, 2019, the financial position of Apex includes total liabilities of \$837,420 (2018 - \$837,420) and a shareholder's deficiency of \$837,420 (2018 - \$837,420). The liabilities in Apex represent amounts owing to The Canadian Kennel Club. The related amounts receivable in CKC have been fully allowed for.

The Canadian Kennel Club Notes to Financial Statements

December 31, 2019

3. Capital and Intangible Assets

	2019		2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Capital assets				
Machinery and equipment	\$ 98,849	\$ 72,118	\$ 70,705	\$ 62,104
Furniture and fixtures	286,682	284,600	286,682	277,968
Computer equipment	385,653	312,113	353,952	289,092
Total	771,184	668,831	711,339	629,164
Intangible assets				
Computer software	328,148	307,088	783,735	324,057
ERP system	1,250,240	17,800	453,926	-
Total	1,578,388	324,888	1,237,661	324,057
	\$ 2,349,572	\$ 993,719	\$ 1,949,000	\$ 953,221
Net book value		\$ 1,355,853		\$ 995,779

Included in ERP system costs are Shows and Trials software costs of \$429,013 that are not being amortized as that portion of the system is not yet ready for use.

4. Deferred Revenue

	2019	2018
Membership fees	\$ 186,983	\$ 552,578
Rental income	22,446	12,622
Club fees	2,200	47,120
Judges fees	447	38,424
	\$ 212,076	\$ 650,744

The Canadian Kennel Club Notes to Financial Statements

December 31, 2019

5. Transactions with CKC Foundation

The CKC Foundation is a not-for-profit organization incorporated without share capital under the laws of Canada. Its purpose is to educate the public about the diverse and beneficial roles of dogs in Canadian Society and to conduct research into the causes, diagnoses and treatment of canine diseases. The Foundation is a registered charity and, as such, is exempt from income tax. The Canadian Kennel Club exerts significant influence over the activities of the Foundation.

During the year the Organization advanced \$3,436 (2018 - repaid \$72) to the Foundation for expenses paid by the Organization on behalf of the Foundation. The above transaction is recorded at the exchange amount (the amount of consideration established and agreed to by the related parties), is unsecured and non-interest bearing. Repayment is due on demand and accordingly, the amount has been classified as a current asset. The Organization does not otherwise have economic interest in the Foundation.

6. Commitments

The Canadian Kennel Club has entered into operating leases for its office premises, certain equipment and other outside services. The minimum annual lease payments on all leases for the next five years and thereafter are as follows:

2020	\$	581,364
2021		557,887
2022		543,087
2023		234,424
2024		41,596
Thereafter		<u>3,219</u>
	\$	<u>1,961,577</u>

The Canadian Kennel Club has entered into a sub-lease agreement to rent out a portion of their premises to be used for professional offices for counseling services. The annual lease payments to be received by the Canadian Kennel Club for the next four years are as follows:

2020	\$	136,197
2021		136,197
2022		136,197
2023		<u>34,049</u>
	\$	<u>442,640</u>

The Canadian Kennel Club Notes to Financial Statements

December 31, 2019

7. Pension Plan

The Canadian Kennel Club has a contributory, trustee and funded pension plan for its employees.

The Canadian Kennel Club's matching contribution for the year ended December 31, 2019 was \$92,195 (2018 - \$92,928). This amount is included in the human resources expenses on the statement of operations.

8. Contingencies

In the normal course of business, the Organization enters into agreements that meet the definition of a guarantee. The Organization's primary guarantees subject to disclosure requirements are as follows:

- a) Indemnity has been provided to all directors and officers of the Organization for various items including, but not limited to, all costs to settle suits or actions due to association with the Organization, subject to certain restrictions. The Organization has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Organization. The maximum amount of any potential future payment cannot be reasonably estimated.
- b) In the normal course of business, the Organization has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Organization to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation, and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursements cannot be estimated.

The Canadian Kennel Club Notes to Financial Statements

December 31, 2019

9. Financial Instrument Risks

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 market interest rates. The Organization is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the value of fixed income denominated investments. The risk has not changed from prior year.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Organization is exposed to credit risk arising from its accounts receivable. The risk has not changed from prior year.