

The Canadian Kennel Club
Financial Statements
For the year ended December 31, 2016

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Independent Auditor's Report

To the Members of The Canadian Kennel Club

We have audited the accompanying financial statements of The Canadian Kennel Club, which comprise the statement of financial position as at December 31, 2016, 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.

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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Canadian Kennel Club as at December 31, 2016, 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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Mississauga, Ontario
March 18, 2017

The Canadian Kennel Club Statement of Financial Position

As at December 31	2016	2015
Assets		
Current		
Cash	\$ 901,670	\$ 800,178
Short-term investments	2,700,000	2,235,957
Accounts receivable	459,523	416,785
Due from related party (Note 5)	414	-
Inventories	40,930	53,774
Prepaid expenses	49,526	45,608
	4,152,063	3,552,302
Capital and intangible assets (Note 3)	267,998	257,120
	\$ 4,420,061	\$ 3,809,422
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	\$ 388,456	\$ 310,503
Current portion of obligations under capital lease	-	2,040
Deferred revenue (Note 4)	706,882	722,248
	1,095,338	1,034,791
Deferred leasehold inducement	151,029	175,193
	1,246,367	1,209,984
Net assets		
Invested in capital assets fund	267,999	255,081
Externally restricted fund	9,630	-
General fund		
Unrestricted	1,880,067	1,717,529
Internally restricted	1,015,998	626,828
	3,173,694	2,599,438
	\$ 4,420,061	\$ 3,809,422

On behalf of the Board:

_____ Director

_____ Director

The Canadian Kennel Club Statement of Operations

For the year ended December 31	2016	2015
Revenue		
Registration revenue	\$ 2,896,416	\$ 2,686,262
Shows and trials fees	1,385,199	1,327,779
Membership fees	894,620	898,713
Product sales	372,611	350,850
Affiliate and corporate sponsorships	163,718	85,792
General revenue	66,520	59,488
Programs, projects and initiatives	32,472	18,305
Regulatory revenue	13,904	12,823
	5,825,460	5,440,012
Expenses		
Human resources	2,787,236	2,868,536
Building	579,600	582,991
IT support services	420,003	415,764
Equipment	249,821	267,005
Communications expense	204,796	317,463
Purchases for resale and distribution	202,889	188,689
Board of Directors	179,864	134,658
Postage	117,285	126,852
Administration	97,621	96,342
Bank fees and collection costs	92,526	90,267
Amortization	80,376	80,950
Professional fees	74,408	127,144
Market expansion	66,447	-
Committees and councils	57,928	50,706
Other general expenses	34,691	34,382
Programs, projects and new initiatives	15,343	11,747
	5,260,834	5,393,496
Income from operations	564,626	46,516
Loss from subsidiary (Note 2)	-	(2,000)
Excess of revenues over expenses for the year	\$ 564,626	\$ 44,516

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

The Canadian Kennel Club Statement of Changes in Net Assets

For the year ended December 31, 2016

	General Fund						
	Invested in Capital Assets Fund	Externally Restricted DNA Registry Fund	Internally Restricted for Election Fund	Internally Restricted for IT and Process Improvement Project Fund	Total Internally Restricted	Unrestricted	Total
Net assets , beginning of year	\$ 255,081	\$ -	\$ 50,000	\$ 576,828	\$ 626,828	\$ 1,717,529	\$ 2,599,438
Excess (deficiency) of revenues over expenses for the year	(80,376)	-	(45,105)	(223,156)	(268,261)	913,263	564,626
Transfer from unrestricted fund	-	-	60,000	648,234	708,234	(708,234)	-
Donation received	-	9,630	-	-	-	-	9,630
Investment in capital assets	93,294	-	-	(50,803)	(50,803)	(42,491)	-
Net assets , end of year	\$ 267,999	\$ 9,630	\$ 64,895	\$ 951,103	\$ 1,015,998	\$ 1,880,067	\$ 3,173,694

For the year ended December 31, 2015

	General Fund						
	Invested in Capital Assets Fund	Externally Restricted for Charity Dog Show Fund	Internally Restricted for Election Fund	Internally Restricted for IT and Process Improvement Project Fund	Total Internally Restricted	Unrestricted	Total
Net assets , beginning of year	\$ 217,468	\$ 67,546	\$ -	\$ 789,327	\$ 789,327	\$ 1,549,864	\$ 2,624,205
Excess (deficiency) of revenues over expenses for the year	(80,950)	-	-	(212,499)	(212,499)	337,965	44,516
Donations disbursed	-	(69,283)	-	-	-	-	(69,283)
Transfer from unrestricted fund	-	1,737	50,000	-	50,000	(51,737)	-
Investment in capital assets	118,563	-	-	-	-	(118,563)	-
Net assets , end of year	\$ 255,081	\$ -	\$ 50,000	\$ 576,828	\$ 626,828	\$ 1,717,529	\$ 2,599,438

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	2016	2015
Net inflow of cash related to following activities		
Operating activities		
Excess of revenues over expenses for the year	\$ 564,626	\$ 44,516
Items not affecting cash		
Amortization of capital and intangible assets	80,376	80,950
Loss from subsidiary (Note 2)	-	2,000
Net change in non-cash operating working capital items		
Accounts receivable	(42,738)	8,082
Inventories	12,844	5,611
Prepaid expenses	(3,918)	22,219
Accounts payable and accrued liabilities	77,953	(100,705)
Deferred revenue	(15,366)	23,652
Deferred leasehold inducement	(24,164)	(24,165)
	649,613	62,160
Investing activities		
Increase in short-term investments	(464,043)	(849,167)
Advances to related parties	(414)	(1,196)
Purchase of capital assets	(91,254)	(102,876)
	(555,711)	(953,239)
Financing activity		
Repayment of capital lease obligations	(2,040)	(15,686)
Cash received for externally restricted net assets	9,630	-
Cash expended for externally restricted net assets	-	(69,283)
	7,590	(84,969)
Increase (decrease) in cash during the year	101,492	(976,048)
Cash, beginning of year	800,178	1,776,226
Cash, end of year	\$ 901,670	\$ 800,178

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

The Canadian Kennel Club Notes to Financial Statements

December 31, 2016

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Revenue Recognition

The organization follows the restricted fund method of accounting for contributions. Restricted contributions are recognized in the DNA Registry Fund and the Charity Dog Show 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.

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

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

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.

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

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

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

The Canadian Kennel Club Notes to Financial Statements

December 31, 2016

1. Significant Accounting Policies (continued)

Revenue Recognition (continued)

The Election Fund is internally restricted as designated by the Board of Directors. Every three years an election is held to elect a Board of Directors and a Referendum is conducted to amend CKC by-laws. The Fund sets aside reserves to assist in the facilitation of the next election and referendum. During the year, a special referendum was held, which expended \$45,105 of the Fund balance. In addition, the Board of Directors approved the transfer of \$60,000 (2015 - \$50,000) from unrestricted net assets to be set aside to fund the 2017 election and referendum.

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. In the current year, the Board of Directors approved an additional transfer of \$648,234 from unrestricted net assets to the Fund.

The DNA Registry Fund was established in the current year to research a potential DNA Registration system for canines. During the year, a restricted donation of \$9,630 was received to establish the fund.

The Charity Dog Show Fund is an externally restricted fund that was previously used for the betterment of canines. Donations/contributions and expenditures were recognized when the amount is received or the obligation incurred. In the prior year, the remaining funds were fully dispersed and the fund was wound up.

Inventories

Inventory is valued at the lower of weighted average cost and net realizable value. Included in purchases for resale and distribution expense is \$156,278 (2015 - \$143,355) of inventories expensed during the year.

Capital and Intangible Assets

Capital assets, assets under capital lease 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 1.00% to 1.35% and maturities ranging from January 11, 2017 to February 13, 2017.

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 company's pro-rata share of the post-acquisition earnings of Apex.

The Canadian Kennel Club Notes to Financial Statements

December 31, 2016

1. Significant Accounting Policies (continued)

Deferred Leasehold Inducement

The deferred leasehold inducement represents a free-rent period on the premises lease and is 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 prior year, the organization incurred losses of \$2,000 representing the loss of the subsidiary for the year of \$1,015 and an allowance on further advances to the subsidiary of \$985. During the current 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, 2016, the financial position of Apex includes total liabilities of \$837,420 (2015 - \$837,420) and a shareholder's deficiency of \$837,420 (2015 - \$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, 2016

3. Capital and Intangible Assets

	2016		2015	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Machinery and equipment	\$ 60,349	\$ 58,837	\$ 59,399	\$ 54,742
Furniture and fixtures	320,145	279,527	316,456	269,854
Computer equipment	249,073	240,743	291,528	217,561
Computer software	369,954	203,219	291,687	159,793
ERP system	50,803	-	-	-
	\$ 1,050,324	\$ 782,326	\$ 959,070	\$ 701,950
Net book value		\$ 267,998		\$ 257,120

The ERP system is not being amortized as the system is not yet ready for use.

4. Deferred Revenue

	2016		2015	
Membership fees	\$ 613,544	\$ 612,201	\$ 612,201	\$ 612,201
Club fees	49,445	56,475	56,475	56,475
Judges fees	41,226	38,391	38,391	38,391
Rental income	2,667	15,181	15,181	15,181
	\$ 706,882	\$ 722,248	\$ 722,248	\$ 722,248

The Canadian Kennel Club Notes to Financial Statements

December 31, 2016

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 \$414 (2015 - \$nil) to the Foundation for its general use. 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 expected during the next fiscal year 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:

2017	\$	494,045
2018		507,230
2019		443,020
2020		406,314
2021		411,551
Thereafter		<u>514,438</u>
	\$	<u>2,776,598</u>

7. Pension Plan

The Canadian Kennel Club has a contributory, trustee and funded pension plan for its employees. As at December 31, 2016, the plan was fully funded.

The Canadian Kennel Club's matching contribution for the year ended December 31, 2016 was \$88,472 (2015 - \$85,096). This amount is included in the human resources expenses on the statement of operations.

The Canadian Kennel Club Notes to Financial Statements

December 31, 2016

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 or 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 nature of these indemnification agreements prevents the organization from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the organization has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

The Canadian Kennel Club Notes to Financial Statements

December 31, 2016

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.