

**The Canadian Kennel Club**  
**Financial Statements**  
For the year ended December 31, 2017

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## Independent Auditor's Report

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### 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, 2017, 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, 2017, 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.

#### Emphasis of Matter

We draw attention to Note 10 to the financial statements which describes that the Organization has retroactively adjusted certain balances. Our opinion is not modified in respect of this matter.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants

Mississauga, Ontario  
March 18, 2018

## The Canadian Kennel Club Statement of Financial Position

As at December 31	2017	2016
		(Restated - Note 10)
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 358,726	\$ 901,670
Short-term investments	3,000,000	2,700,000
Accounts receivable	533,582	459,523
Due from related party (Note 5)	125	414
Inventories	47,946	40,930
Prepaid expenses	113,322	49,526
	4,053,701	4,152,063
<b>Capital and intangible assets (Note 3)</b>	<b>683,627</b>	<b>267,998</b>
	<b>\$ 4,737,328</b>	<b>\$ 4,420,061</b>
<b>Liabilities and Net Assets</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 443,893	\$ 388,456
Deferred revenue (Note 4)	632,605	706,882
	1,076,498	1,095,338
<b>Deferred leasehold inducement (Note 10)</b>	<b>371,080</b>	<b>410,050</b>
	<b>1,447,578</b>	<b>1,505,388</b>
<b>Net assets</b>		
Invested in capital assets fund	683,627	267,999
Externally restricted fund	9,630	9,630
General fund		
Unrestricted	2,188,175	1,621,046
Internally restricted	408,318	1,015,998
	3,289,750	2,914,673
	<b>\$ 4,737,328</b>	<b>\$ 4,420,061</b>

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

## The Canadian Kennel Club Statement of Operations

For the year ended December 31	2017	2016
		(Restated - Note 10)
<b>Revenue</b>		
Registration revenue	\$ 3,094,343	\$ 2,896,416
Shows and trials fees	1,417,665	1,385,199
Membership fees	908,746	894,620
Product sales	391,524	372,611
Affiliate and corporate sponsorships	157,303	163,718
General revenue	70,186	66,520
Programs, projects and initiatives	31,784	32,472
Regulatory revenue	16,075	13,904
	<b>6,087,626</b>	5,825,460
<b>Expenses</b>		
Human resources	2,933,934	2,787,236
Building	699,455	570,004
IT support services	340,792	420,003
Communications expense	277,288	204,796
Equipment	259,996	249,821
Purchases for resale and distribution	218,028	205,039
Board of Directors	213,427	179,864
Professional fees	203,113	74,408
Bank fees and collection costs	100,469	92,526
Administration	99,036	95,471
Committees and councils	92,973	57,928
Postage	92,310	117,285
Amortization	90,820	80,376
Other general expenses	37,917	34,691
Market expansion	25,133	66,447
Programs, projects and new initiatives	16,051	15,343
Loss on disposal of capital and intangible assets	11,807	-
	<b>5,712,549</b>	5,251,238
<b>Excess of revenues over expenses for the year</b>	<b>\$ 375,077</b>	<b>\$ 574,222</b>

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, 2017

	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	Internally Restricted for Junior Handling Fund	Total Internally Restricted	Unrestricted	Total	
<b>Net assets</b> , beginning of year	\$ 267,999	\$ 9,630	\$ 64,895	\$ 951,103	\$ -	\$ 1,015,998	\$ 1,880,067	\$ 3,173,694	
Prior period adjustment (Note 10)	-	-	-	-	-	-	(259,021)	(259,021)	
<b>Net assets</b> , beginning of year restated	267,999	9,630	64,895	951,103	-	1,015,998	1,621,046	2,914,673	
Excess (deficiency) of revenues over expenses for the year	(102,627)	-	(41,715)	(160,400)	-	(202,115)	679,819	375,077	
Transfer (to) from unrestricted fund	-	-	(23,180)	66,500	5,041	48,361	(48,361)	-	
Investment in capital assets	518,255	-	-	(453,926)	-	(453,926)	(64,329)	-	
<b>Net assets</b> , end of year	\$ 683,627	\$ 9,630	\$ -	\$ 403,277	\$ 5,041	\$ 408,318	\$ 2,188,175	\$ 3,289,750	

For the year ended December 31, 2016

(Restated - Note 10)

	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	Internally Restricted for Junior Handling Fund	Total Internally Restricted	Unrestricted	Total	
<b>Net assets</b> , beginning of year	\$ 255,081	\$ -	\$ 50,000	\$ 576,828	\$ -	\$ 626,828	\$ 1,717,529	\$ 2,599,438	
Prior period adjustment (Note 10)	-	-	-	-	-	-	(268,617)	(268,617)	
<b>Net assets</b> , beginning of year restated	255,081	-	50,000	576,828	-	626,828	1,448,912	2,330,821	
Excess (deficiency) of revenues over expenses for the year	(80,376)	-	(45,105)	(223,156)	-	(268,261)	922,859	574,222	
Donation received	-	9,630	-	-	-	-	-	9,630	
Transfer from unrestricted fund	-	-	60,000	648,234	-	708,234	(708,234)	-	
Investment in capital assets	93,294	-	-	(50,803)	-	(50,803)	(42,491)	-	
<b>Net assets</b> , end of year	\$ 267,999	\$ 9,630	\$ 64,895	\$ 951,103	\$ -	\$ 1,015,998	\$ 1,621,046	\$ 2,914,673	

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	2017	2016
	(Restated - Note 10)	
<b>Net inflow of cash related to following activities</b>		
<b>Operating activities</b>		
Excess of revenues over expenses for the year	\$ 375,077	\$ 574,222
Items not affecting cash		
Amortization of capital and intangible assets	90,820	80,376
Loss on disposal of capital assets	11,807	-
Net change in non-cash operating working capital items		
Accounts receivable	(74,059)	(42,738)
Inventories	(7,016)	12,844
Prepaid expenses	(63,796)	(3,918)
Accounts payable and accrued liabilities	55,437	77,953
Deferred revenue	(74,277)	(15,366)
Deferred leasehold inducement	(38,970)	(33,760)
	<b>275,023</b>	<b>649,613</b>
<b>Investing activities</b>		
Increase in short-term investments	(300,000)	(464,043)
Repayment from (advances to) related parties	289	(414)
Proceeds on disposal of capital assets	3,724	-
Purchase of capital and intangible assets	(521,980)	(91,254)
	<b>(817,967)</b>	<b>(555,711)</b>
<b>Financing activity</b>		
Repayment of capital lease obligations	-	(2,040)
Cash received for externally restricted net assets	-	9,630
	-	7,590
<b>(Decrease) increase in cash during the year</b>	<b>(542,944)</b>	<b>101,492</b>
<b>Cash, beginning of year</b>	<b>901,670</b>	<b>800,178</b>
<b>Cash, end of year</b>	<b>\$ 358,726</b>	<b>\$ 901,670</b>

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

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# The Canadian Kennel Club Notes to Financial Statements

**December 31, 2017**

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## 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.

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.

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

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# The Canadian Kennel Club Notes to Financial Statements

**December 31, 2017**

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## 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, an election and referendum were held, which expended \$41,715 of the Fund balance. The remaining fund balance of \$23,180 was transferred to the unrestricted fund.

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 \$66,500 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. In the current year, the Board of Directors approved a transfer of \$5,041 from unrestricted net assets to establish the Fund.

The DNA Registry Fund is an externally restricted fund that was established to research a potential DNA Registration system for canines. In the prior year, a restricted donation of \$9,630 was received to establish the fund.

### Inventories

Inventory is valued at the lower of weighted average cost and net realizable value. Included in purchases for resale and distribution expense is \$167,120 (2016 - \$156,278) 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 0.90% to 1.30% (2016 - 1.00% to 1.35%) and maturities ranging from January 19, 2018 to February 13, 2018 (2016 - 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.



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# The Canadian Kennel Club Notes to Financial Statements

**December 31, 2017**

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## 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.

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## 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, 2017, the financial position of Apex includes total liabilities of \$837,420 (2016 - \$837,420) and a shareholder's deficiency of \$837,420 (2016 - \$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, 2017**

### 3. Capital and Intangible Assets

	2017		2016	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
<b>Capital assets</b>				
Machinery and equipment	\$ 65,609	\$ 59,949	\$ 60,349	\$ 58,837
Furniture and fixtures	286,682	271,335	320,145	279,527
Computer equipment	343,104	262,196	249,073	240,743
<b>Total</b>	<b>695,395</b>	<b>593,480</b>	629,567	579,107
<b>Intangible assets</b>				
Computer software	389,521	261,735	369,954	203,219
ERP system	453,926	-	50,803	-
<b>Total</b>	<b>843,447</b>	<b>261,735</b>	420,757	203,219
	<b>\$ 1,538,842</b>	<b>\$ 855,215</b>	\$ 1,050,324	\$ 782,326
<b>Net book value</b>		<b>\$ 683,627</b>		<b>\$ 267,998</b>

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

### 4. Deferred Revenue

	2017	2016
Membership fees	\$ 517,773	\$ 613,544
Club fees	48,515	49,445
Judges fees	42,034	41,226
Rental income	24,283	2,667
	<b>\$ 632,605</b>	<b>\$ 706,882</b>

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## The Canadian Kennel Club Notes to Financial Statements

**December 31, 2017**

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### 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 received \$289 from the Foundation for repayment of previously advanced funds (2016 - advanced \$414 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 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.

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### 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:

2018	\$	507,230
2019		443,020
2020		406,314
2021		411,551
2022		411,551
Thereafter		<u>102,888</u>
	\$	<u>2,282,554</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 five years and thereafter are as follows:

2018	\$	120,392
2019		126,282
2020		132,172
2021		132,172
2022		132,172
Thereafter		<u>33,043</u>
	\$	<u>676,233</u>

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# The Canadian Kennel Club Notes to Financial Statements

**December 31, 2017**

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## **7. Pension Plan**

The Canadian Kennel Club has a contributory, trustee and funded pension plan for its employees. As at December 31, 2017, the plan was fully funded.

The Canadian Kennel Club's matching contribution for the year ended December 31, 2017 was \$89,783 (2016 - \$88,472). This amount is included in the human resources expenses on the statement of operations.

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## **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.

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# The Canadian Kennel Club Notes to Financial Statements

**December 31, 2017**

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## **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.

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# The Canadian Kennel Club Notes to Financial Statements

**December 31, 2017**

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## 10. Prior Period Adjustment

In 2008 CKC entered in to a 15 year lease for its current premises in Toronto. The lease agreement contained an initial 14 month rent-free period as well as fixed-rate rent escalation clauses, occurring on the first six 2 year anniversary dates of the lease.

The benefit of the rent-free period was initially deferred and is being recognized on a straight-line basis over the lease term as a reduction to rent expense. The monthly lease payments have been expensed on a cash basis as payments are made to the landlord based on the interpretation of the related accounting standard at the time.

During the current year, the accounting for the lease was reviewed and it was determined that it would have been more appropriate to record the monthly lease costs on a straight-line basis over the term of the lease, smoothing out the impact of the fixed-rate rent escalation clauses, which results in an accounting treatment that is consistent with that of the rent-free period.

As a result, the financial statement amounts that are presented for comparative purposes have been restated to reflect the resulting decrease to the General Fund, Unrestricted of \$259,021 on account of increased rent that should have been recorded in prior years' with an offsetting increase to the deferred leasehold inducement of the same amount. This \$259,021 will be recorded as a reduction in rent expense over the remaining term of the lease.

Other financial statement amounts that are presented for comparative purposes have been restated to correct this as follows:

### Statement of financial position as at December 31, 2016:

Deferred leasehold inducement		
As previously reported	\$	151,029
As restated	\$	410,050
General fund, Unrestricted		
As previously reported	\$	1,880,067
As restated	\$	1,621,046

### Statement of operations for the year ended December 31, 2016:

Expenses, Building		
As previously reported	\$	579,600
As restated	\$	570,004
Excess of revenues over expenses for the year		
As previously reported	\$	564,626
As restated	\$	574,222

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## The Canadian Kennel Club Notes to Financial Statements

**December 31, 2017**

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**10. Prior Period Adjustment** (continued)

Statement of changes in net assets for the year ended December 31, 2016:

Net assets, end of year, Unrestricted fund		
As previously reported	\$	1,880,067
As restated	\$	1,621,046

Statement of cash flows for the year ended December 31, 2016:

Operating activities, Deferred leasehold inducement		
As previously reported	\$	(24,164)
As restated	\$	(33,760)