

The Canadian Kennel Club
Financial Statements
For the year ended December 31, 2018

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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, 2018, 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, 2018, 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 16, 2019

The Canadian Kennel Club Statement of Financial Position

As at December 31	2018	2017
Assets		
Current		
Cash	\$ 622,384	\$ 358,726
Short-term investments	3,416,082	3,000,000
Accounts receivable	334,534	533,582
Due from related party (Note 5)	53	125
Inventories	50,685	47,946
Prepaid expenses	74,442	113,322
	4,498,180	4,053,701
Capital and intangible assets (Note 3)	995,779	683,627
	\$ 5,493,959	\$ 4,737,328
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	\$ 598,829	\$ 443,893
Deferred revenue (Note 4)	650,744	632,605
	1,249,573	1,076,498
Deferred leasehold inducement	316,562	371,080
	1,566,135	1,447,578
Net assets		
Invested in capital assets fund	995,779	683,627
Externally restricted fund	9,630	9,630
General fund		
Unrestricted	2,594,076	2,188,175
Internally restricted	328,339	408,318
	3,927,824	3,289,750
	\$ 5,493,959	\$ 4,737,328

On behalf of the Board:

_____ Director

_____ Director

The Canadian Kennel Club Statement of Operations

For the year ended December 31	2018	2017
Revenue		
Registration revenue	\$ 3,135,693	\$ 3,094,343
Shows and trials fees	1,434,723	1,417,665
Membership fees	910,430	908,746
Product sales	397,328	391,524
Affiliate and corporate sponsorships	159,908	157,303
General revenue	79,511	70,186
Programs, projects and initiatives	25,489	31,784
Regulatory revenue	16,850	16,075
	6,159,932	6,087,626
Expenses		
Human resources	3,206,043	2,933,934
Building	534,926	699,455
Equipment	263,118	259,996
IT support services	220,310	340,792
Purchases for resale and distribution	221,239	218,028
Communications expense	206,712	277,288
Board of Directors	171,688	213,427
Professional fees	127,945	203,113
Administration	114,679	99,036
Bank fees and collection costs	110,380	100,469
Amortization	98,005	90,820
Postage	88,627	92,310
Committees and councils	73,711	92,973
Other general expenses	39,757	37,917
Market expansion	32,896	25,133
Programs, projects and new initiatives	11,822	16,051
Loss on disposal of capital and intangible assets	-	11,807
	5,521,858	5,712,549
Excess of revenues over expenses for the year	\$ 638,074	\$ 375,077

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, 2018

	General Fund							Unrestricted	Total
	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			
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 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	

For the year ended December 31, 2017

	General Fund							Unrestricted	Total
	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			
Net assets,									
beginning of year	\$ 267,999	\$ 9,630	\$ 64,895	\$ 951,103	\$ -	\$ 1,015,998	\$ 1,880,067	\$ 3,173,694	
Prior period adjustment	-	-	-	-	-	-	(259,021)	(259,021)	
Net assets,									
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)	-	
Net assets, end of year	\$ 683,627	\$ 9,630	\$ -	\$ 403,277	\$ 5,041	\$ 408,318	\$ 2,188,175	\$ 3,289,750	

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	2018	2017
Net inflow of cash related to following activities		
Operating activities		
Excess of revenues over expenses for the year	\$ 638,074	\$ 375,077
Items not affecting cash		
Amortization of capital and intangible assets	98,005	90,820
Loss on disposal of capital assets	-	11,807
Net change in non-cash operating working capital items		
Accounts receivable	199,048	(74,059)
Inventories	(2,739)	(7,016)
Prepaid expenses	38,880	(63,796)
Accounts payable and accrued liabilities	154,936	55,437
Deferred revenue	18,139	(74,277)
Deferred leasehold inducement	(54,518)	(38,970)
	1,089,825	275,023
Investing activities		
Increase in short-term investments	(416,082)	(300,000)
Repayment from related party (Note 5)	72	289
Proceeds on disposal of capital assets	-	3,724
Purchase of capital and intangible assets	(410,157)	(521,980)
	(826,167)	(817,967)
Increase (decrease) in cash during the year	263,658	(542,944)
Cash, beginning of year	358,726	901,670
Cash, end of year	\$ 622,384	\$ 358,726

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

The Canadian Kennel Club Notes to Financial Statements

December 31, 2018

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, 2018

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. In 2017, an election and referendum were held, which expended \$41,715 of the Fund. The balance of \$21,180 was not utilized and therefore 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. During the year, the Board of Directors approved an additional transfer of \$325,000 (2017 - \$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 2017, 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.

Inventories

Inventory is valued at the lower of weighted average cost and net realizable value. Included in purchases for resale and distribution expense is \$166,333 (2017 - \$168,725) 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 1.90% to 2.30% (2017 - 0.90% to 1.30%) and maturities ranging from January 23, 2019 to November 14, 2019 (2017 - January 19, 2018 to February 13, 2018).

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, 2018

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, 2018, the financial position of Apex includes total liabilities of \$837,420 (2017 - \$837,420) and a shareholder's deficiency of \$837,420 (2017 - \$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, 2018

3. Capital and Intangible Assets

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Capital assets				
Machinery and equipment	\$ 70,704	\$ 62,103	\$ 65,609	\$ 59,949
Furniture and fixtures	286,682	277,968	286,682	271,335
Computer equipment	353,952	289,092	343,104	262,196
Total	711,338	629,163	695,395	593,480
Intangible assets				
Computer software	783,735	324,057	389,521	261,735
ERP system	453,926	-	453,926	-
Total	1,237,661	324,057	843,447	261,735
	\$ 1,948,999	\$ 953,220	\$ 1,538,842	\$ 855,215
Net book value		\$ 995,779		\$ 683,627

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

4. Deferred Revenue

	2018	2017
Membership fees	\$ 552,578	\$ 517,773
Club fees	47,120	48,515
Judges fees	38,424	42,034
Rental income	12,622	24,283
	\$ 650,744	\$ 632,605

The Canadian Kennel Club

Notes to Financial Statements

December 31, 2018

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 \$72 from the Foundation for repayment of previously advanced funds (2017 - \$289). 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 are as follows:

2019	\$ 464,097
2020	424,074
2021	426,351
2022	411,551
2023	<u>102,888</u>
	<u>\$ 1,828,961</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 are as follows:

2019	\$ 130,307
2020	136,197
2021	136,197
2022	136,197
2023	<u>34,049</u>
	<u>\$ 572,947</u>

The Canadian Kennel Club Notes to Financial Statements

December 31, 2018

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, 2018 was \$92,928 (2017 - \$89,783). 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, 2018

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.