



**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Financial Statements

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Table of Contents

	Page(s)
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3 – 4
Statements of Functional Expenses	5 – 6
Statements of Cash Flows	7
Notes to Financial Statements	8 – 17



KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors
American Kennel Club Canine Health Foundation, Inc:

We have audited the accompanying statements of financial position of the American Kennel Club Canine Health Foundation, Inc. (the Foundation) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Kennel Club Canine Health Foundation, Inc., as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 27, 2012

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Statements of Financial Position

December 31, 2011 and 2010

Assets	2011	2010
Cash and cash equivalents	\$ 4,280,690	3,394,107
Investments (note 2)	6,846,802	7,072,450
Contributions receivable	22,600	68,274
Other receivables	3,908	2,409
Prepaid expenses	66,617	18,109
Fixed assets, net (note 1)	92,958	49,770
Total assets	\$ 11,313,575	10,605,119
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 69,607	119,877
Grants payable (note 3)	3,033,749	2,840,266
Total liabilities	3,103,356	2,960,143
Net assets (note 5):		
Unrestricted	1,980,393	1,110,122
Temporarily restricted	3,229,418	3,534,446
Permanently restricted	3,000,408	3,000,408
Total net assets	8,210,219	7,644,976
Total liabilities and net assets	\$ 11,313,575	10,605,119

See accompanying notes to financial statements.

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Statement of Activities
Year ended December 31, 2011

	2011			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Revenues and other support:				
Contributions	\$ 363,996	1,419,116	—	1,783,112
Contributions – American Kennel Club, Inc. (note 7)	—	500,000	—	500,000
Contributions – Nestle Purina and Pfizer Animal Health (note 8)	1,050,000	221,498	—	1,271,498
Interest and dividend income	8,451	104,359	—	112,810
Net unrealized and realized investment losses	—	(286,675)	—	(286,675)
Corporate sponsored events and conferences (notes 7 and 8)	247,605	—	—	247,605
In-kind donations (note 7)	171,083	—	—	171,083
Miscellaneous income	36,354	—	—	36,354
Net assets released from restrictions (note 6):				
Satisfaction of program restrictions	2,263,326	(2,263,326)	—	—
Total revenues and other support	<u>4,140,815</u>	<u>(305,028)</u>	<u>—</u>	<u>3,835,787</u>
Expenses (note 7):				
Canine research and education	2,523,782	—	—	2,523,782
Fund-raising	401,737	—	—	401,737
General and administrative	345,025	—	—	345,025
Total expenses	<u>3,270,544</u>	<u>—</u>	<u>—</u>	<u>3,270,544</u>
Increase (decrease) in net assets	870,271	(305,028)	—	565,243
Net assets – beginning of year	1,110,122	3,534,446	3,000,408	7,644,976
Net assets – end of year	<u>\$ 1,980,393</u>	<u>3,229,418</u>	<u>3,000,408</u>	<u>8,210,219</u>

See accompanying notes to financial statements.

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Statement of Activities

Year ended December 31, 2010

	2010			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Revenues and other support:				
Contributions	\$ 625,404	955,271	100,000	1,680,675
Contributions – American Kennel Club, Inc. (note 7)	—	500,000	—	500,000
Contributions – Nestle Purina and Pfizer Animal Health (note 8)	1,050,000	261,945	—	1,311,945
Interest and dividend income	22,162	36,275	—	58,437
Net unrealized and realized investment gains	77,446	527,136	—	604,582
Corporate sponsored events and conferences (notes 7 and 8)	139,570	—	—	139,570
In-kind donations (note 7)	165,053	—	—	165,053
Miscellaneous income	43,465	—	—	43,465
Net assets released from restrictions (note 6):				
Satisfaction of program restrictions	2,109,252	(2,109,252)	—	—
Total revenues and other support	<u>4,232,352</u>	<u>171,375</u>	<u>100,000</u>	<u>4,503,727</u>
Expenses (note 7):				
Canine research and education	2,105,680	—	—	2,105,680
Fund-raising	380,472	—	—	380,472
General and administrative	347,420	—	—	347,420
Total expenses	<u>2,833,572</u>	<u>—</u>	<u>—</u>	<u>2,833,572</u>
Increase in net assets	1,398,780	171,375	100,000	1,670,155
Net assets (deficit) – beginning of year	<u>(288,658)</u>	<u>3,363,071</u>	<u>2,900,408</u>	<u>5,974,821</u>
Net assets – end of year	<u>\$ 1,110,122</u>	<u>3,534,446</u>	<u>3,000,408</u>	<u>7,644,976</u>

See accompanying notes to financial statements.

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Statement of Functional Expenses

Year ended December 31, 2011

	2011			
	Canine research and education	Fund-raising	General and administrative	Total expenses
Grants	\$ 1,767,684	—	—	1,767,684
Payroll and related expenses	358,367	132,165	136,950	627,482
Professional and consulting fees	20,510	57,390	75,409	153,309
Staff training and education	386	2,025	2,587	4,998
Educational communications, programs and booths	225,117	4,248	35	229,400
Governance and special events	4,205	52,006	7,349	63,560
Printing and publications	23,484	19,858	7,740	51,082
Communication services	2,367	1,318	1,303	4,988
Postage and shipping	3,383	6,504	2,039	11,926
Marketing and advertising	—	71,800	—	71,800
Dues, memberships, subscriptions, and registrations	—	300	6,373	6,673
Business travel	11,637	3,979	1,251	16,867
Software and computer repairs/maintenance	15,945	7,600	7,348	30,893
Insurance	4,556	2,829	138	7,523
Depreciation	—	—	29,816	29,816
In-kind donations (note 7):				
Office space and services	85,542	34,217	51,324	171,083
Credit card processing and banking fees	372	5,416	7,034	12,822
Office supplies, recycling, and miscellaneous	227	82	8,329	8,638
Total	<u>\$ 2,523,782</u>	<u>401,737</u>	<u>345,025</u>	<u>3,270,544</u>

See accompanying notes to financial statements.

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Statement of Functional Expenses

Year ended December 31, 2010

	2010			
	Canine research and education	Fund-raising	General and administrative	Total expenses
Grants	\$ 1,527,349	—	—	1,527,349
Payroll and related expenses	320,274	161,992	150,430	632,696
Professional and consulting fees	6,410	7,260	47,910	61,580
Staff training and education	1,481	5,757	435	7,673
Educational communications, programs and booths	68,876	3,215	789	72,880
Governance and special events	2,593	98,475	13,107	114,175
Printing and publications	20,712	29,958	9,299	59,969
Communication services	2,786	2,199	1,720	6,705
Postage and shipping	5,425	2,027	1,465	8,917
Marketing and advertising	10,130	12,152		22,282
Dues, memberships, subscriptions, and registrations	650	600	6,756	8,006
Business travel	19,496	5,402	2,046	26,944
Software and computer repairs/maintenance	32,722	10,338	12,049	55,109
Insurance	4,250	2,550	3,682	10,482
Depreciation	—	—	34,838	34,838
In-kind donations (note 7):				
Office space and services	82,526	33,011	49,516	165,053
Credit card processing and banking fees	—	5,236	6,701	11,937
Office supplies, recycling, and miscellaneous	—	300	6,677	6,977
Total	<u>\$ 2,105,680</u>	<u>380,472</u>	<u>347,420</u>	<u>2,833,572</u>

See accompanying notes to financial statements.

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Statements of Cash Flows

Years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Increase in net assets	\$ 565,243	1,670,155
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	29,816	34,838
Net unrealized and realized investment losses (gains)	286,675	(604,582)
Noncash contribution of securities	(8,527)	(8,869)
Contributions restricted for long-term investment	—	(100,000)
Changes in assets and liabilities:		
Contributions receivable	45,674	11,230
Other receivables	(1,499)	1,095
Prepaid expenses	(48,508)	1,120
Accounts payable and accrued expenses	(50,270)	(42,968)
Grants payable	193,483	(282,033)
Total adjustments	446,844	(990,169)
Net cash provided by operating activities	1,012,087	679,986
Cash flows from investing activities:		
Purchase of investments	(800,315)	(649,582)
Proceeds from sale of investments	747,815	19,077
Purchase of fixed assets	(73,004)	(1,551)
Net cash used in investing activities	(125,504)	(632,056)
Cash flows from financing activity:		
Proceeds from contributions restricted for long-term investment	—	100,000
Net cash provided by financing activity	—	100,000
Increase in cash and cash equivalents	886,583	147,930
Cash and cash equivalents, beginning of year	3,394,107	3,246,177
Cash and cash equivalents, end of year	\$ 4,280,690	3,394,107

See accompanying notes to financial statements.

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Notes to Financial Statements

December 31, 2011 and 2010

(1) Nature of Operations and Summary of Significant Accounting Policies

(a) Nature of Operations

The American Kennel Club Canine Health Foundation, Inc. (the Foundation), established February 21, 1995, is a not-for-profit organization (exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code) formed for the purpose of furthering the advancement of knowledge of canine diseases and healthcare by clinical study, laboratory research, and publication.

(b) Basis of Accounting and Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. Temporarily restricted net assets have been restricted by donors for research grant purposes.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that the assets be maintained permanently by the Foundation. The earnings on related investments are temporarily restricted, until appropriated for expenditure. Upon appropriation for expenditure, they become unrestricted.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

(c) Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles (GAAP), management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Notes to Financial Statements

December 31, 2011 and 2010

(d) Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Foundation follows the measurement provisions of Accounting Standards Codification (ASC) 820, *Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in alternative investments that do not have readily determinable fair values. This guidance allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent, as reported by the investment managers.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the Foundation's interest therein, its classification in Level 2 or 3 under ASC 820 is based on the Foundation's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(e) Concentration of Credit Risk

At times, cash and cash equivalent balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. Cash and investments in money market funds and shares of registered investment companies are uninsured.

(f) Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Notes to Financial Statements

December 31, 2011 and 2010

(g) Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

(h) Contributions Receivable and Allowance for Doubtful Accounts

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Contributions receivable are expected to be received within one year, and are stated at the amount management expects to collect from outstanding balances. The Foundation considers all contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established as of December 31, 2011 and 2010.

(i) Fixed Assets

Fixed assets consist of the following:

	2011	2010
Computer equipment	\$ 25,791	27,185
Software	129,782	129,782
Equipment	28,533	36,432
Furniture and fixtures	34,297	34,297
Leasehold Improvements	68,134	—
Total	286,537	227,696
Accumulated depreciation	(193,579)	(177,926)
Total net of accumulated depreciation	\$ 92,958	49,770

Fixed assets are carried at cost. Donated fixed assets are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method.

(j) Grants

Unconditional grants are considered incurred and charged to expense at the time of approval by the board of directors.

(k) Income Taxes

The Foundation is exempt from federal income taxes under Internal Revenue Code 501(a) as an organization described in Section 501(c)(3). Accordingly, no provision for income taxes has been made.

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Notes to Financial Statements

December 31, 2011 and 2010

The Foundation follows the provisions of ASC 740-10, *Income Taxes – Overall*, relating to uncertainty in income taxes. ASC 740-10 establishes a minimum threshold for financial statement recognition of the positions taken, or expected to be taken, in filing tax returns. It requires the evaluation of tax positions taken, or expected to be taken in the course of preparing the Foundation's income tax returns to determine whether the tax positions are more likely than not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely than-not threshold are recorded as tax expense. The Foundation has no tax positions requiring accrual under this criteria.

(l) *Functional Allocation of Expenses*

The costs of providing the various programs and activities of the Foundation have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(m) *Subsequent Events*

In connection with the preparation of the financial statements and in accordance with GAAP, the Foundation considered for disclosure subsequent events that occurred after the statement of financial position date of December 31, 2011 through March 27, 2012, which was the date the financial statements were available to be issued. No subsequent events were noted that required disclosure in the financial statements.

(n) *Reclassifications*

Certain prior year balances have been reclassified to conform to current year presentation. These reclassifications had no impact on net assets or the financial position as previously reported.

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Notes to Financial Statements

December 31, 2011 and 2010

(2) Investments

A summary of the Foundation's investments at December 31, 2011 and 2010, reported at fair value, is as follows:

	<u>2011</u>	<u>2010</u>
Equities	\$ 8,476	21,633
Mutual funds:		
Large cap equity	1,670,463	1,670,195
Mid cap equity	—	580,073
Small cap equity	516,207	—
International equity	471,278	543,809
Fixed income	130,523	125,784
Subtotal	<u>2,788,471</u>	<u>2,919,861</u>
Corporate bonds	31,165	58,563
Alternative investments:		
International	1,463,785	1,396,562
Market neutral	1,112,600	1,137,514
Diversified	1,442,305	1,538,317
Subtotal	<u>4,018,690</u>	<u>4,072,393</u>
Total Investments	<u>\$ 6,846,802</u>	<u>7,072,450</u>

Mutual fund investments are measured at fair value based on quoted market prices. Investments in limited partnerships and offshore limited liability companies, which are described as alternative investments, are stated at net asset value in accordance with ASC 820. The financial statements of the alternative investments are audited annually by independent auditors.

The Foundation's alternative investments are diversified across three basic investment strategies as follows:

International – represents alternative investments in international equities with country and sector exposure that attempts to employ a value approach and emphasizes long-term investment and it focuses on the selection of individual securities using a bottom-up, research driven approach.

Market Neutral – represents alternative investments (fund of funds), which seek to achieve above average performance and superior service within the market's benchmark by managing hedge funds as a direct alternative to a traditional fixed income mutual fund portfolio.

Diversified – represents alternative investments (fund of funds), which seek to achieve better than benchmark performance over the long-term while having a variable range of strategies as they occur in the markets due to temporary adjustments including event-driven strategies, distressed debt, mergers and acquisitions and value investing.

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Notes to Financial Statements

December 31, 2011 and 2010

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

At December 31, 2011 and 2010, the fair value of the Foundation's investments was determined based on the following:

	2011			
	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value
Mutual funds	\$ 2,788,471	—	—	2,788,471
Equities	8,476	—	—	8,476
Corporate bonds	—	31,165	—	31,165
Alternative investments	—	4,018,690	—	4,018,690
	\$ 2,796,947	4,049,855	—	6,846,802

	2010			
	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value
Mutual funds	\$ 2,919,861	—	—	2,919,861
Equities	21,633	—	—	21,633
Corporate bonds	—	58,563	—	58,563
Alternative investments	—	4,072,393	—	4,072,393
	\$ 2,941,494	4,130,956	—	7,072,450

The Foundation's alternative investments contain monthly redemption restrictions with required written notice of 45 days, and semiannual redemption restrictions with required written notice of 90 days after the expiration of an annual lock-up period from the date of the initial investment. In addition, certain equity securities contain various quarterly redemption restrictions with required written notice ranging from 45 to 65 days. As of December 31, 2011, the following table summarizes the composition of such investments by the redemption provisions.

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Notes to Financial Statements

December 31, 2011 and 2010

<u>Redemption period</u>	<u>Total Amount</u>	<u>Divisified</u>	<u>Market Neutral</u>	<u>International</u>
Monthly	\$ 311,742	311,742	—	—
Quarterly	2,594,348	1,130,563	—	1,463,785
Semiannual	1,112,600	—	1,112,600	—
	<u>\$ 4,018,690</u>	<u>1,442,305</u>	<u>1,112,600</u>	<u>1,463,785</u>

(3) Grants Payable

Grants payable consist of amounts awarded, but not paid, to canine health researchers. Amounts included in grants payable at December 31, 2011 are scheduled to be disbursed as follows:

2012	\$ 1,852,287
2013	914,429
2014	255,604
2015	11,429
	<u>\$ 3,033,749</u>

(4) Line of Credit

The Foundation did not renew the \$250,000 line of credit with Wells Fargo (formerly Wachovia) in 2011. No amounts were outstanding under this credit line at December 31, 2010.

(5) Endowment

At the request of its donors, the Foundation has established a permanent operating endowment. The Foundation's donor-restricted endowment funds are subject to the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA provides, among other things, expanded spending flexibility by allowing, subject to a standard of prudence, the institution to spend from an endowment fund without regard to the book value of the corpus of the fund. Management of the Foundation has interpreted this law as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary and considers the invasion of endowment principal as an option of last resort. As a result of this interpretation, the original value of all donor-restricted endowed gifts are recorded as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until these amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence described by the Act. Once appropriated for expenditure by the Foundation, the amount is reclassified as unrestricted net assets.

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Notes to Financial Statements

December 31, 2011 and 2010

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for its programs while seeking to maintain the stability of the endowment assets. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that equal the performance of a custom-balanced index (comprising the S&P 500 Index, Russell 2000 Index, MSCI EAFE, and Citigroup 90-day Treasury Bill Index) while assuming a reasonable level of investment risk.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The Foundation has adopted a spending policy, which allows up to 5% of the endowment balance to be appropriated for expenditure in a given year. In 2011, the Foundation chose not to appropriate the endowment's assets for expenditure due to the net unrealized and realized investment losses incurred.

The composition of the Foundation's donor-restricted endowment by net asset class at the end of the year is as follows:

	<u>2011</u>	<u>2010</u>
Unrestricted	\$ —	—
Temporary restricted	149,446	205,817
Permanently restricted	3,000,408	3,000,408
	<u>\$ 3,149,854</u>	<u>3,206,225</u>

A reconciliation of the beginning and ending balance of the Foundation's endowment, in total and by net asset class, is as follows:

	<u>2011</u>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment, beginning of year	\$ —	205,817	3,000,408	3,206,225
Interest and dividend income	—	39,618	—	39,618
Net unrealized and realized investment loss	—	(95,989)	—	(95,989)
Endowment, end of year	<u>\$ —</u>	<u>149,446</u>	<u>3,000,408</u>	<u>3,149,854</u>

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Notes to Financial Statements

December 31, 2011 and 2010

	2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment, beginning of year	\$ (4,914)	77,042	2,900,408	2,972,536
Interest and dividend income	—	17,483	—	17,483
Net unrealized and realized investment income	4,914	280,041	—	284,955
Contributions	—	—	100,000	100,000
Appropriation of endowment assets for expenditure	168,749	(168,749)	—	—
Expenditures	(168,749)	—	—	(168,749)
Endowment, end of year	\$ —	205,817	3,000,408	3,206,225

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or state law requires the Foundation to retain as a fund of perpetual duration. Future gains to restore the fair value of the donor-restricted endowment funds to the required level shall first be reported as increases in unrestricted net assets to the extent of the deficiency. There was no deficiency of this nature reported as unrestricted net assets as of December 31, 2011 or 2010.

(6) Net Assets Released from Restrictions

Temporarily restricted net assets are available to fund canine research. Net assets of \$2,263,326 and \$2,109,252 were released from donor restrictions by incurring grant expenses satisfying the restricted purposes specified by donors during the years ended December 31, 2011 and 2010, respectively.

(7) Related-Party Transactions

The American Kennel Club contributed \$500,000 for research grants in both 2011 and 2010. In 2011, the Club also contributed \$5,000 towards the Foundation's National Parent Club Canine Health Conference (included in corporate sponsored events and conferences on the 2011 statement of activities).

The Foundation's offices are located within the Club's operations center in Raleigh, North Carolina. In addition to providing rent-free use of its office space, the Club also provided administrative support services to the Foundation. The total estimated value of these donated items was \$171,083 and \$165,053 in 2011 and 2010, respectively.

The Foundation's employees are covered under the Club's pension plan as a related organization. The Foundation made required contributions to this plan, which is administered by the Club, of \$13,461 and \$0 in 2011 and 2010, respectively.

**AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.**

Notes to Financial Statements

December 31, 2011 and 2010

(8) Concentration of Support

The Foundation receives contributions from corporate donors. Nestle Purina contributed \$1,021,498 and \$1,061,945 for the years ended December 31, 2011 and 2010, respectively. In 2011, Nestle Purina also contributed \$100,000 towards the Foundation's National Parent Club Canine Health Conference (included in corporate sponsored events and conferences on the 2011 statement of activities). Pfizer Animal Health contributed \$250,000 for each of the years ended December 31, 2011 and 2010. Also, see note 7 – related-party transactions for contributions from the Club.