

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

Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

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

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Williams Overman Pierce, LLP  
Certified Public Accountants and Consultants

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
American Kennel Club Canine Health Foundation, Inc.

We have audited the accompanying financial statements of the American Kennel Club Canine Health Foundation, Inc. (a not-for-profit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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 auditors' 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 referred to above present fairly, in all material respects, the financial position of American Kennel Club Canine Health Foundation, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Prior Year Financial Statements

The financial statements of the American Kennel Club Canine Health Foundation, Inc. as of December 31, 2015, were audited by other auditors whose report dated August 22, 2016, expressed an unmodified opinion on those statements.

*William Overman Pierce, LLP*

Raleigh, North Carolina  
March 3, 2017

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

Statements of Financial Position

December 31, 2016 and 2015 (Restated)

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 6,924,251	\$ 5,097,825
Investments (note 2)	7,851,461	7,323,609
Receivable for proceeds from sale of investments	639,025	504,652
Contributions receivable (note 3)	975,167	1,150,031
Other receivables	2,368	1,934
Prepaid expenses	64,730	83,921
Fixed assets, net (note 4)	60,380	77,261
Total assets	\$ 16,517,382	\$ 14,239,233
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 55,179	\$ 97,646
Grants payable (note 5)	3,727,667	3,574,296
Total liabilities	3,782,846	3,671,942
Net assets:		
Unrestricted	2,004,167	2,063,321
Temporarily restricted (note 7)	6,722,917	5,503,562
Permanently restricted (notes 6 and 9)	4,007,452	3,000,408
Total net assets	12,734,536	10,567,291
Total liabilities and net assets	\$ 16,517,382	\$ 14,239,233

See accompanying notes to financial statements.

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

Statement of Activities

Year ended December 31, 2016

	<b>2016</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	
Revenues and other support:				
Contributions	\$ 817,172	\$ 1,167,738	\$ 1,007,044	\$ 2,991,954
Contributions from related parties (note 10)	400,000	1,303,320	—	1,703,320
Grant management income	27,177	—	—	27,177
Interest and dividend income	16,844	206,097	—	222,941
Net unrealized and realized investment gains	31,269	82,248	—	113,517
Sponsored events and conferences	87,837	—	—	87,837
In-kind donations (note 10)	330,517	—	—	330,517
Miscellaneous income	18,731	—	—	18,731
Net assets released from restrictions (note 8)	1,540,048	(1,540,048)	—	—
Total revenues and other support	<u>3,269,595</u>	<u>1,219,355</u>	<u>1,007,044</u>	<u>5,495,994</u>
Expenses:				
Canine research and education	2,424,901	—	—	2,424,901
Fundraising	326,091	—	—	326,091
General and administrative	577,757	—	—	577,757
Total expenses	<u>3,328,749</u>	<u>—</u>	<u>—</u>	<u>3,328,749</u>
(Decrease) increase in net assets	(59,154)	1,219,355	1,007,044	2,167,245
Net assets – beginning of year (as restated)	<u>2,063,321</u>	<u>5,503,562</u>	<u>3,000,408</u>	<u>10,567,291</u>
Net assets – end of year	<u>\$ 2,004,167</u>	<u>\$ 6,722,917</u>	<u>\$ 4,007,452</u>	<u>\$ 12,734,536</u>

See accompanying notes to financial statements.

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

Statement of Activities

Year ended December 31, 2015 (Restated)

	2015			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Revenues and other support:				
Contributions	\$ 546,360	\$ 2,077,273	\$ —	\$ 2,623,633
Contributions from related parties (note 10)	288,829	702,567	—	991,396
Grant management income	67,256	—	—	67,256
Interest and dividend income	11,744	86,611	—	98,355
Net unrealized and realized investment losses	(21,604)	(272,636)	—	(294,240)
Sponsored events and conferences	138,438	—	—	138,438
In-kind donations (note 10)	151,772	—	—	151,772
Miscellaneous income	28,146	—	—	28,146
Net assets released from restrictions (note 8)	2,384,043	(2,384,043)	—	—
Total revenues and other support	<u>3,594,984</u>	<u>209,772</u>	<u>—</u>	<u>3,804,756</u>
Expenses:				
Canine research and education	2,188,795	—	—	2,188,795
Fundraising	398,372	—	—	398,372
General and administrative	489,897	—	—	489,897
Total expenses	<u>3,077,064</u>	<u>—</u>	<u>—</u>	<u>3,077,064</u>
Increase in net assets	517,920	209,772	—	727,692
Net assets – beginning of year	<u>1,545,401</u>	<u>5,293,790</u>	<u>3,000,408</u>	<u>9,839,599</u>
Net assets – end of year	<u>\$ 2,063,321</u>	<u>\$ 5,503,562</u>	<u>\$ 3,000,408</u>	<u>\$ 10,567,291</u>

See accompanying notes to financial statements.

**AMERICAN KENNEL CLUB  
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Statement of Functional Expenses

Year ended December 31, 2016

	<b>2016</b>			
	<u>Canine research and education</u>	<u>Fundraising</u>	<u>General and administrative</u>	<u>Total expenses</u>
Grants	\$ 1,845,631	\$ —	\$ —	\$ 1,845,631
Payroll and related expenses	299,335	106,583	349,184	755,102
Professional and consulting fees	7,994	7,331	89,157	104,482
Staff training and education	—	1,785	2,406	4,191
Educational communications, programs, and booths	18,558	4,440	—	22,998
Governance and special events	2,717	19,712	21,122	43,551
Printing and publications	10,407	13,290	5,936	29,633
Communication services	749	215	1,569	2,533
Postage and shipping	—	96	1,602	1,698
Marketing and advertising	949	34,464	—	35,413
Dues, memberships, subscriptions, and registrations	542	—	1,634	2,176
Business travel	4,570	3,810	519	8,899
Software and computer repairs and maintenance	44,557	29,225	16,684	90,466
Insurance	—	—	10,817	10,817
Depreciation	—	—	16,881	16,881
In-kind donations (note 10):				
Office space and services	188,892	101,383	40,242	330,517
Credit card processing and banking fees	—	3,757	3,612	7,369
Office supplies, recycling, and miscellaneous	—	—	16,392	16,392
Total	<u>\$ 2,424,901</u>	<u>\$ 326,091</u>	<u>\$ 577,757</u>	<u>\$ 3,328,749</u>

See accompanying notes to financial statements.



**AMERICAN KENNEL CLUB  
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Statement of Functional Expenses

Year ended December 31, 2015 (Restated)

	<b>2015</b>			
	<b>Canine research and education</b>	<b>Fundraising</b>	<b>General and administrative</b>	<b>Total expenses</b>
Grants	\$ 1,437,113	\$ —	\$ —	\$ 1,437,113
Payroll and related expenses	268,478	170,709	265,960	705,147
Professional and consulting fees	9,356	40,309	105,002	154,667
Staff training and education	1,936	2,424	1,990	6,350
Educational communications, programs, and booths	313,986	4,689	—	318,675
Governance and special events	1,977	44,146	10,142	56,265
Printing and publications	16,647	24,260	8,728	49,635
Communication services	938	137	2,199	3,274
Postage and shipping	390	(81)	1,741	2,050
Marketing and advertising	9,476	38,731	—	48,207
Dues, memberships, subscriptions, and registrations	204	300	7,836	8,340
Business travel	15,871	11,878	—	27,749
Software and computer repairs and maintenance	39,401	23,536	12,161	75,098
Insurance	—	—	11,803	11,803
Depreciation	—	—	8,847	8,847
In-kind donations (note 10):				
Office space and services	72,850	34,908	44,014	151,772
Credit card processing and banking fees	—	2,363	4,239	6,602
Office supplies, recycling, and miscellaneous	172	63	5,235	5,470
Total	\$ 2,188,795	\$ 398,372	\$ 489,897	\$ 3,077,064

See accompanying notes to financial statements.

**AMERICAN KENNEL CLUB  
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Statements of Cash Flows

Years ended December 31, 2016 and 2015 (Restated)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Increase in net assets	\$ 2,167,245	\$ 727,692
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	16,881	8,847
Net unrealized and realized investment (gains) losses	(113,517)	294,240
Contributions restricted for permanent endowment	(1,007,044)	—
Changes in assets and liabilities:		
Contributions receivable	174,864	(454,817)
Other receivables	(434)	19,020
Prepaid expenses	19,191	(9,037)
Accounts payable and accrued expenses	(42,467)	(70,083)
Grants payable	153,371	(712,616)
Total adjustments	<u>(799,155)</u>	<u>(924,446)</u>
Net cash provided by (used in) operating activities	<u>1,368,090</u>	<u>(196,754)</u>
Cash flows from investing activities:		
Purchase of investments	(2,607,277)	(656,530)
Proceeds from sale of investments	2,192,942	1,332,217
Purchase of fixed assets	—	(72,493)
Receivable for proceeds from sale of investments	(134,373)	(504,652)
Net cash (used in) provided by investing activities	<u>(548,708)</u>	<u>98,542</u>
Cash flows from financing activities:		
Contributions restricted for permanent endowment	<u>1,007,044</u>	<u>—</u>
Net cash provided by financing activities	<u>1,007,044</u>	<u>—</u>
Increase (decrease) in cash and cash equivalents	1,826,426	(98,212)
Cash and cash equivalents, beginning of year	<u>5,097,825</u>	<u>5,196,037</u>
Cash and cash equivalents, end of year	<u>\$ 6,924,251</u>	<u>\$ 5,097,825</u>

See accompanying notes to financial statements.

**AMERICAN KENNEL CLUB  
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Notes to Financial Statements

**(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.

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Notes to Financial Statements

**(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 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active and alternative investments redeemable at or near the date of the statement of financial position (generally within 90 days).

Level 3 inputs are unobservable inputs for the asset or liability and include alternative investments that are not redeemable at or near the date of the statement of financial position.

The Foundation follows the measurement provisions of FASB ASC Subtopic 820-10, *Categorizing Investments in Certain Entities That Calculate Net Asset Value per Share* (or Its Equivalent) within the Fair Value Hierarchy, 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.

In accordance with FASB ASU 2015-07, investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy in Note 2. The application of valuation techniques applied has been consistent.

**(e) 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. 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.

The Foundation maintains accounts with an investment firm. The accounts contain cash and securities. Balances are insured by the Securities Investor Protection Corporation up to \$500,000 (with a limit of \$250,000 for cash) for certain acts by the broker dealer.

**(f) Contributions**

Contributions, including unconditional promises to give, are recognized as revenues in the period received or pledged. Conditional promises to give are not recognized until they become

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Notes to Financial Statements

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.

**(g) *Contributions Receivable and Allowance for Doubtful Accounts***

Pledges that represent unconditional promises to give are recognized as contributions – either as unrestricted, temporarily restricted, or permanently restricted – in the period such promises are made by donors. An allowance is recorded for uncollectible contributions receivable based upon management’s expectations regarding collection of outstanding promises to give and past collection experience. The Foundation considers all contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established as of December 31, 2016 or 2015.

In contrast to unconditional promises as described above, conditional promises are not recorded until donor conditions are substantially met.

**(h) *Grants***

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

**(i) *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). Activities of the Foundation which are considered to be unrelated business income under tax law are subject to tax which, if incurred, is recognized as a current expense. No such tax has been recognized for the years ended December 31, 2016 and 2015.

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 benefits of position 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 will more likely than not be 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.

The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. As of December 31, 2016, the Foundation’s tax returns for the tax years ended December 31, 2013 through December 31, 2015 remain subject to examination by tax authorities.

**(j) *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.

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Notes to Financial Statements

**(k) Reclassifications**

Certain amounts in the 2015 financial statements have been reclassified to conform with the 2016 presentation with no effect on previously reported increase in net assets.

**(l) Subsequent Events**

In connection with the preparation of the financial statements, the Foundation considered for disclosure subsequent events that occurred after the statement of financial position date of December 31, 2016 through March 3, 2017, which was the date the financial statements were available to be issued. No subsequent events were noted that required disclosure in the financial statements.

**(2) Investments**

A summary of the Foundation's investments at December 31, 2016 and 2015, reported at fair value, is as follows:

	<u>2016</u>	<u>2015</u>
Mutual funds:		
Large cap equity	\$ 3,329,917	\$ 2,996,698
Small cap equity	1,148,084	953,599
International equity	1,182,065	1,068,378
Fixed income	<u>2,191,395</u>	<u>950,064</u>
Subtotal	7,851,461	5,968,739
Alternative investments:		
Market neutral	—	897,147
Diversified	<u>—</u>	<u>457,723</u>
Subtotal	—	1,354,870
Total investments	<u>\$ 7,851,461</u>	<u>\$ 7,323,609</u>

Mutual fund investments are measured at fair value based on quoted market prices. Investments in limited partnerships and international 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 two basic investment strategies as follows:

Market Neutral – represents alternative investments (fund of funds), which seek to achieve above average performance 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 including event-driven strategies, distressed debt, mergers and acquisitions, and value investing.

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Notes to Financial Statements

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 statements of financial position.

At December 31, 2016 and 2015, the fair value of the Foundation's investments was determined based on the following:

<b>2016</b>				
	<b>Quoted prices in active markets (Level 1)</b>	<b>Other observable inputs (Level 2)</b>	<b>Unobservable inputs (Level 3)</b>	<b>Fair value</b>
Mutual funds	\$ <u>7,851,461</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>7,851,461</u>

<b>2015</b>				
	<b>Quoted prices in active markets (Level 1)</b>	<b>Other observable inputs (Level 2)</b>	<b>Unobservable inputs (Level 3)</b>	<b>Fair value</b>
Mutual funds	\$ 5,968,739	\$ —	\$ —	\$ 5,968,739
Alternative investments	—	1,354,870	—	1,354,870
	\$ <u>5,968,739</u>	\$ <u>1,354,870</u>	\$ <u>—</u>	\$ <u>7,323,609</u>

**(3) Contributions Receivable**

Contributions receivable are scheduled to be collected as follows at December 31:

	<b>2016</b>	<b>2015</b>
Contributions due in less than one year	\$ 747,593	\$ 710,023
Contributions due in one to five years	<u>227,574</u>	<u>440,008</u>
	\$ <u>975,167</u>	\$ <u>1,150,031</u>

Approximately 59% and 68% of the contributions receivable balance pertained to two donors at December 31, 2016 and 2015, respectively.

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Notes to Financial Statements

**(4) Fixed Assets**

Fixed assets consist of the following at December 31:

	<b>2016</b>	<b>2015</b>
Computer equipment	\$ 25,287	\$ 25,287
Software	178,360	178,360
Equipment	20,728	20,728
Furniture and fixtures	34,297	34,297
Total	258,672	258,672
Accumulated depreciation	(198,292)	(181,411)
Total, net of accumulated depreciation	\$ 60,380	\$ 77,261

Fixed assets are carried at cost. Donated fixed assets are recorded at fair value at the date of donation. It is the Foundation's policy to capitalize expenditures for these items in excess of \$1,000. Lesser amounts are expensed. Depreciation is computed using the straight-line method with useful lives ranging from three to five years.

At December 31, 2015, software totaling \$67,325 was recorded but not generating depreciation expense as it was not placed into service until January 2016.

**(5) Grants Payable**

Grants payable consist of amounts awarded, but not paid, to canine health researchers. Amounts included in grants payable at December 31, 2016, are scheduled to be disbursed as follows:

2017	\$	2,474,995
2018		1,002,862
2019		249,810
	\$	3,727,667

**(6) 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. The original values 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 UPMIFA. Once appropriated for expenditure by the Foundation, the amount is reclassified as unrestricted net assets.



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Notes to Financial Statements

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 – Net, and Citigroup 1 Month 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 that allows up to 5% of the endowment balance to be appropriated for expenditure in a given year.

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

<b>2016</b>				
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment, beginning of year	\$ —	\$ 261,576	\$ 3,000,408	\$ 3,261,984
Contributions	—	—	1,007,044	1,007,044
Interest and dividend income	—	66,871	—	66,871
Net unrealized and realized investment gain	—	27,451	—	27,451
Investment management fees	—	(2,303)	—	(2,303)
Endowment, end of year	\$ —	\$ 353,595	\$ 4,007,452	\$ 4,361,047
<b>2015</b>				
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment, beginning of year	\$ —	\$ 500,814	\$ 3,000,408	\$ 3,501,222
Interest and dividend income	—	52,838	—	52,838
Net unrealized and realized investment loss	—	(118,459)	—	(118,459)
Investment management fees	—	(1,837)	—	(1,837)
Appropriation of endowment assets for expenditure	—	(171,780)	—	(171,780)
Endowment, end of year	\$ —	\$ 261,576	\$ 3,000,408	\$ 3,261,984

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Notes to Financial Statements

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, 2016 or 2015.

**(7) Temporarily Restricted Net Assets**

Temporarily restricted net assets as of December 31, 2016 and 2015 are available for the following purposes:

	<b>2016</b>	<b>2015</b>
Canine research	\$ 6,369,322	\$ 5,241,986
General operations	353,595	261,576
	\$ 6,722,917	\$ 5,503,562

**(8) Net Assets Released from Restrictions**

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors. The amounts released during the years ended December 31 were as follows:

	<b>2016</b>	<b>2015</b>
Restriction:		
Canine research	\$ 1,540,048	\$ 2,212,263
General operations	—	171,780
	\$ 1,540,048	\$ 2,384,043

**(9) Permanently Restricted Net Assets**

Permanently restricted net assets are restricted endowments in which the principal is invested in perpetuity and the income is expendable to support general operations. Permanently restricted net assets were \$4,007,452 and \$3,000,408 at December 31, 2016 and 2015, respectively.

**(10) Related Party Transactions and Concentration of Support**

The Foundation receives a substantial amount of contributions from the American Kennel Club (the Club) and certain corporate donors. The Club along with certain corporate donors are deemed to be related parties of the Foundation as they have members represented on the Foundation's Board of Directors.

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Notes to Financial Statements

The Foundation's related parties and the amounts contributed from these related party organizations are summarized as follows for the years ended December 31:

	<b>2016</b>	<b>2015</b>
Related parties and concentrations of support:		
American Kennel Club	\$ 1,083,231	\$ 493,002
Nestle Purina	370,089	498,394
Zoetis	250,000	—
	\$ 1,703,320	\$ 991,396

At December 31, 2016 and 2015, contributions receivable due from the Club totaled \$409,091 and \$363,420, respectively.

In addition to the above amounts, the Club also provided the Foundation with in-kind donations. In-kind donations consisted of the Club providing rent-free use of its operations office space in Raleigh, North Carolina, and providing administrative support services to the Foundation. The total estimated value of these donated items was \$158,410 and \$151,772 in 2016 and 2015, respectively.

These related parties accounted for 37% and 30% of the Foundation's contributions, grant management income, and in-kind donations revenues for the years ended December 31, 2016 and 2015, respectively.

During the year ended December 31, 2016, Foundation event expenses totaling \$73,489 were paid by a member on the Foundation's Board of Directors and were recorded as in-kind donations.

The Foundation has a Scientific Review Committee made up of veterinarians, medical doctors, researchers and canine health experts. During the year ended December 31, 2016, the Foundation has recognized \$98,618 in in-kind donations for time provided by this committee.

The Foundation's former employees are covered under the Club's pension plan, Employees' Retirement Plan of The American Kennel Club, as a related organization. The Club's pension plan was frozen in 2012 and employees hired subsequently are ineligible to participate in the pension plan. The Foundation made required contributions to this plan, which is administered by the Club, of \$136,294 and \$80,709 for the years ended December 31, 2016 and 2015, respectively. The Foundation's current employees are covered under a 401(k) plan which is administered by the Club as a related organization. The Foundation made employer matching contributions to the Club's 401(k) plan of \$12,601 and \$15,712 in 2016 and 2015, respectively.

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Notes to Financial Statements

**(11) Leases**

Future payments due under software agreements are as follows:

2017	\$	93,929
2018		91,757
2019		47,475
	\$	<u>233,161</u>

**(12) Restatement**

During the year ended December 31, 2016, the Foundation determined that liabilities were overstated as of December 31, 2015. As a result, items presented on the Statement of Financial Position and Statement of Activities for the year ended December 31, 2015 have been restated as follows:

	<b>Statement of Financial Position</b>		
	<b>2015 as previously stated</b>	<b>Restatement</b>	<b>2015 as restated</b>
Grants payable	\$ 3,691,715	\$ (117,419)	\$ 3,574,296
Net assets:			
Unrestricted	\$ 1,945,902	\$ 117,419	\$ 2,063,321
Temporarily restricted	5,503,562	—	5,503,562
Permanently restricted	3,000,408	—	3,000,408
Total net assets	<u>\$ 10,449,872</u>	<u>\$ 117,419</u>	<u>\$ 10,567,291</u>

	<b>Statement of Activities</b>		
	<b>2015 as previously stated</b>	<b>Restatement</b>	<b>2015 as restated</b>
Miscellaneous income	\$ 145,565	\$ (117,419)	\$ 28,146
Expenses:			
Canine research and education	\$ 2,423,633	\$ (234,838)	\$ 2,188,795