

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

Financial Statements

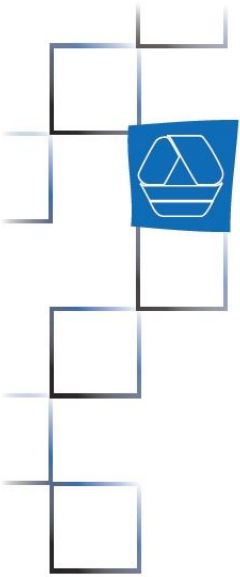
December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

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

Table of Contents

	Page(s)
Independent Auditors' Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to Financial Statements	9-17



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., which are comprised of the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Williams Overman Pierce, LLP

Raleigh, North Carolina
February 27, 2018

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

Statements of Financial Position

December 31, 2017 and 2016

Assets	2017	2016
Cash and cash equivalents	\$ 2,869,411	\$ 6,924,251
Investments (note 2)	13,784,613	7,851,461
Receivable for proceeds from sale of investments	2,888	639,025
Contributions receivable (note 3)	1,001,941	975,167
Other receivables	2,682	2,368
Prepaid expenses	67,058	64,730
Fixed assets, net (note 4)	43,645	60,380
Total assets	\$ 17,772,238	\$ 16,517,382
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 40,725	\$ 55,179
Grants payable (note 5)	3,698,333	3,727,667
Total liabilities	3,739,058	3,782,846
Net assets:		
Unrestricted	1,954,498	2,004,167
Temporarily restricted (note 7)	8,071,230	6,722,917
Permanently restricted (notes 6 and 9)	4,007,452	4,007,452
Total net assets	14,033,180	12,734,536
Total liabilities and net assets	\$ 17,772,238	\$ 16,517,382

See accompanying notes to financial statements.

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

Statement of Activities

Year ended December 31, 2017

	2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and other support:				
Contributions	\$ 330,774	\$ 1,328,329	\$ —	\$ 1,659,103
Contributions from related parties (note 10)	314,691	1,058,666	—	1,373,357
Grant management income	35,361	—	—	35,361
Interest and dividend income	67,643	329,816	—	397,459
Net unrealized and realized investment gains	57,201	766,550	—	823,751
Sponsored events and conferences	108,761	—	—	108,761
In-kind donations (note 10)	374,677	—	—	374,677
Miscellaneous income	14,944	—	—	14,944
Net assets released from restrictions (note 8)	2,135,048	(2,135,048)	—	—
Total revenues and other support	3,439,100	1,348,313	—	4,787,413
Expenses:				
Canine research and education	2,730,206	—	—	2,730,206
Fundraising	365,131	—	—	365,131
General and administrative	393,432	—	—	393,432
Total expenses	3,488,769	—	—	3,488,769
(Decrease) increase in net assets	(49,669)	1,348,313	—	1,298,644
Net assets – beginning of year	2,004,167	6,722,917	4,007,452	12,734,536
Net assets – end of year	\$ 1,954,498	\$ 8,071,230	\$ 4,007,452	\$ 14,033,180

See accompanying notes to financial statements.

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

Statement of Activities

Year ended December 31, 2016

	2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
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	<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 Functional Expenses

Year ended December 31, 2017

	2017			
	Canine research and education	Fundraising	General and administrative	Total expenses
Grants	\$ 1,924,314	\$ —	\$ —	\$ 1,924,314
Payroll and related expenses	374,657	140,147	264,608	779,412
Professional and consulting fees	906	454	35,098	36,458
Staff training and education	2,317	3,246	4,363	9,926
Educational communications, programs, and booths	134,389	406	1,000	135,795
Governance and special events	281	16,374	8,345	25,000
Printing and publications	714	15,628	5,292	21,634
Communication services	804	1,109	171	2,084
Postage and shipping	—	—	1,268	1,268
Marketing and advertising	475	11,752	—	12,227
Dues, memberships, subscriptions, and registrations	504	13,520	290	14,314
Business travel	9,089	7,576	—	16,665
Software and computer repairs and maintenance	57,319	29,929	8,688	95,936
Insurance	—	—	12,500	12,500
Depreciation	—	—	16,735	16,735
In-kind donations (note 10):				
Office space and services	224,437	119,006	31,234	374,677
Credit card processing and banking fees	—	5,984	2,872	8,856
Office supplies, recycling, and miscellaneous	—	—	968	968
Total	<u>\$ 2,730,206</u>	<u>\$ 365,131</u>	<u>\$ 393,432</u>	<u>\$ 3,488,769</u>

See accompanying notes to financial statements.

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

Statement of Functional Expenses

Year ended December 31, 2016

	2016			
	Canine research and education	Fundraising	General and administrative	Total expenses
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	\$ 2,424,901	\$ 326,091	\$ 577,757	\$ 3,328,749

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Increase in net assets	\$ 1,298,644	\$ 2,167,245
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	16,735	16,881
Net unrealized and realized investment gains	(823,751)	(113,517)
Contributions restricted for permanent endowment	—	(1,007,044)
Changes in assets and liabilities:		
Contributions receivable	(26,774)	174,864
Other receivables	(314)	(434)
Prepaid expenses	(2,328)	19,191
Accounts payable and accrued expenses	(14,454)	(42,467)
Grants payable	(29,334)	153,371
Total adjustments	(880,220)	(799,155)
Net cash provided by operating activities	418,424	1,368,090
Cash flows from investing activities:		
Purchase of investments	(6,670,086)	(2,607,277)
Proceeds from sale of investments	1,560,685	2,192,942
Receivable for proceeds from sale of investments	636,137	(134,373)
Net cash used in investing activities	(4,473,264)	(548,708)
Cash flows from financing activities:		
Contributions restricted for permanent endowment	—	1,007,044
Net cash provided by financing activities	—	1,007,044
(Decrease) increase in cash and cash equivalents	(4,054,840)	1,826,426
Cash and cash equivalents, beginning of year	6,924,251	5,097,825
Cash and cash equivalents, end of year	\$ 2,869,411	\$ 6,924,251

See accompanying notes to financial statements.

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

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 and general operations.

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

(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, for 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

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

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, 2017 or 2016.

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, 2017 and 2016.

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, 2017, the Foundation’s tax returns for the tax years ended December 31, 2014 through December 31, 2016 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.

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

Notes to Financial Statements

(k) 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, 2017 through February 27, 2018, 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, 2017 and 2016, reported at fair value, is as follows:

	2017	2016
Mutual funds:		
Large cap equity	\$ 4,419,848	\$ 3,329,917
Small cap equity	1,650,976	1,148,084
International equity	1,459,282	1,182,065
Fixed income	6,254,507	2,191,395
Total investments	\$ 13,784,613	\$ 7,851,461

Mutual fund investments are measured at fair value based on quoted market prices.

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, 2017 and 2016, the fair value of the Foundation's investments was determined based on the following:

	2017			
	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value
Mutual funds	\$ 13,784,613	\$ —	\$ —	\$ 13,784,613

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

Notes to Financial Statements

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

(3) Contributions Receivable

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

	2017	2016
Contributions due in less than one year	\$ 901,671	\$ 747,593
Contributions due in one to five years	<u>100,270</u>	<u>227,574</u>
	<u>\$ 1,001,941</u>	<u>\$ 975,167</u>

Approximately 71% of the contributions receivable balance pertained to three donors at December 31, 2017. Approximately 59% of the contributions receivable balance pertained to two donors at December 31, 2016.

(4) Fixed Assets

Fixed assets consist of the following at December 31:

	2017	2016
Computer equipment	\$ 25,287	\$ 25,287
Software	178,360	178,360
Equipment	20,728	20,728
Furniture and fixtures	<u>34,297</u>	<u>34,297</u>
Total	258,672	258,672
Accumulated depreciation	<u>(215,027)</u>	<u>(198,292)</u>
Total, net of accumulated depreciation	<u>\$ 43,645</u>	<u>\$ 60,380</u>

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.

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

Notes to Financial Statements

(5) Grants Payable

Grants payable consist of amounts awarded, but not paid, to canine health researchers. Amounts included in grants payable at December 31, 2017, are scheduled to be disbursed as follows:

2018	\$	2,343,930
2019		1,081,606
2020		221,937
2021		50,860
	\$	<u>3,698,333</u>

(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.

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, Bloomberg Aggregate Bond Index, 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 that allows up to 5% of the endowment balance to be appropriated for expenditure in a given year.

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

Notes to Financial Statements

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

	2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment, beginning of year	\$ —	\$ 353,595	\$ 4,007,452	\$ 4,361,047
Interest and dividend income	—	153,080	—	153,080
Net unrealized and realized investment gain	—	355,895	—	355,895
Investment management fees	—	(3,054)	—	(3,054)
Endowment, end of year	\$ —	\$ 859,516	\$ 4,007,452	\$ 4,866,968
	2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
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

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, 2017 or 2016.

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2017 and 2016 are available for the following purposes:

	2017	2016
Canine research	\$ 7,211,714	\$ 6,369,322
General operations	859,516	353,595
	\$ 8,071,230	\$ 6,722,917

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

Notes to Financial Statements

(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:

	2017	2016
Restriction:		
Canine research	\$ 2,135,048	\$ 1,540,048
General operations	—	—
	\$ 2,135,048	\$ 1,540,048

(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 at December 31, 2017 and 2016.

(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.

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

	2017	2016
Related parties and concentrations of support:		
American Kennel Club	\$ 804,154	\$ 1,083,231
Nestle Purina	469,203	370,089
Zoetis	100,000	250,000
	\$ 1,373,357	\$ 1,703,320

At December 31, 2017 and 2016, contributions receivable due from the Club totaled \$408,709 and \$409,091, 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 office space for Foundation operations in Raleigh, North Carolina, and providing administrative support services to the Foundation. The total estimated value of these donated items was \$150,164 and \$158,410 in 2017 and 2016, respectively.

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

Notes to Financial Statements

Revenues and other support from these related parties accounted for 44% and 37% of the Foundation's contributions, grant management income, and in-kind donations revenues for the years ended December 31, 2017 and 2016, respectively.

Foundation event expenses totaling \$75,414 and \$73,489 were paid by a member on the Foundation's Board of Directors and were recorded as in-kind donations for the years ended December 31, 2017 and 2016, respectively.

The Foundation has a Scientific Review Committee made up of veterinarians, medical doctors, researchers and canine health experts. The Foundation recognized \$137,750 and \$98,618 in in-kind donations for time provided by this committee for the years ended December 31, 2017 and 2016, respectively.

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 \$106,720 and \$136,294 for the years ended December 31, 2017 and 2016, 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 \$15,633 and \$12,601 in 2017 and 2016, respectively.

(11) Leases

Future payments due under software agreements are as follows:

2018	\$	91,757
2019		<u>47,475</u>
	\$	<u><u>139,232</u></u>