

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

Financial Statements

December 31, 2022 and 2021

(With Independent Auditors' Report Thereon)

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

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of American Kennel Club Canine Health Foundation, Inc., which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of American Kennel Club Canine Health Foundation, Inc., and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about American Kennel Club Canine Health Foundation, Inc.'s, ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing audits in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of American Kennel Club Canine Health Foundation, Inc.'s, internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about American Kennel Club Canine Health Foundation, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Williams O'Quinn & Pierce, LLP

Greensboro, North Carolina
September 7, 2023

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

Statements of Financial Position

December 31, 2022 and 2021

Assets	2022	2021
Cash and cash equivalents	\$ 1,992,520	\$ 2,025,615
Investments (note 3)	26,371,390	30,625,841
Contributions receivable (note 4)	484,651	1,576,148
Other receivables	9,880	6,760
Prepaid expenses	55,846	60,977
Cash restricted to canine research	2,153,909	1,005,519
Cash restricted to endowments	47,948	27,575
Fixed assets, net (note 5)	1,638	—
Total assets	<u>\$ 31,117,782</u>	<u>\$ 35,328,435</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 197,017	\$ 67,328
Grants payable (note 6)	5,827,882	5,026,661
Total liabilities	<u>6,024,899</u>	<u>5,093,989</u>
Net assets:		
Without donor restrictions:		
Unrestricted	3,783,618	4,520,306
With donor restrictions:		
Temporarily restricted (note 8)	16,725,530	21,138,253
Permanently restricted (note 8)	4,583,735	4,575,887
Total net assets	<u>25,092,883</u>	<u>30,234,446</u>
Total liabilities and net assets	<u>\$ 31,117,782</u>	<u>\$ 35,328,435</u>

See accompanying notes to financial statements.

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

Statement of Activities

Year ended December 31, 2022

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Contributions	\$ 797,422	\$ 1,768,516	\$ 2,565,938
Contributions from related parties (note 9)	252,500	1,169,230	1,421,730
Grant management income	34,264	—	34,264
Interest and dividend income	161,047	458,065	619,112
Net unrealized and realized investment losses	(657,939)	(3,947,687)	(4,605,626)
Sponsored events and conferences	137,275	—	137,275
In-kind donations (note 9)	794,463	—	794,463
Grant refunds and adjustments	7,973	279,123	287,096
Miscellaneous income	1,125	10,849	11,974
Net assets released from restrictions (note 8)	4,142,971	(4,142,971)	—
Total revenues and other support	5,671,101	(4,404,875)	1,266,226
Expenses:			
Canine research and education	5,058,075	—	5,058,075
Fundraising	883,798	—	883,798
General and administrative	465,916	—	465,916
Total expenses	6,407,789	—	6,407,789
Change in net assets	(736,688)	(4,404,875)	(5,141,563)
Net assets – beginning of year	4,520,306	25,714,140	30,234,446
Net assets – end of year	\$ 3,783,618	\$ 21,309,265	\$ 25,092,883

See accompanying notes to financial statements.

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

Statement of Activities

Year ended December 31, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Contributions	\$ 574,705	\$ 2,259,980	\$ 2,834,685
Contributions from related parties (note 9)	1,260,080	1,269,607	2,529,687
Grant management income	19,202	—	19,202
Interest and dividend income	129,954	781,404	911,358
Net unrealized and realized investment gains	312,787	2,537,849	2,850,636
Sponsored events and conferences	151,916	—	151,916
In-kind donations (note 9)	671,929	—	671,929
Grant refunds and adjustments	9,393	79,464	88,857
Miscellaneous income	987	1,476	2,463
Net assets released from restrictions (note 8)	3,800,698	(3,800,698)	—
Total revenues and other support	6,931,651	3,129,082	10,060,733
Expenses:			
Canine research and education	4,592,650	—	4,592,650
Fundraising	560,914	—	560,914
General and administrative	372,829	—	372,829
Total expenses	5,526,393	—	5,526,393
Change in net assets	1,405,258	3,129,082	4,534,340
Net assets – beginning of year	3,115,048	22,585,058	25,700,106
Net assets – end of year	\$ 4,520,306	\$ 25,714,140	\$ 30,234,446

See accompanying notes to financial statements.

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

Statement of Functional Expenses

Year ended December 31, 2022

	2022			
	Canine research and education	Fundraising	General and administrative	Total expenses
Grants	\$ 3,529,077	\$ —	\$ —	\$ 3,529,077
Payroll and related expenses	904,673	363,953	235,112	1,503,738
Professional and consulting fees	46,577	69,971	87,650	204,198
Staff training and education	3,474	2,720	1,367	7,561
Educational communications, programs, and booths	48,527	1,996	923	51,446
Governance and special events	421	16,772	10,490	27,683
Printing and publications	7,263	11,004	6,354	24,621
Communication services	1,337	557	334	2,228
Postage and shipping	—	149	1,582	1,731
Marketing and advertising	3,698	61,975	—	65,673
Dues, memberships, subscriptions, and registrations	2,806	14,002	1,127	17,935
Business travel	48,869	29,624	—	78,493
Software and computer repairs and maintenance	17,825	45,009	6,529	69,363
Insurance	—	—	13,420	13,420
In-kind donations (note 9):				
Office space and services	443,528	255,068	95,867	794,463
Credit card processing and banking fees	—	10,998	4,281	15,279
Office supplies, recycling, and miscellaneous	—	—	415	415
Depreciation	—	—	465	465
Total	\$ <u>5,058,075</u>	\$ <u>883,798</u>	\$ <u>465,916</u>	\$ <u>6,407,789</u>

See accompanying notes to financial statements.

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

Statement of Functional Expenses

Year ended December 31, 2021

	2021			
	<u>Canine research and education</u>	<u>Fundraising</u>	<u>General and administrative</u>	<u>Total expenses</u>
Grants	\$ 3,427,173	\$ —	\$ —	\$ 3,427,173
Payroll and related expenses	603,638	213,531	180,976	998,145
Professional and consulting fees	69,214	20,646	54,720	144,580
Staff training and education	2,345	4,613	270	7,228
Educational communications, programs, and booths	66,624	477	852	67,953
Governance and special events	341	15,891	5,997	22,229
Printing and publications	3,953	16,461	7,759	28,173
Communication services	917	1,199	134	2,250
Postage and shipping	13	49	174	236
Marketing and advertising	871	15,888	—	16,759
Dues, memberships, subscriptions, and registrations	658	20,780	775	22,213
Business travel	4,309	3,719	139	8,167
Software and computer repairs and maintenance	41,168	26,294	9,544	77,006
Insurance	—	—	12,454	12,454
In-kind donations (note 9):				
Office space and services	371,426	208,260	92,243	671,929
Credit card processing and banking fees	—	13,106	6,665	19,771
Office supplies, recycling, and miscellaneous	—	—	127	127
Total	<u>\$ 4,592,650</u>	<u>\$ 560,914</u>	<u>\$ 372,829</u>	<u>\$ 5,526,393</u>

See accompanying notes to financial statements.

**AMERICAN KENNEL CLUB
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Statements of Cash Flows

Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (5,141,563)	\$ 4,534,340
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	465	—
Net unrealized and realized investment losses (gains)	4,605,626	(2,850,636)
Contributions restricted for permanent endowment	(7,848)	(26,470)
Contributed assets	—	(27,926)
Changes in assets and liabilities:		
Contributions receivable	1,091,497	(1,300,913)
Other receivables	(3,120)	(474)
Prepaid expenses	5,131	2,769
Accounts payable and accrued expenses	129,689	35,134
Grants payable	801,221	735,237
Total adjustments	<u>6,622,661</u>	<u>(3,433,279)</u>
Net cash provided by operating activities	<u>1,481,098</u>	<u>1,101,061</u>
Cash flows from investing activities:		
Purchase of investments	(8,448,113)	(5,039,335)
Proceeds from sale of investments	<u>8,094,835</u>	<u>4,241,320</u>
Net cash used in investing activities	<u>(353,278)</u>	<u>(798,015)</u>
Cash flows from financing activities:		
Contributions restricted for permanent endowment	<u>7,848</u>	<u>26,470</u>
Net cash provided by financing activities	<u>7,848</u>	<u>26,470</u>
Increase in cash and cash equivalents	<u>1,135,668</u>	<u>329,516</u>
Cash and cash equivalents, beginning of year	<u>3,058,709</u>	<u>2,729,193</u>
Cash and cash equivalents, end of year (note 1f)	<u>\$ 4,194,377</u>	<u>\$ 3,058,709</u>

See accompanying notes to financial statements.

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CANINE HEALTH FOUNDATION, INC.**

Notes to Financial Statements

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:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulations state that the assets be maintained permanently by the Foundation. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted is met, or both.

(c) *Revenue Recognition*

All contributions are considered available for the Foundation’s general programs unless specifically restricted by the donor. Amounts received that are either designated for future periods, or restricted by the donor, are reported as support with donor restrictions, and increase net assets with donor restrictions. Contributions received with restrictions that are met in the same reporting period are reported as support without donor restrictions, and increase net assets without donor restrictions. Investment income that is limited for specific uses by donor restrictions is reported as increases in net assets without donor restrictions if the restrictions are met in the same reporting period as the recognized income.

(d) *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

(e) 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.

(f) Cash, Cash Equivalents, and Restricted Cash

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 had \$2,446,519 and \$1,608,076 in excess of the FDIC insurance limit as of December 31, 2022 and 2021, respectively.

The Foundation maintains accounts with investment firms. 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.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash, and restricted cash equivalents reported within the accompanying statements of financial position that sum to the total of the same such amount in the accompanying statements of cash flows.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,992,520	\$ 2,025,615
Cash restricted to canine research	2,153,909	1,005,519
Cash restricted to endowments	47,948	27,575
	<u>\$ 4,194,377</u>	<u>\$ 3,058,709</u>

(g) Contributions Receivable and Allowance for Doubtful Accounts

Pledges that represent unconditional promises to give are recognized as contributions – either with donor restrictions or without donor restrictions – in the period such promises are made by donors. An allowance is recorded for uncollectible contributions receivable based upon management's

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Notes to Financial Statements

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, 2022 or 2021.

(h) Grants

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

(i) Advertising Costs

The Foundation expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2022 and 2021 was \$20,079 and \$9,219, respectively.

(j) 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, 2022 or 2021.

The Foundation follows the provisions of Accounting Standards Codification (“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 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 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, 2022, the Foundation’s tax returns for the tax years ended December 31, 2019 through December 31, 2021 remain subject to examination by tax authorities.

(k) 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 accompanying statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated primarily include payroll and related expenses, professional and consulting fees, staff training and education, software and computer repairs and maintenance, donated services, and educational communications, programs, and booths which are allocated on the basis of estimates of time and effort or usage. This also includes donated office space, which is allocated on the basis of usage.

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Notes to Financial Statements

(1) Change in Accounting Principle

In September 2020, the FASB issued Accounting Standards Update (“ASU”) 2020-07, *Not-for-Profit Entities (“Topic 958”): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to improve financial reporting by providing new presentation and disclosure requirements regarding nonfinancial assets for nonprofits, including additional disclosure requirements for recognized contributed services. The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. The amendments did not change the recognition and measurement requirements in ASC Subtopic 958-605 for those assets. The provisions of the ASU became effective for the Foundation on January 1, 2021. The adoption of this standard did not have a material impact on the accompanying financial statements of the Foundation for the year ended December 31, 2022.

(2) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 1,992,520
Operating investments	1,578,905
Contributions receivable due in less than one year	90,805
Endowment spending-rate distributions and appropriations	229,187
	<u>\$ 3,891,417</u>

The Foundation’s endowment funds consist of donor-restricted endowments and board-designated endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure. Expenditure of board-designated endowment funds requires approval of the Board of Directors.

The Foundation’s endowment is subject to an annual spending rate of up to 5 percent as described in Note 7. Although the Foundation does not intend to spend from this endowment (other than amounts appropriated for general expenditure as part of the Board’s annual budget approval and appropriation), these amounts could be made available if necessary.

As part of the Foundation’s liquidity management plan, the Foundation invests cash in excess of daily requirements in mutual funds. As part of the Foundation’s operating reserve policy, the Foundation will maintain a minimum of 12 months of operating expenses in the operating reserve investment account. The operating reserve investment account will not be drawn down to less than 12 months of operating expenses without the approval of the Board of Directors.

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CANINE HEALTH FOUNDATION, INC.**

Notes to Financial Statements

(3) Investments

A summary of the Foundation's investments at December 31, 2022 and 2021, reported at fair value, is as follows:

	<u>2022</u>	<u>2021</u>
Mutual funds:		
Large cap equity	\$ 9,900,715	\$ 12,116,295
Mid cap equity	283,730	349,019
Small cap equity	2,454,793	2,732,115
International equity	2,690,933	3,828,814
Fixed income	<u>9,546,864</u>	<u>9,486,777</u>
	24,877,035	28,513,020
Exchange-traded funds:		
Small cap equity	1,060,725	1,283,429
Annuity contracts	<u>433,630</u>	<u>829,392</u>
Total investments	<u>\$ 26,371,390</u>	<u>\$ 30,625,841</u>

Mutual fund and exchange-traded fund investments are measured at fair value based on quoted market prices.

During the years ended December 31, 2022 and 2021, the Foundation received contributions of investments in guaranteed fixed rate annuity contracts. The annuity contracts are not available for sale or transfer on any securities exchange. Accordingly, transactions in similar investment instruments are not observable. Annuity contracts are stated at contract value, which approximates fair value.

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 accompanying statement of financial position.

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Notes to Financial Statements

At December 31, 2022 and 2021, the fair value of the Foundation's investments was determined based on the following:

	2022			
	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value
Mutual funds	\$ 24,877,035	\$ —	\$ —	\$ 24,877,035
Exchange-traded funds	1,060,725	—	—	1,060,725
Annuity contracts	—	—	433,630	433,630
	<u>\$ 25,937,760</u>	<u>\$ —</u>	<u>\$ 433,630</u>	<u>\$ 26,371,390</u>

	2021			
	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value
Mutual funds	\$ 28,513,020	\$ —	\$ —	\$ 28,513,020
Exchange-traded funds	1,283,429	—	—	1,283,429
Annuity contracts	—	—	829,392	829,392
	<u>\$ 29,796,449</u>	<u>\$ —</u>	<u>\$ 829,392</u>	<u>\$ 30,625,841</u>

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the years ended December 31:

	2022	2021
Beginning balance	\$ 829,392	\$ 1,191,172
Contributions	852	1,475
Interest	26,408	37,745
Distributions	(423,022)	(401,000)
Ending balance	<u>\$ 433,630</u>	<u>\$ 829,392</u>

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Notes to Financial Statements

Investments in securities are summarized as follows at December 31, 2022 and 2021:

2022				
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair value
Mutual funds	\$ 23,357,987	\$ 1,557,011	\$ (37,963)	\$ 24,877,035
Exchange-traded funds	848,277	212,448	—	1,060,725
Annuity contracts	433,630	—	—	433,630
	<u>\$ 24,639,894</u>	<u>\$ 1,769,459</u>	<u>\$ (37,963)</u>	<u>\$ 26,371,390</u>

2021				
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair value
Mutual funds	\$ 22,715,663	\$ 5,821,060	\$ (23,703)	\$ 28,513,020
Exchange-traded funds	848,276	435,153	—	1,283,429
Annuity contracts	829,392	—	—	829,392
	<u>\$ 24,393,331</u>	<u>\$ 6,256,213</u>	<u>\$ (23,703)</u>	<u>\$ 30,625,841</u>

(4) Contributions Receivable

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

	2022	2021
Contributions due in less than one year	\$ 436,790	\$ 1,507,318
Contributions due in one to five years	47,861	68,830
	<u>\$ 484,651</u>	<u>\$ 1,576,148</u>

The Foundation does not discount contributions due in one to five years as the Foundation considers the discount to be immaterial. Approximately 81% of the contributions receivable balance related to four donors at December 31, 2022. Approximately 83% of the contributions receivable balance related to two donors at December 31, 2021.

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CANINE HEALTH FOUNDATION, INC.**

Notes to Financial Statements

(5) Fixed Assets

Fixed assets consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Computer equipment	\$ 4,133	\$ 4,133
Software	67,324	67,324
Equipment	16,896	14,793
Furniture and fixtures	<u>34,297</u>	<u>34,297</u>
Total	122,650	120,547
Accumulated depreciation	<u>(121,012)</u>	<u>(120,547)</u>
Total, net of accumulated depreciation	<u><u>\$ 1,638</u></u>	<u><u>\$ —</u></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 those 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.

(6) Grants Payable

Grants payable consist of amounts awarded, but not paid, to canine health researchers. Amounts included in grants payable at December 31, 2022, are scheduled to be disbursed as follows:

2023	\$ 3,878,463
2024	1,584,729
2025	306,027
2026	<u>58,663</u>
	<u><u>\$ 5,827,882</u></u>

(7) 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 assets within net assets with donor restrictions. 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 within net assets with donor restrictions 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 net assets without donor restrictions.

In 2021, the Board of Directors approved a board-designated endowment policy and transferred funds without donor restrictions to the endowment to create board-designated endowment funds. The funds are

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intended to be invested for the long-term, and any transfer to, or expenditure of, board-designated endowment funds require approval of the Board.

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 FTSE 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.

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

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment, beginning of year	\$ 1,421,627	\$ 6,865,478	\$ 8,287,105
Interest and dividend income	49,155	141,149	190,304
Net unrealized and realized investment loss	(259,742)	(1,144,734)	(1,404,476)
Contributions	—	7,848	7,848
Amounts appropriated for expenditure	279,219	(279,219)	—
Investment management fees	(235)	(4,371)	(4,606)
Endowment, end of year	\$ <u>1,490,024</u>	\$ <u>5,586,151</u>	\$ <u>7,076,175</u>

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	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment, beginning of year	\$ —	\$ 6,080,017	\$ 6,080,017
Interest and dividend income	37,865	257,902	295,767
Net unrealized and realized investment gain	32,048	760,400	792,448
Contributions	—	26,470	26,470
Transfer to create board-designated endowment funds	1,097,060	—	1,097,060
Amounts appropriated for expenditure	254,889	(254,889)	—
Investment management fees	(235)	(4,422)	(4,657)
Endowment, end of year	\$ <u>1,421,627</u>	\$ <u>6,865,478</u>	\$ <u>8,287,105</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no underwater endowments as of December 31, 2022 or 2021.

(8) Net Assets With Donor Restrictions

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2022 and 2021 are available for the following purposes:

	2022	2021
Canine research	\$ 15,723,114	\$ 18,848,662
General operations	<u>1,002,416</u>	<u>2,289,591</u>
	\$ <u>16,725,530</u>	\$ <u>21,138,253</u>

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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, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Restriction:		
Canine research	\$ 3,863,752	\$ 3,545,809
General operations	279,219	254,889
	<u>\$ 4,142,971</u>	<u>\$ 3,800,698</u>

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 \$4,583,735 and \$4,575,887 at December 31, 2022 and 2021, respectively.

(9) Related Party Transactions and Concentration of Support

Related Party Contributions

The Foundation receives a substantial amount of contributions from the American Kennel Club (the “AKC”) and certain corporate donors. The AKC, 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:

	<u>2022</u>	<u>2021</u>
Related parties and concentrations of support:		
American Kennel Club	\$ 1,170,000	\$ 2,170,000
Nestle Purina	251,730	259,687
Elanco	—	100,000
	<u>\$ 1,421,730</u>	<u>\$ 2,529,687</u>

Revenues and other support from these related parties accounted for 36% and 47% of the Foundation’s contributions, grant management income, and in-kind donations revenues for the years ended December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, contributions receivable due from the AKC totaled \$250,000 and \$1,000,000 respectively.

In-Kind Donations

The Foundation received in-kind donations, \$794,463 for the year ending December 31, 2022 and \$671,929 for the year ending December 31, 2021.

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The AKC provided the Foundation with rent-free use of its office space for Foundation operations in Raleigh, North Carolina, and administrative support services. The total estimated value of these donated items was \$328,219 and \$316,556 in 2022 and 2021, respectively.

Foundation event expenses totaling \$180,209 and \$126,469 were paid by a member of the Foundation's Board of Directors and were recorded as in-kind donations for the years ended December 31, 2022 and 2021, respectively.

The Foundation has a Scientific Review Committee made up of veterinarians, medical doctors, researchers and canine health experts. The Foundation recognized \$274,610 and \$208,510 in in-kind donations for time provided by this committee and external reviewers for the years ended December 31, 2022 and 2021, respectively.

For the year ended December 31, 2022, the Foundation also received in-kind advertising services totaling \$11,200 and notary services totaling \$225.

Pension & 401(k) Plan

The Foundation's former employees are covered under the AKC's pension plan, Employees' Retirement Plan of The American Kennel Club, as a related organization. The AKC'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 AKC, of \$50,664 and \$45,288 for the years ended December 31, 2022 and 2021, respectively. The Foundation's current employees are covered under a 401(k) plan which is administered by the AKC as a related organization. The Foundation made employer matching contributions to the AKC's 401(k) plan of \$51,543 and \$24,543 in 2022 and 2021, respectively.

(10) Future Commitments

Future payments due under software agreements are as follows:

2023	65,620
2024	<u>65,620</u>
	<u>\$ 131,240</u>

(11) 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, 2022 through September 7, 2023, which was the date the financial statements were available to be issued. No subsequent events were noted that required disclosure in the financial statements.