KPMG

# AMERICAN KENNEL CLUB
# CANINE HEALTH FOUNDATION, INC.

Financial Statements

December 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

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

Financial Statements

December 31, 2008 and 2007

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KPMG

**KPMG LLP**
Suite 1200
150 Fayetteville Street
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# Independent Auditors' Report

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

We have audited the accompanying statement of financial position of the American Kennel Club Canine Health Foundation, Inc. (the Foundation) as of December 31, 2008 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Foundation as of and for the year ended December 31, 2007, were audited by other auditors whose report thereon dated June 30, 2008, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2008 and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

April 14, 2009

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

Statements of Financial Position

December 31, 2008 and 2007

| **Assets** | | **2008** | **2007** |
|---|---|---|---|
| Cash and cash equivalents | $ | 3,591,429 | 1,036,473 |
| Investments (Note 2) | | 4,651,882 | 8,834,431 |
| Dividends and interest receivable | | — | 44,059 |
| Contributions receivable | | 104,815 | 613,179 |
| Other receivables | | 2,425 | 9,538 |
| Prepaid expenses | | 12,133 | 12,032 |
| Furniture, fixtures and equipment, net of accumulated depreciation of $108,638 and $117,696 in 2008 and 2007 | | 95,140 | 58,489 |
| Total assets | $ | 8,457,824 | 10,608,201 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenses | $ | 247,246 | 233,351 |
| Grants payable (Note 3) | | 3,901,855 | 3,200,816 |
| Line of credit (Note 4) | | — | 445,702 |
| Total liabilities | | 4,149,101 | 3,879,869 |
| Net assets (deficit): | | | |
| Unrestricted (Note 1) | | (1,722,463) | 77,444 |
| Temporarily restricted (Note 1) | | 3,130,778 | 3,770,543 |
| Permanently restricted (Notes 1 and 5) | | 2,900,408 | 2,880,345 |
| Total net assets | | 4,308,723 | 6,728,332 |
| Total liabilities and net assets | $ | 8,457,824 | 10,608,201 |

See accompanying notes to financial statements.

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

Statements of Activities

Years ended December 31, 2008 and 2007

| | 2008 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Revenues and other support: | | | | |
| Contributions | $ 448,786 | 1,187,676 | 20,063 | 1,656,525 |
| Contributions – American Kennel Club, Inc. (Note 7) | 259,884 | 1,000,000 | — | 1,259,884 |
| Contributions – Nestle Purina (Note 8) | 767,597 | 304,093 | — | 1,071,690 |
| Interest and dividend income | 77,309 | 85,868 | — | 163,177 |
| Net unrealized and realized investment income (loss) | (1,113,778) | (788,348) | — | (1,902,126) |
| Corporate sponsored events and conferences | 195,728 | — | — | 195,728 |
| In-kind donations (Notes 7 and 9) | 198,128 | — | — | 198,128 |
| Educational programs | 42,270 | — | — | 42,270 |
| Miscellaneous income | 11,493 | — | — | 11,493 |
| Net assets released from restrictions (Note 6): | | | | |
| Satisfaction of program restrictions | 2,429,054 | (2,429,054) | — | — |
| Total revenues and other support | 3,316,471 | (639,765) | 20,063 | 2,696,769 |
| Expenses and losses (Notes 7 and 9): | | | | |
| Canine research and education | 4,129,658 | — | — | 4,129,658 |
| General and administrative | 560,709 | — | — | 560,709 |
| Fundraising | 426,011 | — | — | 426,011 |
| Total expenses and losses | 5,116,378 | — | — | 5,116,378 |
| (Decrease) increase in net assets | (1,799,907) | (639,765) | 20,063 | (2,419,609) |
| Net assets, beginning of year | 77,444 | 3,770,543 | 2,880,345 | 6,728,332 |
| Net assets (deficit), end of year | $ (1,722,463) | 3,130,778 | 2,900,408 | 4,308,723 |

See accompanying notes to financial statements.

| 2007 | | | |
|---|---|---|---|
| Unrestricted | Temporarily restricted | Permanently restricted | Total |
| 398,299 | 602,222 | 121,864 | 1,122,385 |
| 1,750,000 | — | — | 1,750,000 |
| 734,543 | 263,582 | — | 998,125 |
| 274,361 | 98,932 | — | 373,293 |
| 114,930 | 115,148 | — | 230,078 |
| 269,758 | — | — | 269,758 |
| 273,405 | — | — | 273,405 |
| 38,281 | — | — | 38,281 |
| 14,858 | — | — | 14,858 |
| 329,949 | (329,949) | — | — |
| 4,198,384 | 749,935 | 121,864 | 5,070,183 |
| 3,721,248 | — | — | 3,721,248 |
| 613,322 | — | — | 613,322 |
| 412,751 | — | — | 412,751 |
| 4,747,321 | — | — | 4,747,321 |
| (548,937) | 749,935 | 121,864 | 322,862 |
| 626,381 | 3,020,608 | 2,758,481 | 6,405,470 |
| 77,444 | 3,770,543 | 2,880,345 | 6,728,332 |

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

Statements of Functional Expenses

Years ended December 31, 2008 and 2007

| | 2008 | | | |
|---|---|---|---|---|
| | Canine research and education | General and administrative | Fundraising | Total expenses |
| Grants | $ 3,354,165 | — | — | 3,354,165 |
| Payroll and related expenses | 313,775 | 255,929 | 163,082 | 732,786 |
| Professional fees | 132,375 | 159,409 | 61,893 | 353,677 |
| Travel | 48,576 | 16,689 | 10,492 | 75,757 |
| Educational programs | 30,199 | — | — | 30,199 |
| Conferences, events, and meetings | 31,795 | 3,531 | 108,010 | 143,336 |
| Printing and publications | 29,031 | 9,723 | 28,668 | 67,422 |
| Telephone | 3,216 | 1,114 | 1,528 | 5,858 |
| Postage and shipping | 4,902 | 2,447 | 4,986 | 12,335 |
| Supplies | 2,632 | 4,425 | 1,972 | 9,029 |
| Equipment rental and repairs | — | 843 | — | 843 |
| Marketing and advertising | 848 | 3,439 | 10,905 | 15,192 |
| Dues and subscriptions | 322 | 797 | 622 | 1,741 |
| Training and education | 5,018 | 2,346 | 3,167 | 10,531 |
| Computer maintenance | 8,156 | 1,020 | 1,997 | 11,173 |
| Insurance | 6,321 | 1,530 | 3,224 | 11,075 |
| Depreciation | — | 34,795 | — | 34,795 |
| In-kind donations (Notes 7 and 9): | | | | |
| Office space and services | 107,722 | 33,145 | 24,858 | 165,725 |
| Program support | 32,403 | — | — | 32,403 |
| Interest and bank fees | — | 16,147 | — | 16,147 |
| Loss on disposal of furniture, fixtures, and equipment | — | 10,297 | — | 10,297 |
| Miscellaneous | 18,202 | 3,083 | 607 | 21,892 |
| Total | $ 4,129,658 | 560,709 | 426,011 | 5,116,378 |

See accompanying notes to financial statements.

| 2007 | | | |
|---|---|---|---|
| Canine research and education | General and administrative | Fundraising | Total expenses |
| 2,678,212 | — | — | 2,678,212 |
| 349,445 | 69,944 | 142,225 | 561,614 |
| 43,448 | 339,504 | 3,363 | 386,315 |
| 28,215 | 19,180 | 37,874 | 85,269 |
| 294,581 | — | — | 294,581 |
| 45,581 | 8,347 | 91,199 | 145,127 |
| 12,126 | 8,576 | 5,755 | 26,457 |
| 1,936 | 1,108 | 1,054 | 4,098 |
| 5,185 | 1,882 | 3,628 | 10,695 |
| 13,700 | 5,060 | 6,332 | 25,092 |
| 5,354 | 1,361 | 5,175 | 11,890 |
| 41,055 | 35,689 | 44,873 | 121,617 |
| 5,501 | 385 | 2,539 | 8,425 |
| 2,901 | 3,404 | 1,733 | 8,038 |
| — | 3,433 | 5,588 | 9,021 |
| 3,484 | (1,337) | 1,659 | 3,806 |
| — | 33,089 | — | 33,089 |
| 124,800 | 23,722 | 59,426 | 207,948 |
| 65,457 | — | — | 65,457 |
| — | 41,622 | — | 41,622 |
| — | 1,610 | — | 1,610 |
| 267 | 16,743 | 328 | 17,338 |
| 3,721,248 | 613,322 | 412,751 | 4,747,321 |

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

Statements of Cash Flows

Years ended December 31, 2008 and 2007

| | | 2008 | 2007 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| (Decrease) increase in net assets | $ | (2,419,609) | 322,862 |
| Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities: | | | |
| Depreciation | | 34,795 | 33,089 |
| Loss on disposal of furniture, fixtures, and equipment | | 10,297 | 1,610 |
| Net unrealized and realized investment loss (income) | | 1,902,126 | (230,078) |
| Noncash contribution of securities | | (13,879) | (11,664) |
| Contributions restricted for long-term investment | | (20,063) | — |
| Changes in assets and liabilities: | | | |
| Dividends and interest receivable | | 44,059 | (29,080) |
| Contributions receivable | | 508,364 | (425,551) |
| Other receivables | | 7,113 | (2,426) |
| Prepaid expenses | | (101) | (12,032) |
| Accounts payable and accrued expenses | | 13,895 | 127,773 |
| Grants payable | | 701,039 | 38,219 |
| Charitable remainder annuity trust receivable | | — | 88,598 |
| Total adjustments | | 3,187,645 | (421,542) |
| Net cash provided by (used in) operating activities | | 768,036 | (98,680) |
| Cash flows from investing activities: | | | |
| Purchase of investments | | (5,960,159) | (8,658,823) |
| Proceeds from sale of investments | | 8,254,461 | 8,627,756 |
| Purchase of furniture and equipment | | (81,743) | (11,579) |
| Net cash provided by (used in) investing activities | | 2,212,559 | (42,646) |
| Cash flows from financing activities: | | | |
| Proceeds from line of credit | | — | 870,079 |
| Payments on line of credit | | (445,702) | (556,000) |
| Proceeds from contributions restricted for long-term investment | | 20,063 | — |
| Net cash (used in) provided by financing activities | | (425,639) | 314,079 |
| Increase in cash and cash equivalents | | 2,554,956 | 172,753 |
| Cash and cash equivalents, beginning of year | | 1,036,473 | 863,720 |
| Cash and cash equivalents, end of year | $ | 3,591,429 | 1,036,473 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the year for interest | $ | 936 | 38,921 |

See accompanying 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 formed for the purpose of furthering the advancement of knowledge of canine diseases and health care 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 and 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 primarily 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 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.

### (d) *Concentration of Credit Risk*

At times cash and cash equivalent balances may be in excess of the FDIC insurance limit. Cash and investments in money market funds and shares of registered investment companies are uninsured.



(Continued)

### *(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.

### *(f) Investments*

Investments are measured at fair value. The fair values of all debt and equity securities with readily determinable fair values are based on quoted market prices. The Foundation utilizes various investment instruments, including investments in fund of funds. For these less marketable securities, the determination of fair value requires the use of estimates, which are based on information provided by the respective fund managers of the investments, which is reviewed by management for reasonableness. Because of the inherent uncertainty in the use of estimates, fair values that are based on estimates may differ from the fair values that would have been used had a ready market for the investments existed.

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.

### *(g) Contributions*

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

### *(h) Contributions Receivable and Allowance for Doubtful Accounts*

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Contributions receivable are expected to be received within one year, and are stated at the amount management expects to collect from outstanding balances. The Foundation considers all contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established as of December 31, 2008 and 2007.

### *(i) Furniture, Fixtures and Equipment*

Purchased property and equipment are carried at cost and consist primarily of furniture, fixtures and equipment. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method. Depreciation expense was $34,795 and $33,089 in 2008 and 2007, respectively.



(Continued)

*(j)* ***Grants***

Unconditional grants are considered incurred and charged to expense at the time of approval by the Board of Directors. Any grant cancellations approved by the Board of Directors are recognized at the time of approval.

*(k)* ***Income Taxes***

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

*(l)* ***Functional Allocation of Expenses***

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

*(m)* ***New Accounting Standards***

Effective January 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosure requirements about fair value measurements. Under this standard, 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. SFAS 157 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. The standard describes three levels of inputs that may be used to measure fair value:

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

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

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The adoption of SFAS 157 did not have a material impact on the Foundation's financial statements.



(Continued)

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of North Carolina has not yet enacted a version of UPMIFA. Should the State of North Carolina enact a version of UPMIFA in a future period, the Foundation will need to interpret the relevant law and assess the impact of that law on its financial statements. FSP 117-1 also requires additional disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA. The disclosure requirements of FSP 117-1 were effective for the Foundation's 2008 financial statements. See note 5- Endowment for the required disclosures under the FSP.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes–An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. FIN 48 will be effective for the Foundation's December 31, 2009 financial statements and is not expected to have a significant impact.

## (2) Investments

A summary of the Foundation's investments at December 31 is as follows:

| | | 2008 | 2007 |
|---|---|---|---|
| Mutual funds | $ | 1,499,660 | 1,663,001 |
| Equities | | 13,879 | 3,947,600 |
| U.S. government obligations | | — | 2,164,400 |
| Corporate bonds | | 56,854 | 1,059,430 |
| Registered investment funds | | 2,172,231 | — |
| Fund of funds | | 909,258 | — |
| | $ | 4,651,882 | 8,834,431 |

At December 31, 2008, the fair value of the Foundation's investments was determined based on:

| | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Fair Value |
|---|---|---|---|---|
| Mutual funds | $ 1,499,660 | — | — | 1,499,660 |
| Equities | 13,879 | — | — | 13,879 |
| Corporate bonds | — | 56,854 | — | 56,854 |
| Registered investment funds | — | 2,172,231 | — | 2,172,231 |
| Fund of funds | — | — | 909,258 | 909,258 |
| | $ 1,513,539 | 2,229,085 | 909,258 | 4,651,882 |

The activity for investments, measured at fair value based on significant unobservable information for the period January 1, 2008 to December 31, 2008 is as follows:

| | Level 3 Assets |
|---|---|
| Investments: | |
| Beginning balance January 1, 2008 | $ — |
| Purchases | 1,075,000 |
| Sales | — |
| Total net unrealized losses | (165,742) |
| Ending balance December 31, 2008 | $ 909,258 |

## (3) Grants Payable

Grants payable consist of amounts awarded, but not paid, to canine health researchers. Amounts included in grants payable at December 31, 2008 are scheduled to be disbursed as follows:

| | |
|---|---|
| 2009 | $ 2,498,259 |
| 2010 | 1,223,794 |
| 2011 | 179,802 |
| | $ 3,901,855 |

## (4) Line of Credit

In January 2008, the Foundation paid off the outstanding balance of the line of credit it held with an investment brokerage firm. As of December 31, 2007, $445,702 was owed under this line of credit. The interest rate on this line of credit was 6.7% at December 31, 2007. In 2008, the Foundation established a new $750,000 line of credit with a bank at the prime rate. No amounts were outstanding under this credit line at December 31, 2008. Interest expense totaled $936 and $41,622 for 2008 and 2007, respectively.

## (5) Endowment

At the request of its donors, the Foundation has established a permanent operating endowment. The Foundation's management and investment of donor-restricted endowment funds are subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). Management of the Foundation has interpreted this law as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation and as required by GAAP, the original value of all donor-restricted endowed gifts are recorded as permanently restricted net assets. As an operating endowment, any investment returns earned on endowed assets are recorded as increases or decreases to 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 (comprised of the S&P 500 Index, Russell 2000 Index, MSCI EAFE, Lehman Brothers Aggregate Bond Index and Citigroup 90 day Treasury Bill Index) and rank in the top thirty-third percent of a nationally recognized evaluation service's universe for comparable funds over a rolling three to five year time period 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 composition of the Foundation's donor-restricted endowment by net asset class at the end of the year is as follows:

| | 2008 | 2007 |
|---|---|---|
| Unrestricted | $ (411,093) | 1,962,802 |
| Permanently restricted | 2,900,408 | 2,880,345 |
| | $ 2,489,315 | 4,843,147 |



(Continued)

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

| | | 2008 | | |
|---|---|---|---|---|
| | | **Unrestricted** | **Permanently Restricted** | **Total** |
| Endowment, beginning of year | $ | 1,962,802 | 2,880,345 | 4,843,147 |
| Interest and dividend income | | 63,012 | — | 63,012 |
| Net unrealized and realized investment loss | | (1,113,778) | — | (1,113,778) |
| Contributions | | — | 20,063 | 20,063 |
| Transfer of endowment assets for expenditure | | (1,323,129) | — | (1,323,129) |
| Endowment, end of year | $ | (411,093) | 2,900,408 | 2,489,315 |

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. In accordance with GAAP, deficiencies of this nature that are reported as unrestricted net assets were $411,093 as of December 31, 2008. These deficiencies resulted from unfavorable market fluctuations. There were no such deficiencies as of December 31, 2007.

## (6) Net Assets Released from Restrictions

Temporarily restricted net assets are available to fund canine research. Net assets of $2,429,054 and $329,949 were released from donor restrictions by incurring grant expenses satisfying the restricted purposes specified by donors during the years ended December 31, 2008 and 2007, respectively.

## (7) Related Party Transactions

During 2008 and 2007, the American Kennel Club, Inc. (the Club) contributed $1,259,884 and $1,750,000, respectively, to the Foundation.

The Foundation's offices are located within the Club's operation center in Raleigh, North Carolina. In addition to providing rent-free use of its office space, the Club also provided administrative support services to the Foundation. The total estimated value of these donated items was $165,725 and $207,948 in 2008 and 2007, respectively.

The Foundation's employees are covered under the Club's medical and pension plans as a related organization. The Foundation made no contributions to these plans, which are administered by the Club, in 2008 and 2007.



(Continued)

## (8) Concentration of Support

The Foundation received contributions from a corporate donor totaling $1,071,690 and $998,125 for the years ended December 31, 2008 and 2007, respectively. Also see note 7 – Related Party Transactions for contributions from the Club.

## (9) In-Kind Donations

The Foundation received in-kind marketing and public relation services that meet the requirements for revenue and expense recognition in accordance with U.S. generally accepted accounting principals. In-kind marketing and public relation services received were valued at $32,403 and $65,457 for the years ended December 31, 2008 and 2007, respectively.