KPMG

AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.

Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.

Table of Contents

KPMG LLP
Suite 1200
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Independent Auditors' Report

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

We have audited the accompanying statements of financial position of the American Kennel Club Canine Health Foundation, Inc. (the Foundation) as of December 31, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 9, 2010

AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.

Statements of Financial Position

December 31, 2009 and 2008

Assets		2009	2008
Cash and cash equivalents	$	3,246,177	3,591,429
Investments (note 2)		5,828,494	4,651,882
Contributions receivable		79,504	104,815
Other receivables		3,504	2,425
Prepaid expenses		19,229	12,133
Furniture, fixtures, and equipment, net of accumulated depreciation of $143,088 and $108,638 in 2009 and 2008, respectively		83,057	95,140
Total assets	$	9,259,965	8,457,824
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	162,845	247,246
Grants payable (note 3)		3,122,299	3,901,855
Total liabilities		3,285,144	4,149,101
Net assets (deficit) (note 5):			
Unrestricted		(288,658)	(1,722,463)
Temporarily restricted		3,363,071	3,130,778
Permanently restricted		2,900,408	2,900,408
Total net assets		5,974,821	4,308,723
Total liabilities and net assets	$	9,259,965	8,457,824

See accompanying notes to financial statements.

AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.

Statement of Activities

Year ended December 31, 2009

		2009			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Revenues and other support:					
Contributions	$	339,722	807,639	—	1,147,361
Contributions – American Kennel Club, Inc. (note 7)		—	1,000,000	—	1,000,000
Contributions – Nestle Purina (note 8)		767,548	298,285	—	1,065,833
Interest and dividend income		8,468	26,523	—	34,991
Net unrealized and realized investment income		378,699	464,896	—	843,595
Corporate sponsored events and conferences		229,431	—	—	229,431
In-kind donations (notes 7 and 9)		155,637	—	—	155,637
Symposia (American Kennel Club, Inc.)		32,080	—	—	32,080
Miscellaneous income		68,429	—	—	68,429
Net assets released from restrictions (note 6):					
Satisfaction of program restrictions		2,365,050	(2,365,050)	—	—
Total revenues and other support		4,345,064	232,293	—	4,577,357
Expenses and losses (notes 7 and 9):					
Canine research and education		2,114,775	—	—	2,114,775
Fundraising		435,450	—	—	435,450
General and administrative		361,034	—	—	361,034
Total expenses and losses		2,911,259	—	—	2,911,259
Increase in net assets		1,433,805	232,293	—	1,666,098
Net assets (deficit), beginning of year		(1,722,463)	3,130,778	2,900,408	4,308,723
Net assets (deficit), end of year	$	(288,658)	3,363,071	2,900,408	5,974,821

See accompanying notes to financial statements.

AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.

Statement of Activities

Year ended December 31, 2008

		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 losses		(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
Symposia (American Kennel Club, Inc.)		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
Fundraising		426,011	—	—	426,011
General and administrative		560,709	—	—	560,709
Total expenses and losses		5,116,378	—	—	5,116,378
Increase (decrease) 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.

AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.

Statement of Functional Expenses

Year ended December 31, 2009

		2009		
	Canine research and education	**Fundraising**	**General and administrative**	**Total expenses**
Grants	$ 1,419,853	—	—	1,419,853
Payroll and related expenses	268,731	177,479	171,601	617,811
Professional fees	45,769	23,510	74,838	144,117
Travel	15,574	11,394	1,331	28,299
Educational programs	173,256	2,302	4,790	180,348
Conferences, events, and meetings	42,047	101,918	6,618	150,583
Printing and publications	10,805	29,723	10,437	50,965
Telephone	3,411	2,093	1,780	7,284
Postage and shipping	6,416	6,443	1,052	13,911
Supplies	691	242	5,289	6,222
Marketing and advertising	17,533	29,080	665	47,278
Dues and subscriptions	97	600	225	922
Training and education	2,634	912	1,158	4,704
Computer maintenance	8,799	3,245	1,657	13,701
Insurance	4,958	4,241	1,337	10,536
Depreciation	—	—	38,304	38,304
In-kind donations (notes 7 and 9):				
Office space and services	61,592	36,955	24,637	123,184
Program support	32,453	—	—	32,453
Interest and bank fees	156	5,313	15,235	20,704
Miscellaneous	—	—	80	80
Total	$ 2,114,775	435,450	361,034	2,911,259

See accompanying notes to financial statements.

AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.

Statement of Functional Expenses

Year ended December 31, 2008

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

See accompanying notes to financial statements.

AMERICAN KENNEL CLUB
CANINE HEALTH FOUNDATION, INC.

Statements of Cash Flows

Years ended December 31, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Increase (decrease) in net assets	$	1,666,098	(2,419,609)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:			
Depreciation		38,304	34,795
Loss on disposal of furniture, fixtures, and equipment		—	10,297
Net unrealized and realized investment (income) loss		(843,595)	1,902,126
Noncash contribution of securities		(21,524)	(13,879)
Contributions restricted for long-term investment		—	(20,063)
Changes in assets and liabilities:			
Dividends and interest receivable		—	44,059
Contributions receivable		25,311	508,364
Other receivables		(1,079)	7,113
Prepaid expenses		(7,096)	(101)
Accounts payable and accrued expenses		(84,401)	13,895
Grants payable		(779,556)	701,039
Total adjustments		(1,673,636)	3,187,645
Net cash (used in) provided by operating activities		(7,538)	768,036
Cash flows from investing activities:			
Purchase of investments		(881,177)	(5,960,159)
Proceeds from sale of investments		569,684	8,254,461
Purchase of furniture and equipment		(26,221)	(81,743)
Net cash (used in) provided by investing activities		(337,714)	2,212,559
Cash flows from financing activities:			
Payments on line of credit		—	(445,702)
Proceeds from contributions restricted for long-term investment		—	20,063
Net cash used in financing activities		—	(425,639)
(Decrease) increase in cash and cash equivalents		(345,252)	2,554,956
Cash and cash equivalents, beginning of year		3,591,429	1,036,473
Cash and cash equivalents, end of year	$	3,246,177	3,591,429
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$	—	936

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, 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 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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(d) Recent Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 105-10, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (ASC 105-10). ASC 105-10 brings together and organizes all generally accepted accounting principles previously in Levels A through D of the GAAP hierarchy and designates GAAP into two levels, authoritative and non-authoritative. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. FASB accounting standards are now issued as amendments to the ASC and referred to as Accounting Standards Updates. The adoption of ASC 105-10 had no significant impact on the Foundation's financial statements.

(e) Fair Value Hierarchy

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

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

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

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

Effective January 1, 2009, the Foundation adopted the measurement provisions of ASC 820, *Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in alternative investments that do not have readily determinable fair values. This guidance allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent, as reported by the investment managers.

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

(Continued)

liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(f) Concentration of Credit Risk

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

(g) 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.

(h) Investments

All mutual fund, equity, and debt investments are measured at fair value based on quoted market prices. Investments in the alternative investments, which are described as funds of funds, are stated at net asset value in 2009 in accordance with ASC 820. In 2008, the investment was reported at fair value. The financial statements of the alternative investment are audited annually by independent auditors.

The Foundation's alternative investment is organized as a limited partnership whose strategic objective is to invest in investee funds that invest or trade in securities.

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

(i) 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.

(j) 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, 2009 and 2008.

(k) 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 $38,304 and $34,795 in 2009 and 2008, respectively.

(l) 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.

(m) 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.

In June 2006, the Financial Accounting Standards Board (FASB) issued ASC 740, *Accounting for Uncertainty in Income Taxes.* ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. ASC 740 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. ASC 740 was effective for the Foundation's December 31, 2009 financial statements and did not have a significant impact.

(n) 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.

(o) Subsequent Events

In connection with the preparation of the financial statements and in accordance with GAAP, the Foundation considered for disclosure subsequent events that occurred after the statement of financial position date of December 31, 2009 through March 9, 2010, which was the date the financial statements were available to be issued. No subsequent events were noted that required disclosure in the financial statements.

(p) Reclassifications

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

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(2) Investments

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

		2009	2008
Mutual funds	$	2,244,810	1,499,660
Equities		2,485,196	2,186,110
Corporate bonds		58,974	56,854
Alternative investments		1,039,514	909,258
	$	5,828,494	4,651,882

The Foundation invests in certain alternative investments, through "funds of funds" investments, which employ multiple investment strategies via a variety of investment managers to provide diversification and control risk.

At December 31, 2009 and 2008, the fair value of the Foundation's investments was determined based on:

		2009			
		Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value
Mutual funds	$	2,244,810	—	—	2,244,810
Equities		30,784	2,454,412	—	2,485,196
Corporate bonds		—	58,974	—	58,974
Alternative investments		—	1,039,514	—	1,039,514
	$	2,275,594	3,552,900	—	5,828,494

		2008			
		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	2,172,231	—	2,186,110
Corporate bonds		—	56,854	—	56,854
Alternative investments		—	—	909,258	909,258
	$	1,513,539	2,229,085	909,258	4,651,882

(Continued)

The activity for investments, measured at fair value based on significant unobservable information for the years ended December 31, 2009 and 2008 is as follows:

		Level 3 assets
		2009
Investments:		
Beginning balance, January 1, 2009	$	909,258
Transfer to Level 2		(909,258)
Ending balance, December 31, 2009	$	—
		2008
Investments:		
Beginning balance, January 1, 2008	$	—
Purchases		1,075,000
Total net unrealized losses		(165,742)
Ending balance, December 31, 2008	$	909,258

The Foundation's alternative investments contain annual redemption restrictions with required written notice of 90 days. In addition, certain equity securities contain various quarterly redemption restrictions with required written notice ranging from 45 to 65 days. As of December 31, 2009, the following table summarizes the composition of such investments by the redemption provisions.

Redemption period		Amount
Quarterly	$	2,454,412
Annual		1,039,514
	$	3,493,926

(3) Grants Payable

Grants payable consist of amounts awarded, but not paid, to canine health researchers. Amounts included in grants payable at December 31, 2009 are scheduled to be disbursed as follows:

2010	$	2,117,502
2011		736,521
2012		231,866
2013		36,410
	$	3,122,299

(4) Line of Credit

In 2008, the Foundation established a $750,000 line of credit at the prime rate. During 2009, the line was reduced to $250,000 at the prime rate. No amounts were outstanding under this credit line at December 31, 2008 or December 31, 2009. Interest expense totaled $0 and $936 for 2009 and 2008, respectively.

(5) Endowment

At the request of its donors, the Foundation has established a permanent operating endowment. Effective March 14, 2009, the Foundation’s donor-restricted endowment funds are subject to the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Prior to this time, endowment funds were subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). UMIFA provided a prudent standard for the spending of the net appreciation of a donor-restricted endowment fund and imposed a spending floor of an endowment’s book value (referred to as historic dollar value in UMIFA). 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. This flexibility under UPMIFA allows an expenditure that lowers the value of the corpus of an endowment fund below its book value, which was not allowed under 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 and considers the invasion of endowment principal as an option of last resort. As a result of this interpretation, the original value of all donor-restricted endowed gifts are recorded as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Act.

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, and Citigroup 90 -day Treasury Bill Index) and rank in the top 33% 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:

		2009	2008
Unrestricted	$	(4,914)	(411,093)
Temporary restricted		77,042	—
Permanently restricted		2,900,408	2,900,408
	$	2,972,536	2,489,315

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

		2009			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment, beginning of year	$	(411,093)	—	2,900,408	2,489,315
Interest and dividend income		7,417	—	—	7,417
Net unrealized and realized investment income		398,762	56,979	—	455,741
Additions		—	20,063	—	20,063
Endowment, end of year	$	(4,914)	77,042	2,900,408	2,972,536

		2008			
		Unrestricted	Temporarily restricted	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
Appropriation of endowment assets for expenditure		(1,323,129)	—	—	(1,323,129)
Endowment, end of year	$	(411,093)	—	2,900,408	2,489,315

(Continued)

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. Deficiencies of this nature that are reported as unrestricted net assets were $4,914 and $411,093 as of December 31, 2009 and 2008, respectively. These deficiencies resulted from unfavorable market fluctuations. 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 with excess reported as increases in temporarily restricted net assets.

(6) Net Assets Released from Restrictions

Temporarily restricted net assets are available to fund canine research. Net assets of $2,365,050 and $2,429,054 were released from donor restrictions by incurring grant expenses satisfying the restricted purposes specified by donors during the years ended December 31, 2009 and 2008, respectively.

(7) Related Party Transactions

During 2009 and 2008, the American Kennel Club, Inc. (the Club) contributed $1,000,000 and $1,259,884, 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 $123,184 and $165,725 in 2009 and 2008, respectively.

The Foundation's employees are covered under the Club's pension plan as a related organization. No contributions were required to this plan, which is administered by the Club, in 2009 and 2008.

(8) Concentration of Support

The Foundation received contributions from a corporate donor totaling $1,065,833 and $1,071,690 for the years ended December 31, 2009 and 2008, 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-kind marketing and public relation services received were valued at $32,453 and $32,403 for the years ended December 31, 2009 and 2008, respectively.