

CANINE COMPANIONS FOR
INDEPENDENCE, INC.

DECEMBER 31, 2016

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Canine Companions for Independence, Inc.

Independent Auditors' Report and Financial Statements

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Independent Auditors' Report

THE BOARD OF DIRECTORS
CANINE COMPANIONS FOR INDEPENDENCE, INC.
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of **CANINE COMPANIONS FOR INDEPENDENCE, INC. (CCI)** which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the CCI's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Canine Companions for Independence as of December 31, 2016, and the results of its activities and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Report on Summarized Comparative Information

We have previously audited CCI's December 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our audit report dated June 10, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strang LLP

San Francisco, California
May 24, 2017

Canine Companions for Independence, Inc.

Statement of Financial Position

<i>December 31, 2016 (with comparative totals for 2015)</i>	2016	2015
Assets		
Cash and cash equivalents	\$ 10,455,137	\$ 5,113,078
Contributions receivable, net	2,872,803	1,546,274
Accounts receivable	676,873	687,668
Bequests receivable	1,005,392	1,648,026
Investments	22,986,235	20,359,723
Property, equipment and improvements, net	23,466,371	23,815,282
Other assets	3,218,196	3,182,703
	\$ 64,681,007	\$ 56,352,754
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 429,439	\$ 380,380
Accrued payroll and related expenses	1,026,687	1,322,021
Gift annuities payable	688,930	683,453
Deferred compensation	40,473	382,211
Total liabilities	2,185,529	2,768,065
Net Assets:		
Unrestricted	49,072,543	44,759,666
Temporarily restricted	10,247,268	5,649,356
Permanently restricted	3,175,667	3,175,667
Total net assets	62,495,478	53,584,689
	\$ 64,681,007	\$ 56,352,754

See accompanying notes to financial statements.

Canine Companions for Independence, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2016 (with comparative totals for 2015)

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support:					
Contributions	\$ 12,721,225	\$ 1,444,802		\$ 14,166,027	\$ 12,898,120
Bequests	7,031,764	742,421		7,774,185	5,089,888
Change in value of beneficial interests in trust assets		55,680		55,680	59,267
Net assets released from restrictions	2,197,622	(2,197,622)		-	-
Total support	21,950,611	45,281	-	21,995,892	18,047,275
Revenue:					
Special events (net of direct expenses of \$749,210 for 2016)	2,692,049			2,692,049	2,607,781
Program service revenue	2,050,938			2,050,938	1,245,253
Net investment (loss) income	842,459	261,450		1,103,909	(600,751)
Other (loss) income	(61,825)			(61,825)	151,483
Total revenue	5,523,621	261,450	-	5,785,071	3,403,766
Total support and revenue	27,474,232	306,731	-	27,780,963	21,451,041
Expenses:					
Program services:					
Breeding and puppy raising	3,766,805			3,766,805	3,111,206
Training and follow-up	7,589,181			7,589,181	6,787,071
Public information	3,341,826			3,341,826	2,940,247
Veterinary	2,032,028			2,032,028	2,055,842
Total program services	16,729,840	-	-	16,729,840	14,894,366
Support services:					
Fund development	5,056,136			5,056,136	5,090,385
General administration	1,375,379			1,375,379	1,251,268
Total support services	6,431,515	-	-	6,431,515	6,341,653
Total expenses	23,161,355	-	-	23,161,355	21,236,019
Change in Net Assets Before Other Changes	4,312,877	306,731	-	4,619,608	215,022
Other Changes in Net assets					
Capital campaign contributions		4,291,181		4,291,181	1,030,225
Change in Net Assets	4,312,877	4,597,912	-	8,910,789	1,245,247
Net Assets, beginning of year	44,759,666	5,649,356	\$ 3,175,667	53,584,689	52,339,442
Net Assets, end of year	\$ 49,072,543	\$ 10,247,268	\$ 3,175,667	\$ 62,495,478	\$ 53,584,689

See accompanying notes to financial statements.

Canine Companions for Independence, Inc.

Statement of Functional Expenses

Year Ended December 31, 2016 (with comparative totals for 2015)

	2016								2015 Total
	Program Services					Support Services			
	Breeding and Puppy Raising	Training and Follow-up	Public Information	Veterinary	Subtotal	Fund Development	General Administration	Total	
Salaries	\$ 1,546,324	\$ 3,913,799	\$ 1,599,645	\$ 618,530	\$ 7,678,298	\$ 2,250,168	\$ 735,837	\$ 10,664,303	9,605,790
Payroll taxes	121,870	308,458	126,073	48,748	605,149	177,342	57,993	840,484	770,384
Employee benefits	239,563	606,342	247,824	95,825	1,189,554	348,605	113,999	1,652,158	1,432,881
Pension plan contributions	67,883	171,815	70,224	27,153	337,075	98,782	32,303	468,160	436,282
Workers compensation insurance	29,631	74,996	30,652	11,852	147,131	43,118	14,100	204,349	254,911
Rent	40,820	100,938	37,109	14,349	193,216	37,109	17,070	247,395	198,001
Bank charges						179,602	120	179,722	160,025
Building maintenance	129,938	324,782	113,566	43,912	612,198	92,667	52,240	757,105	1,044,874
Utilities	85,392	215,170	72,366	27,982	400,910	48,244	33,289	482,443	435,530
Equipment rental and maintenance	46,301	117,188	47,897	20,391	231,777	67,375	22,033	321,185	266,967
Insurance	34,378	87,011	35,563	13,751	170,703	50,026	16,359	237,088	231,828
Program supplies	229,898	258,599	17,816	258,647	764,960	17,816		782,776	729,582
Office supplies	18,433	46,654	19,069	7,373	91,529	26,823	8,772	127,124	99,868
Dues and subscriptions	4,753	12,031	4,917	1,901	23,602	6,917	2,262	32,781	44,732
Travel, conventions and meetings	122,233	287,831	341,033	39,697	790,794	249,578	47,225	1,087,597	912,544
Professional services	475,484	263,451	189,117	682,952	1,611,004	677,913	80,324	2,369,241	1,796,160
Advertising and marketing	387	2,325	35,788	387	38,887	32,710	387	71,984	62,043
Telephone (data and voice communication)	83,335	210,924	98,007	33,334	425,600	130,235	39,656	595,491	486,273
Postage and freight	290,814	102,492	22,483	8,693	424,482	162,386	10,342	597,210	485,123
Printing and publications	30,341	56,561	57,821	8,939	153,662	112,756	10,634	277,052	306,505
Allowance for uncollectible pledges					-			-	207,154
Taxes, licenses, and other expenses	6,417	16,243	6,639	2,567	31,866	9,338	3,054	44,258	56,170
Total expenses before depreciation and amortization	3,604,195	7,177,609	3,173,608	1,966,984	15,922,397	4,819,510	1,297,999	22,039,906	20,023,627
Depreciation and amortization	162,610	411,572	168,218	65,044	807,444	236,626	77,380	1,121,450	1,212,392
Total expenses	\$ 3,766,805	\$ 7,589,181	\$ 3,341,826	\$ 2,032,028	\$ 16,729,841	\$ 5,056,136	\$ 1,375,379	\$ 23,161,356	21,236,019

See accompanying notes to financial statements.

Canine Companions for Independence, Inc.

Statement of Cash Flows

<i>Year Ended December 31, 2016 (with comparative totals for 2015)</i>	2016	2015
Cash Flows from Operating Activities:		
Change in net assets	\$ 8,910,789	\$ 1,245,247
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,121,450	1,212,392
Allowance for doubtful accounts		145,000
Loss on disposal of property and equipment		(28,990)
Contributions - capital campaign	(5,903,436)	(1,367,725)
Contributions to and changes in pooled income funds	202,308	(61,849)
Unrealized and realized (gains) losses on investments	(1,081,415)	1,003,207
Changes in operating assets and liabilities:		
Contributions receivable	(1,664,529)	894,251
Accounts receivable	10,796	(605,567)
Bequests receivable	642,634	1,053,173
Other assets	(579,539)	(1,134,778)
Accounts payable and accrued expenses	59,059	(78,606)
Accrued payroll and related expenses	(295,334)	52,743
Gift annuities payable	5,477	(16,874)
Net cash provided by operating activities	1,428,260	2,311,624
Cash Flows from Investing Activities:		
Purchases of investments	(13,144,221)	(10,386,251)
Proceeds from sale of investments	11,599,122	9,958,760
Acquisitions of property and equipment	(772,539)	(2,901,024)
Net cash used by investing activities	(2,317,638)	(3,328,515)
Cash Flows from Financing Activities:		
Collections on capital campaign and endowment	6,231,437	1,275,225
Net cash provided by financing activities	6,231,437	1,275,225
Net Increase in Cash and Cash Equivalents	5,342,059	258,334
Cash and Cash Equivalents, beginning of year	5,113,078	4,854,744
Cash and Cash Equivalents, end of year	\$ 10,455,137	\$ 5,113,078
Noncash Investing Activities:		
Gifts in-kind		\$ 298,340
Equipment acquisition in accounts payable		\$ 28,046

See accompanying notes to financial statements.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 1 - Summary of Activities and Significant Accounting Policies:

a. Organization

Canine Companions for Independence, Inc. (CCI) is a non-profit corporation organized to provide trained assistance dogs and ongoing support to individuals with disabilities. CCI operates regional training facilities in the states of California, Ohio, Florida and New York and Texas. Its National headquarters is located in Santa Rosa, California. CCI's support comes primarily from donor contributions and bequests. The following is a description of the programs and services offered by CCI:

Breeding and puppy raising:

Since 1975, CCI has developed a proven formula for breeding, raising and training assistance dogs. CCI breeds labrador retrievers, golden retrievers, and a cross of the two to be assistance dogs.

Volunteer breeder caretakers care for CCI breeder dogs and nurture newborn puppies for eight weeks. In certain instances, CCI manages the birthing and caretaking during these early stages at its facilities in Santa Rosa, California. From ages eight weeks to eighteen months volunteer puppy raisers care for, provide basic obedience training and socialize CCI puppies. When a CCI puppy reaches the age of about eighteen months he or she is returned to one of our regional centers for professional instruction.

Training and follow up:

Professional CCI instructors spend six to nine months teaching the dog to master more than forty commands. They train four types of assistance dogs to best serve our clients:

- Service Dogs - assist adults with physical disabilities by performing daily tasks such as picking up dropped items.
- Skilled Companions - enhance independence for children and adults with physical, cognitive and developmental disabilities.
- Hearing Dogs - alert the deaf and hard of hearing to important sounds.
- Facility Dogs - work with a professional who directly serves clients with disabilities in a visitation, education or healthcare setting.

Canine Companions for Independence, Inc.

Notes to Financial Statements

The matching of students and canines takes place during Team Training, an intensive two-week training course where students learn the skills to command their new assistance dogs. CCI staff knows each individual dog's unique qualities - enabling them to reliably match people with the dog who will best meet their needs. Students also learn techniques to expand the range of commands to meet their particular needs. In addition, each student must demonstrate the ability to provide for the dog's care and well being before graduating with a CCI assistance dog.

Public information:

CCI takes a proactive stance in raising awareness of assistance dogs and challenges faced by people with disabilities. CCI's efforts have produced many articles in national and regional newspapers, magazines and newsletters. CCI has worked with national and regional web, radio, and television broadcasts to bring awareness of our program to millions. Additionally, CCI maintains ongoing ad campaigns that include billboards, buses and trains, print advertising and televised public service announcements.

To keep supporters informed, CCI distributes newsletters, electronic messages and direct mail packages that educate the general public and provide program updates. Additionally, CCI maintains and regularly updates accounts with Facebook, Twitter, Instagram and YouTube. CCI's web site (www.cci.org) provides full access to information about all aspects of their programs and services.

During the year, CCI participated in various outreach events supported by CCI staff and by more than 3,000 volunteers.

Veterinary:

CCI provides health care to all puppies and dogs in professional training. Additionally, CCI provides supplementary veterinary service for puppies and graduate dogs on an as needed basis.

Candidate graduation services:

CCI maintains a waiting list of persons desiring placement with a dog. Individuals are screened, interviewed and selected prior to attending a Team Training class.

After graduation, CCI keeps track of all the teams through follow-up visits and graduate workshops. The main purposes of graduate follow-up visits are to maintain as well as enhance the effectiveness of graduate team well-being.

CCI has also developed customer service and quality control tools known as Graduate Workshops and Graduate Seminars. These provide the graduates one to two day follow-up training at regional centers or in centrally located cities for problem solving and further education to ensure the ongoing success of the assistance dog team. CCI conducts annual graduate seminars at each of our six training centers.

Canine Companions for Independence, Inc.

Notes to Financial Statements

b. Basis of Presentation and Description of Net Assets

CCI uses the accrual basis of accounting in accordance with U.S. generally accepted accounting principles and reports information regarding its financial position and activities according to their classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets:

The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations. The Board of Directors has designated approximately \$7,144,000 of unrestricted net assets as an endowment for use in programs and future operations and approximately \$3,451,000 as an endowment for projects in the Southeast Region (see Note 11).

Temporarily restricted net assets:

The portion of net assets whose use by CCI is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of CCI.

Permanently restricted net assets:

The portion of net assets whose use by CCI is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of CCI.

c. Cash and Cash Equivalents

CCI considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents and not held for investment purposes.

d. Contributions and Pledges Receivable

Contributions and pledges receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value based upon the present value of their estimated future cash flows. Discounts are computed using estimated market rates. Amortization of the discounts is included in contributed income.

CCI uses the allowance method to determine uncollectible receivables. The allowance is based on prior years' experience and management's analysis of specific promises made.

Canine Companions for Independence, Inc.

Notes to Financial Statements

e. Investments

Investments are reported at fair value. Changes in fair values as well as realized gains and losses are reflected in the Statement of Activities and Changes in Net Assets. Dividend and interest income are accrued when earned. Investments received through gifts are recorded at estimated fair value at the date of donation.

All debt and equity securities with readily determinable market values are carried at estimated fair value based on market prices. Certain investments are recorded at the lower of their cost or market value. The fair value of the assets held by Community Foundation Sonoma County and Marin Community Foundation (collectively, the Foundations) are determined using the net asset value (NAV) per share as determined by the Foundations under the so called “practical expedient.” The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met.

Funds transferred by CCI to Community Foundation Sonoma County for which CCI is the beneficiary is accounted for under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-605, Transfer of Assets to a Not-for-Profit Organization (see Note 4) and are held at the net asset value per share as reported by the Community Foundation Sonoma County and Marin Community Foundation.

f. Fair Value Measurements

CCI carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. CCI classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

g. Fair Value of Financial Instruments

Some of CCI’s financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such assets and liabilities include: cash and cash equivalents, receivables, other assets, payables, and accrued expenses.

Canine Companions for Independence, Inc.

Notes to Financial Statements

h. Property, Equipment and Improvements

Property, equipment and improvements are recorded at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets which range from five to forty years. Amortization of leasehold improvements is computed over the lesser of the useful life or the term of the related lease.

i. Split Interest Agreements

Beneficial interests in charitable trust assets

Beneficial interests in charitable trust assets include the estimated fair value of CCI's interest in pooled income funds and charitable remainder trusts. Assets of these trusts are held by independent trustees. The fair values are measured by the estimated present value of the remainder interest using applicable mortality tables and approximate discount rate of 2%.

CCI recognizes its remainder interest in the assets received as temporarily restricted contribution revenue in the period in which the assets are received from the donor. Subsequent changes in the estimated fair value are recognized in the statement of activities.

Charitable gift annuities

CCI records a gift annuity upon execution of the contract and receipt of the assets. The liability is recorded at the estimated present value of payments using applicable mortality tables and discount rate of approximately 2%.

California Insurance Code (the Code) requires that organizations maintain a reserve fund adequate to meet the future payments under its outstanding charitable gift annuity contracts. In addition, the Code requires that 50% of the reserve fund be invested in specified governmental fixed income investments. As of December 31, 2016, CCI had sufficient funds in its reserve fund to meet the California Insurance Code requirements and those funds were invested in accordance with the Code. CCI is in conformance with all laws and regulations in all States it is registered to issue charitable gifts annuities.

j. Endowment Funds

CCI's endowments include donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Interpretation of relevant law:

The Board of Directors of CCI has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value 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, CCI classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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 organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, (7) the investment policies of the organization.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires CCI to retain as a fund of perpetual duration.

Return objectives and risk parameters:

CCI has adopted investment and spending policies for endowment assets that will ultimately provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to exceed the yield of relevant indexes while assuming a moderate level of investment risk. CCI expects its endowment funds, over time, to provide an average rate of return of approximately 7 percent annually. Actual returns in any given year may vary from this amount.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, CCI 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). CCI 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.

Spending policy and how the investment objectives relate to spending policy:

Except for the Board Designated endowment fund related to the Martha McCrary Bequest, CCI is reinvesting all interest and gain associated with its endowments until such time as the fund is large enough to significantly fund organization programs. The McCrary funds are appropriated based on the annual needs of the organization's Southeast Regional Office and can vary year to year, with a goal of maintaining as much principal as possible. Accordingly, over the long term, CCI expects the current spending policy to allow its endowment to grow at an average of 4 percent annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

k. Recognition of Revenue

Contributions and grants are recognized at their fair value when the donor makes an unconditional promise to give to CCI. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions and grants are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

CCI is the beneficiary under various wills and trust agreements, the total realizable amount of which is not presently determinable. Such amounts are recognized in CCI's financial statements as bequests receivable when clear title is established and the proceeds are measurable.

Conditional promises to give are not included as support until the conditions are substantially met.

Canine Companions for Independence, Inc.

Notes to Financial Statements

l. Contributed Goods and Services

CCI receives donated goods in the form of dog food and is recognized as inventory at the fair market value on its financial statements. Contributions of services are recognized when received if such services (a) enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. A substantial number of volunteers have donated significant amounts of time in CCI's program services and fundraising activities. The value of donated volunteer services has not been recognized in the accompanying financial statements because such volunteer services do not meet the above-mentioned criteria.

m. Functional Expenses

Expenses have been charged to program or supporting service classifications based on direct expenditures incurred. Any expenditure not directly chargeable is allocated among program or support service classifications based on estimated usage.

n. Income Taxes

CCI is a tax-exempt organization under the Internal Revenue Code, Section 501(c)(3) and related California code Sections. Accordingly, no provision for income taxes on related income has been reflected in these financial statements.

CCI follows the guidance on accounting for uncertainty in income taxes issued by FASB ASC Topic 740. As of December 31, 2016, management evaluated CCI's tax positions and concluded that CCI had maintained its tax exempt status and had taken no uncertain tax positions that required adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

o. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates based on assumptions. Those estimates affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

p. Prior Year Financial Information and Reclassifications

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with CCI's financial statements for the year ended December 31, 2015 from which the summarized information was derived.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Certain reclassifications have been made to the 2015 financial statements in order to conform to the 2016 presentation. These reclassifications had no impact on net assets or changes in net assets.

q. Recent Accounting Pronouncements

In February 2016 the Financial Accounting Standards Board (FASB) issued amendments to ASU 2016-02. Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with exception of short-term leases) at the commencement date: 1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020 for a calendar year entity) and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. CCI is currently evaluating the impact on this pronouncement on its financial statements.

In August 2016, FASB issued ASU 2016-04 Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities. The amendments in this update are designed to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. Amendments should be applied on a retrospective basis in the year the update is first applied. CCI is currently evaluating the impact of this pronouncement on its financial statements.

r. Subsequent events

The management of CCI has reviewed the change in net assets for the period of time from its year ended December 31, 2016 through May 24, 2017, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor subsequent events have occurred, the nature of which would require disclosure.

Note 2 - Contributions Receivable:

Contributions receivable consist of the following at December 31, 2016:

Contributions receivable	\$ 837,188
Pledges receivable, net of allowance of \$30,000	1,840,175
Federal and state employee pledges, net of allowance of \$52,560	195,440
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	\$ 2,872,803

Canine Companions for Independence, Inc.

Notes to Financial Statements

At December 31, 2016, contributions receivable are due as follows:

Receivable in Less than One Year	\$ 2,072,562
Receivable in One to Five Years	800,241
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	\$ 2,872,803

Pledges Receivable:

Pledges receivable include amounts related to CCI's \$20 million capital campaign for the North Central Region to expand and support future operations. As of December 31, 2016, CCI has raised \$5,043,032, including long-term pledge commitments of \$2,134,000. In prior year, CCI utilized \$1,366,338 in accordance with the donors' intent. As of December 31, 2016, the remaining balance of the long-term pledge commitments is \$1,276,000.

Additionally, during 2014, CCI received an intent to give of \$2 million to be distributed over six years in support of the capital campaign for the North Central Region. The intent to give is subject to annual approval by the donor and is excluded from the outstanding receivable at year-end. As of December 31, 2016, the remaining balance of the intent to give is \$1,200,000.

Federal and State employee pledges:

CCI is a beneficiary of funds collected through payroll deductions of Federal and State employees through two agencies, Animal Funds of America and Independent Charities of America. Pledges designated through both agencies are made in September and reported to CCI the following April. The combined federal campaign pledge receivable as of December 31, 2016 represents amounts due for the September 2015 campaign. Amounts due from the September 2016 campaign are not yet determinable, and therefore, have not been recorded.

Note 3 - Bequests Receivable:

CCI is the beneficiary under several wills and trust agreements in which clear title has been established and the proceeds are measurable. As of December 31, 2016, the total of these expectancies is \$1,005,392. Management believes that all bequest expectancies are collectible.

As of December 31, 2016, CCI also has various bequests which are in process. However, the amount to be received is not yet determinable. No value has been recorded on these bequests.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 4 - Investments:

Investments consist of the following at December 31, 2016:

Cash and cash equivalents	\$ 934,903
Government obligations	57,198
Mutual funds	1,250,837
Investments held by Marin Community Foundation	10,595,160
Investments held by Community Foundation Sonoma County	4,401,858
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Subtotal	17,239,956
Private equity, at cost	26,940
Certificates of deposit, at cost	5,719,339
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	\$ 22,986,235

Net investment income, including amounts earned on assets at Marin Community Foundation and Community Foundation Sonoma County, consists of the following at December 31, 2016:

Interest and dividends	\$ 219,041
Net realized and unrealized loss	884,868
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	\$ 1,103,909

CCI established and maintains component funds (the Funds) at Marin Community Foundation and Community Foundation Sonoma County (the Foundations) to benefit CCI. The Funds are established as expendable funds. As expendable funds, the Foundations may grant to CCI both principal and earnings at the request of CCI.

As part of the requirements of the Foundations, the Foundations are granted variance power in the event that a restriction or condition of a component fund is incapable of fulfillment. Per terms of the agreement with CCI, in such a situation, the Foundation may make grants from the Fund to such organizations that most nearly serve the purposes and objectives for which the Fund was established. The agreements may be terminated by either party.

During 2016, CCI liquidated the majority of their investments with exception of those held with the Community Foundation Sonoma County. The investment balance of approximately \$9,940,426 was transferred to Marin Community Foundation to establish the Canine Companions for Independence – Board Designated Endowment Fund. The funds were allocated among the Marin Community Foundation’s equity and fixed income pools.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 5 - Fair Value Measurements and Net Asset Value Disclosures:

The table below presents the balances of assets measured at fair value at December 31, 2016 on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Cash and cash equivalents	\$ 934,903	\$ 934,903	
Mutual funds:			
Fixed income	605,457	605,457	
Global equity	81,397	81,397	
Domestic equity	446,587	446,587	
Complimentary	50,785	50,785	
Real assets	66,609	66,609	
Government obligations	57,198		\$ 57,198
Investments held by Marin Community Foundation	10,595,160		
Investments held by Community Foundation Sonoma County	4,401,858		
Total investments	17,239,956	2,185,740	57,198
Split interest agreements	781,208		781,208
Investments held for deferred compensation	40,473	40,473	
Total assets measured at fair value	\$ 18,061,637	\$ 2,226,213	\$ 838,406

The schedule above does not include certificates of deposit. Certificates of deposit are not subject to fair value measurements as they do not meet the definition of disclosure.

In accordance with Subtopic 820-10, the investments held by Marin Community Foundation and Community Foundation Sonoma County are valued using the Net Asset Value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Net asset value disclosure:

CCI uses the Net Asset Value (NAV) as a practical expedient to determine the fair value of all the underlying investments which do not have readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Canine Companions for Independence, Inc.

Notes to Financial Statements

The investment held by the Foundations (see Note 4) represents CCI's board designated endowment assets and donor restricted endowment assets, including earnings, which have not yet been withdrawn. The assets are invested in the endowment pools of the Foundations.

The Marin Community Foundation endowment pool focuses on a long-term strategy designed to protect assets against inflation over time. The target asset allocation, which was revised in 2016 to provide further diversification and reduce volatility, includes (75%) in equity funds and (25%) in fixed income. The investment may be redeemed on a daily basis and are subject to restrictions by the Board of Directors at the Marin Community Foundation.

The Community Foundation Sonoma County endowment pool focuses on a long-term strategy designed to protect assets against inflation over time. The pool focuses on a long-term strategy designed to protect assets against inflation over time, while providing for a steady stream of grants. The target asset allocation, which is designed to provide diversification and reduce volatility is 85% in a core portfolio which includes five categories of stocks (55%) and three categories of bonds (30%), and 15% in satellite portfolio. The core of the portfolio consists of investments that track major market indices with minimal tracking error (defined as the deviation of excess return). Additional positions, known as satellites, are added to the portfolio and allow for greater flexibility regarding tracking error. Overall, the pool is allocated 65% to stocks and 35% to bonds. The investment may be redeemed on a daily basis and are subject to restrictions by the Board of Directors at the Community Foundation.

Note 6 - Revocable Funds:

Two funds were established by an outside donor under the administration of Community Foundation Sonoma County, to support the mission and activities of CCI. Fund A is a permanent endowment fund with a balance of approximately \$2,034,000 at December 31, 2016. Distributions from this fund are subject to the Community Foundation's endowment spending policy. Fund B is an expendable fund with a balance of approximately \$2,300 at December 31, 2016. As these funds are revocable, they are not included on the Statement of Financial Position at December 31, 2016. During 2016, CCI requested and received a distribution from Fund A for \$79,499 and Fund B of \$543,374 for its programs.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 7 - Property, Equipment and Improvements:

Property, equipment and improvements consisted of the following at December 31, 2016:

Buildings and land	\$ 28,096,539
Leasehold improvements	4,571,126
Office equipment	4,204,768
Automotive equipment	842,149
	<hr/>
	37,714,582
Less accumulated depreciation and amortization	(14,248,211)
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	\$ 23,466,371

Depreciation and amortization expense totaled \$1,121,450 for 2016.

Note 8 - Other Assets

Other assets at December 31, 2016 consisted of the following:

Land held for sale	\$ 1,134,093
Split interest agreements	836,888
Life insurance policy	744,737
Inventories	228,648
Investments held for deferred compensation plans	40,473
Other	233,357
	<hr/>
	\$ 3,218,196

The land held for sale represents a donation to CCI in accordance with CCI's Gift Acceptance Policy. The land was donated to benefit the Southeast Region for its general operating purposes. The land is being actively marketed for sale.

Note 9 - Line of Credit:

CCI obtained a revolving line of credit (LOC) of \$4,000,000 to finance operations as necessary. The line has an interest rate of 4.75% and a commitment fee of 0.375% for the term of the loan. The LOC will expire in October 2017. CCI has not applied for any other credit facilities. There was no balance outstanding on the LOC as of December 31, 2016.

Canine Companions for Independence, Inc.

Notes to Financial Statements

There are financial covenants applicable to the LOC. As of December 31, 2016, CCI was in compliance with all financial covenants.

Note 10 - Temporarily Restricted Net Assets:

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

Property, equipment and improvements	\$ 5,340,422
Split interest agreements	836,888
Program and time restrictions, including accumulated endowment income	2,678,862
Bequests receivable and annuities	1,391,096
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	\$ 10,247,268

Net assets were released during 2016 in accordance with the donors' intent or release of time restrictions as follows:

Purpose and time restrictions	\$ 842,688
Bequests receivable	1,354,934
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Total restrictions released	\$ 2,197,622

Note 11 - Endowments:

Endowment Net Asset Composition by Type of Fund as of December 31, 2016:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted:				
General use		\$ 1,255,585	\$ 3,175,667	\$ 4,431,252
Board Designated:				
Earnings available for general use	\$ 7,144,336			7,144,336
Earnings available for general use by the Southeast Region	3,450,824			3,450,824
	<hr/>			
Total	\$ 10,595,160	\$ 1,255,585	\$ 3,175,667	\$ 15,026,412

Canine Companions for Independence, Inc.

Notes to Financial Statements

Changes in Endowment Net Asset for the year ended December 31, 2016:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, beginning of year	\$ 9,940,426	\$ 969,334	\$ 3,175,667	\$ 14,085,427
Interest and dividends	93,857	46,082		139,939
Net gain (realized and unrealized)	623,542	215,368		838,910
<hr/>				
Net investment income	717,399	261,450		978,849
Contributions	148,046			148,046
Appropriation of endowment assets for expenditure	(284,724)			(284,724)
Transfers	74,013	24,801		98,814
<hr/>				
Endowment Net Assets, end of year	\$ 10,595,160	\$ 1,255,585	\$ 3,175,667	\$ 15,026,412

Note 12 - Commitments:

CCI entered into several lease agreements for its headquarters and regional offices. During 2015, CCI extended its lease agreement for the CCI Canine Early Development Center through May 31, 2021. The approximate future minimum lease payments related to these leases are as follows:

Year Ended December 31,	
2017	\$ 196,000
2018	195,000
2019	200,000
2020	206,000
2021	87,000
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	\$ 884,000

Rent expenses under all operating leases and storage facilities amounted to \$247,397 for the year ended December 31, 2016.

Canine Companions for Independence, Inc.

Notes to Financial Statements

CCI also leases property for its Southwest Region center under a thirty-year lease ending August 2025. There is a ten-year renewal option. This property is leased to CCI rent-free with the agreement that the premises will be used exclusively for the purpose of assistance dog training and other related purposes.

Note 13 - Pension Plans:

CCI sponsors a 403(b) defined contribution pension plan that covers all employees who meet certain eligibility requirements. Contributions to the plan by CCI are based on eligible compensation and include elective and matching contributions not to exceed 6% of compensation for 2016. For the year ended December 31, 2016, the amount of pension expense was \$468,162.

CCI also has a 457(b) deferred compensation plan for certain management personnel. The employees may elect to defer a certain portion of their salary. The plan does not allow contributions from CCI.

Note 14- Concentrations of Credit Risk:

CCI has identified its financial instruments which are potentially subject to credit risk. These financial instruments consist principally of cash, investments, and receivables.

CCI invests its excess cash and investments with various financial institutions. These deposits include amounts over the federally insured limits.

Receivables consist primarily of unsecured amounts due from individuals, trusts, and estates. The credit risk associated with the receivables from individuals is substantially mitigated by the large number of individuals comprising the receivable balance.

Approximately 11% of contributed income for the year ended December 31, 2016 was attributable to one donor.

Total contributions from board members are approximately \$3.7 million for the year ended December 31, 2016.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 15- Affiliation Agreement:

Baylor Scott & White Health (BSWH) and Canine Companions for Independence (CCI) entered into an affiliation and management agreement effective September 30, 2013. The parties intend to cooperate in the development of CCI's South Central Training Center in Irving, Texas to be built and owned by BSWH at its sole cost and expense in Texas which will be operated, staffed and managed by CCI. The new campus, built and owned by BSWH, opened October 2015. The initial project included dormitory rooms and kennels with the overall objective of developing a campus capable of graduating approximately 60 new assistance dog teams per year.

The initial term of the agreement is for 10 years. In consideration of the benefits of affiliation with CCI and CCI's commitment to establishing and operating a whelping center near its campus in Santa Rosa; BSWH made a one-time contribution to CCI of \$500,000 and will help fund the operating costs of the whelping center for its first 3 years. Besides ensuring the underwriting of the operating costs of the CCI program in Texas, BSWH will also pay CCI a \$235,000 fee for the first 3 years of development and operation of the Training Center, beginning January 1, 2014. In subsequent years, BSWH will be charged an annual fee not to exceed 7% of the mutually approved annual budget for the Training Center.