

CANINE COMPANIONS FOR
INDEPENDENCE, INC.

DECEMBER 31, 2017

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Canine Companions for Independence, Inc.

Independent Auditors' Report and Financial Statements

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A Century Strong

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, 2017, 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 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 CCI'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, 2017 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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our audit report dated May 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
June 27, 2018

Canine Companions for Independence, Inc.

Statement of Financial Position

<i>December 31, 2017 (with comparative totals for 2016)</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 6,344,339	\$ 10,455,137
Contributions receivable, net	2,673,394	2,872,803
Accounts receivable	1,021,046	676,873
Bequests receivable	1,033,852	1,005,392
Investments	33,167,286	22,986,235
Property, equipment and improvements, net	23,835,923	23,466,371
Other assets	3,273,747	3,218,196
	\$ 71,349,587	\$ 64,681,007
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 918,411	\$ 429,439
Accrued payroll and related expenses	1,288,054	1,026,687
Gift annuities payable	965,429	688,930
Deferred compensation	45,643	40,473
Total liabilities	3,217,537	2,185,529
Net Assets:		
Unrestricted	49,897,675	49,072,543
Temporarily restricted	15,058,708	10,247,268
Permanently restricted	3,175,667	3,175,667
Total net assets	68,132,050	62,495,478
	\$ 71,349,587	\$ 64,681,007

Canine Companions for Independence, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2017 (with comparative totals for 2016)

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support:					
Contributions	\$ 13,655,891	\$ 387,371		\$ 14,043,262	\$ 14,166,027
Bequests	5,301,951	667,626		5,969,577	7,774,185
Change in value of beneficial interests in trust assets		131,130		131,130	55,680
Net assets released from restrictions	1,056,032	(1,056,032)		-	-
Total support	20,013,874	130,095	-	20,143,969	21,995,892
Revenue:					
Special events (net of direct expenses of \$1,116,937 for 2017)	2,949,583			2,949,583	2,692,049
Program service revenue	1,773,434			1,773,434	2,050,938
Net investment income	2,096,339	662,135		2,758,474	1,103,909
Other income (loss)	156,932			156,932	(61,825)
Total revenue	6,976,288	662,135	-	7,638,423	5,785,071
Total support and revenue	26,990,162	792,230	-	27,782,392	27,780,963
Expenses:					
Program services:					
Breeding and puppy raising	4,402,626			4,402,626	3,766,805
Training and follow-up	8,842,602			8,842,602	7,589,181
Public information	3,480,983			3,480,983	3,341,826
Veterinary	2,281,238			2,281,238	2,032,028
Total program services	19,007,449	-	-	19,007,449	16,729,840
Support services:					
Fund development	5,493,831			5,493,831	5,056,136
General administration	1,663,750			1,663,750	1,375,379
Total support services	7,157,581	-	-	7,157,581	6,431,515
Total expenses	26,165,030	-	-	26,165,030	23,161,355
Change in Net Assets Before Other Changes	825,132	792,230	-	1,617,362	4,619,608
Other Changes in Net assets					
Capital campaign contributions		4,019,210		4,019,210	4,291,181
Change in Net Assets	825,132	4,811,440	-	5,636,572	8,910,789
Net Assets, beginning of year	49,072,543	10,247,268	\$ 3,175,667	62,495,478	53,584,689
Net Assets, end of year	\$ 49,897,675	\$ 15,058,708	\$ 3,175,667	\$ 68,132,050	\$ 62,495,478

Canine Companions for Independence, Inc.

Statement of Functional Expenses

Year Ended December 31, 2017 (with comparative totals for 2016)

	2017									2016 Total
	Program Services					Support Services				
	Breeding and Puppy Raising	Training and Follow-up	Public Information	Veterinary	Subtotal	Fund Development	General Administration	Total		
Salaries	\$ 1,871,846	\$ 4,558,065	\$ 1,701,678	\$ 704,981	\$ 8,836,570	\$ 2,406,659	\$ 911,613	\$ 12,154,842	\$ 10,664,303	
Payroll taxes	145,595	354,533	132,359	54,834	687,321	187,193	70,907	945,421	840,484	
Employee benefits	290,997	708,596	264,542	109,596	1,373,731	374,138	141,719	1,889,588	1,652,158	
Pension plan contributions	83,313	202,873	75,739	31,378	393,303	107,117	40,575	540,995	468,160	
Workers compensation insurance	39,790	96,891	36,173	14,986	187,840	51,158	19,378	258,376	204,349	
Rent	35,282	89,301	36,499	14,113	175,195	51,342	16,789	243,326	247,395	
Bank charges					-	229,016	2	229,018	179,722	
Building maintenance	102,656	257,119	89,028	34,425	483,228	69,342	40,953	593,523	757,105	
Utilities	95,625	240,953	81,038	31,335	448,951	54,025	37,277	540,253	482,443	
Equipment rental and maintenance	70,710	178,970	73,149	38,850	361,679	102,896	33,648	498,223	321,185	
Insurance	39,562	100,132	40,926	15,825	196,445	57,569	18,826	272,840	237,088	
Program supplies	269,848	299,642	30,561	301,915	901,966	33,294	3,090	938,350	782,776	
Office supplies	22,889	57,933	23,678	9,156	113,656	33,308	10,892	157,856	127,124	
Dues and subscriptions	11,491	29,085	11,888	4,597	57,061	16,722	5,468	79,251	32,781	
Travel, conventions and meetings	127,633	389,159	246,701	43,256	806,749	240,089	51,460	1,098,298	1,087,597	
Professional services	589,086	299,909	179,495	723,518	1,792,008	609,217	84,604	2,485,829	2,369,241	
Advertising and marketing	436	2,618	38,972	436	42,462	45,388	436	88,286	71,984	
Telephone (data and voice communication)	102,682	258,265	112,192	40,715	513,854	154,245	48,435	716,534	595,491	
Postage and freight	242,348	86,810	19,350	7,482	355,990	187,424	8,901	552,315	597,210	
Printing and publications	38,462	68,909	56,972	10,890	175,233	160,094	12,956	348,283	277,052	
Taxes, licenses, and other expenses	18,533	46,908	19,172	7,413	92,026	26,970	8,820	127,816	44,257	
Total expenses before depreciation and amortization	4,198,784	8,326,671	3,270,112	2,199,701	17,995,268	5,197,206	1,566,749	24,759,223	22,039,905	
Depreciation and amortization	203,842	515,931	210,871	81,537	1,012,181	296,625	97,001	1,405,807	1,121,450	
Total expenses	\$ 4,402,626	\$ 8,842,602	\$ 3,480,983	\$ 2,281,238	\$ 19,007,449	\$ 5,493,831	\$ 1,663,750	\$ 26,165,030	\$ 23,161,355	

Canine Companions for Independence, Inc.

Statement of Cash Flows

<i>Year Ended December 31, 2017 (with comparative totals for 2016)</i>	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	\$ 5,636,572	\$ 8,910,789
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,405,807	1,121,450
Contributions - capital campaign	(4,019,210)	(5,903,436)
Contributions to and changes in pooled income funds	131,130	202,308
Unrealized and realized gains on investments	(2,415,011)	(1,081,415)
Changes in operating assets and liabilities:		
Contributions receivable	(1,138,594)	(1,664,529)
Accounts receivable	(344,173)	10,796
Bequests receivable	(28,460)	642,634
Other assets	(181,511)	(579,539)
Accounts payable and accrued expenses	488,972	59,059
Accrued payroll and related expenses	261,367	(295,334)
Gift annuities payable	276,499	5,477
Net cash provided by operating activities	73,388	1,428,260
Cash Flows from Investing Activities:		
Purchases of investments	(10,467,250)	(13,144,221)
Proceeds from sale of investments	2,701,211	11,599,122
Acquisitions of property and equipment	(1,775,360)	(772,539)
Net cash used by investing activities	(9,541,399)	(2,317,638)
Cash Flows from Financing Activities:		
Collections on capital campaign	5,357,213	6,231,437
Net cash provided by financing activities	5,357,213	6,231,437
Net Change in Cash and Cash Equivalents	(4,110,798)	5,342,059
Cash and Cash Equivalents, beginning of year	10,455,137	5,113,078
Cash and Cash Equivalents, end of year	\$ 6,344,339	\$ 10,455,137
Noncash Investing Activities:		
Gifts in-kind		\$ 298,340
Equipment acquisition in accounts payable		\$ 28,046

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, 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.

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.

Canine Companions for Independence, Inc.

Notes to Financial Statements

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.

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.

Canine Companions for Independence, Inc.

Notes to Financial Statements

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 \$14,800,000 of unrestricted net assets as an endowment for use in programs and future operations and approximately \$3,600,000 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.

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.

Canine Companions for Independence, Inc.

Notes to Financial Statements

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 the Foundations 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 Foundations.

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.

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.

Canine Companions for Independence, Inc.

Notes to Financial Statements

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 2.6%.

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 approximate discount rate of 2.6%.

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, 2017, 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, CCI 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 CCI 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 CCI, (7) the investment policies of CCI.

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 CCI 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 6 percent annually. Actual returns in any given year may vary from this amount.

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.

Canine Companions for Independence, Inc.

Notes to Financial Statements

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 CCI's programs. The McCrary funds are appropriated based on the annual needs of CCI's Southeast Regional Office and can vary year to year, with a goal of maintaining as much principal as possible. This is consistent with CCI'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.

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.

Canine Companions for Independence, Inc.

Notes to Financial Statements

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, 2017, 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. 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 2016-14 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.

Canine Companions for Independence, Inc.

Notes to Financial Statements

q. Subsequent events

The management of CCI has reviewed the change in net assets for the period of time from its year ended December 31, 2017 through June 27, 2018, 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, 2017:

Contributions receivable	\$ 628,344
Pledges receivable, net of allowance of \$30,000	1,849,610
Federal and state employee pledges, net of allowance of \$52,560	195,440
	<hr/>
	\$ 2,673,394

At December 31, 2017, contributions receivable are due as follows:

Receivable in less than one year	\$ 1,588,196
Receivable in one to five years	1,085,198
	<hr/>
	\$ 2,673,394

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, 2017, CCI has raised approximately \$8,200,000 including long-term pledge commitments of approximately \$3,600,000. As of December 31, 2017, the remaining balance of the long-term pledge commitments is \$1,440,813.

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, 2017, the remaining balance of the intent to give is \$800,000.

Canine Companions for Independence, Inc.

Notes to Financial Statements

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, 2017 represents amounts due for the September 2016 campaign. Amounts due from the September 2017 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, 2017, the total of these expectancies is \$1,033,852. Management believes that all bequest expectancies are collectible.

As of December 31, 2017, 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.

Note 4 - Investments:

Investments consist of the following at December 31, 2017:

Cash and cash equivalents	\$ 3,467,627
Mutual funds	1,883,775
Investments held by Marin Community Foundation	18,398,597
Investments held by Community Foundation Sonoma County	5,063,992
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Subtotal	28,813,991
Private equity, at cost	33,295
Certificates of deposit, at cost	4,320,000
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	\$ 33,167,286

Net investment income, including amounts earned on assets at the Foundations, consists of the following at December 31, 2017:

Interest and dividends	\$ 343,463
Net realized and unrealized gain	2,415,011
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	\$ 2,762,374

Canine Companions for Independence, Inc.

Notes to Financial Statements

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.

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, 2017 on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Cash and cash equivalents	\$ 3,467,627	\$ 3,467,627	
Mutual funds:			
Fixed income	949,463	949,463	
Global equity	113,511	113,511	
Domestic equity	682,550	682,550	
Complimentary	65,333	65,333	
Real assets	72,918	72,918	
Investments held by Marin Community Foundation	18,398,597		
Investments held by Community Foundation Sonoma County	5,063,992		
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Total investments	28,813,991	5,351,402	
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Split interest agreements	968,018		\$ 968,018
Investments held for deferred compensation	45,043	45,643	
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Total assets measured at fair value	\$ 29,827,052	\$ 5,396,445	\$ 968,018

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 for disclosure.

Canine Companions for Independence, Inc.

Notes to Financial Statements

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.

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 is (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, while providing for a steady stream of gains. 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 \$2,344,000 at December 31, 2017. Distributions from this fund are subject to Community Foundation Sonoma County's endowment spending policy. Fund B was an expendable fund that was closed in 2017 after all required distributions were made. As these funds are revocable, they are not included on the Statement of Financial Position at December 31, 2017. During 2017, there were no distributions from Fund A. During 2017, CCI requested and received a distribution from Fund B of \$2,388 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, 2017:

Buildings and land	\$ 29,015,188
Leasehold improvements	5,191,656
Office equipment	4,332,393
Automotive equipment	930,583
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	39,469,820
Less accumulated depreciation and amortization	(15,633,897)
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	\$ 23,835,923

Depreciation and amortization expense totaled \$1,405,807 for 2017.

Note 8 - Other Assets:

Other assets at December 31, 2017 consisted of the following:

Land held for sale	\$ 1,136,605
Split interest agreements	968,018
Life insurance policy	744,737
Inventories	228,648
Investments held for deferred compensation plans	45,043
Other	150,696
	<hr/>
	\$ 3,273,747

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.

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 5.50% and a commitment fee of 0.375% for the term of the loan. The LOC will expire in October 2019. CCI has not applied for any other credit facilities. There was no balance outstanding on the LOC as of December 31, 2017.

There are financial covenants applicable to the LOC. As of December 31, 2017, CCI was in compliance with all financial covenants.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 10 - Temporarily Restricted Net Assets:

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

Property, equipment and improvements	\$ 9,112,590
Split interest agreements	968,018
Program and time restrictions, including accumulated donor endowment income	3,485,070
Bequests receivable and annuities	1,493,030
	\$ 15,058,708

Net assets were released during 2017 in accordance with the donors' intent or release of time restrictions as follows:

Purpose and time restrictions	\$ 449,630
Bequests receivable	606,402
	\$ 1,056,032

Note 11 - Endowments:

Endowment net asset composition by type of fund as of December 31, 2017:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted:				
General use		\$ 1,917,720	\$ 3,175,667	\$ 5,093,387
Board Designated:				
Earnings available for general use	\$ 14,794,315			14,794,315
Earnings available for general use by the Southeast Region	3,604,281			3,604,281
				3,604,281
Total	\$ 18,398,596	\$ 1,917,720	\$ 3,175,667	\$ 23,491,983

Canine Companions for Independence, Inc.

Notes to Financial Statements

Changes in Endowment Net Asset for the year ended December 31, 2017:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, beginning of year	\$ 10,595,160	\$ 1,255,585	\$ 3,175,667	\$ 15,026,412
Interest and dividends	159,730	106,724		266,454
Net gain (realized and unrealized)	1,729,715	555,411		2,285,126
Net investment income	1,889,445	662,135	-	2,551,580
Board designated transfer	6,000,000			6,000,000
Appropriation of endowment assets for expenditure	(461,995)			(461,995)
Other transfers	375,986			375,986
Endowment Net Assets, end of year	\$ 18,398,596	\$ 1,917,720	\$ 3,175,667	\$ 23,491,983

Note 12 - Commitments:

CCI entered into several lease agreements for its headquarters and regional offices for office space and office equipment. The approximate future minimum lease payments related to these leases are as follows:

Year Ended	
December 31,	
2018	\$ 236,000
2019	243,000
2020	250,000
2021	87,000
	\$ 816,000

Rent expenses under all operating leases amounted to \$243,326 for the year ended December 31, 2017.

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.

Canine Companions for Independence, Inc.

Notes to Financial Statements

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 2017. For the year ended December 31, 2017, the amount of pension expense was \$540,995.

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 12% of contributed income for the year ended December 31, 2017 was attributable to one donor.

Total contributions from board members are approximately \$4,000,000 for the year ended December 31, 2017.

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.

Canine Companions for Independence, Inc.

Notes to Financial Statements

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, the Canine Early Development Center (CEDC), 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 CEDC 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. As of December 31, 2017, the outstanding receivable under this arrangement is \$1,021,046.