

CANINE COMPANIONS FOR
INDEPENDENCE, INC.

DECEMBER 31, 2008

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

We have audited the accompanying statement of financial position of **CANINE COMPANIONS FOR INDEPENDENCE, INC. (CCI)** as of December 31, 2008 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of CCI's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from CCI's 2007 financial statements, and, in our report dated April 21, 2008, we expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Canine Companions for Independence, Inc. as of December 31, 2008 and changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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May 5, 2009

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Canine Companions for Independence, Inc.

Statement of Financial Position

<i>December 31,</i>	2008	2007
Assets		
Cash and cash equivalents	\$ 3,820,782	\$ 6,415,264
Contributions receivable, net	795,971	667,696
Pledges receivable, net	437,211	585,197
Bequests receivable	2,925,663	2,928,415
Investments	7,865,177	5,497,542
Assets held by community foundation	2,744,379	3,623,667
Property, equipment and improvements, net	24,591,398	21,288,967
Note receivable, trusts and other assets	662,894	1,057,926
	\$ 43,843,475	\$ 42,064,674
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 267,942	\$ 954,174
Accrued payroll and related expenses	758,270	712,159
Gift annuities payable	107,976	91,906
Loan payable	3,500,000	
Deferred compensation	20,251	238,471
Total liabilities	4,654,439	1,996,710
Net Assets:		
Unrestricted	30,749,450	27,649,048
Temporarily restricted	5,285,007	9,339,337
Permanently restricted	3,154,579	3,079,579
Total net assets	39,189,036	40,067,964
	\$ 43,843,475	\$ 42,064,674

Canine Companions for Independence, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2008 (with comparative totals for 2007)

	2008			Total	2007 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Public Support:					
Contributions	\$ 7,613,953	\$ 171,448	\$ 75,000	\$ 7,860,401	\$ 8,345,540
Capital campaign support		1,434,550		1,434,550	461,170
Bequests	1,477,478	3,180,988		4,658,466	2,006,045
Change in value of beneficial interests in trust assets		(199,356)		(199,356)	31,762
Net assets released from restrictions	8,415,547	(8,415,547)			
Total public support	17,506,978	(3,827,917)	75,000	13,754,061	10,844,517
Revenue:					
Special events (net of direct expenses of \$613,109 for 2008)	1,245,487			1,245,487	1,425,600
Program service revenue	76,380			76,380	65,969
Sale of merchandise (net of purchases of \$109,724 for 2008)	28,822			28,822	4,270
Net investment income (loss)	(1,675,974)	(594,087)		(2,270,061)	797,426
Other	26,146			26,146	10,606
Total revenue	(299,139)	(594,087)		(893,226)	2,303,871
Total public support and revenue	17,207,839	(4,422,004)	75,000	12,860,835	13,148,388
Expenses:					
Program services:					
Breeding and puppy raising	2,050,283			2,050,283	1,864,396
Training and follow-up	4,932,157			4,932,157	4,651,749
Public information	2,056,514			2,056,514	1,921,993
Veterinary	1,560,493			1,560,493	1,343,302
Total program services	10,599,447			10,599,447	9,781,440
Support services:					
Fund development	2,246,151			2,246,151	2,085,413
General administration	894,165			894,165	838,816
Total support services	3,140,316			3,140,316	2,924,229
Total expenses	13,739,763			13,739,763	12,705,669
Change in Net Assets before Reclassification of Net Assets	3,468,076	(4,422,004)	75,000	(878,928)	442,719
Reclassification of Net Assets	(367,674)	367,674			
Change in Net Assets	3,100,402	(4,054,330)	75,000	(878,928)	442,719
Net Assets, beginning of year	27,649,048	9,339,337	3,079,579	40,067,964	39,625,245
Net Assets, end of year	\$ 30,749,450	\$ 5,285,007	\$ 3,154,579	\$ 39,189,036	\$ 40,067,964

Canine Companions for Independence, Inc.

Statement of Functional Expenses

Year Ended December 31, 2008 (with comparative totals for 2007)

	2008								2007 Total
	Program Services					Support Services		2008 Total	
	Breeding and Puppy Raising	Training and Follow-up	Public Information	Veterinary	Subtotal	Fund Development	General Administration		
Salaries	\$ 955,858	\$ 2,665,995	\$ 1,072,900	\$ 403,150	\$ 5,097,903	\$ 897,335	\$ 507,189	\$ 6,502,427	\$ 6,041,930
Payroll taxes	76,230	212,615	85,564	32,152	406,561	71,563	40,449	518,573	473,773
Employee benefits	100,562	280,472	112,873	42,413	536,320	94,403	53,358	684,081	594,784
Pension plan contributions	37,785	105,386	42,411	15,936	201,518	35,471	20,049	257,038	230,831
Workers compensation insurance	23,968	66,850	26,903	10,109	127,830	22,501	12,718	163,049	119,040
Rent	6,782	18,917	7,613	2,861	36,173	6,367	3,599	46,139	48,422
Interest and bank charges	13,526	37,724	15,182	5,705	72,137	68,043	7,177	147,357	59,194
Building maintenance	54,102	150,896	60,726	22,818	288,542	50,789	28,707	368,038	385,706
Utilities	53,270	148,577	59,793	22,468	284,108	50,009	28,266	362,383	280,716
Equipment rental and maintenance	20,252	56,486	22,732	8,743	108,213	19,012	10,746	137,971	135,090
Insurance	31,369	87,491	35,210	13,230	167,300	29,448	16,645	213,393	210,174
Program supplies	163,101	148,256	15,930	649,323	976,610	15,930		992,540	851,007
Office supplies	13,503	37,662	15,157	5,695	72,017	12,677	7,165	91,859	84,265
Dues and subscriptions	4,087	11,399	4,587	1,724	21,797	3,837	2,169	27,803	27,022
Travel, conventions and meetings	65,417	170,147	196,473	21,426	453,463	47,691	26,956	528,110	500,653
Professional services	135,580	158,260	36,501	214,628	544,969	118,659	22,344	685,972	755,634
Advertising and marketing	950	2,650	17,801	401	21,802	16,107	504	38,413	54,328
Telephone	31,204	87,032	38,687	13,161	170,084	29,709	16,557	216,350	182,805
Postage and freight	113,663	69,557	22,142	11,675	217,037	195,930	10,467	423,434	418,408
Printing and publications	13,004	36,270	14,597	5,485	69,356	234,481	6,900	310,737	402,104
Taxes and licenses	2,935	8,185	3,294	1,238	15,652	2,755	1,557	19,964	19,624
Other expenses						98,450		98,450	63,304
Total expenses before depreciation and amortization	1,917,148	4,560,827	1,907,076	1,504,341	9,889,392	2,121,167	823,522	12,834,081	11,938,814
Depreciation and amortization	133,135	371,330	149,438	56,152	710,055	124,984	70,643	905,682	766,855
Total expenses	\$ 2,050,283	\$ 4,932,157	\$ 2,056,514	\$ 1,560,493	\$ 10,599,447	\$ 2,246,151	\$ 894,165	\$ 13,739,763	\$ 12,705,669

The accompanying notes are an integral part of this statement.

Canine Companions for Independence, Inc.

Statement of Cash Flows

<i>Years Ended December 31,</i>	2008	2007
Cash Flows from Operating Activities:		
Change in net assets	\$ (878,928)	\$ 442,719
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	905,682	766,855
Loss on disposal of assets	102,376	
Donated property	(10,000)	(81,345)
Contributions-capital campaign and endowment	(245,000)	(110,707)
Contributions to and changes in pooled income funds	220,861	(31,762)
Unrealized and realized gains on investments	2,526,184	(286,013)
Contributions of investment securities	(445,967)	(213,903)
Changes in operating assets and liabilities:		
Contributions receivable	(39,514)	72,788
Bequests receivable	2,753	2,087,081
Note receivable, trusts and other assets	(44,049)	21,869
Accounts payable and accrued expenses	(697,202)	490,705
Accrued payroll and related expenses	46,111	5,980
Gift annuities payable	16,070	19,127
Net cash provided by operating activities	1,459,377	3,183,394
Cash Flows from Investing Activities:		
Purchases of investments	(4,961,480)	(3,510,147)
Proceeds from sale of investments	1,392,916	1,384,541
Acquisitions of property and equipment	(4,289,520)	(3,424,185)
Net cash used by investing activities	(7,858,084)	(5,549,791)
Cash Flows from Financing Activities:		
Proceeds from loan payable	3,500,000	
Collections on capital campaign and endowment	304,225	215,216
Net cash provided by financing activities	3,804,225	215,216
Net Decrease in Cash and Cash Equivalents	(2,594,482)	(2,151,181)
Cash and Cash Equivalents, beginning of year	6,415,265	8,566,446
Cash and Cash Equivalents, end of year	\$ 3,820,783	\$ 6,415,265
Noncash Investing Activities:		
Gifts In-kind	\$ 54,990	\$ 100,042

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 to individuals with disabilities throughout their lifetime. CCI operates regional training facilities in the states of California, Ohio, Florida and New York. Its National headquarters is located in Santa Rosa, California. CCI's support comes primarily from donor contributions and bequests.

b. Description of Net Assets

CCI reports information regarding its financial position and activities according to three 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 \$1,700,000 of unrestricted net assets as an endowment for use in programs and future operations and approximately \$2,500,000 for projects in the Southeast Region (see note 15).

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. 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.

Canine Companions for Independence, Inc.

Notes to Financial Statements

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.

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.

d. Cash and Cash Equivalents

CCI considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

e. Investments

Investments are recorded at fair value, based on quoted market prices with realized and unrealized gains and losses reflected in the Statement of Activities as investment income.

f. Assets Held by Community Foundation

Funds transferred by CCI to a community foundation for which CCI is the beneficiary is accounted for under SFAS 136 - Transfer of Assets to a Not-for-Profit Organization.

g. 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%.

Canine Companions for Independence, Inc.

Notes to Financial Statements

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 law requires that 50% of the reserve fund be invested in specified governmental fixed income investments. As of December 31, 2008, 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.

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 three to forty years. Amortization of leasehold improvements is computed over the lesser of the useful life or the term of the related lease.

i. 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.

j. Endowment Funds

CCI's endowments consist of 9 individual funds, all established to generate general operating support to the organization. Its endowment includes 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.

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.

Canine Companions for Independence, Inc.

Notes to Financial Statements

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. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$335,201 as of December 31, 2008.

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 produce results that exceed the price and yield results of the S&P 500 and other 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.

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 organization programs. The McCrary funds are appropriated based on the annual needs of the organizations South East Regional Office and can vary year to year, with a goal of maintaining as much principal as possible. Accordingly, over the long term, the 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. 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.

l. 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.

m. Financial Information

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, 2007, from which the summarized information was derived. Certain reclassifications have been made to the prior year financial statements in order for them to conform to current year presentation. These reclassifications had no effect on net assets or change in net assets.

Canine Companions for Independence, Inc.

Notes to Financial Statements

n. Recent Accounting Pronouncements

In February 2007, FASB issued FAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115", (effective as of the beginning of an entity's first fiscal year that begins after November 5, 2007). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. CCI has evaluated FAS 159 and determined that it does not choose to apply it at this time.

Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), was issued in July 2006 and establishes standards for the recognition of income taxes for tax positions taken in income tax returns. In December 2008, a FASB Staff Position deferred the effective date for exempt organizations, permitting adoption for years beginning after December 15, 2008. CCI elected to defer the adoption of FIN 48 and is not subject to income taxes on related income due to its exempt status. All transactions are deemed related to the mission of CCI so no provision for income taxes is included in these financial statements. CCI does not believe FIN 48 will have a material impact on its financial statements.

Note 2 - Contributions Receivable:

Contributions receivable consist of the following at December 31, 2008:

Contributions receivable	\$ 507,813
Federal and state employee pledges, net of allowance of \$72,040	288,158
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	\$ 795,971

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, 2008 represents amounts due for the September 2007 campaign. Amounts due from the September 2008 campaign are not yet determinable, and therefore, have not been recorded.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 3 - Pledges Receivable:

Pledges receivable consist of the following at December 31, 2008:

	Unrestricted	Capital Campaign	Total
Pledges receivable	\$ 207,281	\$ 299,551	\$ 506,832
Less discount	(7,887)	(13,134)	(21,021)
Less allowance for uncollectible pledges			(48,600)
			<hr/>
			\$ 437,211

A discount rate approximating 2% at December 31, 2008 is used for present value purposes. An allowance of \$48,600 has been recorded in anticipation of approximately 10% of the pledges being uncollectible.

Pledges are expected to be received as follows:

December 31,	Unrestricted	Capital Campaign
2009	\$ 83,631	\$ 106,669
2010	69,100	102,461
2011	35,750	33,711
2012	14,900	27,045
2013	3,900	14,833
Thereafter		14,832
	<hr/>	<hr/>
	\$ 207,281	\$ 299,551

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 4 - Note Receivable:

During the year ended December 31, 2008, CCI received an interest in a note receivable as the beneficiary of an estate. Principal payments on that note are expected to be received as follows:

December 31,	
2009	\$ 1,404
2010	1,491
2011	1,583
2012	1,680
2013	1,784
Thereafter	68,934
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	\$ 76,876

Note 5 - Bequests Receivable:

CCI is the beneficiary under several wills and trust agreements in which clear title has been established and the proceeds are measurable. Management believes that all bequest expectancies are collectible.

As of December 31, 2008, CCI has various bequests which are in process. However, the amount to be received is not yet determinable and therefore, no value has been recorded.

Note 6 - Investments:

Investments consist of the following at December 31, 2008:

Common stock	\$ 83,010
Mutual funds	5,314,692
Government obligations	188,198
Certificates of Deposits	2,246,705
Other – at cost	32,572
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	\$ 7,865,177

Canine Companions for Independence, Inc.

Notes to Financial Statements

Net investment income, including amounts earned on assets at the community foundation (Note 7), consists of the following at December 31, 2008:

Interest and dividends	\$ 409,633
Net realized/unrealized loss	(2,625,041)
Less: investment fees	(54,653)
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	\$ (2,270,061)

Domestic and international capital markets continue to experience volatility with respect to certain securities. As a result, significant fluctuations in the fair value of investments may have occurred subsequent to December 31, 2008.

Note 7 - Assets Held by Community Foundation:

In 2003, CCI established a component fund at the Community Foundation, Sonoma County (the Foundation) to benefit CCI.

The Fund is established as an expendable fund. As an expendable fund, the Foundation may expend both principal and earnings at the request of CCI.

The funds held by the Foundation represent CCI's endowment assets, including earnings which have not yet been withdrawn. The assets are held in an investment pool selected by CCI.

As part of the requirements of the Foundation, the Foundation is 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 agreement may be terminated by either party.

Note 8 - Fair Value Measurements:

Effective January 1, 2008, CCI adopted Statement No. 157, *Fair Value Measurements*, (FAS 157) which provides a framework for measuring fair value under generally accepted accounting principles. FAS 157 applies to all financial instruments that are being measured and reported on a fair value basis. FAS 157 has been applied prospectively as of the beginning of the year.

Canine Companions for Independence, Inc.

Notes to Financial Statements

FAS 157 defines fair value 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. FAS 157 also established a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Canine Companions for Independence, Inc.

Notes to Financial Statements

The table below presents the balances of assets measured at fair value at December 31, 2008 on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Common stock	\$ 83,010	\$ 83,010	
Mutual funds	5,314,692	5,314,692	
Government obligations	188,198	188,198	
Certificates of deposits	2,246,705		\$ 2,246,705
Other	7,460		7,460
Total investments	7,840,065	5,585,900	2,254,165
Charitable Trusts	320,493		320,493
Deferred Compensation	20,251	20,251	
Assets held by – Sonoma Community Foundation	2,744,379		2,744,379
Total assets measured at fair value	\$ 10,925,188	\$ 5,606,151	\$ 5,319,037

Financial Instruments Not Measured at Fair Value

Some of the 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, note and interest receivable, contribution receivables, payables, and other short-term borrowings.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 9 - Property, Equipment and Improvements:

Property, equipment and improvements consisted of the following at December 31, 2008:

Buildings and land	\$ 25,273,009
Leasehold improvements	3,005,124
Office equipment	3,079,394
Automotive equipment	582,705
	<hr/>
	31,940,232
Less accumulated depreciation and amortization	(7,348,834)
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	\$ 24,591,398

Depreciation and amortization expense totaled \$ 905,682 for 2008.

See Note 10 regarding terms and restrictions related to CCI's credit facilities, which are collateralized by certain property and equipment.

Note 10 - Credit Facilities:

CCI has established a revolving line of credit of \$3,500,000 for use as necessary in operations, or for capital improvements. As of December 31, 2008, there is a \$3,500,000 balance due on the line of credit. The line has a floating interest rate at the bank's prime rate minus 0.50% and expires June 1, 2009.

There are certain financial covenants and restrictions applicable to the line of credit and the fixed term loan. Significant restrictions include that CCI may not sell or encumber any assets (other than in the ordinary course of business) or incur other indebtedness. As of December 31, 2008, CCI was not in compliance with a ratio, due to unrealized losses on investments, for which the Bank has waived compliance.

Subsequent to year-end 2008, CCI entered into an agreement with the original lender for \$3.5 million; a \$2.5 million term loan with interest based upon LIBOR and featuring a swap agreement and a \$1 million line of credit bearing interest at 3% above the 1 month LIBOR rate. This agreement supplants the original revolving line of credit due to expire June 1, 2009.

In January of 2009, CCI paid down the revolving line of credit owed by \$1 million.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 11 - Commitments:

Operating Lease

CCI leases certain training and office facilities. There are no operating leases that have remaining terms in excess of one year as of December 31, 2008.

CCI also leases property for its southwest regional 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.

For the year ended December 31, 2008, total rent expense was \$46,139.

Note 12 - 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 salary. For the year ended December 31, 2008, the amount of pension expense was \$257,038.

CCI has a deferred compensation plan that covers one employee. The balance of the plan continues to be held by the trustee under the terms of the agreement. No contributions were made to the plan during 2008.

CCI implemented a 457(b) plan for certain management personnel. The employees may elect to defer a certain portion of their salary. The plan does not allow contribution from CCI.

Note 13 - Revocable Funds:

During June 1995, two funds were established by an outside donor under the administration of the Community Foundation, Sonoma County, to support the mission and activities of CCI. Fund A is a permanent endowment fund with a balance of approximately \$1,670,000 at December 31, 2008. Fund B is an expendable fund with a balance of approximately \$1,824,000 at December 31, 2008. As these funds are revocable, they are not included on the Statement of Financial Position at December 31, 2008.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 14 - Temporarily Restricted Net Assets:

Temporarily restricted net assets as of December 31, 2008 are available for the following purposes or periods:

Property, equipment and improvements	\$ 220,000
Charitable trusts	320,492
Program and time restrictions	1,818,854
Bequests receivable	2,925,661
	<hr/>
	\$ 5,285,007

Net assets were released during 2008 in accordance with the donors' intent or release of time restrictions as follows:

Property, equipment and improvements	\$ 5,074,085
Charitable trusts	21,508
Program and time restrictions	2,166,861
Bequests receivable	1,153,093
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Total restrictions released	\$ 8,415,547

Note 15 - Endowments:

In 2008, CCI implemented FASB Staff Position 117-1 "Endowments of Not-for-Profit Organizations – Net Assets Classification of Funds Subject to Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" which was effective for fiscal years ending after December 15, 2008. The state of California adopted a version of the Uniform Prudent Management of Institutional Funds Act as its SPMIFA which is applicable to funds established on or after January 1, 2009 and funds established prior to January 1, 2009 only with respect to actions taken after January 1, 2009.

Canine Companions for Independence, Inc.

Notes to Financial Statements

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Donor restricted:				
Earnings available for general use	\$ (335,201)		\$ 3,154,579	\$ 2,819,378
Board Designated:				
Earnings available for general use	1,727,138			1,727,138
Earnings available for general use by CCI's SE Regional Center	2,499,340			2,499,340
Total Funds	\$ 3,891,277		\$ 3,154,579	\$ 7,045,856
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	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, beginning of year	\$ 4,283,076	\$ 226,413	\$ 3,079,579	\$ 7,589,068
Net asset reclassification based on changed of law		367,674		367,674
Endowment net assets after reclassification	4,283,076	594,087	3,079,579	7,956,741
Investment Return:				
Income	123,580	45,468		169,048
Net decline (realized and unrealized)	(1,455,675)	(974,756)		(2,430,431)
Total Investment Return	(1,332,095)	(929,288)		(2,261,383)
Contributions	1,375,497		75,000	1,450,497
Appropriation of endowment assets for expenditure	(100,000)			(100,000)
Subtotal before other changes	4,226,478	(335,201)	3,154,579	7,045,856
Other changes:				
Deficiencies due to investment losses transferred to non board designated net assets	(335,201)	335,201		
Endowment Net Assets, end of year	\$ 3,891,277	\$	\$ 3,154,579	\$7,045,856

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 17 - 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. The credit risk associated with the receivables from individuals is substantially mitigated by the large number of individuals comprising the receivable balance. At December 31, 2008 there is a \$48,600 allowance available representing approximately 10% of the whole for uncollectible pledges.