

CANINE COMPANIONS FOR  
INDEPENDENCE, INC.

DECEMBER 31, 2014

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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, 2014, 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.

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## **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, 2014, and the results of its activities and changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited CCI's December 31, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our audit report dated June 6, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Hood & Strong LLP*

San Francisco, California  
June 8, 2015

# Canine Companions for Independence, Inc.

## Statement of Financial Position

<i>December 31, 2014 (with comparative totals for 2013)</i>	2014	2013
<b>Assets</b>		
Cash and cash equivalents	\$ 4,854,744	\$ 2,653,544
Contributions receivable, net	2,493,025	2,403,669
Bequests receivable	2,701,199	864,920
Investments	20,935,439	21,435,280
Property, equipment and improvements, net	22,069,614	22,166,238
Other assets	2,059,225	901,251
	<b>\$ 55,113,246</b>	<b>\$ 50,424,902</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 430,940	\$ 320,744
Accrued payroll and related expenses	1,269,278	1,048,708
Gift annuities payable	700,327	134,936
Deferred compensation	373,259	336,677
Total liabilities	2,773,804	1,841,065
<b>Net Assets:</b>		
Unrestricted	41,793,428	40,726,330
Temporarily restricted	7,371,347	4,682,840
Permanently restricted	3,174,667	3,174,667
Total net assets	52,339,442	48,583,837
	<b>\$ 55,113,246</b>	<b>\$ 50,424,902</b>

See accompanying notes to financial statements.

# Canine Companions for Independence, Inc.

## Statement of Activities and Changes in Net Assets

Year Ended December 31, 2014 (with comparative totals for 2013)

	2014			Total	2013 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Support:</b>					
Contributions	\$ 10,676,838	\$ 825,016		\$ 11,501,854	\$ 11,076,182
Capital campaign support		743,770		743,770	659,079
Bequests	6,212,710	2,249,246		8,461,956	5,182,804
Change in value of beneficial interests in trust assets		(16,831)		(16,831)	1,325
Net assets released from restrictions	1,028,786	(1,028,786)		-	-
<b>Total support</b>	<b>17,918,334</b>	<b>2,772,415</b>		<b>20,690,749</b>	<b>16,919,390</b>
<b>Revenue:</b>					
Special events (net of direct expenses of \$600,767 for 2014)	1,908,634			1,908,634	1,601,157
Program service revenue	707,699			707,699	218,114
Net investment income (loss)	222,222	(83,908)		138,314	1,908,456
Other (loss) income	(4,692)			(4,692)	5,523
<b>Total revenue</b>	<b>2,833,863</b>	<b>(83,908)</b>		<b>2,749,955</b>	<b>3,733,250</b>
<b>Total support and revenue</b>	<b>20,752,197</b>	<b>2,688,507</b>		<b>23,440,704</b>	<b>20,652,640</b>
<b>Expenses:</b>					
Program services:					
Breeding and puppy raising	2,823,652			2,823,652	2,388,383
Training and follow-up	6,290,282			6,290,282	6,181,556
Public information	2,704,635			2,704,635	2,574,211
Veterinary	2,022,896			2,022,896	1,852,576
<b>Total program services</b>	<b>13,841,465</b>			<b>13,841,465</b>	<b>12,996,726</b>
Support services:					
Fund development	4,684,831			4,684,831	2,787,179
General administration	1,158,803			1,158,803	1,139,403
<b>Total support services</b>	<b>5,843,634</b>			<b>5,843,634</b>	<b>3,926,582</b>
<b>Total expenses</b>	<b>19,685,099</b>			<b>19,685,099</b>	<b>16,923,308</b>
<b>Change in Net Assets</b>	<b>1,067,098</b>	<b>2,688,507</b>		<b>3,755,605</b>	<b>3,729,332</b>
<b>Net Assets, beginning of year</b>	<b>40,726,330</b>	<b>4,682,840</b>	<b>\$ 3,174,667</b>	<b>48,583,837</b>	<b>44,854,505</b>
<b>Net Assets, end of year</b>	<b>\$ 41,793,428</b>	<b>\$ 7,371,347</b>	<b>\$ 3,174,667</b>	<b>\$ 52,339,442</b>	<b>\$ 48,583,837</b>

See accompanying notes to financial statements.

## Canine Companions for Independence, Inc.

### Statement of Functional Expenses

*Year Ended December 31, 2014 (with comparative totals for 2013)*

	2014								
	Program Services					Support Services		2014 Total	2013 Total
	Breeding and Puppy Raising	Training and Follow-up	Public Information	Veterinary	Subtotal	Fund Development	General Administration		
Salaries	\$ 1,314,684	\$ 3,327,510	\$ 1,360,018	\$ 525,874	\$ 6,528,086	\$ 1,913,092	\$ 625,608	\$ 9,066,786	\$ 7,974,205
Payroll taxes	103,476	261,901	107,044	41,390	513,811	150,575	49,241	713,627	638,866
Employee benefits	187,996	475,824	194,478	75,198	933,496	273,566	89,460	1,296,522	1,151,245
Pension plan contributions	63,060	159,608	65,235	25,224	313,127	91,764	30,008	434,899	373,674
Workers compensation insurance	37,294	94,392	38,580	14,918	185,184	54,269	17,746	257,199	196,776
Rent	22,398	56,689	23,170	8,959	111,216	32,593	10,658	154,467	85,334
Bank charges					-	131,155	37	131,192	97,263
Building maintenance	81,724	206,846	84,542	32,690	405,802	118,922	38,889	563,613	480,189
Utilities	65,918	166,841	68,191	26,367	327,317	95,922	31,368	454,607	434,571
Equipment rental and maintenance	26,976	68,278	27,906	11,074	134,234	39,255	12,838	186,327	159,140
Insurance	32,030	81,069	33,134	12,812	159,045	46,609	15,242	220,896	209,363
Program supplies	148,172	188,866	18,948	223,395	579,381	18,947	-	598,328	505,327
Office supplies	11,918	30,166	12,329	4,767	59,180	17,343	5,672	82,195	81,404
Dues and subscriptions	6,374	16,133	6,594	2,550	31,651	9,276	3,033	43,960	37,096
Travel, conventions and meetings	105,914	233,297	248,327	29,169	616,707	214,184	34,699	865,590	708,018
Professional services	178,359	192,979	99,214	871,347	1,341,899	681,298	61,752	2,084,949	1,591,207
Advertising and marketing	384	2,303	7,577	384	10,648	22,549	384	33,581	35,188
Telephone (data and voice comm.)	73,531	186,110	80,300	29,412	369,353	107,238	34,991	511,582	439,681
Postage and freight	178,851	74,258	20,277	13,528	286,914	168,030	9,328	464,272	419,566
Printing and publications	21,549	54,542	40,105	8,620	124,816	196,749	10,254	331,819	273,934
Allowance for uncollectible pledges					-	64,238		64,238	7,845
Taxes and licenses	2,831	7,167	2,929	1,133	14,060	4,120	1,347	19,527	19,502
Other expenses	218	551	225	87	1,081	317	113	1,511	
<b>Total expenses before depreciation and amortization</b>	<b>2,663,657</b>	<b>5,885,330</b>	<b>2,539,123</b>	<b>1,958,898</b>	<b>13,047,008</b>	<b>4,452,011</b>	<b>1,082,668</b>	<b>18,581,687</b>	<b>15,919,394</b>
Depreciation and amortization	159,995	404,952	165,512	63,998	794,457	232,820	76,135	1,103,412	1,003,914
<b>Total expenses</b>	<b>\$ 2,823,652</b>	<b>\$ 6,290,282</b>	<b>\$ 2,704,635</b>	<b>\$ 2,022,896</b>	<b>\$ 13,841,465</b>	<b>\$ 4,684,831</b>	<b>\$ 1,158,803</b>	<b>\$ 19,685,099</b>	<b>\$ 16,923,308</b>

See accompanying notes to financial statements.

# Canine Companions for Independence, Inc.

## Statement of Cash Flows

<i>Years Ended December 31, 2014 (with comparative totals for 2013)</i>	2014	2013
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 3,755,605	\$ 3,729,332
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,103,412	1,003,913
Allowance for doubtful accounts	(20,000)	
Loss on disposal of property and equipment	19,138	
Contributions-capital campaign	(417,500)	(1,797,000)
Contributions to and changes in pooled income funds	17,365	3,671
Unrealized and realized losses (gains) on investments	407,943	(1,590,227)
Changes in operating assets and liabilities:		
Contributions receivable	(106,856)	454,267
Bequests receivable	(1,836,279)	(209,805)
Other assets	(1,138,757)	8,984
Accounts payable and accrued expenses	67,238	(1,923)
Accrued payroll and related expenses	220,571	56,538
Gift annuities payable	565,391	(16,915)
<b>Net cash provided by operating activities</b>	<b>2,637,271</b>	<b>1,640,835</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of investments	(8,963,487)	(18,297,284)
Proceeds from sale of investments	9,055,384	17,114,004
Acquisitions of property and equipment	(982,968)	(355,589)
<b>Net cash used by investing activities</b>	<b>(891,071)</b>	<b>(1,538,869)</b>
<b>Cash Flows from Financing Activities:</b>		
Collections on capital campaign and endowment	455,000	240,000
<b>Net cash provided by financing activities</b>	<b>455,000</b>	<b>240,000</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>2,201,200</b>	<b>341,966</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>2,653,544</b>	<b>2,311,578</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 4,854,744</b>	<b>\$ 2,653,544</b>
<b>Noncash Investing Activities:</b>		
Gifts in-kind	\$ 33,400	\$ 49,153

See accompanying notes to financial statements.

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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### 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. 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. 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 fifteen 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 Companion Dogs - 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

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### *Public information:*

CCI takes a proactive stance in raising awareness of assistance dogs and challenges faced by people with disabilities. Our 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 launched an on going ad campaign that includes 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 and YouTube. CCI's web site ([www.cci.org](http://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 five regional 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

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### *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 \$4,700,000 of unrestricted net assets as an endowment for use in programs and future operations and approximately \$4,300,000 as an endowment for projects in the Southeast Region (see Note 10).

### *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

All debt and equity securities with readily determinable market values are carried at estimated fair value based on market prices. The fair value of assets held by Community Foundation Sonoma County is described more fully under Fair Value Measurements. Investments received through gifts are recorded at estimated fair value at the date of donation.

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.

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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Gains and losses are recognized in the Statement of Activities in the period such fluctuations occur. Dividend and interest income are accrued when earned.

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. In addition, CCI reports certain investments using the net asset value per share as determined by Community Foundation Sonoma County 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. Fair value measurement standards also require CCI to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock up and notice periods associated with the underlying funds. 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

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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, 2014, 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

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### *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

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### *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 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, 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.

#### l. Contributed Services

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.

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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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, 2014, 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. With few exceptions, the CCI is no longer subject to income tax examinations by federal or state authorities for the years before 2010 for state and 2011 for federal.

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, 2014, from which the summarized information was derived.

Certain reclassifications have been made to the 2013 financial statements in order to conform to the 2014 presentation. These reclassifications had no impact on net assets or changes in net assets.

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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q. Recent Accounting Pronouncements

In October 2012, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Update No. 2012-05 – Statement of Cash Flows (Topic 230) *Not-for-Profit Entities – Classifications of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. The update requires a not-for-profit entity to classify sale proceeds of donated financial assets consistent with cash donations as an operating activity, if such assets were converted nearly immediately into cash, unless the donor restricted the use of the proceeds to long-term purposes, in which case those cash receipts should be classified as a financing activity. If those assets were not immediately converted to cash, the proceeds upon sale should be classified as an investing activity. This guidance is effective prospectively for annual periods, beginning after June 15, 2013. The adoption of this guidance did not have a material effect on CCI's 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, 2014 through June 8, 2015, 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, 2014:

Contributions receivable	\$ 1,374,842
Pledges receivable, net of allowance of \$30,000	856,025
<u>Federal and state employee pledges, net of allowance of \$72,040</u>	<u>262,158</u>
	<u>\$ 2,493,025</u>

At December 31, 2014, contributions receivable are due as follows:

Receivable in Less than One Year	\$ 2,262,600
<u>Receivable in One to Five Years</u>	<u>230,425</u>
	<u>\$ 2,493,025</u>

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.

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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The combined federal campaign pledge receivable as of December 31, 2014 represents amounts due for the September 2013 campaign. Amounts due from the September 2014 campaign are not yet determinable, and therefore, have not been recorded.

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.

### 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, 2014, the total of these expectancies is \$2,701,199. Management believes that all bequest expectancies are collectible.

As of December 31, 2014, 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, 2014:

Cash and cash equivalents	\$ 1,756,626
U.S. and international equities	933,045
Exchange traded funds	1,544,481
Government obligations	78,016
Mutual funds	9,108,031
<u>Investments held by Community Foundation Sonoma County</u>	<u>4,248,850</u>
Subtotal	17,669,049
Private equity, at cost	26,940
<u>Certificates of deposit, at cost</u>	<u>3,239,450</u>
	<u>\$ 20,935,439</u>

Net investment income, including amounts earned on assets at Community Foundation, Sonoma County, consists of the following at December 31, 2014:

Interest and dividends	\$ 546,257
<u>Net realized and unrealized loss</u>	<u>(407,943)</u>
	<u>\$ 138,314</u>

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

CCI established and maintains a component fund (the Fund) at Community Foundation Sonoma County (the Foundation) to benefit CCI. The Fund is established as an expendable fund. As an expendable fund, the Foundation may grant to CCI both principal and earnings at the request of 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 5 - Fair Value Measurements:

The table below presents the balances of assets measured at fair value at December 31, 2014 on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Cash and cash equivalents	\$ 1,756,626	\$ 1,756,626	
U.S. and international equities	933,045	933,045	
Exchange traded funds	1,544,481	1,544,481	
Mutual funds:			
Fixed income	3,320,062	3,320,062	
Global equity	2,433,520	2,433,520	
Domestic equity	3,047,460	3,047,460	
Index futures	203,492	203,492	
Complimentary	31,321	31,321	
Real assets	72,176	72,176	
Government obligations	78,016		\$ 78,016
Investments held by Community Foundation Sonoma County	4,248,850		4,248,850
<b>Total investments</b>	<b>17,669,049</b>	<b>13,342,183</b>	<b>4,326,866</b>
Split interest agreements	251,371		251,371
Investments held for deferred compensation	373,259	373,259	
<b>Total assets measured at fair value</b>	<b>\$ 18,293,679</b>	<b>\$ 13,715,442</b>	<b>\$ 4,578,237</b>

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 an equity security.

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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The investment held by the Foundation (see Note 4) represent's CCI's donor restricted endowment assets, including earning which have not yet been withdrawn. The assets are invested in the endowment pool of the Foundation. The endowment pool focuses on a long-term strategy designed to protect assets against inflation over time. The target asset allocation, which was revised in 2013 to provide further diversification and reduce volatility, includes five categories of stocks (40%), three categories of bonds (25%), diversified strategies (25%), and alternative investments (10%). 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 \$2,150,000 at December 31, 2014. 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 \$950,000 at December 31, 2014. As these funds are revocable, they are not included on the Statement of Financial Position at December 31, 2014. During 2014, CCI requested and received a distribution from Fund B of \$400,000 for its programs.

### Note 7 - Property, Equipment and Improvements:

Property, equipment and improvements consisted of the following at December 31, 2014:

Buildings and land	\$ 26,711,138
Leasehold improvements	3,558,135
Office equipment	3,201,384
Automotive equipment	728,128
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	34,198,785
Less accumulated depreciation and amortization	(12,129,171)
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	\$ 22,069,614

Depreciation and amortization expense totaled \$1,103,412 for 2014.

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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### Note 8 - Other Assets

Other assets at December 31, 2014 consisted of the following:

Inventories	\$ 105,999
Split interest agreements	251,371
Investments held for deferred compensation plans	373,259
Note receivable	67,040
Land held for sale	1,007,688
Other	253,868
	<hr/>
	\$ 2,059,225

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 - Temporarily Restricted Net Assets:

Temporarily restricted net assets as of December 31, 2014 are available for the following purposes or periods:

Property, equipment and improvements	\$ 1,676,066
Split interest agreements	251,371
Program and time restrictions, including accumulated endowment income	2,376,122
Bequests receivable	3,067,788
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	\$ 7,371,347

Net assets were released during 2014 in accordance with the donors' intent or release of time restrictions as follows:

Purpose and time restrictions	\$ 649,107
Bequests receivable	379,679
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Total restrictions released	\$ 1,028,786

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

**Note 10 - Endowments:**

Endowment Net Asset Composition by Type of Fund as of December 31, 2014:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted:				
General use		\$1,074,183	\$3,174,667	\$ 4,248,850
Board Designated:				
Earnings available for general use	\$4,696,367			4,696,367
Earnings available for general use by the Southeast Region	4,283,490			4,283,490
<b>Total</b>	<b>\$8,979,857</b>	<b>\$1,074,183</b>	<b>\$3,174,667</b>	<b>\$ 13,228,707</b>

Changes in Endowment Net Asset for the year ended December 31, 2014:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, beginning of year	\$8,904,174	\$1,164,048	\$3,174,667	\$ 13,242,889
Interest and dividends	317,875	121,805		439,680
Net gain (realized and unrealized)	(181,718)	(211,670)		(393,388)
Net investment income	136,157	(89,865)		46,292
Contributions	145,663			145,663
Appropriation of endowment assets for expenditure	(206,137)			(206,137)
<b>Endowment Net Assets, end of year</b>	<b>\$8,979,857</b>	<b>\$1,074,183</b>	<b>\$3,174,667</b>	<b>\$ 13,228,707</b>

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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### Note 11 - Commitments:

#### Operating Leases

Rent expenses under all operating leases and storage facilities amounted to \$154,467 for the year ended December 31, 2014. CCI leases training, breeding, maternity and office facilities under non-cancelable leases expiring through May 2016. Future minimum annual lease payments are approximately, \$187,000 for 2015 \$92,000 for 2016 and \$7,500 for 2017.

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.

### 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 eligible compensation and include elective and matching contributions not to exceed 6% of compensation for 2014. For the year ended December 31, 2014, the amount of pension expense was \$434,899.

CCI has a deferred compensation plan that covers one employee. The plan's assets are held by a trustee under the terms of the agreement. No contributions were made to the plan during 2014.

CCI also has 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 contributions from CCI.

### Note 13- 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 10% of contributed income for the year ended December 31, 2014 was attributable to one donor.

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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Total contributions from board members are approximately \$2 million for the year ended December 31, 2014.

### **Note 14- 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, is scheduled to open late 2015. Initial construction includes 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.