

CANINE COMPANIONS FOR
INDEPENDENCE, INC.

DECEMBER 31, 2018

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Canine Companions for Independence, Inc.

Independent Auditors' Report and Financial Statements

Independent Auditors' Report	1 - 2
Financial Statements	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 26



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. (Canine Companions)** which comprise the statement of financial position as of December 31, 2018, 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 Canine Companions' 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 Canine Companions' 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, 2018 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 Canine Companions' December 31, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our audit report dated June 27, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Effect of Adopting New Accounting Standard

As described in Note 1(o), Canine Companions adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14: *Not-for-Profit Entities – Presentation of Financial Statements of Not-for-Profit (Topic 958)*. Accordingly, the accounting change has been retrospectively applied to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to that matter.

Hood & Strong LLP

San Francisco, California
May 29, 2019

Canine Companions for Independence, Inc.

Statement of Financial Position

<i>December 31, 2018 (with comparative totals for 2017)</i>	2018	2017
Assets		
Cash and cash equivalents	\$ 17,948,849	\$ 6,344,339
Contributions receivable, net	2,147,387	2,673,394
Accounts receivable	623,456	1,021,046
Bequests receivable	1,426,119	1,033,852
Investments	35,404,611	33,167,286
Property, equipment and improvements, net	23,202,888	23,835,923
Other assets	3,033,996	3,273,747
	\$ 83,787,306	\$ 71,349,587
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 987,741	\$ 918,411
Accrued payroll and related expenses	1,337,810	1,288,054
Gift annuities payable	919,343	965,429
Deferred compensation	45,840	45,643
Total liabilities	3,290,734	3,217,537
Net Assets:		
Without donor restrictions:		
Property, equipment and improvements	23,202,888	23,835,923
Board designated	17,200,684	18,398,596
Undesignated	16,996,555	7,663,156
Total without donor restrictions	57,400,127	49,897,675
With donor restrictions	23,096,445	18,234,375
Total net assets	80,496,572	68,132,050
	\$ 83,787,306	\$ 71,349,587

Canine Companions for Independence, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2018 (with comparative totals for 2017)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support:				
Contributions	\$ 13,835,057	\$ 3,400,204	\$ 17,235,261	\$ 14,043,262
Bequests	14,187,030	1,261,210	15,448,240	5,969,577
Change in value of beneficial interests in trust assets		(84,100)	(84,100)	131,130
Net assets released from restrictions	2,804,609	(2,804,609)	-	-
Total support	30,826,696	1,772,705	32,599,401	20,143,969
Revenue:				
Special events (net of direct expenses of \$837,554 for 2018)	2,993,143		2,993,143	2,949,583
Program service revenue	2,579,446		2,579,446	1,773,434
Net investment (loss) income	(1,040,690)	(301,215)	(1,341,905)	2,630,695
Other (loss) income	(295,316)		(295,316)	156,932
Total revenue	4,236,583	(301,215)	3,935,368	7,510,644
Total support and revenue	35,063,279	1,471,490	36,534,769	27,654,613
Expenses:				
Program services:				
Breeding and puppy raising	3,723,635		3,723,635	4,402,626
Training and follow-up	10,943,304		10,943,304	8,842,602
Public information	3,274,644		3,274,644	3,480,983
Veterinary	2,173,764		2,173,764	2,281,238
Total program services	20,115,347	-	20,115,347	19,007,449
Support services:				
Fund development	4,811,040		4,811,040	5,493,831
General administration	2,634,440		2,634,440	1,535,971
Total support services	7,445,480	-	7,445,480	7,029,802
Total expenses	27,560,827	-	27,560,827	26,037,251
Change in Net Assets Before Other Changes	7,502,452	1,471,490	8,973,942	1,617,362
Other Changes in Net Assets				
Capital campaign contributions		3,390,580	3,390,580	4,019,210
Change in Net Assets	7,502,452	4,862,070	12,364,522	5,636,572
Net Assets, beginning of year	49,897,675	18,234,375	68,132,050	62,495,478
Net Assets, end of year	\$ 57,400,127	\$ 23,096,445	\$ 80,496,572	\$ 68,132,050

Canine Companions for Independence, Inc.

Statement of Functional Expenses

Year Ended December 31, 2018 (with comparative totals for 2017)

	2018					2017			
	Program Services				Subtotal	Support Services		Total	Total
	Breeding and Puppy Raising	Training and Follow-up	Public Information	Veterinary		Fund Development	General Administration		
Salaries	\$ 1,598,650	\$ 5,724,281	\$ 1,805,555	\$ 676,569	\$ 9,805,055	\$ 2,459,415	\$ 1,477,069	\$ 13,741,539	\$ 12,154,842
Payroll taxes	125,207	448,329	141,412	52,989	767,937	192,623	115,685	1,076,245	945,421
Employee benefits	221,712	793,883	250,407	93,831	1,359,833	341,088	204,850	1,905,771	1,889,588
Pension plan contributions	74,424	266,489	84,056	31,497	456,466	114,496	68,764	639,726	540,995
Workers compensation insurance	31,971	114,480	36,109	13,531	196,091	49,186	29,540	274,817	258,376
Rent	28,632	140,545	25,917	12,588	207,682	28,484	24,819	260,985	243,326
Building maintenance	85,939	421,846	77,790	37,783	623,358	85,495	74,494	783,347	593,523
Utilities	63,282	310,630	57,281	27,822	459,015	62,955	54,854	576,824	540,253
Equipment rental and maintenance	52,651	185,416	48,218	33,915	320,200	62,014	24,046	406,260	498,223
Insurance	29,727	138,927	33,034	10,952	212,640	40,410	23,328	276,378	272,840
Program and office supplies	256,249	457,042	45,650	292,735	1,051,676	52,714	12,332	1,116,722	1,096,206
Dues and subscriptions	8,561	30,172	7,837	2,994	49,564	10,076	3,909	63,549	79,251
Travel, conventions and meetings	106,151	234,593	162,455	13,582	516,781	220,761	203,695	941,237	1,098,298
Professional services	563,491	376,090	129,739	754,619	1,823,939	480,844	108,996	2,413,779	2,485,829
Advertising and marketing	3,349	11,804	20,588	1,171	36,912	19,667	1,529	58,108	88,286
Telephone (data and voice communication)	56,772	200,095	51,972	19,854	328,693	66,821	25,925	421,439	716,534
Postage and freight	203,791	117,290	30,228	8,495	359,804	153,912	11,092	524,808	552,315
Printing and publications	17,233	60,738	88,736	6,026	172,733	79,421	7,869	260,023	348,283
Allowance for uncollectible pledges					-	87,556	-	87,556	-
Taxes, licenses, and other expenses	36,643	129,193	33,556	12,818	212,210	44,724	23,645	280,579	229,055
Total expenses before depreciation and amortization	3,564,435	10,161,843	3,130,540	2,103,771	18,960,589	4,652,662	2,496,441	26,109,692	24,631,444
Depreciation and amortization	159,200	781,461	144,104	69,993	1,154,758	158,378	137,999	1,451,135	1,405,807
Total expenses	\$ 3,723,635	\$ 10,943,304	\$ 3,274,644	\$ 2,173,764	\$ 20,115,347	\$ 4,811,040	\$ 2,634,440	\$ 27,560,827	\$ 26,037,251

Canine Companions for Independence, Inc.

Statement of Cash Flows

<i>Year Ended December 31, 2018 (with comparative totals for 2017)</i>	2018	2017
Cash Flows from Operating Activities:		
Change in net assets	\$ 12,364,522	\$ 5,636,572
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,451,135	1,405,807
Contributions - capital campaign	(3,390,580)	(4,019,210)
Contributions to and changes in pooled income funds	77,456	131,130
Unrealized and realized gains on investments	1,725,810	(2,415,011)
Loss on disposal of property and equipment	369,403	
Changes in operating assets and liabilities:		
Contributions receivable	(32,305)	(1,138,594)
Accounts receivable	397,590	(344,173)
Bequests receivable	(392,267)	(28,460)
Other assets	162,494	(181,511)
Accounts payable and accrued expenses	69,330	488,972
Accrued payroll and related expenses	49,756	261,367
Gift annuities payable	(46,086)	276,499
Net cash provided by operating activities	12,806,258	73,388
Cash Flows from Investing Activities:		
Purchases of investments	(5,464,075)	(10,467,250)
Proceeds from sale of investments	1,500,989	2,701,211
Acquisitions of property and equipment	(1,187,503)	(1,775,360)
Net cash used by investing activities	(5,150,589)	(9,541,399)
Cash Flows from Financing Activities:		
Collections on capital campaign	3,948,841	5,357,213
Net cash provided by financing activities	3,948,841	5,357,213
Net Change in Cash and Cash Equivalents	11,604,510	(4,110,798)
Cash and Cash Equivalents, beginning of year	6,344,339	10,455,137
Cash and Cash Equivalents, end of year	\$ 17,948,849	\$ 6,344,339

Noncash Investing Activities:

Equipment acquisition in accounts payable	\$ 207,599
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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. (Canine Companions) is a non-profit corporation organized to provide trained assistance dogs and ongoing support to individuals with disabilities. Canine Companions operates regional training facilities in the states of California, Ohio, Florida, New York and Texas. Its National headquarters is located in Santa Rosa, California. Canine Companions' support comes primarily from donor contributions and bequests. The following is a description of the programs and services offered by Canine Companions:

Breeding and puppy raising:

Since 1975, Canine Companions has developed a proven formula for breeding, raising and training assistance dogs. Canine Companions breeds Labrador Retrievers, Golden Retrievers, and a cross of the two to be assistance dogs.

Volunteer breeder caretakers care for Canine Companions breeder dogs and nurture newborn puppies for eight weeks. In certain instances, Canine Companions 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 Canine Companions puppies. When a Canine Companions puppy reaches the age of about eighteen months, he or she is returned to one of Canine Companions' regional centers for professional instruction.

Training and follow up:

Canine Companions maintains a waiting list of persons desiring placement with a dog. Individuals are screened, interviewed and selected prior to attending a Team Training class. Leading up to a Team Training class, instructors spend six to nine months teaching the dog to master more than forty commands. Canine Companions instructors train five 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.
- Service Dogs for Veterans – assist veterans with physical disabilities, hearing loss, or adults with post-traumatic-stress disorder (PTSD). Service dogs for individuals with PTSD are trained in tasks such as anxiety and nightmare interruption.
- Skilled Companions - enhance independence for children and adults with physical, cognitive and developmental disabilities.
- Hearing Dogs - alert their handler who is deaf or hard of hearing to important sounds.
- Facility Dogs - work with a professional who directly serves clients with disabilities in a visitation, education or healthcare setting.

Canine Companions for Independence, Inc.

Notes to Financial Statements

The matching of students and canines takes place during an intensive two-week training course where students learn the skills to command their new assistance dogs. 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 Canine Companions assistance dog.

After graduation, Canine Companions 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.

Canine Companions has also developed customer service and quality control tools known as 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. Canine Companions conducts annual graduate seminars at each of our six training centers.

Public information:

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

Canine Companions also distributes newsletters, electronic messages and direct mail packages that educate the general public and provide program updates. Additionally, Canine Companions maintains and regularly updates in social media accounts. Canine Companions' web site (www.cci.org) provides full access to information about all aspects of their programs and services.

Veterinary:

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

Canine Companions for Independence, Inc.

Notes to Financial Statements

b. Basis of Presentation and Description of Net Assets

Canine Companions uses the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and reports information regarding its financial position and activities according to two classes of net assets.

Net assets without donor restrictions:

The portion of net assets that is neither subject to time or donor-imposed restrictions and may be expended for any purpose in performing the primary objective of Canine Companions. The Board of Directors has designated approximately \$14,200,000 of net assets without donor restrictions as an endowment for use in programs and future operations and approximately \$3,100,000 as an endowment for projects in the Southeast Region (see Note 12).

Net assets with donor restrictions:

The portion of net assets whose use by Canine Companions is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Canine Companions. Net assets with donor restrictions also include a portion of net assets consisting contributions to endowment funds where the donor indicated that a portion of the fund be retained in perpetuity.

c. Cash and Cash Equivalents

Canine Companions 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.

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

Canine Companions for Independence, Inc.

Notes to Financial Statements

e. Investments

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

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

Funds transferred by Canine Companions to the Foundations for which Canine Companions 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 6) and are held at the net asset value per share as reported by the Foundations.

f. Fair Value Measurements

Canine Companions 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. Canine Companions 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. 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

h. Split Interest Agreements

Beneficial interests in charitable trust assets

Beneficial interests in charitable trust assets include the estimated fair value of Canine Companions' 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%.

Canine Companions recognizes its remainder interest in the assets received as net assets with donor restrictions 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 and Changes in Net Assets.

Charitable gift annuities

Canine Companions 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 3.6%.

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, 2018, Canine Companions had sufficient funds in its reserve fund to meet the California Insurance Code requirements and those funds were invested in accordance with the Code. Canine Companions is in conformance with all laws and regulations in all States it is registered to issue charitable gifts annuities.

i. Endowment Funds

Canine Companions' 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 Canine Companions 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, Canine Companions classifies as net assets with donor restrictions (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. Canine Companions utilizes the accumulated earnings when 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, Canine Companions 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 Canine Companions 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 Canine Companions, (7) the investment policies of Canine Companions.

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 Canine Companions to retain as a fund of perpetual duration.

Return objectives and risk parameters:

Canine Companions 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 Canine Companions 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. Canine Companions 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, Canine Companions 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). Canine Companions 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, Canine Companions is reinvesting all interest and gain associated with its endowments until such time as the fund is large enough to significantly fund Canine Companions' programs. The McCrary funds are appropriated based on the annual needs of Canine Companions' Southeast Regional Office and can vary year to year, with a goal of maintaining as much principal as possible. This is consistent with Canine Companions' 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.

j. Recognition of Revenue

Contributions and grants are recognized at their fair value when the donor makes an unconditional promise to give to Canine Companions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions 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 net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Canine Companions is the beneficiary under various wills and trust agreements, the total realizable amount of which is not presently determinable. Such amounts are recognized in Canine Companions' 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.

k. Contributed Goods and 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 Canine Companions' 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.

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

Canine Companions for Independence, Inc.

Notes to Financial Statements

l. Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

Personnel expenses were assigned by each position's departmental classification and, in certain instances, allocated among classifications after considering the functional roles and time spent in those roles.

Occupancy, depreciation, and facilities-related services were allocated based upon estimated departmental usage of building and kennel space weighted by the estimated insured value of building replacement, contents, and equipment costs. Professional services, printing, and information technology were allocated based upon the functions provided or by full-time equivalent staff headcount. Travel, education and awareness, and other expenses were allocated based upon time and effort.

m. Income Taxes

Canine Companions 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.

Canine Companions follows the guidance on accounting for uncertainty in income taxes issued by FASB ASC Topic 740. As of December 31, 2018, management evaluated Canine Companions' tax positions and concluded that Canine Companions 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.

n. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

Certain reclassifications have been made to the 2017 financial statements in order to conform to the 2018 presentation. These reclassifications had no impact on net assets or changes in net assets.

Canine Companions for Independence, Inc.

Notes to Financial Statements

o. Accounting Pronouncement Adopted

During 2018, Canine Companions adopted FASB Accounting Standards Update (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 adoption of this standard resulted in additional footnote disclosures related to liquidity, functional expense, and significant changes to the classification of net assets and disclosures to net assets. Additionally, ASU 2016-14 no longer requires investment management and advisory fees to be presented separately from net investment income.

Net assets have been reclassified for 2017 due to the adoption of ASU 2016-14 as of December 31, 2018 as follows:

Net Asset Classification 12/31/2017	ASU 2016-14 Classifications		Total Net Assets
	With Donor Restriction Undesignated/ Board Designated	With Donor Restriction CRT/Special Projects/ Endowment	
Unrestricted	\$ 49,897,675		\$ 49,897,675
Temporarily Restricted		\$ 15,058,708	15,058,708
Permanently Restricted		3,175,667	3,175,667
Net assets as reported after adoption of ASU 2016-14	\$ 49,897,675	\$ 18,234,375	\$ 68,132,050

In January 2016, the FASB issued ASU 2016-01 *Financial Instruments (Topic 825)*. The amendments update certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The standard will be effective for Canine Companions for fiscal years beginning after December 15, 2018. Canine Companions elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included in the financial statements.

Canine Companions for Independence, Inc.

Notes to Financial Statements

p. Pronouncements Effective in the Future

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The ASU does not apply to transfers of assets from governments to businesses. The amendments in the update are effective for Canine Companions' fiscal year ending December 31, 2020. Canine Companions is currently evaluating the impact of this pronouncement on its financial statements.

In February 2016 the 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. Canine Companions is currently evaluating the impact on this pronouncement on its financial statements.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework- Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)*. The ASU removes the requirements for transfers between Levels 1 and 2 as well as the valuation processes for Level 3 fair value measurements. In lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 as well as purchases and issues of Level 3 assets and liabilities. It clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The amendments in the update are effective for Canine Companions for its fiscal year ending December 31, 2020. Canine Companions is currently evaluating the impact of this pronouncement on its financial statements.

q. Subsequent events

Canine Companions evaluated subsequent events with respect to the financial statements for the year ended December 31, 2018 through May 29, 2019, 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 have any subsequent events occurred, the nature of which would require disclosure, except as discussed in Note 17.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 2 - Availability of Financial Assets and Liquidity:

The following table reflects Canine Companions' financial assets as of December 31, 2018, reduced by amount not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, held by a trust, or assets held for others.

Canine Companions' financial assets available within one year as of December 31, 2018 for general expenditures are as follows:

Financial assets at year-end:	
Cash and cash equivalents	\$ 17,948,849
Contributions receivable	2,147,387
Accounts receivable	623,456
Bequests receivable	1,426,119
Investments	35,404,611
Other assets	1,636,547
	<hr/>
Total financial assets	\$ 59,186,969
	<hr/>
Less amounts not available to be used within one year:	
Deferred compensation	45,240
Life insurance policy	777,754
Split interest agreements and charitable trust assets	1,265,638
Net assets with donor restrictions:	
time or purpose including long – term receivables	2,518,209
capital contributions	12,164,552
Less net assets with purpose restrictions to be met in less than a year	(5,100,437)
Donor endowments – corpus and earnings	4,942,172
Net assets designated by the board	17,200,684
	<hr/>
	\$ 33,813,812
	<hr/>
Financial assets available to meet general expenditures over the next twelve months	\$ 25,373,157

Canine Companions' strives to maintain financial assets to meet 90 days of operating expenses (approximately \$7,000,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit. Canine Companions intends to meet operating expenses during 2019 by utilizing cash and cash equivalents. Canine Companions is expected to also utilize cash and cash equivalents for construction projects in the Northwest and North Central regions totaling approximately \$16,400,000. The Board of Directors can undesignate the Board designated funds and make available for general operations.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 3 - Contributions Receivable:

Contributions receivable consist of the following at December 31, 2018:

Contributions receivable	\$ 805,937
Pledges receivable, net of allowance of \$30,000	1,183,850
Federal and state employee pledges, net of allowance of \$42,400	157,600
	<hr/>
	\$ 2,147,387

At December 31, 2018, contributions receivable are due as follows:

Receivable in less than one year	\$ 1,562,371
Receivable in one to five years	585,016
	<hr/>
	\$ 2,147,387

Pledges Receivable:

Pledges receivable include amounts related to Canine Companions' \$21 million capital campaign for the North Central Region to expand and support future operations. As of December 31, 2018, Canine Companions has raised approximately \$11,500,000 including long-term pledge commitments of approximately \$3,600,000. As of December 31, 2018, the remaining balance of the long-term pledge commitments is \$910,735.

Additionally, during 2014, Canine Companions 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, 2018, the remaining balance of the intent to give is \$200,000.

Federal and State employee pledges:

Canine Companions 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 Canine Companions the following April. The combined federal campaign pledge receivable as of December 31, 2018 represents amounts due for the September 2017 campaign. Amounts due from the September 2018 campaign are not yet determinable, and therefore, have not been recorded.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 4 - Bequests Receivable:

Canine Companions 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, 2018, the total of these expectancies is \$1,426,119. Management believes that all bequest expectancies are collectible.

As of December 31, 2018, Canine Companions 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 5 - Investments:

Investments consist of the following at December 31, 2018:

Cash and cash equivalents	\$ 9,297,748
Mutual funds	1,803,272
Investments held by Marin Community Foundation	17,200,685
Investments held by Community Foundation Sonoma County	4,913,860
<hr/>	
Subtotal	33,215,565
Private equity, at cost	29,046
Certificates of deposit, at cost	2,160,000
<hr/>	
	\$ 35,404,611

Net investment income, including amounts earned on assets at the Foundations, consists of the following at December 31, 2018:

Interest and dividends	\$ 551,895
Investment fees	(167,990)
Net realized and unrealized gain	(1,725,810)
<hr/>	
	\$ (1,341,905)

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

Canine Companions for Independence, Inc.

Notes to Financial Statements

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 Canine Companions, 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 6 - Fair Value Measurements and Net Asset Value Disclosures:

The table below presents the balances of assets measured at fair value at December 31, 2018 on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Cash and cash equivalents	\$ 9,297,748	\$ 9,297,748	
Mutual funds:			
Fixed income	957,395	957,395	
Global equity	164,761	164,761	
Domestic equity	571,483	571,483	
Complimentary	56,490	56,490	
Real assets	53,143	53,143	
Investments held by Marin Community Foundation (a)	17,200,685		
Investments held by Community Foundation Sonoma County (a)	4,913,860		
Total investments	33,215,565		
Split interest agreements	813,553		\$ 813,553
Investments held for deferred compensation	45,240	45,240	
Total assets measured at fair value	\$ 34,074,358	\$ 11,146,260	\$ 813,553

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.

(a) In accordance with Subtopic 820-10, the investments held by Marin Community Foundation and Community Foundation Sonoma County are valued using the NAV 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.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Net asset value disclosure:

Canine Companions uses the 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 6) represents Canine Companions' 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 Community Foundation Sonoma County.

Note 7 - Revocable Funds:

A fund was established by an outside donor under the administration of Community Foundation Sonoma County, to support the mission and activities of Canine Companions. Fund A is a permanent endowment fund with a balance of \$2,205,144 at December 31, 2018. Distributions from this fund are subject to Community Foundation Sonoma County's endowment spending policy. Fund A is revocable and it is not included on the Statement of Financial Position at December 31, 2018. During 2018, there were no distributions from Fund A.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 8 - Property, Equipment and Improvements:

Property, equipment and improvements consisted of the following at December 31, 2018:

Buildings and land	\$ 28,938,347
Leasehold improvements	5,556,165
Office equipment	1,636,514
Automotive equipment	880,820
Construction in progress	370,165
	<hr/>
	37,382,011
	<hr/>
Less accumulated depreciation and amortization	(14,179,123)
	<hr/>
	\$ 23,202,888

Depreciation and amortization expense totaled \$1,451,135 for 2018.

Construction contracts:

During 2018, Canine Companions began construction at the North Central region training center. The total construction contract is for \$1,457,303. As of December 31, 2018, construction in progress related to this project totals \$337,896 and total outstanding commitment is \$1,119,407.

Note 9 - Other Assets:

Other assets at December 31, 2018 consisted of the following:

Land held for sale	\$ 1,136,605
Split interest agreements	813,553
Life insurance policy	777,754
Inventories	68,734
Investments held for deferred compensation plans	45,240
Other	192,110
	<hr/>
	\$ 3,033,996

The land held for sale represents a donation to Canine Companions in accordance with Canine Companions' Gift Acceptance Policy. The land was donated to benefit the Southeast Region for its general operating purposes.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 10 - Line of Credit:

Canine Companions obtained a revolving line of credit (LOC) of \$4,000,000 to finance operations as necessary. The line has a variable interest rate with a floor rate of 4.0% and a commitment fee of 0.375% for the term of the loan. The interest rate at December 31, 2018 was 6.25% and the LOC will expire in October 2019. Canine Companions has not applied for any other credit facilities. There was no balance outstanding on the LOC as of December 31, 2018.

There are financial covenants applicable to the LOC. As of December 31, 2018, Canine Companions was in compliance with all financial covenants.

Note 11 - Net Assets With Donor Restrictions:

Net assets with donor restrictions as of December 31, 2018 are available for the following purposes or periods:

Property, equipment and improvements	\$ 12,164,552
Split interest agreements and charitable trust assets	1,265,638
Program and time restrictions	3,295,963
Bequests receivable	1,428,120
Donor endowments – corpus and earnings	4,942,172
	<hr/>
	\$ 23,096,445

Net assets were released during 2018 in accordance with the donors' intent or release of time restrictions as follows:

Purpose and time restrictions	\$ 1,161,384
Property, equipment and improvements	861,639
Bequests receivable	781,586
	<hr/>
Total restrictions released	\$ 2,804,609

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 12 - Endowments:

Endowment net asset composition by type of fund as of December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted:			
General use		\$ 4,924,172	\$ 4,924,172
Board Designated:			
Earnings available for general use	\$ 14,147,928		14,147,928
Earnings available for general use by the Southeast Region	3,052,756		3,052,756
Total	\$ 17,200,684	\$ 4,924,172	\$ 22,142,856

Changes in Endowment Net Asset for the year ended December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, beginning of year	\$ 18,398,596	\$ 5,093,387	\$ 23,491,983
Interest and dividends	184,181	140,767	324,948
Investment fees	(122,559)	(44,833)	(167,392)
Net gain (realized and unrealized)	(1,259,534)	(397,149)	(1,656,683)
Net investment income	(1,197,912)	(301,215)	(1,499,127)
Contributions		150,000	150,000
Appropriation of endowment assets for expenditure	(316,854)		(316,854)
Other transfers	316,854		316,854
Endowment Net Assets, end of year	\$ 17,200,684	\$ 4,942,172	\$ 22,142,856

Canine Companions for Independence, Inc.

Notes to Financial Statements

Note 13 - Commitments:

Canine Companions 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,	
2019	\$ 262,000
2020	260,000
2021	87,000
	<hr/>
	\$ 609,000

Rent expenses under all operating leases amounted to \$260,985 for the year ended December 31, 2018.

Canine Companions 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 Canine Companions rent-free with the agreement that the premises will be used exclusively for the purpose of assistance dog training and other related purposes.

Note 14 - Pension Plans:

Canine Companions sponsors a 403(b) defined contribution pension plan that covers all employees who meet certain eligibility requirements. Contributions to the plan by Canine Companions are based on eligible compensation and include elective and matching contributions not to exceed 6% of compensation for 2018. For the year ended December 31, 2018, the amount of pension expense was \$639,726.

Canine Companions 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 Canine Companions.

Note 15 - Concentrations of Credit Risk:

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

Canine Companions 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.

Canine Companions for Independence, Inc.

Notes to Financial Statements

Approximately 10% of contributed income for the year ended December 31, 2018 was attributable to one donor.

Total contributions from board members are approximately \$3,700,000 for the year ended December 31, 2018.

Note 16 - Affiliation Agreement:

Baylor Scott & White Health (BSWH) and Canine Companions entered into an affiliation and management agreement effective September 30, 2013. The parties intend to cooperate in the development of Canine Companions' 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 Canine Companions. The new campus, built and owned by BSWH, opened October 2015. The initial project included dormitory rooms and kennels with the overall objective of developing a campus capable of graduating approximately 60 new assistance dog teams per year.

The initial term of the agreement is for 10 years. In consideration of the benefits of affiliation with Canine Companions and Canine Companions' 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 Canine Companions 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 Canine Companions program in Texas, BSWH will also pay Canine Companions 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, 2018, the outstanding receivable under this arrangement is \$623,456.

Note 17 - Subsequent Events:

Loan agreement:

On April 17, 2019, Canine Companions entered into a loan agreement with Huntington National Bank. The loan is to fund a portion of the \$21,000,000 million North Central capital project (see Note 3). The loan amount is \$4,000,000 and may be drawn upon until April 9, 2021. On May 8, 2024, the loan principal is due in full. The loan is at a rate of LIBOR plus 2.482% resulting in an initial rate of 4.482% and may be pre-paid without penalty at any time.

In January 2019, Canine Companions signed a construction contract for construction of the North Central campus located in New Albany. The construction is being financed from capital campaign contributions and the loan from Huntington National Bank. Canine Companions entered into construction agreements totaling \$14,573,091. Canine Companions expects the project to be completed in the fall of 2020.