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CANINE COMPANIONS FOR  
INDEPENDENCE, INC.

DECEMBER 31, 2019

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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. (Canine Companions)** which comprise the statement of financial position as of December 31, 2019, 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.

### **Auditors' 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.

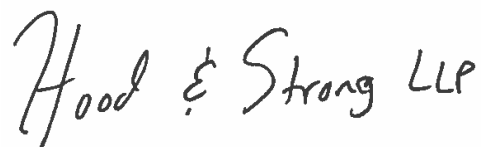
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Canine Companions for Independence, Inc. as of December 31, 2019 and the 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, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our audit report dated May 29, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Handwritten signature in black ink that reads "Hood & Strong LLP". The signature is written in a cursive, flowing style.

San Francisco, California  
May 20, 2020

# Canine Companions for Independence, Inc.

## Statement of Financial Position

<i>December 31, 2019 (with comparative totals for 2018)</i>	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 19,384,844	\$ 17,948,849
Contributions receivable, net	1,224,656	2,147,387
Accounts receivable	800,205	623,456
Bequests receivable	4,061,983	1,426,119
Investments	40,592,790	35,404,611
Property, equipment and improvements, net	33,593,003	23,202,888
Other assets	3,715,152	3,033,996
	<b>\$ 103,372,633</b>	<b>\$ 83,787,306</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 2,392,113	\$ 987,741
Accrued payroll and related expenses	1,540,925	1,337,810
Gift annuities payable	982,933	919,343
Deferred compensation	46,119	45,840
Total liabilities	4,962,090	3,290,734
<b>Net Assets:</b>		
Without donor restrictions:		
Property, equipment and improvements	33,593,003	23,202,888
Board designated	24,258,625	17,200,684
Undesignated	12,963,487	16,996,555
Total without donor restrictions	70,815,115	57,400,127
With donor restrictions	27,595,428	23,096,445
Total net assets	98,410,543	80,496,572
	<b>\$ 103,372,633</b>	<b>\$ 83,787,306</b>

See accompanying notes to financial statements.

# Canine Companions for Independence, Inc.

## Statement of Activities and Changes in Net Assets

*Year Ended December 31, 2019 (with comparative totals for 2018)*

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Support:</b>				
Contributions	\$ 15,260,518	\$ 2,468,717	\$ 17,729,235	\$ 17,235,261
Bequests	11,748,513	3,994,116	15,742,629	15,448,240
Change in value of beneficial interests in trust assets		253,293	253,293	(84,100)
Net assets released from restrictions	6,128,228	(6,128,228)	-	-
<b>Total support</b>	<b>33,137,259</b>	<b>587,898</b>	<b>33,725,157</b>	<b>32,599,401</b>
<b>Revenue:</b>				
Special events (net of direct expenses of \$985,122 for 2019)	3,753,543		3,753,543	2,993,143
Program service revenue	1,747,611		1,747,611	2,579,446
Net investment income (loss)	4,117,087	910,039	5,027,126	(1,341,905)
Other income (loss)	147,982		147,982	(295,316)
<b>Total revenue</b>	<b>9,766,223</b>	<b>910,039</b>	<b>10,676,262</b>	<b>3,935,368</b>
<b>Total support and revenue</b>	<b>42,903,482</b>	<b>1,497,937</b>	<b>44,401,419</b>	<b>36,534,769</b>
<b>Expenses:</b>				
Program services:				
Breeding and puppy raising	3,271,111		3,271,111	3,723,635
Training and follow-up	11,082,761		11,082,761	10,943,304
Public information	4,061,338		4,061,338	3,274,644
Veterinary	2,644,891		2,644,891	2,173,764
<b>Total program services</b>	<b>21,060,101</b>	<b>-</b>	<b>21,060,101</b>	<b>20,115,347</b>
Support services:				
Fund development	4,476,754		4,476,754	4,811,040
General administration	3,951,639		3,951,639	2,634,440
<b>Total support services</b>	<b>8,428,393</b>	<b>-</b>	<b>8,428,393</b>	<b>7,445,480</b>
<b>Total expenses</b>	<b>29,488,494</b>	<b>-</b>	<b>29,488,494</b>	<b>27,560,827</b>
<b>Change in Net Assets Before Other Changes</b>	<b>13,414,988</b>	<b>1,497,937</b>	<b>14,912,925</b>	<b>8,973,942</b>
<b>Other Changes in Net Assets</b>				
Capital campaign contributions		3,001,046	3,001,046	3,390,580
<b>Change in Net Assets</b>	<b>13,414,988</b>	<b>4,498,983</b>	<b>17,913,971</b>	<b>12,364,522</b>
<b>Net Assets, beginning of year</b>	<b>57,400,127</b>	<b>23,096,445</b>	<b>80,496,572</b>	<b>68,132,050</b>
<b>Net Assets, end of year</b>	<b>\$ 70,815,115</b>	<b>\$ 27,595,428</b>	<b>\$ 98,410,543</b>	<b>\$ 80,496,572</b>

See accompanying notes to financial statements.

# Canine Companions for Independence, Inc.

## Statement of Functional Expenses

Year Ended December 31, 2019 (with comparative totals for 2018)

	2019					2018			
	Program Services				Subtotal	Support Services		Total	Total
	Breeding and Puppy Raising	Training and Follow-up	Public Information	Veterinary		Fund Development	General Administration		
Salaries	\$ 1,651,397	\$ 6,007,599	\$ 1,951,847	\$ 792,297	\$ 10,403,140	\$ 2,633,896	\$ 2,179,717	\$ 15,216,753	\$ 13,741,539
Payroll taxes	135,195	487,647	153,191	64,787	840,820	206,616	146,492	1,193,928	1,076,245
Employee benefits	250,248	926,211	299,084	119,731	1,595,274	403,219	316,527	2,315,020	1,905,771
Pension plan contributions	69,639	275,454	85,366	31,162	461,621	117,433	81,512	660,566	639,726
Workers compensation insurance	19,786	80,018	24,472	8,555	132,831	33,775	22,539	189,145	274,817
Rent	55,975	122,143	15,307	14,504	207,929	31,951	49,047	288,927	260,985
Building maintenance	85,497	470,395	69,121	44,495	669,508	80,404	82,387	832,299	783,347
Utilities	68,509	297,022	51,394	28,594	445,519	63,168	47,652	556,339	576,824
Equipment rental and maintenance	35,207	163,164	32,703	53,335	284,409	32,910	21,526	338,845	406,260
Insurance	21,704	180,286	28,993	5,912	236,895	33,531	5,054	275,480	276,378
Program and office supplies	175,161	449,903	203,644	404,510	1,233,218	28,812	16,651	1,278,681	1,116,722
Dues and subscriptions	2,305	2,184	57,050	5,128	66,667	25,511	19,944	112,122	63,549
Travel, conventions and meetings	63,549	246,100	237,083	26,812	573,544	211,318	118,410	903,272	941,237
Professional services	173,195	133,011	161,644	931,255	1,399,105	107,142	614,437	2,120,684	2,413,779
Advertising and marketing			39,225		39,225	6,313	5,177	50,715	58,108
Telephone (data and voice communication)	79,513	325,245	68,327	29,197	502,282	82,555	41,983	626,820	421,439
Postage and freight	208,255	60,358	103,006	3,344	374,963	16,637	5,596	397,196	524,808
Printing and publications	1,168	1,706	321,325		324,199	16,206	553	340,958	260,023
Allowance for uncollectible pledges									87,556
Taxes, licenses, and other expenses	4,456	18,457	3,987	6,310	33,210	165,949	44,859	244,018	280,579
Total expenses before depreciation and amortization	3,100,759	10,246,903	3,906,769	2,569,928	19,824,359	4,297,346	3,820,063	27,941,768	26,109,692
Depreciation and amortization	170,352	835,858	154,569	74,963	1,235,742	179,408	131,576	1,546,726	1,451,135
<b>Expenses as shown on the Statement of Activities and Changes in Net Assets</b>	<b>3,271,111</b>	<b>11,082,761</b>	<b>4,061,338</b>	<b>2,644,891</b>	<b>21,060,101</b>	<b>4,476,754</b>	<b>3,951,639</b>	<b>29,488,494</b>	<b>27,560,827</b>
<b>Other Expenses:</b>									
Fundraising event expenses						985,122		985,122	837,554
Total expenses	\$ 3,271,111	\$ 11,082,761	\$ 4,061,338	\$ 2,644,891	\$ 21,060,101	\$ 5,461,876	\$ 3,951,639	\$ 30,473,616	\$ 28,398,381

See accompanying notes to financial statements.



# Canine Companions for Independence, Inc.

## Statement of Cash Flows

<i>Year Ended December 31, 2019 (with comparative totals for 2018)</i>	2019	2018
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 17,913,971	\$ 12,364,522
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,546,726	1,451,135
Contributions - capital campaign	(3,001,046)	(3,390,580)
Contributions to and changes in pooled income funds	(253,293)	77,456
Unrealized and realized gains on investments	(4,021,101)	1,725,810
Loss on disposal of property and equipment	12,678	369,403
Changes in operating assets and liabilities:		
Contributions receivable	1,286,425	(32,305)
Accounts receivable	(176,749)	397,590
Bequests receivable	(2,635,864)	(392,267)
Other assets	(681,156)	162,494
Accounts payable and accrued expenses	(358,541)	69,330
Accrued payroll and related expenses	203,394	49,756
Gift annuities payable	63,590	(46,086)
<b>Net cash provided by operating activities</b>	<b>9,899,034</b>	<b>12,806,258</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of investments	(6,574,767)	(5,464,075)
Proceeds from sale of investments	5,407,689	1,500,989
Acquisitions of property and equipment	(10,186,606)	(1,187,503)
<b>Net cash used by investing activities</b>	<b>(11,353,684)</b>	<b>(5,150,589)</b>
<b>Cash Flows from Financing Activities:</b>		
Collections on capital campaign	2,890,645	3,948,841
<b>Net cash provided by financing activities</b>	<b>2,890,645</b>	<b>3,948,841</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>1,435,995</b>	<b>11,604,510</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>17,948,849</b>	<b>6,344,339</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 19,384,844</b>	<b>\$ 17,948,849</b>

**Noncash Investing Activities:**

Equipment acquisition in accounts payable	\$ 1,762,913	\$ 207,599
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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. (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

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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](http://www.cci.org)) provides information about aspects of its 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

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### 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 \$20,800,000 of net assets without donor restrictions as an endowment for use in programs and future operations and approximately \$3,400,000 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 of 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

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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

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### 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 discount rates used to compute the donors' original charitable deduction.

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 2.0%.

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, 2019, 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

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### *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

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### *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

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### l. Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets. 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 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, 2019, 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.

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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### o. Recent Accounting Pronouncements

#### *Pronouncements Adopted:*

In June 2018, the FASB issued Accounting Standards Update (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 was adopted as of January 1, 2019. The impact of adopting this guidance is reflected in the financial statements and did not have a significant impact on the financial statement disclosures.

The FASB issued authoritative guidance, *Revenue from Contracts with Customers (Topic 606)*. These amendments provide that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance was adopted as of January 1, 2019. The impact of adopting this guidance is reflected in the financial statements and did not have a significant impact on the financial statements or disclosure. Furthermore, analysis of various provisions of this standard resulted in no significant changes in the way Canine Companions recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

#### *Pronouncements Effective in the Future:*

In February 2016 the FASB issued amendments to ASU 2016-02, *Leases*. 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, 2021. Early adoption is permitted. Canine Companions is currently evaluating the impact on this pronouncement on its financial statements.

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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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.

p. Subsequent events

Canine Companions evaluated subsequent events with respect to the financial statements for the year ended December 31, 2019 through May 20, 2020, 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 18.

**Note 3 - Contributions Receivable:**

Contributions receivable consist of the following at December 31, 2019:

Contributions receivable	\$ 497,717
Pledges receivable, net of allowance of \$30,000	569,339
Federal and state employee pledges, net of allowance of \$42,400	157,600
	<hr/>
	\$ 1,224,656

At December 31, 2019, contributions receivable are due as follows:

Receivable in less than one year	\$ 1,037,542
Receivable in one to five years	187,114
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	\$ 1,224,656

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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### *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, 2019, Canine Companions has raised approximately \$11,450,000 including long-term pledge commitments of approximately \$3,900,000. As of December 31, 2019, the remaining balance of the long-term pledge commitments is \$510,470.

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. As of December 31, 2019, Canine Companion collected the outstanding balance on the conditional pledge.

In 2019, Canine Companions received an intent to give amounting to \$3.5 million. The intent to give is subject to approval by the donor and is excluded from the outstanding receivables at year-end. As of December 31, 2019, the remaining balance of the intent to give is \$3.5 million.

### *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, 2019 represents amounts due for the September 2018 campaign. Amounts due from the September 2019 campaign are not yet determinable, and therefore, have not been recorded.

### **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, 2019, the total of these expectancies is \$4,061,983. Management believes that all bequest expectancies are collectible.

As of December 31, 2019, 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.

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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### Note 5 - Investments:

Investments consist of the following at December 31, 2019:

Cash and cash equivalents	\$ 4,970,930
Fixed income	4,254,815
Mutual funds	1,005,473
Investments held by Marin Community Foundation	24,258,626
Investments held by Community Foundation Sonoma County	6,074,451
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Subtotal	40,564,295
Private equity, at cost	28,495
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	\$ 40,592,790

Net investment income, including amounts earned on assets at the Foundations, consists of the following at December 31, 2019:

Interest and dividends	\$ 930,924
Investment fees	(177,920)
Net realized and unrealized gain	4,274,122
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	\$ 5,027,126

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.

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.

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

**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, 2019 on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Cash and cash equivalents	\$ 4,970,930	\$ 4,970,930	
Fixed income – government obligations	4,254,815	4,254,815	
Mutual funds:			
Global equity	150,425	150,425	
Domestic equity	790,238	790,238	
Complimentary	15,393	15,393	
Real assets	49,417	49,417	
Investments held by Marin Community Foundation (a)	24,258,626		
Investments held by Community Foundation Sonoma County (a)	6,074,451		
Total investments	40,564,295	10,231,218	
Split interest agreements	1,152,341		\$ 1,152,341
Investments held for deferred compensation	46,119	46,119	
Total assets measured at fair value	\$ 41,762,755	\$ 10,277,337	\$ 1,523,341

(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 and 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

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### *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 5) 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 \$2,628,953 at December 31, 2019. 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, 2019. During 2019, there were no distributions from Fund A.

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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### Note 8 - Property, Equipment and Improvements:

Property, equipment and improvements consisted of the following at December 31, 2019:

Buildings and land	\$ 33,997,383
Leasehold improvements	1,635,918
Office equipment	1,709,994
Automotive equipment	891,093
Construction in progress	11,058,628
	<hr/>
	49,293,016
Less accumulated depreciation and amortization	15,700,013
	<hr/>
	\$ 33,593,003

Depreciation and amortization expense totaled \$1,546,726 for 2019.

#### *Construction contracts:*

During 2019, Canine Companions completed construction at the Northwest region training center. The total construction contract was for \$1,457,303.

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 a loan from Huntington National Bank. Canine Companions entered into construction agreements totaling \$14,573,091 and the outstanding commitment as of December 31, 2019 was \$5,516,220. Canine Companions expects the project to be completed in the fall of 2020.

### Note 9 - Other Assets:

Other assets at December 31, 2019 consisted of the following:

Land held for sale	\$ 1,136,605
Split interest agreements	1,152,341
Life insurance policy	777,754
Inventories	83,442
Investments held for deferred compensation plans	46,119
Other	518,891
	<hr/>
	\$ 3,715,152



# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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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 Northeast Region for its general operating purposes.

### **Note 10 - Line of Credit and Loan Agreement:**

#### *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 5.0% and a commitment fee of 0.375% for the term of the loan. The interest rate at December 31, 2019 was 5.75% and the LOC will expire in November 1, 2021. There was no balance outstanding on the LOC as of December 31, 2019.

There are financial covenants applicable to the LOC. As of December 31, 2019, Canine Companions was in compliance with all financial covenants.

#### *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 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 2.0% resulting in a rate of 3.71% at December 31, 2019 and may be pre-paid without penalty at any time. Canine Companions has not drawn upon the loan as of December 31, 2019.

### **Note 11 - Net Assets With Donor Restrictions:**

Net assets with donor restrictions as of December 31, 2019 are available for the following purposes or periods:

Property, equipment and improvements	\$ 13,206,555
Split interest agreements and charitable trust assets	1,518,931
Program and time restrictions	2,705,748
Bequests receivable	4,061,983
Donor endowments – corpus and earnings	6,102,210
	<hr/>
	\$ 27,595,428

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

Net assets were released during 2019 in accordance with the donors' intent or release of time restrictions as follows:

Purpose and time restrictions	\$ 3,079,953
Property, equipment and improvements	1,654,849
Bequests receivable	1,393,427
Total restrictions released	\$ 6,128,228

**Note 12 - Endowments:**

Endowment net asset composition by type of fund as of December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted:			
General use		\$ 6,102,210	\$ 6,102,210
Board Designated:			
Earnings available for general use	\$ 20,810,253		20,810,253
Earnings available for general use by the Southeast Region	3,448,372		3,448,372
Total	\$ 24,258,625	\$ 6,102,210	\$ 30,360,835

Changes in endowment net assets for the year ended December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, beginning of year	\$ 17,200,684	\$ 4,942,171	\$ 22,142,855
Interest and dividends	250,799	138,426	389,225
Investment fees	(130,387)	(47,533)	(177,920)
Net gain (realized and unrealized)	2,937,529	819,146	3,756,675
Net investment income	3,057,941	910,039	3,967,980
Contributions	4,000,000	250,000	4,250,000
Endowment Net Assets, end of year	\$ 24,258,625	\$ 6,102,210	\$ 30,360,835

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

### Note 13 - Availability of Financial Assets and Liquidity:

The following table reflects Canine Companions' financial assets reduced by amounts 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 for general expenditures are as follows at December 31:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	\$ 19,384,844	\$ 17,948,849
Contributions receivable	1,224,656	2,147,387
Accounts receivable	800,205	623,456
Bequests receivable	4,061,983	1,426,119
Investments	40,592,790	35,404,611
Other assets	1,976,214	1,636,547
<hr/>		
Total financial assets	68,040,692	59,186,969
<hr/>		
Less amounts not available to be used within one year:		
Deferred compensation	46,119	45,240
Life insurance policy	777,754	777,754
Split interest agreements and charitable trust assets	1,518,931	1,265,638
Net assets with donor restrictions:		
Time or purpose including long – term receivables	2,705,748	2,518,209
Property, equipment and improvements	13,206,555	12,164,552
Less net assets with restrictions to be met in less than a year	(5,306,498)	(5,100,437)
Donor endowments – corpus and earnings	6,102,210	4,942,172
Net assets designated by the board	24,258,625	17,200,684
<hr/>		
	43,309,444	33,813,812
<hr/>		
Financial assets available to meet general expenditures over the next twelve months	\$ 24,731,248	\$ 25,373,157
<hr/>		

Canine Companions' strives to maintain financial assets to meet 90 days of operating expenses (approximately \$7,400,000). 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 2020 by utilizing cash and cash equivalents, see Note 17. Canine Companions is expected to also utilize cash and cash equivalents for the construction project in the North Central region totaling approximately \$14,600,000. 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

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### Note 14 - 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,	
2020	\$ 328,000
2021	153,000
2022	46,000
2023	28,000
2024	17,000
	<hr/>
	\$ 572,000

Rent expenses under all operating leases amounted to \$390,944 for the year ended December 31, 2019.

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 15 - 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 2019. For the year ended December 31, 2019, the amount of pension expense was \$660,566.

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.

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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### **Note 16 - 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.

Total contributions from board members are approximately \$4,551,000 for the year ended December 31, 2019.

### **Note 17 - 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 ended June 30, 2019. 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, 2019, the outstanding receivable under this arrangement is \$780,808.

# Canine Companions for Independence, Inc.

## Notes to Financial Statements

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### Note 18 - Subsequent Events:

#### *Pandemic and Market Volatility:*

On March 11, 2020, the World Health Organization publicly characterized COVID-19 as a pandemic. States of emergency have been declared in many federal, state and local jurisdictions and shelter in place orders have been instituted in many cities and states, including California, which impacts general business operations in most industries and sectors. Canine Companions closed its six campuses across the U.S. beginning on March 18, 2020. Only essential personnel are conducting necessary work on campus. Starting May 4, 2020, five out of six campuses were receiving dogs evacuated from the campuses and fostered by employees and volunteers. Preliminary plans for limited team placements in June are subject to change depending upon conditions. No adjustments have been made to these financial statements as a result of this uncertainty.

On April 6, 2020, Canine Companions applied for and was approved for a \$3,738,300 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan was funded on May 7, 2020, accrues interest at 1.0% with eighteen monthly payments beginning December 5, 2020. Canine Companions is eligible for loan forgiveness for costs incurred during the eight weeks following loan funding, upon meeting certain requirements including at least 75% of the requested forgiveness amount must have been used to fund payroll cost. The loan is uncollateralized and is fully guaranteed by the Federal government.

In addition, financial markets volatility has significantly increased with general decrease in the value of major market equity indices through late March 2020 and general increase in value from late March 2020 into late May 2020. Since December 31, 2019, the volatility in market valuations is not expected to materiality impact Canine Companions financial investments considering Canine Companion's investment policy and allocation.