



Report of Independent Auditors and
Consolidated Financial Statements

Canine Companions for Independence, Inc.

December 31, 2022 and 2021



Table of Contents

	Page
Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities and Changes in Net Assets	5
Consolidated Statement of Functional Expenses	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9



Report of Independent Auditors

The Board of Directors
Canine Companions for Independence, Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Canine Companions for Independence, Inc. (Canine Companions), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Canine Companions as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Canine Companions and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Change in Accounting Principal

As discussed in Note 2 to the consolidated financial statements, as of January 1, 2022, Canine Companions adopted Financial Accounting Standards Board (FASB) Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. The ASU has been applied using a modified retrospective approach. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Canine Companions' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Canine Companions' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Campbell, California
June 7, 2023

Consolidated Financial Statements

Canine Companions for Independence, Inc.
Consolidated Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 51,040,224	\$ 43,465,311
Pledges receivable, net	2,931,327	2,777,989
Accounts receivable	3,178,451	2,317,374
Bequests receivable	3,552,936	4,543,200
Investments, fair value	36,645,651	42,778,299
Investment, equity method	20,078,021	19,216,347
Property, equipment, and improvements, net	43,407,471	39,103,185
Other assets	2,506,595	2,806,215
Operating lease right-of-use assets	549,013	-
	\$ 163,889,689	\$ 157,007,920
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,054,350	\$ 1,385,028
Accrued payroll and related expenses	2,217,525	1,995,345
Gift annuities payable	639,854	771,165
Deferred compensation	46,160	46,160
Operating lease liabilities	551,151	-
	4,509,040	4,197,698
NET ASSETS		
Without donor restrictions:		
Property, equipment, and improvements	43,407,471	39,103,185
Board designated	35,326,414	39,754,234
Undesignated	46,057,850	43,680,359
	124,791,735	122,537,778
With donor restrictions	34,588,914	30,272,444
Total net assets	159,380,649	152,810,222
Total liabilities and net assets	\$ 163,889,689	\$ 157,007,920

See accompanying notes.

Canine Companions for Independence, Inc.
Consolidated Statements of Activities and Changes in Net Assets
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT			
Contributions	\$ 16,711,897	\$ 5,451,256	\$ 22,163,153
Contributed nonfinancial assets	359,598	1,919,700	2,279,298
Bequests	-	12,097,606	12,097,606
Change in value of beneficial interests in charitable trust assets	-	(252,175)	(252,175)
Net assets released from restrictions	16,706,535	(16,706,535)	-
Total support	<u>33,778,030</u>	<u>2,509,852</u>	<u>36,287,882</u>
REVENUE			
Special events (net of direct expenses of \$678,367)	4,110,692	-	4,110,692
Program service revenue	139,375	-	139,375
Net investment loss	(3,192,122)	(1,702,666)	(4,894,788)
Other income	18,821	-	18,821
Total revenue	<u>1,076,766</u>	<u>(1,702,666)</u>	<u>(625,900)</u>
Total support and revenue	<u>34,854,796</u>	<u>807,186</u>	<u>35,661,982</u>
EXPENSES			
Program services:			
Breeding and puppy raising	4,324,375	-	4,324,375
Training and client support	14,148,361	-	14,148,361
Public information	4,276,800	-	4,276,800
Veterinary	3,691,824	-	3,691,824
Total program services	<u>26,441,360</u>	<u>-</u>	<u>26,441,360</u>
Support services:			
Fundraising	5,405,998	-	5,405,998
General administration	1,911,218	-	1,911,218
Total support services	<u>7,317,216</u>	<u>-</u>	<u>7,317,216</u>
Total expenses	<u>33,758,576</u>	<u>-</u>	<u>33,758,576</u>
CHANGES IN NET ASSETS BEFORE OTHER CHANGES			
	1,096,220	807,186	1,903,406
OTHER CHANGES IN NET ASSETS			
Gain on disposal of property, equipment, and improvements	1,025	-	1,025
Net assets released from capital projects	438,794	(438,794)	-
Capital campaign contributions	717,918	3,948,078	4,665,996
CHANGE IN NET ASSETS	<u>2,253,957</u>	<u>4,316,470</u>	<u>6,570,427</u>
NET ASSETS, beginning of year	<u>122,537,778</u>	<u>30,272,444</u>	<u>152,810,222</u>
NET ASSETS, end of year	<u>\$ 124,791,735</u>	<u>\$ 34,588,914</u>	<u>\$ 159,380,649</u>

See accompanying notes.

Canine Companions for Independence, Inc.
Consolidated Statements of Activities and Changes in Net Assets (Continued)
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT			
Contributions	\$ 12,283,820	\$ 9,205,326	\$ 21,489,146
Contributed nonfinancial assets	322,516	-	322,516
Bequests	8,987,033	21,392,602	30,379,635
Change in value of beneficial interests in charitable trust assets	-	(78,634)	(78,634)
Net assets released from restrictions	27,459,940	(27,459,940)	-
Total support	<u>49,053,309</u>	<u>3,059,354</u>	<u>52,112,663</u>
REVENUE			
Special events (net of direct expenses of \$384,535)	3,597,166	-	3,597,166
Program service revenue	108,235	-	108,235
Net investment income	2,790,307	928,353	3,718,660
Other income	45,537	-	45,537
Total revenue	<u>6,541,245</u>	<u>928,353</u>	<u>7,469,598</u>
Total support and revenue	<u>55,594,554</u>	<u>3,987,707</u>	<u>59,582,261</u>
EXPENSES			
Program services:			
Breeding and puppy raising	3,288,392	-	3,288,392
Training and client support	13,250,300	-	13,250,300
Public information	3,185,332	-	3,185,332
Veterinary	3,225,932	-	3,225,932
Total program services	<u>22,949,956</u>	<u>-</u>	<u>22,949,956</u>
Support services:			
Fundraising	5,717,639	-	5,717,639
General administration	3,477,498	-	3,477,498
Total support services	<u>9,195,137</u>	<u>-</u>	<u>9,195,137</u>
Total expenses	<u>32,145,093</u>	<u>-</u>	<u>32,145,093</u>
CHANGES IN NET ASSETS BEFORE OTHER CHANGES	23,449,461	3,987,707	27,437,168
OTHER CHANGES IN NET ASSETS			
Loss on disposal of property, equipment, and improvements	(121,478)	-	(121,478)
Gain on loan forgiveness of Paycheck Protection Program loan	3,762,676	-	3,762,676
Net assets released from capital projects	385,590	(385,590)	-
Capital campaign contributions	10,509,000	7,255,939	17,764,939
CHANGE IN NET ASSETS	37,985,249	10,858,056	48,843,305
NET ASSETS, beginning of year	<u>84,552,529</u>	<u>19,414,388</u>	<u>103,966,917</u>
NET ASSETS, end of year	<u>\$ 122,537,778</u>	<u>\$ 30,272,444</u>	<u>\$ 152,810,222</u>

See accompanying notes.

Canine Companions for Independence, Inc.
Consolidated Statement of Functional Expenses
Year Ended December 31, 2022 with comparative total for December 31, 2021

	2022					2021			Comparative Total
	Program Services				Subtotal	Support Services		Total	
	Breeding and Puppy Raising	Training and Follow-up	Public Information	Veterinary		General Administration	Fund Development		
Salaries	\$ 2,231,423	\$ 7,615,242	\$ 1,879,479	\$ 1,292,090	\$ 13,018,234	\$ 1,214,592	\$ 3,136,014	\$ 17,368,840	\$ 16,484,321
Payroll taxes	172,704	601,188	142,298	99,964	1,016,154	76,776	241,389	1,334,319	1,269,106
Employee benefits	317,593	1,262,712	251,043	180,693	2,012,041	87,296	375,906	2,475,243	2,615,704
Pension plan contributions	105,291	418,624	83,228	59,905	667,048	28,941	124,623	820,612	738,604
Workers compensation insurance	13,821	54,952	10,925	7,864	87,562	3,799	16,359	107,720	127,730
Rent	257,857	221,089	49,990	15,262	544,198	2,358	56,952	603,508	1,366,767
Building maintenance	123,242	526,296	68,950	35,745	754,233	6,960	101,677	862,870	241,875
Utilities	140,990	423,739	50,134	30,138	645,001	4,568	75,126	724,695	660,350
Equipment rental and maintenance	32,117	199,536	50,782	45,476	327,911	5,411	41,805	375,127	233,202
Insurance	61,416	260,507	41,052	30,109	393,084	13,566	70,949	477,599	445,455
Program and office supplies	445,352	482,233	17,038	528,719	1,473,342	10,408	24,053	1,507,803	1,201,785
Dues and subscriptions	835	941	1,077	5,422	8,275	8,918	6,719	23,912	33,388
Travel, conventions, and meetings	58,845	216,449	272,539	34,190	582,023	86,470	270,220	938,713	259,605
Professional services	104,130	193,691	455,734	1,152,026	1,905,581	275,211	287,114	2,467,906	2,295,015
Advertising and marketing	-	-	172,040	-	172,040	14,279	4,163	190,482	196,021
Telephone (data and voice communication)	62,361	283,810	39,216	11,172	396,559	6,644	67,646	470,849	559,567
Postage and freight	18,432	58,328	165,379	42,284	284,423	5,176	24,029	313,628	330,743
Printing and publications	1,829	2,027	402,560	-	406,416	740	1,989	409,145	380,474
Taxes, licenses, and other expenses	2,250	135,066	2,361	7,793	147,470	42,817	242,335	432,622	365,799
Total expenses before depreciation and amortization	4,150,488	12,956,430	4,155,825	3,578,852	24,841,595	1,894,930	5,169,068	31,905,593	29,805,511
Depreciation and amortization	173,887	1,191,931	120,975	112,972	1,599,765	16,288	236,930	1,852,983	2,339,582
Total expenses	\$ 4,324,375	\$ 14,148,361	\$ 4,276,800	\$ 3,691,824	\$ 26,441,360	\$ 1,911,218	\$ 5,405,998	\$ 33,758,576	\$ 32,145,093

See accompanying notes.

Canine Companions for Independence, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 6,570,427	\$ 48,843,305
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,852,983	2,339,582
Contributions - capital campaign	(4,665,996)	(17,764,939)
Donation of stock in private entity	-	(19,538,800)
Changes in pooled income funds	2,632	78,634
Net unrealized and realized loss (gain) on investments	5,725,840	(3,175,056)
(Gain) loss on disposal of property, equipment, and improvements	(1,025)	121,478
Gain on loan forgiveness of Paycheck Protection Program loan	-	(3,762,676)
Changes in operating assets and liabilities:		
Pledges receivable	(153,338)	(1,660,690)
Accounts receivable	(861,077)	(1,320,508)
Bequests receivable	990,264	2,863,505
Operating lease right-of-use assets	(549,013)	-
Other assets	296,988	(128,066)
Accounts payable and accrued expenses	(330,678)	(231,317)
Accrued payroll and related expenses	222,180	64,305
Operating lease liabilities	551,151	-
Gift annuities payable	(131,311)	(10,106)
Net cash provided by operating activities	9,520,027	6,718,651
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(865,812)	(23,751,474)
Proceeds from sale of investments	410,946	29,134,790
Acquisitions of property, equipment, and improvements	(6,156,244)	(1,289,461)
Net cash (used in) provided by investing activities	(6,611,110)	4,093,855
CASH FLOWS FROM FINANCING ACTIVITY		
Collections on capital campaign	4,665,996	17,764,939
Net cash provided by financing activity	4,665,996	17,764,939
NET CHANGES IN CASH AND CASH EQUIVALENTS	7,574,913	28,577,445
CASH AND CASH EQUIVALENTS, beginning of year	43,465,311	14,887,866
CASH AND CASH EQUIVALENTS, end of year	\$ 51,040,224	\$ 43,465,311
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITY		
Donation of stock in private entity	\$ -	\$ 19,538,800
Donation of nonfinancial asset	\$ 2,279,298	\$ -
Net additions to operating lease right-of-use assets	\$ (780,418)	\$ -
Net additions to operating lease liabilities	\$ 780,418	\$ -

See accompanying notes.

Canine Companions for Independence, Inc.

Notes to Consolidated Financial Statements

Note 1 – Description of the Organization

Canine Companions for Independence, Inc. (the “Organization” or “Canine Companions”) is a nonprofit corporation organized to provide highly trained service dogs and ongoing support to individuals with disabilities. Our dogs and all follow-up services are provided at no cost to our clients. 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.

On December 28, 2020, the Organization established Canine Companions Charitable Properties, LLC (the “LLC”), with the Organization as the sole member. The LLC was formed for the purpose of holding certain assets to be used to further the charitable mission of the Organization. The consolidated financial statements reflect the accounts of the Organization and the LLC.

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 service dogs. Canine Companions breeds Labrador Retrievers, Golden Retrievers, and a cross of the two to be service 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 8 weeks to 18 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 18 months, he or she is returned to one of Canine Companions’ regional Centers for professional instruction.

Training and client support – 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 different types of service dogs to best serve our clients:

- **Service dogs** – partnered with adults, children and veterans to assist with daily tasks and increase independence by reducing reliance on other people. A service dog can pull their partner in a manual wheelchair, retrieve dropped items, alert an adult who is deaf or hard-of-hearing to important sounds, or assist a veteran with post-traumatic stress disorder by interrupting anxiety attacks and nightmares.
- **Facility dogs** – expertly trained dogs that are partnered with a professional facilitator working in a health care, criminal justice, rehabilitation or education setting. Canine Companions facility dogs are trustworthy in professional environments and are trained in 45 tasks that can be integrated into therapies or services to improve clinical outcomes.

Canine Companions for Independence, Inc.

Notes to Consolidated Financial Statements

The matching of students and canines takes place during an intensive two-week training course where students learn the skills to direct their new service 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 service 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 the graduate team well-being and effectiveness.

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 training centers or in centrally located cities for problem solving and further education to ensure the ongoing success of the service 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 service 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 social media accounts. Canine Companions' web site (www.canine.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.

Note 2 – Summary of Significant Accounting Policies

Principles of consolidation – All inter-entity transactions and balances have been eliminated upon consolidation.

Basis of presentation and description of net assets – Canine Companions uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and reports information regarding its consolidated financial position and activities according to two classes of net assets.

Canine Companions for Independence, Inc.

Notes to Consolidated Financial Statements

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. As of December 31, 2022 and 2021, Canine Companions' Board of Directors has designated approximately \$2,300,000 and \$2,900,000, respectively, of net assets without donor restrictions as an endowment for projects in the Southeast Region, \$10,000,000 and \$10,000,000, respectively, of net assets without donor restrictions to fund the Canine Health and Wellness Center in Santa Rosa, and approximately \$23,000,000 and \$26,800,000, respectively, of net assets without donor restrictions for general use.

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 endowed funds where the donor indicated that a portion of the fund be retained in perpetuity. The accumulation of assets, above historic gift value, in donor-restricted endowed funds is classified as with donor restrictions until appropriated for use based on Canine Companions' spending policy.

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.

Pledges receivable, net – 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 the present value of their estimated future cash flows. Discounts are computed using estimated market rates. Amortization of the discount is included in contribution revenue.

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

Accounts receivable – Accounts receivable consist of various trade and miscellaneous receivables. Trade receivables include amounts billed to sponsors and affiliates for services provided. Receivables are reported at face value, which approximates fair value, and are not subject to interest. Payments received from sponsors and affiliates are generally applied to the balances identified by the accompanying invoice.

Bequests receivable – Bequests receivable consist of gifts made by means of wills and trusts for which the donor is deceased and are otherwise considered irrevocable.

Investments – Investments are reported at fair value. Changes in fair values as well as realized gains and losses are reflected in the consolidated statement of activities and changes in net assets. Dividend and interest income are accrued when earned. Investments received through gifts are recorded at estimated fair value at the date of donation.

Canine Companions for Independence, Inc.

Notes to Consolidated Financial Statements

Fair value of beneficial interest in assets – Canine Companions invests in diversified investment pools offered by the Marin Community Foundation and Community Foundation Sonoma County (collectively referred to as the “Community Foundations”). The Community Foundations have Canine Companions’ investment accounts under its management. Canine Companions’ share of the pool is recorded as beneficial interest in assets. The beneficial interest in assets is stated at fair value. The fair value is based on the net asset value of the pooled assets and the Canine Companions’ ownership interest in the pool. Net asset values are evaluated by the Community Foundations to determine if the values of these investments should be adjusted. Factors considered may include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment. Valuations are reviewed at least annually using a variety of qualitative factors to subjectively determine the most appropriate valuation methodologies.

The pools consist of various investments including, but not limited to, cash, public and private equities, global bonds, real assets, and hedge funds. Investments are exposed to various risks such as interest rate, market, liquidity, and credit risks.

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.

Investment held at equity method – Canine Companions holds an equity method investment in one private corporation that is not traded on stock exchanges and does not have a readily determinable fair value. Valuation is determined based on the percentage of interest held by Canine Companions. The equity method of accounting is used for investments in which Canine Companions’ interest is 20% to 50% and is deemed to have significant influence over the investee. Under the equity method, Canine Companions recognizes its proportionate share of net income or loss of the corporation. Dividends paid by the corporation reduces the value of the investment. Canine Companions evaluates the investment for impairment whenever events or changes in circumstance indicate that the carrying value of an asset may not be recoverable. As of December 31, 2022 and 2021, management has concluded that there are no indications of impairment of the equity method investment.

Canine Companions for Independence, Inc. Notes to Consolidated Financial Statements

Property, equipment, and improvements – Property, equipment, and improvements are recorded at cost. The cost of maintenance and repairs are charged to expense as incurred. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Amortization of leasehold improvements is computed over the lesser of the useful life or the term of the related lease. Estimated useful lives used to compute depreciation and amortization of property, equipment, and improvements are as follows:

Building and improvements	15 – 40 years
Leasehold improvements	life of lease
Furniture, vehicle, and equipment	5 years

Impairment of long-lived assets – The long-lived assets are reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of that asset. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value. There was no impairment of long-lived assets for the years ended December 31, 2022 and 2021.

Leases – Transactions give rise to leases when Canine Companions receives substantially all of the economic benefits from and has the ability to direct the use of specified asset. Canine Companions has lessee activity classified as operating leases and are included in the operating lease right-of-use assets and operating lease liabilities in the consolidated statements of financial position.

Operating lease right-of-use assets represents the right to use an underlying asset for the lease term and operating lease liabilities represent obligations to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. When discount rates implicit in leases cannot be readily determined, Canine Companions uses an estimated incremental borrowing rate at lease commencement to perform lease classification tests and to measure lease liabilities and right-of-use assets. Certain optional renewal periods were not included in the determination of the lease liability and right-of-use asset if management determined it was not reasonably certain that the lease would be extended. Canine Companions has elected not to recognize right-of-use assets and lease liabilities for leases of terms less than twelve months.

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 contribution revenue with donor restrictions in the period in which the assets are received from the donor. Subsequent changes in the estimated fair value are recognized in the consolidated statements of activities and changes in net assets.

Canine Companions for Independence, Inc. Notes to Consolidated Financial Statements

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 5.2%.

California Insurance Code (the “Code”) requires that organizations maintain a reserve fund adequate to meet the future payments under its outstanding charitable gift annuity contracts. In addition, the Code requires that 50% of the reserve fund be invested in specified governmental fixed income investments. As of December 31, 2022 and 2021, 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 compliance with all laws and regulations in all states it is registered to issue charitable gifts annuities.

Endowment funds – Canine Companions’ reserved funds include donor-restricted endowment funds and funds designated by the Board of Directors to function as semi-endowed funds. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as reserved funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Board of Directors of Canine Companions has interpreted the California enacted version of the Uniform Prudent Management of Institutional Funds Act (“CUPMIFA”) as requiring the preservation of the fair value of the original gifts as of the 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 (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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. Amounts are classified as net assets with donor restrictions until Canine Companions’ Board of Directors appropriates amounts for expenditure and any purpose restrictions have been met, in a manner consistent with the standard of prudence prescribed by CUPMIFA.

In accordance with CUPMIFA, 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, and (7) the investment policies of Canine Companions.

Funds with deficiencies – 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 CUPMIFA requires Canine Companions to retain as a fund of perpetual duration. At December 31, 2022 and 2021, there were no material deficiencies.

Canine Companions for Independence, Inc.

Notes to Consolidated Financial Statements

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% 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.

Spending policy and how the investment objectives relate to spending policy – Except for the board designated endowment fund related to the Martha McCrary Bequest. 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.

Recognition of support-based revenue – Contributions and grants are recognized at their fair value when the donor makes an unconditional promise to give to Canine Companions. Certain contributions are reported as support without donor restrictions when the restriction is met in the same period as the contribution is received. 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. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

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' consolidated financial statements as bequests receivable when clear title is established, and the proceeds are measurable.

Canine Companions for Independence, Inc.

Notes to Consolidated Financial Statements

Contributed goods and services – Canine Companions recognizes the value of donated items and/or supplies at the fair market value for similar items. 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. Donated goods and services for the fiscal years ended December 31 included in the consolidated statements of activities, were as follows:

	2022	2021
Equipment	\$ 37,082	\$ -
Property	1,919,700	-
Office space	322,516	322,516
Contributed nonfinancial assets	\$ 2,279,298	\$ 322,516

During 2022, Canine Companions received property with certain donor restrictions regarding the use and time which must elapse before selling considerations. The property will be used for operations until such time elapses, and which point the Organization will assess the future use or potential sale of the property. Donated equipment included chairs and dog treadmills which are being utilized at properties owned by the Organization. Canine Companions also receives donated office space in the Southwest region which was valued at approximately \$323,000 as of December 31, 2022 and 2021, respectively. Canine Companions did not monetize any contributed nonfinancial assets.

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 consolidated financial statements because such volunteer services do not meet the above-mentioned criteria.

During the years ended December 31, 2022 and 2021, Canine Companions participated in various outreach events supported by Canine Companions' staff and by 4,590 volunteers and 4,700, respectively.

Functional expenses – The costs of providing program and other activities have been summarized on a functional basis in the consolidated statements 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.

Canine Companions for Independence, Inc.

Notes to Consolidated Financial Statements

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 consolidated financial statements.

Canine Companions follows the guidance on accounting for uncertainty in income taxes issued by Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740, *Income Taxes*. As of December 31, 2022 and 2021, 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 consolidated financial statements. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements.

Canine Companions Charitable Properties, LLC, as a California organization, is subject to franchise taxes and a fee based on California annual income. For the years ended December 31, 2022 and 2021, the LLC paid \$0 and \$11,790 of total taxes and fees, respectively.

Use of estimates – The preparation of the consolidated 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.

Reclassifications – Certain balances in the prior year’s footnotes have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Recent accounting pronouncements – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements in the financial statements of leases. Management adopted ASU No. 2016-02 beginning January 1, 2022. In 2018 FASB issued an update to its guidance providing companies with the option to adopt provisions of standard prospectively without adjusting comparative periods; Canine Companions elected this option. Canine Companions elected the package of transition practical expedient, which allows entities use hindsight when determining lease term and impairment of right-of-use assets. Canine Companions makes certain assumptions and judgements in determining the discount rate. As most of Canine Companion’s leases do not provide an implicit rate, Canine Companions uses the incremental borrowing rate in determining the present value of lease payments. Management recorded \$453,704 for both operating lease ROU assets and operating lease liabilities, respectively, on its statements of financial position from a lessee perspective as of January 1, 2022. The adoption of ASU No. 2016-02 did not have a significant impact on the results of operations or cash flows. The adoption of ASU No. 2016-02 also implemented additional disclosure requirements. See further in Note 14.

Canine Companions for Independence, Inc. Notes to Consolidated Financial Statements

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU changes the required presentation for in-kind contributions other than contributed services. The first element will require separate presentation on the consolidated statement of activities and changes in net assets and the second element will require additional disclosure about how the in-kind gifts were utilized (in which program or part of management and general or fundraising), donor restrictions associated with the gifts and valuation techniques employed. The ASU is effective for Canine Companions for the fiscal year beginning January 1, 2022 with early application permitted. The statement did not have a material impact on the consolidated financial statements. The Organization has updated disclosures, see Note 2.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated statement of financial position date, but before the consolidated financial statements are available to be issued. Canine Companions recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statements of financial position including estimates inherent in the process of preparing consolidated financial statements. Canine Companions consolidated financial statements do not recognize subsequent events that provide additional evidence about conditions that did not exist at the date of the consolidated statements of financial position, but arose after the statements of financial position date before the consolidated financial statements were available to be issued.

Canine Companions has evaluated subsequent events through June 7, 2023, which is the date the consolidated financial statements were available to be issued.

Note 3 – Pledges Receivable, Net

Pledges outstanding at December 31 are expected to be collected as follows:

	<u>2022</u>	<u>2021</u>
Pledges receivable in less than one year	\$ 2,812,333	\$ 2,710,191
Pledges receivable in one to five years	<u>118,994</u>	<u>67,798</u>
Pledges receivable, net	<u>\$ 2,931,327</u>	<u>\$ 2,777,989</u>

Pledges receivable expected to be collected in one to five years are discounted at rates ranging from 3.25% to 5.5%.

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, 2022 and 2021, the total of these expectancies are approximately \$3,553,000 and \$4,543,000, respectively. Management believes that all bequest expectancies are collectible.

Canine Companions for Independence, Inc.
Notes to Consolidated Financial Statements

As of December 31, 2022 and 2021, Canine Companions also has various bequests which are in process. However, the amounts to be received are not yet determinable. No value has been recorded on these bequests.

Note 5 – Investments

Investments consist of the following at December 31:

	2022	2021
Cash and cash equivalents	\$ 104,884	\$ 86,833
Fixed income	1,111,507	1,187,467
Mutual funds	928,674	1,261,229
Beneficial interest in assets - Marin Community Foundation	26,149,285	30,771,813
Beneficial interest in assets - Community Foundation Sonoma County	8,351,301	9,470,957
Total investments	\$ 36,645,651	\$ 42,778,299

Net investment income, including amounts earned on assets at the Community Foundations, consists of the following for the years ended December 31:

	2022	2021
Interest and dividends	\$ 513,845	\$ 351,119
Investment fees	(279,214)	(129,968)
Net realized and unrealized (loss) gain	(5,129,419)	3,497,509
Total net investment (loss) income	\$ (4,894,788)	\$ 3,718,660

Note 6 – Investments, Equity Method

During 2020, Canine Companions was informed of a bequest consisting of marketable securities and shares of stock in a private corporation (the “Stock”) that provides internet and telecom services. On December 28, 2020, Canine Companions established Canine Companions Charitable Properties, LLC (the “LLC”) to hold the Stock with Canine Companions as the sole member. In July 2021, the LLC received the Stock that can only be liquidated under certain contingencies according to an existing shareholders’ agreement.

Interest was bequeathed to the LLC in 2021 as follows:

	Initial Measurement	Percentage Interest Owned
Private corporation	\$ 19,525,600	28.66%

Canine Companions for Independence, Inc. Notes to Consolidated Financial Statements

Financial results for the private corporation from the most recently available audited financial statements dated June 30, 2022 is summarized as follows:

	Private Corporation
Assets	\$ 138,027,000
Liabilities	64,126,000
Equity	73,901,000
Comprehensive income	4,305,000

The value of the equity investment has been adjusted to reflect its proportionate share of comprehensive income or loss and reduced for dividends received during 2022 as follows:

Investment, equity method at December 31, 2021			\$ 19,216,347
Increase in valuation:	Earnings	Share	
	\$ 4,305,299	28.66%	1,234,018
Dividends received			
June 2022		\$ 128,988	
December 2022		243,356	
Reduction in valuation due to receipt of dividends			(372,344)
Investment, equity method at December 31, 2022			\$ 20,078,021

Note 7 – Fair Value Measurements

The tables below present the balances of assets measured at fair value at December 31, on a recurring basis.

	2022			
	Total	Level 1	Level 2	Level 3
Investments:				
Cash and cash equivalents	\$ 104,884	\$ 104,884	\$ -	\$ -
Fixed income - government obligations	1,111,507	1,111,507	-	-
Mutual funds:				
Global equity	46,069	46,069	-	-
Domestic equity	852,820	852,820	-	-
Real assets	29,785	29,785	-	-
Beneficial interest in assets	34,500,586	-	-	34,500,586
Total investments	\$ 36,645,651	\$ 2,145,065	\$ -	\$ 34,500,586

Canine Companions for Independence, Inc.
Notes to Consolidated Financial Statements

	2021			
	Total	Level 1	Level 2	Level 3
Investments:				
Cash and cash equivalents	\$ 86,833	\$ 86,833	\$ -	\$ -
Fixed income - government obligations	1,187,467	1,187,467	-	-
Mutual funds:				
Global equity	133,857	133,857	-	-
Domestic equity	1,095,664	1,095,664	-	-
Complimentary	31,708	31,708	-	-
Beneficial interest in assets	40,242,770	-	-	40,242,770
Total investments	\$ 42,778,299	\$ 2,535,529	\$ -	\$ 40,242,770

Level 1 – While Canine Companions believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

Level 3 – 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 investments may be redeemed on a daily basis and are subject to restrictions imposed 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 of the long term investment pool, which is designed to minimize cost and reduce volatility, is 85% in a core portfolio which includes passive investments in equity (65%) and fixed income assets (35%), and 15% in a satellite portfolio. The core 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. The investments may be redeemed on a daily basis and are subject to restrictions imposed by the Board of Directors at Community Foundation Sonoma County.

Canine Companions for Independence, Inc.
Notes to Consolidated Financial Statements

Level 3 roll-forward table – The following table presents the roll forward of Level 3 investments carried at fair value (including the change in fair value) on the consolidated statements of financial position for the years ended December 31, 2022 and 2021.

	Beneficial Interest in Assets
Balance, January 1, 2021	\$ 34,145,818
Purchases	2,450,000
Investment income	139,390
Unrealized gains	3,507,562
Balance, December 31, 2021	40,242,770
Purchases	450,000
Investment income	106,316
Disbursements	(61,700)
Unrealized losses	(6,236,800)
Balance, December 31, 2022	\$ 34,500,586

The table below presents information about significant unobservable inputs related to the categories of Level 3 financial assets at December 31, 2022:

	Fair Value	Valuation Technique	Unobservable Inputs
Beneficial interest in assets	\$ 34,500,586	Fair value of the pooled assets and Canine Companions ownership interest	Fair Value of the underlying assets of the investment pool

The table below presents information about significant unobservable inputs related to the categories of Level 3 financial assets at December 31, 2021:

	Fair Value	Valuation Technique	Unobservable Inputs
Beneficial interest in assets	\$ 40,242,770	Fair value of the pooled assets and Canine Companions ownership interest	Fair Value of the underlying assets of the investment pool

Marin Community Foundation and Community Foundation Sonoma County (the “Community Foundations”) were established as component funds to benefit Canine Companions. The Community Foundations hold both expendable and endowment funds. Expendable funds allow for the grant of income or principal. Endowment funds allow only for grants to Canine Companions of a fixed percentage of historic earnings.

Canine Companions for Independence, Inc.

Notes to Consolidated Financial Statements

The Community Foundations have variance power in the event that a restriction or condition of a component fund cannot be fulfilled. Per terms of the agreement with Canine Companions, in such a situation, the Community Foundations may make grants from their component funds to organizations that most nearly serve the purposes and objectives for which the funds were established. The agreements between Canine Companions and the Foundations may be terminated by either party in accordance with their respective agreements.

Note 8 – 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 approximately \$2,840,000 and \$3,359,000 at December 31, 2022 and 2021, respectively. Distributions from this fund are subject to Community Foundation Sonoma County's endowment spending policy. Fund A is revocable and is not included on the statements of financial position at December 31, 2022 and 2021. During 2022 and 2021, there were no distributions from Fund A.

Note 9 – Property, Equipment, and Improvements, Net

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

	2022	2021
Buildings and leasehold improvements	\$ 50,727,346	\$ 48,722,721
Office equipment	2,437,463	1,848,176
Automotive equipment	1,038,946	1,045,215
Construction in progress	4,694,699	1,173,907
	58,898,454	52,790,019
Less: accumulated depreciation and amortization	(20,562,431)	(18,758,282)
	38,336,023	34,031,737
Land	5,071,448	5,071,448
Property, equipment, and improvements, net	\$ 43,407,471	\$ 39,103,185

Depreciation and amortization expense totaled approximately \$1,853,000 and \$2,340,000 for 2022 and 2021, respectively. In 2022, the Organization began construction for the Canine Health and Wellness center facility which will house the veterinary, research and breeding departments. Total estimated cost to complete the project is \$22,400,00 and is expected to be completed in 2023.

Canine Companions for Independence, Inc.
Notes to Consolidated Financial Statements

Note 10 – Other Assets

Other assets at December 31 consisted of the following:

	2022	2021
Land held for sale	\$ 930,000	\$ 930,000
Split interest agreements	1,012,740	1,262,283
Inventories	-	78,230
Investments held for deferred compensation plans	46,160	46,160
Other	517,695	489,542
Other assets	\$ 2,506,595	\$ 2,806,215

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. Canine Companions has entered into a contract to sell the land for the amount above. It is expected this sale will be completed during 2023.

Note 11 – Line of Credit

Line of credit – In September, 2015, Canine Companions obtained a revolving line of credit ("LOC") of \$4,000,000 to finance operations as necessary. Canine Companions renewed the LOC in November 2021. The line has a variable interest rate with a floor rate of 4.25% per annum and a commitment fee of 0.375% for the term of the loan. The interest rate at December 31, 2022 and 2021 was 5% and the LOC will expire on November 5, 2023. There was no balance outstanding on the LOC as of December 31, 2022 and 2021. There are financial covenants applicable to the LOC.

Note 12 – Net Assets with Donor Restrictions

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

	2022	2021
Property, equipment, and improvements	\$ 13,677,574	\$ 9,319,572
Split interest agreements and charitable trust assets	1,055,390	1,307,565
Program and time restrictions	7,029,298	4,761,897
Bequests receivable	3,552,936	4,543,200
Donor endowments - corpus and earnings	9,273,716	10,340,210
Net assets with donor restrictions	\$ 34,588,914	\$ 30,272,444

Canine Companions for Independence, Inc.
Notes to Consolidated Financial Statements

Net assets were released during the years ended December 31, in accordance with the donors' intent or release of time restrictions as follows:

	2022	2021
Purpose and time restrictions	\$ 3,753,391	\$ 3,203,832
Property, equipment, and improvements	438,794	385,590
Bequests receivable	12,953,144	24,256,108
Total restrictions released	\$ 17,145,329	\$ 27,845,530

Note 13 – Endowments

Endowment net asset composition by type of fund as of December 31 were as follows:

2022			
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted:			
General use	\$ -	\$ 9,274,172	\$ 9,274,172
Board designated:			
Funds available for general use	23,048,869	-	23,048,869
Funds available for general use by the Southeast Region	2,277,545	-	2,277,545
Total	\$ 25,326,414	\$ 9,274,172	\$ 34,600,586
2021			
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted:			
General use	\$ -	\$ 10,488,536	\$ 10,488,536
Board designated:			
Funds available for general use	26,843,539	-	26,843,539
Funds available for general use by the Southeast Region	2,910,695	-	2,910,695
Total	\$ 29,754,234	\$ 10,488,536	\$ 40,242,770

Canine Companions for Independence, Inc.
Notes to Consolidated Financial Statements

Changes in endowment net asset for the years ended December 31:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 29,754,234	\$ 10,488,536	\$ 40,242,770
Interest and dividends	203,354	157,768	361,122
Investment fees	(175,186)	(79,620)	(254,806)
Grants paid	-	(61,700)	(61,700)
Net realized and unrealized loss	(4,455,988)	(1,780,812)	(6,236,800)
Net investment income	(4,427,820)	(1,764,364)	(6,192,184)
Endowment receivable	-	100,000	100,000
Contributions of cash	-	450,000	450,000
Endowment net assets, end of year	<u>\$ 25,326,414</u>	<u>\$ 9,274,172</u>	<u>\$ 34,600,586</u>
	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 26,969,244	\$ 7,176,574	\$ 34,145,818
Interest and dividends	189,096	208,355	397,451
Investment fees	(155,867)	(102,194)	(258,061)
Net realized and unrealized gain	2,751,761	755,801	3,507,562
Net investment income	2,784,990	861,962	3,646,952
Contributions of cash	-	2,450,000	2,450,000
Endowment net assets, end of year	<u>\$ 29,754,234</u>	<u>\$ 10,488,536</u>	<u>\$ 40,242,770</u>

Canine Companions for Independence, Inc.

Notes to Consolidated Financial Statements

Note 14 – Commitments

Canine Companions entered into several lease agreements for its headquarters and regional offices for office space and office equipment, which expire at various times through November 2027, respectively. The lease for office space contains a lease extension option which Canine Companions exercised in 2021 and contains a right to terminate clause which commenced June 2022 allowing Canine Companions to terminate the lease with 90 days' written notice to the lessor. The equipment leases generally do not contain extension options. There are no residual value guarantees related to the existing leases.

The approximate future minimum lease payments related to these leases are as follows:

Years Ending December 31,

2023	\$ 331,833
2024	83,143
2025	83,143
2026	83,031
2027	<u>54,890</u>
Total	<u>636,040</u>
Less: present value discount	(84,889)
Operating lease liabilities	<u><u>\$ 551,151</u></u>

The approximate future minimum lease payments related to these leases were as follows for the year ended December 31, 2021:

Years Ending December 31,

2022	\$ 303,188
2023	288,716
2024	25,712
2024	24,166
2026	<u>24,104</u>
Total	<u><u>\$ 665,886</u></u>

Lease expenses are recorded on a straight-line basis over the life of the lease as included in the consolidated statements of activities and changes in net assets. Rent expenses under all operating leases amounted to approximately \$601,000 and \$567,000 for the years ended December 31, 2022 and 2021, respectively. Supplemental cash flow and other information related to leases was as follows:

Lease Term and Discount Rate

Weighted average remaining lease term	3.1 years
Weighted average discount rate	9.25%

Canine Companions for Independence, Inc.
Notes to Consolidated Financial Statements

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 service dog training and other related purposes.

Note 15 – 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:

	<u>2022</u>	<u>2021</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 51,040,224	\$ 43,465,311
Pledges receivable, net	2,931,327	2,777,989
Accounts receivable	3,178,451	2,317,374
Bequests receivable	3,552,936	4,543,200
Investments	36,645,651	42,778,299
Other assets:		
Land held for sale	<u>930,000</u>	<u>930,000</u>
Total financial assets	<u>98,278,589</u>	<u>96,812,173</u>
Less amounts not available to be used within one year		
Net assets with donor restrictions:		
Time or purpose including long-term receivables	11,637,624	5,363,718
Property, equipment, and improvements	13,677,574	9,319,572
Donor endowments - corpus and earnings	9,273,716	10,340,210
Net assets designated by the board - unavailable within one year	<u>25,326,414</u>	<u>29,754,234</u>
Total amounts not available within one year	<u>59,915,328</u>	<u>54,777,734</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 38,363,261</u></u>	<u><u>\$ 42,034,439</u></u>

Canine Companions strives to maintain financial assets to meet 90 days of operating expenses (approximately \$8,436,000). 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 2023 by utilizing cash and cash equivalents. The Board of Directors can undesignate the board designated funds and make them available for general operations. During 2023, Canine Companions plans to utilize available resources, including \$10,000,000 of board designated funds, to supplement the construction costs of a facility in its National headquarters campus. Canine Companions also has access to its \$4,000,000 LOC.

Canine Companions for Independence, Inc.

Notes to Consolidated Financial Statements

Note 16 – Pension Plan

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 2022. For the years ended December 31, 2022 and 2021, the amount of pension expense was approximately \$771,000 and \$716,000, respectively.

Note 17 – Concentrations of Credit Risk

Canine Companions has identified financial instruments that potentially subject it 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 which, at times, may exceed federally insured limits. The balances held in the financial institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. These balances are held at various financial institutions, which management believes have a high credit rating and the ability to return the Company's deposits on request. On March 10, 2023, Silicon Valley Bank was closed by the California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. If any of the financial institutions with whom we do business were to be placed into receivership, we may be unable to access to the cash we have on deposit with such institutions. If we are unable to access our cash and cash equivalents as needed, our financial position and ability to operate our business could be adversely affected.

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 \$3,980,376 and \$9,457,000 for the years ended December 31, 2022 and 2021, respectively.

Note 18 – Affiliation Agreement

Baylor Scott & White Health ("BSWH") and Canine Companions originally entered into an affiliation and management agreement effective September 30, 2013. The parties cooperated in the development of Canine Companions' South Central Training Center in Irving, Texas, built and owned by BSWH at its sole cost and expense but operated, staffed, and managed by Canine Companions. The new campus, built and owned by BSWH, opened October 2015. The project included dormitory rooms and kennels with the overall objective of developing a campus capable of graduating approximately 60 new service dog teams per year.

Canine Companions for Independence, Inc. Notes to Consolidated Financial Statements

The initial term of the agreement was 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 intended to fund 50% of 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 also paid Canine Companions a \$470,000 fee per annum beginning January 1, 2014 representing the approximate historical fundraising amount by Canine Companions in Texas. In subsequent years, BSWH was charged an annual management fee not to exceed 7% of the mutually approved annual budget for the Training Center.

BSWH and Canine Companions entered into a new five-year agreement effective July 1, 2022. Under this new agreement, Canine Companions will now be solely responsible for its own fundraising with no further reliance on fundraising support from BSWH.

BSWH shall pay to Canine Companions annual fixed fees as follows, payable in substantially equal monthly installments (and pro-rated for any partial fiscal year):

<u>Fiscal Year</u>	<u>Management Fee</u>
July 1, 2022 - June 30, 2023	\$ 917,323
July 1, 2023 - June 30, 2024	\$ 569,162
July 1, 2024 - June 30, 2025	\$ 221,000
July 1, 2025 - June 30, 2026	\$ 221,000
July 1, 2026 - June 30, 2027	\$ 221,000

Subject to puppy supply and satisfaction of placement criteria, Canine Companions will seek to place with members of the BSWH community up to 20% of the puppies raised or trained at the facility.

As of December 31, 2022 and 2021, the outstanding receivable under this arrangement is approximately \$480,000 and \$0, respectively. This receivable was paid in full in 2023.



Note: Document(s) on Canine Companions website have been provided in PDF format.

If for any reason you are unable to view the provided document(s), please contact 1-800-572-BARK (2275) and an alternative method of sharing this information will be determined.