Leader Dogs for the Blind

Year Ended
June 30, 2017
(with comparative totals for 2016)

Financial Statements

Rehmann

Business wisdom delivered.

LEADER DOGS FOR THE BLIND

TABLE OF CONTENTS

Rehmann

Rehmann Robson
1500 W. Big Beaver Road
2nd Floor
Troy, MI 48084
Ph: 248.952.5000
Fx: 248.952.5600
rehmann.com

INDEPENDENT AUDITORS' REPORT

November 20, 2017

Board of Trustees
Leader Dogs for the Blind
Rochester Hills, Michigan

We have audited the accompanying financial statements of *Leader Dogs for the Blind* (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, 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 presentation 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 presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent 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 from 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 auditor judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Leader Dogs for the Blind* as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited *Leader Dogs for the Blind's* 2016 financial statements, and our report dated December 12, 2016 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Rehmann Robson LLC

LEADER DOGS FOR THE BLIND

STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30 2017	June 30 2016
Current assets		
Cash and cash equivalents	$ 2,323,289	$ 2,266,294
Cash restricted for canine development center	781,263	1,015,271
Current portion of pledges receivable, net of discount of $24,453 in 2017 ($26,107 in 2016) (Note 2)	1,546,886	1,656,667
Contributions receivable	580,057	474,154
Prepaid expenses and other assets	711,824	698,633
Total current assets	**5,943,319**	**6,111,019**
Pledges receivable, less current portion, net of discount of $40,096 in 2017 ($103,704 in 2016) (Note 2)	1,153,499	2,646,351
Contributions receivable	280,000	287,500
Investments (including charitable gift annuities of $485,502 in 2017 and $481,631 in 2016) (Note 7)	2,678,828	2,740,621
Beneficial interests in trusts (Note 1)	1,167,554	1,129,962
Net property and equipment (Note 4)	22,469,805	20,148,049
Total assets	**$ 33,693,005**	**$ 33,063,502**
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 580,807	$ 424,550
Accrued payroll and other liabilities	712,386	651,305
Total current liabilities	**1,293,193**	**1,075,855**
Gift annuity liability	177,029	185,594
Debt (Note 5)	3,300,000	4,467,301
Total liabilities	**4,770,222**	**5,728,750**
Net assets		
Undesignated	5,107,238	2,924,630
Board designated - net investment in property and equipment	19,169,805	15,680,748
Total unrestricted	**24,277,043**	**18,605,378**
Temporarily restricted	1,269,692	5,395,918
Permanently restricted	3,376,048	3,333,456
Total net assets	**28,922,783**	**27,334,752**
Total liabilities and net assets	**$ 33,693,005**	**$ 33,063,502**

The accompanying notes are an integral part of these financial statements.

LEADER DOGS FOR THE BLIND

STATEMENT OF ACTIVITIES
(With Comparative Totals for the Year Ended June 30, 2016)

	Year Ended June 30, 2017				Year Ended June 30, 2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Public support					
Public support					
Lions' contributions	$ 2,206,776	$ -	$ -	$ 2,206,776	$ 2,015,212
Other contributions	4,598,261	-	-	4,598,261	2,364,965
Estates and bequests	4,824,706	-	-	4,824,706	5,616,460
Grants	3,892,744	149,870	-	4,042,614	4,038,090
In-kind donations	165,579	-	-	165,579	165,624
Special events, net of expenses	442,380	-	-	442,380	498,636
Total	**16,130,446**	**149,870**	**-**	**16,280,316**	**14,698,987**
Net assets released from restrictions	30,964	(30,964)	-	-	-
Total public support	**16,161,410**	**118,906**	**-**	**16,280,316**	**14,698,987**
Expenses					
Program					
Training	8,929,898	-	-	8,929,898	8,508,088
Orientation and mobility	397,624	-	-	397,624	352,864
Travel technology	158,809	-	-	158,809	169,658
Volunteer engagement and community outreach	667,995	-	-	667,995	544,028
Foundation support (Note 10)	921,347	-	-	921,347	1,866,302
Total program	**11,075,673**	**-**	**-**	**11,075,673**	**11,440,940**
Supporting services					
General and administrative	1,581,100	-	-	1,581,100	1,411,351
Philanthropy	2,316,712	-	-	2,316,712	2,245,553
Total supporting services	**3,897,812**	**-**	**-**	**3,897,812**	**3,656,904**
Total expenses	**14,973,485**	**-**	**-**	**14,973,485**	**15,097,844**
Change in net assets before non-operating income and expense	**1,187,925**	**118,906**	**-**	**1,306,831**	**(398,857)**
Non-operating income and expense					
Investment income, net of expenses	(51,674)	57,886	-	6,212	70,651
Change in value of beneficial interests in trusts	-	-	37,592	37,592	(54,857)
Capital campaign revenue	132,441	-	-	132,441	1,554,633
Capital campaign expenses	(2,600)	-	-	(2,600)	(77,840)
Loss on disposal of property and equipment	-	-	-	-	(372,207)
Other revenue	102,555	-	5,000	107,555	66,185
Total	**180,722**	**57,886**	**42,592**	**281,200**	**1,186,565**
Net assets released from restrictions	4,303,018	(4,303,018)	-	-	-
Total non-operating income and expense	**4,483,740**	**(4,245,132)**	**42,592**	**281,200**	**1,186,565**
Change in net assets	**5,671,665**	**(4,126,226)**	**42,592**	**1,588,031**	**787,708**
Net assets, beginning of year	18,605,378	5,395,918	3,333,456	27,334,752	26,547,044
Net assets, end of year	**$24,277,043**	**$ 1,269,692**	**$ 3,376,048**	**$28,922,783**	**$ 27,334,752**

The accompanying notes are an integral part of these financial statements.

LEADER DOGS FOR THE BLIND

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	Program Services					Supporting Services			
	Training	Orientation and Mobility	Travel Technology	Volunteer Engagement and Community Outreach	Foundation Support (Note 10)	General and Administrative	Philanthropy	2017 Total Functional Expenses	2016 Total Functional Expenses
Compensation	$ 4,407,182	$ 223,408	$ 59,185	$ 329,641	$ -	$ 1,271,917	$ 764,229	$ 7,055,562	$ 6,520,570
Employee benefits	1,307,914	54,837	4,936	103,386	-	294,850	164,610	1,930,533	1,745,518
Insurance	160,101	2,520	-	22,164	-	23,880	7,397	216,062	197,418
Repairs and maintenance	211,380	1,790	-	6,603	-	67,038	23,319	310,130	308,651
Professional fees	3,681	-	-	1,767	-	82,339	8,119	95,906	122,148
Outside services	123,668	757	-	52,943	-	138,690	478,527	794,585	961,635
Service fees	39,876	8,232	1,075	8,770	-	139,654	57,424	255,031	314,454
Facility	268,833	880	-	-	-	102,664	300	372,677	313,879
Supplies	59,005	5,160	78,287	35,790	-	184,717	174,919	537,878	506,743
Travel	198,806	9,354	5,047	43,779	-	19,511	39,323	315,820	318,399
Student and canine expenses	727,386	39,785	10,279	414	-	5,542	2,365	785,771	736,631
Lions clubs	-	-	-	119,820	-	-	-	119,820	123,635
Depreciation	1,054,570	-	-	-	-	207,793	-	1,262,363	1,061,861
Contributions made	-	-	-	-	921,347	-	-	921,347	1,866,302
Allocated shared expenses	367,496	50,901	-	(57,082)	-	(957,495)	596,180	-	-
Total expenses	**$ 8,929,898**	**$ 397,624**	**$ 158,809**	**$ 667,995**	**$ 921,347**	**$ 1,581,100**	**$ 2,316,712**	**$14,973,485**	**$15,097,844**

The accompanying notes are an integral part of these financial statements.

LEADER DOGS FOR THE BLIND

STATEMENTS OF CASH FLOWS

	June 30	
	2017	**2016**
Cash flows from operating activities		
Change in net assets	$ 1,588,031	$ 787,708
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,262,363	1,061,861
Bad debts	2,600	-
Donated investments	(131,630)	(139,296)
Pledges designated for capital campaign	(132,441)	(564,523)
Proceeds from sales of investments for operating purposes	113,246	179,950
Change in value of beneficial interests in trusts	(37,592)	54,854
Unrealized loss on investments	77,244	9,442
Net realized gain on investments	(10,890)	(786)
Loss on disposal of property and equipment	-	372,207
Changes in operating assets and liabilities that (used) provided cash		
Contributions receivable	(101,003)	(164,053)
Prepaid expenses and other assets	(13,191)	(48,105)
Accounts payable	156,257	(432,430)
Related party payable	-	(1,075,859)
Accrued payroll and other liabilities	61,081	137,029
Gift annuity liability	(8,565)	(12,884)
Net cash provided by operating activities	**2,825,510**	**165,115**
Cash flows from investing activities		
Proceeds from sales and redemptions of investments	384,740	636,914
Purchases of investments	(370,917)	(614,823)
Purchases of property and equipment	(3,584,119)	(4,418,494)
Net cash used in investing activities	**(3,570,296)**	**(4,396,403)**
Cash flows from financing activities		
Payments received on pledges designated for capital campaign	1,735,074	1,926,311
Proceeds from the issuance of long-term debt	-	2,200,000
Repayments of long-term debt	(1,167,301)	-
Cash flows provided by financing activities	**567,773**	**4,126,311**
Net decrease in cash and cash equivalents	**(177,013)**	**(104,977)**
Cash and cash equivalents, beginning of year	3,281,565	3,386,542
Cash and cash equivalents, end of year	**$ 3,104,552**	**$ 3,281,565**
Supplemental disclosures of cash flows information		
Cash paid for interest	$ 43,348	$ 25,481

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Leader Dogs for the Blind (the "Organization") is dedicated to empowering people who are blind or visually impaired with lifelong skills for safe and independent daily travel. Since its incorporation in 1939 as a not-for-profit organization, Leader Dogs for the Blind has successfully matched and graduated over 15,000 person/dog teams. As the second guide dog Organization founded in the United States, the Organization provides services to both national and international clients at its Rochester Hills, Michigan facility. The Organization's programs include training, orientation and mobility, travel technology, volunteer engagement and community outreach. In addition, the Organization may provide periodic contributions to Leader Dogs for the Blind Foundation ("Foundation") (Note 10), in accordance with the liquidity and spending policy, which is considered a program expense.

Capital Campaign

The Organization launched a capital campaign in 2014 to support a comprehensive kennel redesign. The new canine development center was built with the intention to create an ideal environment that positively impacts the health, well-being and training of future Leader Dogs by reducing stress and maximizing human interaction. As of June 30, 2016, the Organization had reached their goal and raised $14.5 million toward the project, including $2.8 million in pledges receivable (Note 2). Construction was completed during the 2017 fiscal year.

Method of Accounting

The accompanying financial statements have been prepared to focus on the Organization as a whole and to present transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of transactions into three classes of net assets – unrestricted, temporarily restricted, and permanently restricted.

Net assets and revenues, expenses, and gains or losses are classified based on the existence or absence of donor-imposed restrictions.

- *Unrestricted Net Assets* represent expendable funds currently available at the discretion of the Board of Trustees for support of Organization operations, and those resources invested in property and equipment including an amount designated by the Board of Trustees to represent resources invested in net property and equipment less related long-term debt.

- *Temporarily Restricted Net Assets* represent expendable funds restricted by a donor, grantor, or other outside party for particular operating purposes, or for the acquisition of property and equipment, or funds for use in a specified future period. These funds are reported as revenue when the Organization receives the funds and are transferred to Unrestricted Net Assets when the purpose restriction or time restrictions have been met.

- *Permanently Restricted Net Assets* represents funds with donor imposed restrictions requiring the gift principal to remain intact in perpetuity. Income from such funds is generally available for unrestricted purposes and is classified as temporarily restricted until appropriated for expenditure by the Board of Trustees.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues in the unrestricted net asset class.

Basis of Accounting

The financial information presented for comparative purposes for the year ended June 30, 2016 is not intended to be a complete financial statement presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's 2016 financial statements, from which the summarized information was derived.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents as reported in the statement of cash flows exclude temporary cash balances maintained in the Organization's investment accounts, if any (Note 3). The Organization primarily deposits cash with major banks within the State of Michigan and at times may maintain balances that exceed federally insured limits. The Organization has not experienced any losses in such accounts, and management believes the Organization is not exposed to any unusual credit risk on cash and cash equivalents.

Pledges Receivable

Pledges receivable are recognized as revenue when a pledge representing an unconditional promise to give is received; absent of such promise, revenue is recognized when the intent to give is collected. Pledges receivable that are expected to be collected in future years are initially recorded at their estimated fair value using a probability weighted, discounted rate adjusted present value model. The unamortized discount represents the adjustment required to record promises expected to be received in future years at their fair value. Amortization of the discount is recorded as additional contribution revenue and used in accordance with any donor-imposed restrictions over the promise period.

After initially being recorded at fair value as previously discussed, unconditional promises to give are stated at the amounts management expects to collect from outstanding balances. The Organization provides for a probable uncollectible amount through an expense in the statement of activities and a credit to a valuation allowance based on management's assessment of the current status of individual accounts. Balances that are still outstanding after the Organization has attempted reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable receivable account.

Contributions Receivable

Contributions receivable are stated at the amount management expects to collect from outstanding balances. The Organization provides for probable uncollectible amounts through an expense in the statement of activities and a credit to a valuation allowance based on management's assessment of the current status of individual accounts. Balances that are still outstanding after the Organization has attempted reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable receivable account. Actual write-offs in the past have not exceeded management's expectations and no allowance is considered necessary at June 30, 2017. In 2017 and 2016, management did not record a discount as it was not considered significant and the non-current portion of the contributions receivable is expected to be collected in the next one to five years.

Investments

Investment securities purchased are initially recorded at cost and investment securities received by gift are initially recorded at fair value at the date of donation. Thereafter, the carrying values of such investments are adjusted to fair values which are determined using published exchange market quotations where applicable or estimated fair values or net asset value ("NAV") provided by external investment managers or other sources. The net realized appreciation (depreciation) in fair value of investments is reflected in the statement of activities.

The Organization has a Finance Committee, which along with the Board of Trustees has established an investment policy statement for the Organization's investments. The investment policy addresses the preservation of capital, risk aversion, and adherence to investment discipline.

Beneficial Interests in Trusts

Certain donors to the Organization have entered into irrevocable trust arrangements under which the Organization (and in some cases other beneficiaries) is entitled to receive future benefits. Under a perpetual trust, a donor requires that the trust's assets must be held in perpetuity, and stipulates the amount or percentage of trust income distributions that the Organization may receive. Generally, such distributions bear no donor restrictions. The carrying value of these assets are equal to the fair value of the total investments held in the trust.

Under a remainder trust, a donor indicates that the Organization is to receive the trust's "remainder" after other beneficiaries receive their required distributions. Often, multiple beneficiaries are entitled to distributions before the Organization receives the remainder. Such distributions may or may not be limited to the trust's income, and the actual ages and number of beneficiaries may vary widely. Further, demographic information about these beneficiaries may not be available to the Organization. As a result, there are inherent uncertainties in determining the present value of the remainder interest, which approximates fair value. Accordingly, the Organization does not estimate a value for any remainder interest where management believes accurate information about beneficiaries, underlying trust assets and/or the nature of distributions available to beneficiaries is not reasonably determinable. Currently, these financial statements do not include any beneficial interests relating to remainder trusts.

Fair Value Measurement

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity's own data.

For assets and liabilities recorded at fair value, it is the Organization's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurement for those financial instruments for which there is an active market. In cases where the market for a financial asset or liability is not active, the Organization includes appropriate risk adjustments that market participants would make for nonperformance and liquidity risks when developing fair value measurement. Fair value measurements for assets and liabilities for which limited or no observable market data exists are accordingly based primarily upon estimates, are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent uncertainties in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values. For a further discussion of Fair Value Measurement, refer to Note 3.

Property and Equipment and Depreciation

Purchased property and equipment are stated at cost. Donated property and equipment is recorded at its estimated fair value at the date of the gift. Major improvements are capitalized while ordinary maintenance and repairs are expensed. Management reviews these assets to determine whether carrying values have been impaired. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets, which range from 3 to 40 years.

Included in net property and equipment in the accompanying Statement of Financial Position at June 30, 2017 and 2016 was $385,549 and $326,370, respectively, of construction in progress incurred in connection with construction of the Organization's new facility (Note 4). Although construction of the new facility was completed in fiscal 2017, the construction in progress at June 30, 2017 reflects the final payment due to the contractor that is currently being held in abeyance.

Fundraising Costs

The Organization engages in philanthropic and fundraising activities throughout the year. Such activities, however, do not include significant joint costs that allow allocation among the program services.

Allocation of Expenses by Activity

Expenses by function have been allocated between program and supporting services classifications based on relevant measures as determined by management.

Volunteer Services

Many individuals volunteer their time and perform a variety of tasks that assist the Organization in running its programs. Over 1,000 individuals volunteer their time to support the Organization in running its programs, including nearly 500 who raise, train, and socialize puppies during their first year of life. While these services are most important and noteworthy, the total value of these services does not meet the accounting requirements for recognition in the financial statements and no value has been recorded for the years ended June 30, 2017 and 2016.

Income Taxes

The Organization is recognized as a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is organized under the laws of the State of Michigan as a nonprofit organization and is exempt from state and local income taxes. The Organization evaluates annually uncertain income tax positions which would impact its nontaxable status or result in unrelated business income tax, and believes there are no uncertain income tax positions of significance that are required to be recorded or disclosed in these financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Significant estimates include, but are not limited to, the carrying value of the beneficial interests in perpetual trusts and pledges receivable.

Upcoming Accounting Pronouncement

In August 2016, the FASB issued an update on (Topic 958) Not-for-Profit Entities, amending the requirements for financial statements and notes to the financial statements. The Organization will be required to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. The update also provides guidance related to enhancing disclosures. The amendment is effective for the fiscal year beginning July 1, 2018. Management is currently evaluating the impact of the adoption of this amendment on the Organization's financial statements.

Subsequent Events

In preparing these financial statements, the Organization has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2017, the most recent statement of financial position presented herein, through November 20, 2017, the date these financial statements were available to be issued. No significant such events or transactions were identified, other than those disclosed in Note 5.

2. PLEDGES RECEIVABLE (INCLUDING RELATED PARTY)

Pledges receivable are summarized as follows at June 30:

	2017	2016
Receivable in less than one year	$ 1,571,339	$ 1,682,774
Receivable in one to two years	1,193,595	2,750,055
Total unconditional pledges receivable	2,764,934	4,432,829
Less discounts to net present value	64,549	129,811
Net pledges receivable	**$ 2,700,385**	**$ 4,303,018**

Pledges receivable are discounted, at time of pledge, to estimated fair value. The Organization used a discount rate equal to the risk adjusted interest rate depending on the length of the pledge at June 30, 2017 and 2016. The Organization has not recorded a provision for doubtful pledges since it is the opinion of management that these receivables are fully collectible.

3. INVESTMENTS AND FAIR VALUE MEASUREMENT

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis. The description includes an indication of the level of the fair value hierarchy in which the assets are classified. There have been no changes in the methodologies used at June 30, 2017 and 2016.

Mutual funds: Shares held in mutual funds are valued at quoted market prices that represent the NAV of shares held by the Organization at year end and are classified as Level 1. The NAV is based on the value of the underlying assets owned by the fund, less its liabilities, then divided by the number of shares outstanding. Mutual funds held by the Organization are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily NAV and to transact at that price and, therefore, are deemed to be actively traded.

Equity securities: Equity securities are valued at the closing price reported in the active market in which the individual securities are traded and are classified as Level 1.

Corporate bonds: Certain corporate bonds valued at the closing price reported in the active market in which the bond is traded are classified as Level 1.

Certificates of deposit: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. Certificates of deposit are classified as Level 2.

Beneficial interests in trusts: The underlying trusts' assets cannot be liquidated or redeemed by the Organization. As such, no quoted prices or active market are available for these assets and are classified as Level 3. As a practical expedient, the carrying value of these assets are equal to the fair value of the total investments held in the trust.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets Recorded at Fair Value on a Recurring Basis

The following tables present the recorded amount of assets measured at fair value on a recurring basis at June 30:

2017	Level 1	Level 2	Level 3	Total
Investments				
Corporate bonds	$ 2,070,145	$ -	$ -	$ 2,070,145
Mutual funds				
Equity	307,686	-	-	307,686
Bond	171,576	-	-	171,576
Equity securities	35,907	-	-	35,907
Certificates of deposit	-	80,910	-	80,910
Other investments	12,604	-	-	12,604
Total investments	**$ 2,597,918**	**$ 80,910**	**$ -**	**$ 2,678,828**
Beneficial interests in trusts	**$ -**	**$ -**	**$ 1,167,554**	**$ 1,167,554**

2016	Level 1	Level 2	Level 3	Total
Investments				
Corporate bonds	$ 2,074,318	$ -	$ -	$ 2,074,318
Mutual funds				
Equity	296,266	-	-	296,266
Bond	167,803	-	-	167,803
Equity securities	75,820	-	-	75,820
Certificates of deposit	-	104,385	-	104,385
Other investments	22,029	-	-	22,029
Total investments	**$ 2,636,236**	**$ 104,385**	**$ -**	**$ 2,740,621**
Beneficial interests in trusts	**$ -**	**$ -**	**$ 1,129,962**	**$ 1,129,962**

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended June 30:

	2017	2016
Balance, beginning of year	$ 1,129,962	$ 1,184,819
Change in present value of estimated future distributions	37,592	(54,857)
Balance, end of year	**$ 1,167,554**	**$ 1,129,962**

Investment income, which is net of related expenses of $8,210 and $9,830 in 2017 and 2016, respectively, is summarized as follows for the years ended June 30:

	2017	2016
Interest and dividend income	$ 72,566	$ 79,307
Net realized gain	10,890	786
Unrealized loss	(77,244)	(9,442)
Net investment income	**$ 6,212**	**$ 70,651**

4. PROPERTY AND EQUIPMENT

Major classes of property and equipment are summarized as follows at June 30:

	2017	2016
Buildings	$ 29,436,087	$ 26,069,941
Furniture and equipment	3,869,852	3,779,549
Vehicles	926,531	828,405
Land improvements	492,700	457,843
Land	419,541	419,541
Construction in progress	385,549	390,862
Total property and equipment	35,530,260	31,946,141
Less accumulated depreciation	(13,060,455)	(11,798,092)
Net property and equipment	**$ 22,469,805**	**$ 20,148,049**

Purchases of property and equipment related to the capital campaign amounted to approximately $3,280,000 and $4,042,000 during the years ended June 30, 2017 and 2016, respectively.

5. DEBT

On July 25, 2014, the Organization entered into a $12,000,000 revolving credit facility with a bank in conjunction with the construction project discussed in Note 1. The revolving credit facility bears interest at a rate equal to 0.95% plus LIBOR (effective rate of 2.17% at June 30, 2017). The revolving credit facility is guaranteed by the Foundation. Interest expense related to the long-term debt during the years ended June 30, 2017 and 2016 was $44,662 and $28,537, respectively. On July 13, 2017, the Organization amended the revolving line of credit, which extended the maturity date to July 13, 2019 at which time the entire unpaid balance of principle and interest will become due. The revised draw limit was reduced to $3,500,000.

NOTES TO FINANCIAL STATEMENTS

6. LEASES

The Organization conducts a portion of its operations with leased property and equipment, including vehicle leases with varying short-term arrangements including month to month extensions. Net rental expense on these operating leases was $70,879 and $58,094 for 2017 and 2016, respectively.

The following is a schedule of annual, future minimum lease payments required under non-cancelable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2017:

Year	Amount
2018	$ 48,369
2019	37,274
2020	18,673
2021	4,725
Total minimum payments due	**$ 109,041**

7. NET ASSETS AND ENDOWMENTS

Board Designated

The Organization's Board of Trustees has designated $19,169,805 and $15,680,748 of unrestricted net assets as not being available for expenditure on general operations without prior Board approval as of June 30, 2017 and 2016, respectively.

Temporarily Restricted

Temporarily restricted net assets consisted of the following time or purpose restrictions at June 30:

	2017	2016
Charitable gift annuities	$ 485,502	$ 481,631
Time restricted contributions	280,000	287,500
Grants	151,000	25,000
Life insurance policies	225,853	229,318
Capital campaign	-	4,303,018
Other contributions	127,337	69,451
Total temporarily restricted net assets	**$ 1,269,692**	**$ 5,395,918**

Permanently Restricted

Permanently restricted net assets consisted of the following amounts at June 30:

	2017	2016
Perpetual trusts	$ 1,167,554	$ 1,129,962
Donor-restricted endowments	2,208,494	2,203,494
Total permanently restricted net assets	**$ 3,376,048**	**$ 3,333,456**

Endowments

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 (State of Michigan Prudent Management of Institutional Funds Act) requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that were reported in unrestricted net assets were $66,687 and $0 as of June 30, 2017 and 2016, respectively.

Interpretation of Relevant Law

The Board of Trustees of the Organization has interpreted the 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, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any donor-restricted endowment fund that would not be classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts would be appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Organization
(7) The investment policies of the Organization

Following is a summary of the Organization's endowment and changes therein:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net asset comparison by type of fund as of June 30, 2017				
Donor-restricted endowments	$ (66,687)	$ 51,520	$ 2,208,494	$ 2,193,327
Changes in endowment net assets for the year ended June 30, 2017				
Investment return				
Net investment income	$ -	$ 71,863	$ -	$ 71,863
Net realized/unrealized loss	(66,687)	(13,977)	-	(80,664)
Net investment return (loss)	(66,687)	57,886	-	(8,801)
Contributions	-	-	5,000	5,000
Appropriation of endowment assets for expenditure	-	(71,863)	-	(71,863)
Changes to endowment net assets	(66,687)	(13,977)	5,000	(75,664)
Endowment net assets				
Beginning of year	-	65,497	2,203,494	2,268,991
End of year	**$ (66,687)**	**$ 51,520**	**$ 2,208,494**	**$ 2,193,327**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net asset comparison by type of fund as of June 30, 2016				
Donor-restricted endowments	$ -	$ 65,497	$ 2,203,494	$ 2,268,991
Changes in endowment net assets for the year ended June 30, 2016				
Investment return				
Net investment income	$ -	$ 75,859	$ -	$ 75,859
Net realized/unrealized gain	13,050	65,497	-	78,547
Net investment return	13,050	141,356	-	154,406
Contributions	-	-	5,000	5,000
Appropriation of endowment assets for expenditure	-	(75,859)	-	(75,859)
Changes to endowment net assets	13,050	65,497	5,000	83,547
Endowment net assets				
Beginning of year	(13,050)	-	2,198,494	2,185,444
End of year	**$ -**	**$ 65,497**	**$ 2,203,494**	**$ 2,268,991**

Return Objectives and Risk Parameters

The Organization has adopted investment policies for donor-restricted endowment assets to achieve a consistent total rate of return (income and reinvested funds) within reasonable and prudent levels of risk that will generate a sufficient income stream while preserving and enhancing the original principal of funds invested.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives of the donor-restricted endowments, the Organization will maintain a portfolio of fixed income investments, possibly including cash and cash equivalents. The investments shall be limited to U.S. government and agency securities, corporate notes and bonds, mortgage backed bonds, preferred stock and international bonds. The investments will be conservative to moderate risk. The investments shall be so diversified as to minimize the risk of capital losses and the investments will be managed for long-term growth and maximum capital appreciation.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The investments held for donor-restricted endowments have a spending policy of utilizing all of the net investment income for unrestricted purposes, as the cash flows and other financial requirements dictate.

8. DEFINED CONTRIBUTION PLAN

The Organization sponsors a defined contribution plan that is available to substantially all employees. Participants may make basic contributions of their compensation up to the legal limit prescribed by Section 401(k) of the Internal Revenue Code. The Plan requires the Organization to make a matching contribution up to a maximum of 5% of each participant's compensation. In addition, the Organization may make a discretionary matching contribution of up to 5% of eligible compensation for participants who were hired on or before December 31, 2006. The Organization contributed a total of $264,295 and $259,247 in 2017 and 2016, respectively, for matching contributions. The Organization also made a discretionary employer contribution of $100,025 and $100,325 in 2017 and 2016, respectively.

9. DEFERRED COMPENSATION PLAN

The Organization offers certain employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The plan, available to highly compensated employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available until termination, retirement, death, or unforeseeable emergency. The Organization made a discretionary matching employer contribution, equivalent to the discretionary matching employer contribution in the defined contribution plan of $35,621 and $34,272 in 2017 and 2016, respectively. Included in prepaid expenses and other assets and an offsetting liability is $200,626 and $143,081 in 2017 and 2016, respectively, related to the plan.

10. RELATED PARTY TRANSACTIONS

The Foundation is a separate legal entity established as a 501(c)(3) not-for-profit corporation and governed by its own board of directors to receive and administer funds for the Organization, make grants solely to the Organization, and provide clear direction, independent oversight, and stewardship for the funds gifted from the Organization.

Each year, the Foundation will grant an amount no less than 5% of the Foundation's prior year's average monthly net asset balance to the Organization. The Organization received grants from the Foundation of $2,866,728 and $3,237,036 during the years ended June 30, 2017 and 2016, respectively.

The Foundation pledged $5,000,000 to the Organization related to the kennel redesign in 2014. The balance outstanding at June 30, 2017 is $2,000,000, which is included in pledges receivable.

The Organization has a liquidity and spending policy to gift any unrestricted cash that exceeds 60 days of budgeted operating costs at the end of each fiscal year to the Foundation. During the years ended June 30, 2017 and 2016, the Organization contributed $910,000 and $1,853,700, respectively, to the Foundation based on the terms of this policy.

The Organization also provided managerial and accounting services to the Foundation. These services amounted to $11,347 and $12,602 for the year ended June 30, 2017 and 2016, respectively, and are recorded as in-kind donations.

From time to time, the Organization pays invoices on the behalf of the Foundation. As of June 30, 2017, there was $5,683 recorded in accounts receivable related to these invoices. There was no such receivable as of June 30, 2016.

As noted in Note 5, the Foundation is a guarantor of the Organization's debt.

■ ■ ■ ■ ■