Leader Dogs for the Blind

Year Ended
June 30, 2018
(with comparative totals for 2017)

Financial Statements

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Business wisdom delivered.

LEADER DOGS FOR THE BLIND

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INDEPENDENT AUDITORS' REPORT

November 14, 2018

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, 2018, 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, 2018, 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*** 2017 financial statements, and our report thereon dated November 20, 2017 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, 2017, 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	
	2018	2017
Current assets		
Cash and cash equivalents	$ 2,414,634	$ 2,323,289
Cash restricted for canine development center	170,578	781,263
Current portion of pledges receivable, net of discount of $18,252 in 2018 ($24,453 in 2017) (Note 2)	1,163,300	1,546,886
Contributions receivable	479,249	580,057
Prepaid expenses and other assets	793,926	711,824
Total current assets	**5,021,687**	**5,943,319**
Pledges receivable, less current portion, net of discount of $1,458 in 2018 ($40,096 in 2017) (Note 2)	49,995	1,153,499
Contributions receivable	142,350	280,000
Investments (including charitable gift annuities of $519,157 in 2018 and $485,502 in 2017) (Notes 3 and 7)	2,665,108	2,678,828
Beneficial interests in trusts (Note 1)	1,240,855	1,167,554
Net property and equipment (Note 4)	21,453,805	22,469,805
Total assets	**$ 30,573,800**	**$ 33,693,005**
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accounts payable	$ 270,697	$ 580,807
Accrued payroll and other liabilities	1,146,278	712,386
Total current liabilities	**1,416,975**	**1,293,193**
Gift annuity liability	184,613	177,029
Debt (Note 5)	1,400,000	3,300,000
Total liabilities	**3,001,588**	**4,770,222**
Net assets		
Undesignated	3,156,864	5,107,238
Board designated - net investment in property and equipment	20,053,805	19,169,805
Total unrestricted	**23,210,669**	**24,277,043**
Temporarily restricted	907,194	1,269,692
Permanently restricted	3,454,349	3,376,048
Total net assets	**27,572,212**	**28,922,783**
Total liabilities and net assets	**$ 30,573,800**	**$ 33,693,005**

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, 2017)

	Year Ended June 30, 2018				Year Ended June 30, 2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Public support					
Lions' contributions	$ 2,372,067	$ -	$ -	$ 2,372,067	$ 2,206,776
Other contributions	3,410,796	-	-	3,410,796	4,598,261
Estates and bequests	5,438,046	-	-	5,438,046	4,824,706
Grants (Note 10)	3,948,451	-	-	3,948,451	4,042,614
In-kind donations	185,154	-	-	185,154	165,579
Special events, net of expenses	475,722	-	-	475,722	442,380
Total	**15,830,236**	**-**	**-**	**15,830,236**	**16,280,316**
Net assets released from restrictions	396,153	(396,153)	-	-	-
Total public support	**16,226,389**	**(396,153)**	**-**	**15,830,236**	**16,280,316**
Expenses					
Program					
Training	9,349,881	-	-	9,349,881	9,070,762
Orientation and mobility	449,620	-	-	449,620	415,569
Volunteer engagement and community outreach	792,840	-	-	792,840	667,995
Foundation support (Note 10)	2,610,954	-	-	2,610,954	921,347
Total program	**13,203,295**	**-**	**-**	**13,203,295**	**11,075,673**
Supporting services					
General and administrative	1,850,305	-	-	1,850,305	1,581,100
Philanthropy	2,391,658	-	-	2,391,658	2,316,712
Total supporting services	**4,241,963**	**-**	**-**	**4,241,963**	**3,897,812**
Total expenses	**17,445,258**	**-**	**-**	**17,445,258**	**14,973,485**
Change in net assets before non-operating income and expense	**(1,218,869)**	**(396,153)**	**-**	**(1,615,022)**	**1,306,831**
Non-operating income and expense					
Investment income, net of expenses	(20,285)	33,655	-	13,370	6,212
Change in value of beneficial interests in trusts	-	-	73,301	73,301	37,592
Capital campaign revenue	32,437	-	-	32,437	132,441
Capital campaign expenses	-	-	-	-	(2,600)
Loss on disposal of property and equipment	(20,426)	-	-	(20,426)	-
Other revenue	160,769	-	5,000	165,769	107,555
Total non-operating income and expense	**152,495**	**33,655**	**78,301**	**264,451**	**281,200**
Change in net assets	**(1,066,374)**	**(362,498)**	**78,301**	**(1,350,571)**	**1,588,031**
Net assets, beginning of year	24,277,043	1,269,692	3,376,048	28,922,783	27,334,752
Net assets, end of year	**$ 23,210,669**	**$ 907,194**	**$ 3,454,349**	**$ 27,572,212**	**$ 28,922,783**

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

LEADER DOGS FOR THE BLIND

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	Program Services				Supporting Services			
	Training	Orientation and Mobility	Volunteer Engagement and Community Outreach	Foundation Support (Note 10)	General and Administrative	Philanthropy	2018 Total Functional Expenses	2017 Total Functional Expenses
Compensation	$ 4,700,908	$ 253,530	$ 414,985	$ -	$ 1,316,935	$ 800,616	$ 7,486,974	$ 7,055,562
Employee benefits	1,323,293	57,915	130,039	-	304,786	164,833	1,980,866	1,930,533
Insurance	168,448	2,673	23,376	-	24,556	7,630	226,683	216,062
Repairs and maintenance	256,933	1,542	6,848	-	61,653	25,356	352,332	310,130
Professional fees	86,153	-	78	-	133,887	8,770	228,888	95,906
Outside services	115,819	269	75,142	-	188,056	79,552	458,838	420,706
Service fees	46,345	7,227	25,402	-	143,967	78,827	301,768	255,031
Direct mail	-	-	-	-	-	537,355	537,355	507,372
Facilities	288,645	1,202	-	-	65,111	350	355,308	328,015
Supplies	113,089	10,065	29,844	-	88,230	38,503	279,731	329,278
Travel	192,769	8,458	55,696	-	23,987	34,929	315,839	317,653
Canine services	453,688	-	-	-	-	-	453,688	468,255
Client services	259,378	35,493	328	-	5,268	-	300,467	315,683
Promotional	6,568	45	4,486	-	15,013	2,559	28,671	75,107
Lions clubs	-	-	119,906	-	-	-	119,906	119,820
Depreciation	1,124,378	-	-	-	208,877	-	1,333,255	1,262,363
Interest	73,735	-	-	-	-	-	73,735	44,662
Contributions made	-	-	-	2,610,954	-	-	2,610,954	921,347
Allocated shared expenses	139,732	71,201	(93,290)	-	(730,021)	612,378	-	-
Total expenses	**$ 9,349,881**	**$ 449,620**	**$ 792,840**	**$ 2,610,954**	**$ 1,850,305**	**$ 2,391,658**	**$ 17,445,258**	**$ 14,973,485**

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

LEADER DOGS FOR THE BLIND

STATEMENTS OF CASH FLOWS

	June 30 2018	June 30 2017
Cash flows from operating activities		
Change in net assets	$ (1,350,571)	$ 1,588,031
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,333,255	1,262,363
Bad debts	1,600	2,600
Donated investments	(85,717)	(131,630)
Pledges designated for capital campaign	(82,004)	(132,441)
Proceeds from sales of investments for operating purposes	102,859	113,246
Change in value of beneficial interests in trusts	(73,301)	(37,592)
Unrealized loss on investments	84,737	77,244
Net realized gain on investments	(25,100)	(10,890)
Loss on disposal of property and equipment	20,426	-
Changes in operating assets and liabilities that provided (used) cash		
Contributions receivable	236,858	(101,003)
Prepaid expenses and other assets	(82,102)	(13,191)
Accounts payable	(310,110)	156,257
Accrued payroll and other liabilities	433,892	61,081
Gift annuity liability	7,584	(8,565)
Net cash provided by operating activities	**212,306**	**2,825,510**
Cash flows from investing activities		
Proceeds from sales and redemptions of investments	402,322	384,740
Purchases of investments	(465,381)	(370,917)
Proceeds from sales of property and equipment	26,280	-
Purchases and construction of property and equipment	(363,961)	(3,584,119)
Net cash used in investing activities	**(400,740)**	**(3,570,296)**
Cash flows from financing activities		
Payments received on pledges designated for capital campaign	1,569,094	1,735,074
Repayments of long-term debt	(1,900,000)	(1,167,301)
Cash flows (used in) provided by financing activities	**(330,906)**	**567,773**
Net decrease in cash and cash equivalents	**(519,340)**	**(177,013)**
Cash and cash equivalents, beginning of year	3,104,552	3,281,565
Cash and cash equivalents, end of year	**$ 2,585,212**	**$ 3,104,552**
Supplemental disclosures of cash flows information		
Cash paid for interest	$ 80,250	$ 43,348

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 guide dog training, orientation and mobility training, volunteer engagement and community outreach. In addition, the Organization may make periodic contributions to an affiliate, Leader Dogs for the Blind Foundation ("Foundation") (Note 10), in accordance with the Organization's 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 its goal and raised $14.5 million toward funding of the project, including $1.2 million in pledges receivable (Note 2). Construction was completed during the 2017 fiscal year.

Method of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") 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, 2017 is not intended to be a complete financial statement presentation in accordance GAAP. Accordingly, such information should be read in conjunction with the Organization’s 2017 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, 2018. In 2018 and 2017, 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 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, 2018 and 2017 was $312,119 and $385,549 of construction in progress incurred in connection with construction of the Organization's new facility. Although construction of the new facility was completed in fiscal 2017, the construction in progress at June 30, 2018 reflects a generator being added to the new facility.

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, 2018 and 2017.

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 GAAP 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, 2018, the most recent statement of financial position presented herein, through November 14, 2018, the date these financial statements were available to be issued. No significant such events or transactions were identified except for those described in Note 11.

2. PLEDGES RECEIVABLE (INCLUDING RELATED PARTY)

Pledges receivable are summarized as follows at June 30:

	2018	2017
Receivable in less than one year	$ 1,181,552	$ 1,571,339
Receivable in one to two years	51,453	1,193,595
Total unconditional pledges receivable	1,233,005	2,764,934
Less discounts to net present value	19,710	64,549
Net pledges receivable	**$ 1,213,295**	**$ 2,700,385**

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, 2018 and 2017. The Organization has not recorded a provision for doubtful pledges since in the opinion of management 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, 2018 and 2017.

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:

2018	Level 1	Level 2	Level 3	Total
Investments				
Corporate bonds	$ 1,988,237	$ -	$ -	$ 1,988,237
Mutual funds				
Equity	339,125	-	-	339,125
Bond	163,735	-	-	163,735
Equity securities	35,521	-	-	35,521
Government securities	50,406	-	-	50,406
Certificates of deposit	-	36,675	-	36,675
Other investments	51,409	-	-	51,409
Total investments	**$ 2,628,433**	**$ 36,675**	**$ -**	**$ 2,665,108**
Beneficial interests in trusts	**$ -**	**$ -**	**$ 1,240,855**	**$ 1,240,855**

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**

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:

	2018	2017
Balance, beginning of year	$ 1,167,554	$ 1,129,962
Change in present value of estimated future distributions	73,301	37,592
Balance, end of year	**$ 1,240,855**	**$ 1,167,554**

Investment income, which is net of related expenses of $9,058 and $9,830 in 2018 and 2017, respectively, is summarized as follows for the years ended June 30:

	2018	2017
Interest and dividend income	$ 73,007	$ 72,566
Net realized gain	25,100	10,890
Unrealized loss	(84,737)	(77,244)
Net investment income	**$ 13,370**	**$ 6,212**

4. PROPERTY AND EQUIPMENT

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

	2018	2017
Buildings	$ 29,518,363	$ 29,436,087
Furniture and equipment	3,844,388	3,869,852
Vehicles	1,018,779	926,531
Land improvements	498,537	492,700
Land	419,541	419,541
Construction in progress	326,819	385,549
Total property and equipment	35,626,427	35,530,260
Less accumulated depreciation	14,172,622	13,060,455
Net property and equipment	**$ 21,453,805**	**$ 22,469,805**

Purchases and construction of property and equipment related to the capital campaign amounted to approximately $3,280,000 during the year ended June 30, 2017.

5. BORROWED 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 stipulates interest at a rate equal to 0.95% plus LIBOR (effective rate of 3.14% at June 30, 2018). The revolving credit facility is guaranteed by the Foundation. Interest expense related to this obligation was $73,735 and $44,662, during the years ended June 30, 2018 and 2017, 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 $87,629 and $70,879 for 2018 and 2017, 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, 2018:

Year	Amount
2019	$ 90,375
2020	62,999
2021	42,339
2022	13,255
Total minimum payments due	**$ 208,968**

7. NET ASSETS AND ENDOWMENTS

Board Designated

The Organization's Board of Trustees has designated $20,053,805 and $19,169,805 of unrestricted net assets as not being available for expenditure in support of general operations without prior Board approval as of June 30, 2018 and 2017, respectively.

Temporarily Restricted

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

	2018	2017
Charitable gift annuities	$ 519,157	$ 485,502
Time restricted contributions	220,333	280,000
Grants	-	151,000
Life insurance policies	-	225,853
Other contributions	167,704	127,337
Total temporarily restricted net assets	**$ 907,194**	**$ 1,269,692**

Permanently Restricted

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

	2018	2017
Perpetual trusts	$ 1,240,855	$ 1,167,554
Donor-restricted endowments	2,213,494	2,208,494
Total permanently restricted net assets	**$ 3,454,349**	**$ 3,376,048**

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 $119,078 and $66,687 as of June 30, 2018 and 2017, 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, 2018				
Donor-restricted endowments	$ (119,078)	$ 91,887	$ 2,213,494	$ 2,186,303
Changes in endowment net assets for the year ended June 30, 2018				
Investment return				
Net investment income	$ -	$ 71,160	$ -	$ 71,160
Net realized/unrealized loss	(52,391)	-	-	(52,391)
Net investment (loss) return	(52,391)	71,160	-	18,769
Contributions	-	-	5,000	5,000
Appropriation of endowment assets for expenditure	-	(30,793)	-	(30,793)
Changes to endowment net assets	(52,391)	40,367	5,000	(7,024)
Endowment net assets				
Beginning of year	(66,687)	51,520	2,208,494	2,193,327
End of year	**$ (119,078)**	**$ 91,887**	**$ 2,213,494**	**$ 2,186,303**

	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**

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 maintains a portfolio of fixed income investments, possibly including cash and cash equivalents. The investments are limited to U.S. government and agency securities, corporate notes and bonds, mortgage backed bonds, preferred stock and international bonds. The investments carry conservative to moderate risk. The investments shall be so diversified as to minimize the risk of capital losses, and they are 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 up to 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 $320,908 and $264,295 in 2018 and 2017, respectively, for matching contributions. The Organization also made a discretionary employer contribution of $96,161 and $100,025 in 2018 and 2017, 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 termination, retirement, death, or unforeseeable emergency. The Organization made a discretionary matching employer contribution of $35,852 and $35,621 in 2018 and 2017, respectively. Included in prepaid expenses and other assets and an offsetting liability is $252,200 and $200,626 in 2018 and 2017, 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.

Historically, the Foundation will grant an amount no less than 5% of the Foundation's prior year's average monthly net assets to the Organization. The Organization received grants from the Foundation of $2,944,331 and $2,866,728 during the years ended June 30, 2018 and 2017, respectively.

The Foundation pledged $5,000,000 to the Organization related to the kennel redesign in 2014. The balance outstanding at June 30, 2018 is $1,000,000, which is included in pledges receivable.

NOTES TO FINANCIAL STATEMENTS

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, 2018 and 2017, the Organization contributed approximately $2,600,000 and $910,000, 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 $10,954 and $11,347 for the year ended June 30, 2018 and 2017, respectively, and are reported 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 is no such receivable as of June 30, 2018.

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

11. SUBSEQUENT EVENTS

As of August 16, 2018, Elite Detection K-9, LLC was established as a wholly-owned subsidiary of Leader Dogs for the Blind to breed, raise, and train scent-detection dogs. Expenses incurred during the process of start-up will be funded by Leader Dogs for the Blind and, in turn, future revenues will support Leader Dogs for the Blind. The financial impact of this event cannot be reasonably determined at this time.

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