Leader Dogs for the Blind

LEADER DOGS FOR THE BLIND

Year Ended June 30, 2013

Financial Statements

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Business wisdom delivered.

LEADER DOGS FOR THE BLIND

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Rehmann

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INDEPENDENT AUDITORS' REPORT

November 19, 2013

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, 2013, 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, 2013, 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.

Rehmann Robson LLC

LEADER DOGS FOR THE BLIND

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS	
Current assets	
Cash and cash equivalents	$ 2,067,016
Current portion of pledges receivable, net of discount of $2,365	55,635
Contributions receivable	1,171,074
Prepaid expenses and other assets	483,661
Total current assets	**3,777,386**
Investments (including $508,403 in charitable gift annuities)	2,327,752
Beneficial interests in trusts (Note 1)	901,491
Pledges receivable, less current portion, net of discount of $69,459	295,541
Net property and equipment	11,322,308
Total assets	**$ 18,624,478**
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	$ 277,343
Current portion of mortgage payable	147,722
Accrued payroll and vacation	330,393
Deferred revenue	30,000
Total current liabilities	**785,458**
Gift annuity liability	238,135
Mortgage payable, less current portion	2,215,124
Total liabilities	**3,238,717**
Net assets	
Undesignated	2,495,333
Board designated	8,959,462
Total unrestricted	**11,454,795**
Temporarily restricted	1,401,073
Permanently restricted	2,529,893
Total net assets	**15,385,761**
Total liabilities and net assets	**$ 18,624,478**

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

LEADER DOGS FOR THE BLIND

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and investment income and other revenues				
Public support				
Lions' contributions	$ 2,048,074	$ 34	$ -	$ 2,048,108
Other contributions	2,967,743	30,294	205,000	3,203,037
Estates and bequests	5,986,963	-	-	5,986,963
Grants	2,793,256	566,447	750,000	4,109,703
In-kind donations	152,626	-	-	152,626
Special events, net of expenses	300,443	-	-	300,443
Total public support	**14,249,105**	**596,775**	**955,000**	**15,800,880**
Investment income and other revenues				
Investment (loss) income, net of expenses	(25,305)	2,912	-	(22,393)
Change in value of beneficial interests in trusts	-	51,707	50,211	101,918
Other revenue	239,901	-	-	239,901
Total investment income and other revenues	**214,596**	**54,619**	**50,211**	**319,426**
Net assets released from restrictions	422,950	(422,950)	**-**	-
Total public support and investment income and other revenues	**14,886,651**	**228,444**	**1,005,211**	**16,120,306**
Expenses				
Program				
Training	7,185,092	-	-	7,185,092
Orientation and mobility	281,781	-	-	281,781
Travel technology	119,354	-	-	119,354
Volunteer engagement and community outreach	522,191	-	-	522,191
Foundation support (Note 10)	2,983,317	-	-	2,983,317
Total program	**11,091,735**	**-**	**-**	**11,091,735**
Supporting services				
General and administrative	1,269,431	-	-	1,269,431
Philanthropy	1,692,393	-	-	1,692,393
Total supporting services	2,961,824	-	-	2,961,824
Total expenses	**14,053,559**	**-**	**-**	**14,053,559**
Change in net assets	**833,092**	**228,444**	**1,005,211**	**2,066,747**
Net assets, beginning of year	10,621,703	1,172,629	1,524,682	13,319,014
Net assets, end of year	**$ 11,454,795**	**$ 1,401,073**	**$ 2,529,893**	**$ 15,385,761**

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

LEADER DOGS FOR THE BLIND

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013

	Program Services					Support Services		
	Training	Orientation and Mobility	Travel Technology	Volunteer Engagement and Community Outreach	Foundation Support	General and Administrative	Philanthropy	Total Functional Expenses
Compensation	$ 3,495,443	$ 141,150	$ 48,464	$ 198,823	$ -	$ 1,002,456	$ 527,487	$ 5,413,823
Employee benefits	1,045,630	27,799	10,028	47,548	-	230,945	115,194	1,477,144
Insurance	120,914	984	-	14,486	-	12,591	2,994	151,969
Repairs and maintenance	207,929	3,316	-	8,168	-	72,635	19,699	311,747
Professional fees	1,780	-	-	-	-	70,046	26,029	97,855
Outside services	54,909	2,416	4,629	61,789	-	146,384	416,689	686,816
Service fees	38,674	4,158	560	4,799	-	82,920	32,550	163,661
Facility	289,349	2,138	-	495	-	176,670	-	468,652
Supplies	53,431	3,767	40,773	49,316	-	141,857	124,943	414,087
Travel	161,537	2,886	2,676	56,711	-	11,180	20,607	255,597
Client and canine	571,321	47,775	5,023	4,982	-	3,162	3,428	635,691
Lions clubs	-	-	-	120,491	-	-	-	120,491
Depreciation	792,782	-	-	-	-	79,927	-	872,709
Contributions made	-	-	-	-	2,983,317	-	-	2,983,317
Allocated general and administrative charges	351,393	45,392	7,201	(45,417)	-	(761,342)	402,773	-
Total expenses	**$ 7,185,092**	**$ 281,781**	**$ 119,354**	**$ 522,191**	**$ 2,983,317**	**$ 1,269,431**	**$ 1,692,393**	**$ 14,053,559**

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

LEADER DOGS FOR THE BLIND

STATEMENT OF CASH FLOWS

Cash flows from operating activities	
Change in net assets	$ 2,066,747
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	872,709
Change in beneficial interests in trusts	(50,211)
Unrealized loss on investments	29,269
Net realized gain on investments	(58,738)
Gain on disposal of property and equipment	(13,201)
Changes in operating assets and liabilities that provided (used) cash	
Pledges receivable	116,117
Contributions receivable	(927,852)
Prepaid expenses and other assets	57,412
Accounts payable	97,245
Accrued payroll and vacation	(133,615)
Deferred revenue	(9,514)
Other liabilities	11,663
Net cash provided by operating activities	**2,058,031**
Cash flows from investing activities	
Proceeds from sales and redemptions of investments	465,262
Purchases of investments	(1,589,969)
Purchases of property and equipment	(256,144)
Proceeds from sale of property and equipment	13,201
Net cash used in investing activities	**(1,367,650)**
Cash used in financing activities	
Principal payments on mortgage payable	**(139,686)**
Net increase in cash and cash equivalents	**550,695**
Cash and cash equivalents, beginning of year	1,516,321
Cash and cash equivalents, end of year	**$ 2,067,016**
Supplemental disclosures of cash flows information	
Cash paid for interest	$ 136,770

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

NOTES TO THE FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Leader Dogs for the Blind (the "Organization") is dedicated to empowering people who are blind or visually impaired with lifelong skills for independent travel through quality Leader Dogs, highly effective client instruction, and innovative services. Since its incorporation in 1939 as a not-for-profit organization, Leader Dogs for the Blind has successfully matched and graduated over 14,000 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, and supporting the Leader Dogs for the Blind Foundation ("Foundation").

Basis of Presentation

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.

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.

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 (see Note 3). The Organization primarily deposits cash with major banks within the State of Michigan and Canada (reported in U.S. dollars) 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.

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, 2013, as the contributions receivable balance is short-term in nature, as substantially all the outstanding balance was collected subsequent to year-end.

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 (depreciation) 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. Accordingly, the accompanying 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 annually 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.

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 year ended June 30, 2013.

Income Taxes
The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from similar state and local taxes. Although the Organization was granted an income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income." Such income, pursuant to the Internal Revenue Code and related regulations, includes investment income such as interest received from sources other than directly from contributors.

Accounting Standards Codification ("ASC") Topic 740 *"Accounting for Uncertainty in Income Taxes"* seeks to reduce the significant diversity in practice associated with financial statement recognition and measurement in accounting for income taxes and prescribes the recognition threshold and measurement attribute for disclosures of tax positions previously taken or expected to be taken on an income tax return. Not-for-profit entities are within the scope of ASC Topic 740. The Organization analyzed its filing position in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Organization has also elected to retain its existing accounting policy with respect to the treatment of interest and penalties attributable to income taxes, and continues to reflect any charges for such, to the extent they arise, as a component of its general and administrative expenses. The continued application of ASC Topic 740 had no significant impact on the Organization's financial statements.

The Organization has evaluated the provisions of ASC Topic 740 for the tax years 2009 through 2013, the years which remain subject to examination by major tax jurisdiction as of June 30, 2013. The Organization concluded that there is no significant uncertain tax position requiring recognition in the Organization's financial statements. The Organization does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next 12 months. The Organization does not have any amount accrued for interest and penalties related to UTBs at June 30, 2013, and it is not aware of any claims for such amounts by federal or state income tax authorities.

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.

Subsequent Events

In preparing the accompanying financial statements, the Organization has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2013, the most recent statement of financial position presented herein, through November 19, 2013, the date the accompanying financial statements were available to be issued. In August 2013, the Leader Dogs for the Blind Board of Trustees voted to proceed with a capital campaign to support a comprehensive kennel redesign. The capital campaign will kick off in November 2013. Construction is expected to begin in late summer to early fall of 2014. The Organization had no formal commitments or obligations with respect to the project as of June 30, 2013.

2. PLEDGES RECEIVABLE

Pledges receivable are as follows at June 30, 2013:

Receivable in less than one year	$ 58,000
Receivable in one to five years	250,000
Receivable in more than five years	115,000
Total unconditional pledges receivable	423,000
Less discounts to net present value	71,824
Net unconditional pledges receivable	**$ 351,176**

Pledges receivable are discounted, at time of pledge, to estimated fair value using a discount rate of prime plus 1% (4.25% as of June 30, 2013). The Organization has not recorded a provision for doubtful accounts 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 fair value hierarchy under FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, 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. 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, 2013.

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, minus its liabilities then divided by the number of shares outstanding.

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. Other corporate bonds valued based on yields currently available on comparable securities of issuers with similar credit ratings are classified as Level 2.

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 table below presents the recorded amount of assets measured at fair value on a recurring basis at June 30, 2013:

	Level 1	Level 2	Level 3	Total
Investments				
Mutual funds				
Equity	$ 359,594	$ -	$ -	$ 359,594
Bond	148,964	-	-	148,964
Equity securities	205,218	-	-	205,218
Corporate bonds	1,149,960	-	-	1,149,960
Certificates of deposit	-	426,326	-	426,326
Other investments	37,690	-	-	37,690
Total investments	**$ 1,901,426**	**$ 426,326**	**$ -**	**$ 2,327,752**
Beneficial interests in trusts	**$ -**	**$ -**	**$ 901,491**	**$ 901,491**

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the year ended June 30, 2013:

	Beneficial Interests in Trusts
Balance, beginning of year	$ 851,280
Change in present value of estimated future distributions	50,211
Balance, end of year	**$ 901,491**

Investment loss, which is net of related expenses of $7,900, is summarized as follows for the year ended June 30, 2013:

Interest and dividend income	$ 60,643
Net realized loss	(10,991)
Unrealized loss	(72,045)
Net investment loss	**$ (22,393)**

NOTES TO THE FINANCIAL STATEMENTS

4. PROPERTY AND EQUIPMENT

Major classes of property and equipment are summarized as follows at June 30, 2013:

Land	$ 419,541
Land improvements	452,274
Buildings	17,157,134
Vehicles	693,605
Furniture and equipment	3,181,522
Construction in progress	193,439
Total property and equipment	22,097,515
Less accumulated depreciation	(10,775,207)
Net property and equipment	**$ 11,322,308**

5. DEBT

The Organization's long-term debt consists of a mortgage, which is payable in monthly installments of $23,038 including interest at 5.53% per annum. Interest expense incurred on the mortgage during the year ended June 30, 2013 was $136,127.

The mortgage is secured by the Organization's operating facilities and matures in February 2015. The mortgage prohibits the Organization from incurring capital expenditures in excess of $1.2 million annually without the approval of the mortgager. Future principal maturities of the mortgage payable for the years subsequent to June 30, 2013 are scheduled as follows:

Year	Amount
2014	$ 147,722
2015	2,215,124
Total mortgage payable	**$ 2,362,846**

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 $77,383 for 2013.

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, 2013:

Year	Amount
2014	$ 47,039
2015	29,774
2016	4,107
Total minimum payments due	**$ 80,920**

7. NET ASSETS AND ENDOWMENTS

Board Designated
The Organization's Board of Trustees has designated $8,959,462 of unrestricted net assets as not being available for expenditure on general operations without prior Board approval as of June 30, 2013.

Temporarily Restricted
Temporarily restricted net assets consisted of the following amounts at June 30, 2013:

Charitable gift annuities	$ 508,403
Pledges receivable	351,176
Grants	269,000
Life insurance policies	264,959
Other contributions	7,535
Total temporarily restricted net assets	**$ 1,401,073**

Permanently Restricted
Permanently restricted net assets consisted of the following amounts at June 30, 2013:

Perpetual trusts	$ 901,491
Donor-restricted endowments	1,628,402
Total permanently restricted net assets	**$ 2,529,893**

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 $18,871 as of June 30, 2013. These deficiencies resulted from unfavorable market fluctuations during 2013.

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, 2013				
Donor-restricted endowments	$ (18,871)	$ -	$ 1,628,402	$ 1,609,351
Changes in endowment net assets for the year ended June 30, 2013				
Investment return				
Net investment income	$ -	$ 46,390	$ -	$ 46,390
Net realized/unrealized loss	(18,871)	(43,478)	-	(62,349)
Net investment return	(18,871)	2,912	-	(15,959)
Contributions	-	-	955,000	955,000
Appropriation of endowment assets for expenditure	-	(46,390)	-	(46,390)
Changes to endowment net assets	(18,871)	(43,478)	955,000	892,651
Endowment net assets				
Beginning of year	-	43,478	673,402	716,880
End of year	**$ (18,871)**	**$ -**	**$ 1,628,402**	**$ 1,609,531**

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 $181,280 in 2013 for matching contributions. The Organization also made a discretionary employer contribution of $110,605 in 2013.

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 $22,281 in 2013. Included in prepaid expenses and other assets and an offsetting liability is $31,551 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 $2,786,256 during the year ended June 30, 2013.

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 year ended June 30, 2013, the Organization contributed $2,969,824 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 $13,493 for the year ended June 30, 2013 and have been reflected as contributions made.

The Foundation has agreed to reimburse the Organization related to expenses incurred on the kennel redesign up to $500,000. The Organization has spent $154,256 related to the kennel redesign, which is recorded as a contribution receivable as of the year ended June 30, 2013.

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