

# Leader Dogs for the Blind



Year Ended  
June 30, 2014  
(with comparative totals for 2013)

Financial  
Statements

# LEADER DOGS FOR THE BLIND

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**INDEPENDENT AUDITORS' REPORT**

November 24, 2014

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, 2014, 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, 2014, 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* 2013 financial statements, and our report dated November 19, 2013 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Rehmann Johnson LLC*

# LEADER DOGS FOR THE BLIND

## STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30	
	2014	2013
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,490,776	\$ 2,067,016
Cash restricted for canine development center	2,740,701	-
Current portion of pledges receivable, net of discount of \$9,552 in 2014 (\$326 in 2013) (Note 2)	1,623,558	7,674
Contributions receivable	791,728	1,514,576
Prepaid expenses and other assets	683,832	483,661
<b>Total current assets</b>	<b>8,330,595</b>	<b>4,072,927</b>
Investments (including charitable gift annuities of \$622,879 in 2014 and \$508,403 in 2013)	2,958,120	2,327,752
Beneficial interests in trusts (Note 1)	986,170	901,491
Pledges receivable, less current portion, net of discount of \$18,240 in 2014 (\$0 in 2013) (Note 2)	4,413,707	-
Net property and equipment	11,795,978	11,322,308
<b>Total assets</b>	<b>\$ 28,484,570</b>	<b>\$ 18,624,478</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 465,949	\$ 277,343
Current portion of note payable	-	147,722
Accrued payroll and vacation	405,985	330,393
Deferred revenue	3,295	30,000
<b>Total current liabilities</b>	<b>875,229</b>	<b>785,458</b>
Gift annuity liability	233,512	238,135
Note payable, less current portion (Note 5)	2,215,124	2,215,124
<b>Total liabilities</b>	<b>3,323,865</b>	<b>3,238,717</b>
<b>Net assets</b>		
Undesignated	1,673,324	2,495,333
Board designated - net investment in property and equipment	9,580,854	8,959,462
<b>Total unrestricted</b>	<b>11,254,178</b>	<b>11,454,795</b>
Temporarily restricted	10,726,863	1,401,073
Permanently restricted	3,179,664	2,529,893
<b>Total net assets</b>	<b>25,160,705</b>	<b>15,385,761</b>
<b>Total liabilities and net assets</b>	<b>\$ 28,484,570</b>	<b>\$ 18,624,478</b>

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, 2013)

	Year Ended June 30, 2014			Year Ended June 30, 2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Public support</b>				
Public support				
Lions' contributions	\$ 2,054,549	\$ -	\$ -	\$ 2,054,549
Other contributions	2,012,372	-	565,092	2,577,464
Estates and bequests	4,288,020	-	-	4,288,020
Grants	3,856,982	424,162	-	4,281,144
In-kind donations	166,280	-	-	166,280
Special events, net of expenses	423,191	-	-	423,191
<b>Total</b>	<b>12,801,394</b>	<b>424,162</b>	<b>565,092</b>	<b>13,790,648</b>
Net assets released from restrictions	544,520	(544,520)	-	-
<b>Total public support</b>	<b>13,345,914</b>	<b>(120,358)</b>	<b>565,092</b>	<b>13,790,648</b>
<b>Expenses</b>				
Program				
Training	7,679,251	-	-	7,679,251
Orientation and mobility	288,913	-	-	288,913
Travel technology	128,780	-	-	128,780
Volunteer engagement and community outreach	518,544	-	-	518,544
Foundation support (Note 10)	1,808,744	-	-	1,808,744
<b>Total program</b>	<b>10,424,232</b>	<b>-</b>	<b>-</b>	<b>10,424,232</b>
Supporting services				
General and administrative	1,303,816	-	-	1,303,816
Philanthropy	1,779,630	-	-	1,779,630
<b>Total supporting services</b>	<b>3,083,446</b>	<b>-</b>	<b>-</b>	<b>3,083,446</b>
<b>Total expenses</b>	<b>13,507,678</b>	<b>-</b>	<b>-</b>	<b>13,507,678</b>
<b>Change in net assets before non-operating income and expense</b>	<b>(161,764)</b>	<b>(120,358)</b>	<b>565,092</b>	<b>282,970</b>
<b>Non-operating income and expense</b>				
Investment income, net of expenses	2,865	459,850	-	462,715
Change in value of beneficial interests in trusts	-	-	84,679	84,679
Capital campaign revenue	-	9,451,950	-	9,451,950
Capital campaign expenses	(573,265)	-	-	(573,265)
Other revenue	65,895	-	-	65,895
<b>Total</b>	<b>(504,505)</b>	<b>9,911,800</b>	<b>84,679</b>	<b>9,491,974</b>
Net assets released from restrictions	465,652	(465,652)	-	-
<b>Total non-operating income and expense</b>	<b>(38,853)</b>	<b>9,446,148</b>	<b>84,679</b>	<b>9,491,974</b>
<b>Change in net assets</b>	<b>(200,617)</b>	<b>9,325,790</b>	<b>649,771</b>	<b>9,774,944</b>
Net assets, beginning of year	11,454,795	1,401,073	2,529,893	15,385,761
<b>Net assets, end of year</b>	<b>\$11,254,178</b>	<b>\$10,726,863</b>	<b>\$ 3,179,664</b>	<b>\$25,160,705</b>
				<b>\$15,385,761</b>

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

# LEADER DOGS FOR THE BLIND

## STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2014

(With Comparative Totals for the Year Ended June 30, 2013)

	Program Services					Supporting Services		2014 Total Functional Expenses	2013 Total Functional Expenses
	Training	Orientation and Mobility	Travel Technology	Volunteer Engagement and Community Outreach	Foundation Support (Note 10)	General and Administrative	Philanthropy		
Compensation	\$ 3,746,113	\$ 147,355	\$ 55,813	\$ 239,957	\$ -	\$ 1,070,783	\$ 589,202	\$ 5,849,223	\$ 5,413,823
Employee benefits	1,096,206	37,664	9,017	56,193	-	250,510	129,988	1,579,578	1,477,144
Insurance	125,930	1,563	-	16,522	-	17,057	4,262	165,334	151,969
Repairs and maintenance	240,306	2,018	-	7,373	-	65,358	23,247	338,302	311,747
Professional fees	17,465	3,167	-	-	-	53,614	18,309	92,555	97,855
Outside services	110,331	9,713	5,800	61,012	-	125,120	287,260	599,236	686,816
Service fees	32,449	5,119	192	3,953	-	86,000	44,038	171,751	163,661
Facility	290,851	842	-	-	-	185,250	-	476,943	468,652
Supplies	57,766	2,950	28,093	54,097	-	155,563	122,842	421,311	414,087
Travel	183,081	7,240	2,385	60,424	-	19,821	34,341	307,292	255,597
Client and canine	620,655	25,266	22,629	4,072	-	2,282	1,657	676,561	635,691
Lions clubs	-	-	-	111,722	-	-	(2,751)	108,971	120,491
Depreciation	748,070	-	-	-	-	61,307	-	809,377	872,709
Receivables, bad debts	-	-	-	-	-	-	102,500	102,500	-
Contributions made	-	-	-	-	1,808,744	-	-	1,808,744	2,983,317
Allocated shared expenses	410,028	46,016	4,851	(96,781)	-	(788,849)	424,735	-	-
<b>Total expenses</b>	<b>\$ 7,679,251</b>	<b>\$ 288,913</b>	<b>\$ 128,780</b>	<b>\$ 518,544</b>	<b>\$ 1,808,744</b>	<b>\$ 1,303,816</b>	<b>\$ 1,779,630</b>	<b>\$ 13,507,678</b>	<b>\$ 14,053,559</b>

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

# LEADER DOGS FOR THE BLIND

## STATEMENTS OF CASH FLOWS

	June 30	
	2014	2013
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 9,774,944	\$ 2,066,747
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	809,377	872,709
Uncollectible receivables	102,500	-
Donated investments	(1,186,614)	-
Donated investments designated for capital campaign	(2,843,784)	-
Pledges designated for capital campaign	(6,037,265)	-
Proceeds from sales of investments for operating purposes	1,191,071	-
Change in value of beneficial interests in trusts	(84,679)	(50,211)
Unrealized (gain) loss on investments	(120,749)	29,269
Net realized gain on investments	(269,606)	(58,738)
Loss (gain) on disposal of property and equipment	245	(13,201)
Changes in operating assets and liabilities that (used) provided cash		
Pledges receivable	7,674	116,117
Contributions receivable	620,348	(927,852)
Prepaid expenses and other assets	(200,171)	57,412
Accounts payable	188,606	97,245
Accrued payroll and vacation	75,592	(133,615)
Deferred revenue	(26,705)	(9,514)
Other liabilities	(4,623)	11,663
<b>Net cash provided by operating activities</b>	<b><u>1,996,161</u></b>	<b><u>2,058,031</u></b>
<b>Cash flows from investing activities</b>		
Proceeds from sales and redemptions of investments	409,922	465,262
Purchases of investments	(888,376)	(1,589,969)
Purchases of property and equipment	(1,283,292)	(256,144)
Proceeds from sale of property and equipment	-	13,201
<b>Net cash used in investing activities</b>	<b><u>(1,761,746)</u></b>	<b><u>(1,367,650)</u></b>
<b>Cash flows from financing activities</b>		
Principal payments on note payable	(147,722)	(139,686)
Proceeds from sales of investments restricted for canine development center	3,077,768	-
<b>Cash flows provided by (used in) financing activities</b>	<b><u>2,930,046</u></b>	<b><u>(139,686)</u></b>
<b>Net increase in cash and cash equivalents</b>	<b>3,164,461</b>	<b>550,695</b>
Cash and cash equivalents, beginning of year	2,067,016	1,516,321
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 5,231,477</u></b>	<b><u>\$ 2,067,016</u></b>
<b>Supplemental disclosures of cash flows information</b>		
Cash paid for interest	<u>\$ 128,764</u>	<u>\$ 136,770</u>

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

# LEADER DOGS FOR THE BLIND

## 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 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. In addition, the Organization may provide periodic contributions to Leader Dogs for the Blind Foundation ("Foundation") (see Note 10), in accordance with the liquidity and spending policy, which is considered a program expense.

#### Capital Campaign

The Organization has launched a capital campaign to support a comprehensive kennel redesign. The new canine development center will 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, 2014, the Organization has raised \$9.5 million toward the project, including \$6 million in pledges receivable (Note 2). Management expects to raise the balance of the project cost.

The Organization has engaged an architect and construction manager and has a guaranteed maximum price for the construction (Note 11). The Organization held the project's groundbreaking ceremony on August 4, 2014. Construction is expected to be completed by August 2016.

#### 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.

# LEADER DOGS FOR THE BLIND

## NOTES TO FINANCIAL STATEMENTS

- *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, 2013 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 2013 financial statements, from which the summarized information was derived. Certain amounts as presented in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

### 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.

### 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 period promise.

# LEADER DOGS FOR THE BLIND

## NOTES TO FINANCIAL STATEMENTS

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, 2014, 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 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

# LEADER DOGS FOR THE BLIND

## NOTES TO FINANCIAL STATEMENTS

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 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.

Included in net property and equipment in the accompanying Statements of Financial Position at June 30, 2014 and 2013 are \$831,025 and \$331,020, respectively, of construction in progress incurred in connection with construction of the Organization's new facility (Notes 4 and 11). Construction in progress includes architect, consulting, easement fees, demolition costs, and construction costs incurred during the periods.

### 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.

# LEADER DOGS FOR THE BLIND

## NOTES TO FINANCIAL STATEMENTS

### 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, 2014 and 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.

The Organization analyzes its income tax filing positions 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, to identify potential uncertain tax positions. The Organization treats interest and penalties attributable to income taxes and continues to reflect charges for such, to the extent they arise, as a component of its general and administrative expenses.

The Organization has evaluated its income tax filing positions for fiscal years 2011 through 2014, the years which remain subject to examination as of June 30, 2014. The Organization concluded that there are no significant uncertain tax positions 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 twelve months. The Organization does not have any amount accrued for interest and penalties related to UTBs at June 30, 2014 or 2013, and it is not aware of any claims for such amounts by federal 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 and the pledges receivable.

# LEADER DOGS FOR THE BLIND

## NOTES TO 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, 2014, the most recent statement of financial position presented herein, through November 24, 2014, the date these financial statements were available to be issued. No significant such events or transactions were identified, other than those matters disclosed in Note 1, 4 and 5.

## 2. PLEDGES RECEIVABLE

Pledges receivable are summarized as follows at June 30:

	2014	2013
Receivable in less than one year	\$ 1,633,110	\$ 8,000
Receivable in one to five years	4,431,947	-
Receivable in more than five years	-	-
Total unconditional pledges receivable	6,065,057	8,000
Less discounts to net present value	27,792	326
Net pledges receivable	<u>\$ 6,037,265</u>	<u>\$ 7,674</u>

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 for the year ended June 30, 2014 and a discount rate of prime plus 1% (4.25%) for the year ended June 30, 2013. 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.

# LEADER DOGS FOR THE BLIND

## NOTES TO FINANCIAL STATEMENTS

- 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, 2014 and 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, less 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.

## LEADER DOGS FOR THE BLIND

### NOTES TO FINANCIAL STATEMENTS

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:

2014	Level 1	Level 2	Level 3	Total
Investments				
Mutual funds				
Equity	\$ 457,997	\$ -	\$ -	\$ 457,997
Bond	162,084	-	-	162,084
Equity securities	140,702	-	-	140,702
Corporate bonds	1,776,967	-	-	1,776,967
Certificates of deposit	-	334,167	-	334,167
Other investments	86,203	-	-	86,203
<b>Total investments</b>	<b><u>\$ 2,623,953</u></b>	<b><u>\$ 334,167</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,958,120</u></b>
<b>Beneficial interests in trusts</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 986,170</u></b>	<b><u>\$ 986,170</u></b>
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
<b>Total investments</b>	<b><u>\$ 1,901,426</u></b>	<b><u>\$ 426,326</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,327,752</u></b>
<b>Beneficial interests in trusts</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 901,491</u></b>	<b><u>\$ 901,491</u></b>

## LEADER DOGS FOR THE BLIND

### NOTES TO FINANCIAL STATEMENTS

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

	2014	2013
Balance, beginning of year	\$ 901,491	\$ 851,280
Change in present value of estimated future distributions	<u>84,679</u>	<u>50,211</u>
<b>Balance, end of year</b>	<b><u>\$ 986,170</u></b>	<b><u>\$ 901,491</u></b>

Investment gain (loss), which is net of related expenses of \$14,921 and \$7,900 in 2014 and 2013, respectively, is summarized as follows for the year ended June 30:

	2014	2013
Interest and dividend income	\$ 105,294	\$ 60,643
Net realized losses	(3,424)	(2,060)
Unrealized gain (loss)	<u>360,845</u>	<u>(29,269)</u>
<b>Net investment gain</b>	<b><u>\$ 462,715</u></b>	<b><u>\$ 29,314</u></b>

#### 4. PROPERTY AND EQUIPMENT

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

	2014	2013
Land	\$ 419,541	\$ 419,541
Land improvements	469,556	452,274
Buildings	17,159,170	17,157,134
Vehicles	728,158	693,605
Furniture and equipment	3,190,910	3,181,522
Construction in progress	<u>1,185,779</u>	<u>193,439</u>
Total property and equipment	23,153,114	22,097,515
Less accumulated depreciation	<u>(11,357,136)</u>	<u>(10,775,207)</u>
<b>Net property and equipment</b>	<b><u>\$ 11,795,978</u></b>	<b><u>\$ 11,322,308</u></b>

As discussed in Note 11, the Organization's canine development center was partially demolished subsequent to June 30, 2014, in connection with construction of its new facility.

## LEADER DOGS FOR THE BLIND

### NOTES TO FINANCIAL STATEMENTS

#### 5. DEBT

The Organization's long-term debt consists of a note payable, which is payable in monthly installments of \$23,038 including interest at 5.53% per annum. Interest expense incurred on the note payable during the year ended June 30, 2014 and 2013 was \$128,083 and \$136,127, respectively.

The note payable is secured by the Organization's operating facilities and prohibits the Organization from incurring capital expenditures in excess of \$1.2 million annually without the approval of the bank.

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 matures on July 25, 2017, when the entire unpaid balance of principal and interest will be due and payable in full. The revolving credit facility shall bear interest at a rate equal to 0.95% plus LIBOR. The revolving credit facility is guaranteed by the Foundation. The Organization paid off the note payable in full with the proceeds received from the revolving credit facility. Since the revolving credit facility is payable in full on July 25, 2017, the entire note payable balance has been classified as long-term as of June 30, 2014.

#### 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 \$68,424 and \$77,383 for 2014 and 2013, 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, 2014:

Year	Amount
2015	\$ 65,289
2016	39,623
2017	28,642
2018	<u>9,510</u>
Total minimum payments due	<u>\$ 143,064</u>

#### 7. NET ASSETS AND ENDOWMENTS

##### Board Designated

The Organization's Board of Trustees has designated \$9,580,854 and \$8,959,462 of unrestricted net assets as not being available for expenditure on general operations without prior Board approval as of June 30, 2014 and 2013, respectively.

# LEADER DOGS FOR THE BLIND

## NOTES TO FINANCIAL STATEMENTS

### Temporarily Restricted

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

	2014	2013
Charitable gift annuities	\$ 622,879	\$ 508,403
Contributions receivable	300,000	351,176
Grants	179,788	269,000
Life insurance policies	233,035	264,959
Capital campaign	9,377,374	-
Other contributions	13,787	7,535
<b>Total temporarily restricted net assets</b>	<b><u>\$ 10,726,863</u></b>	<b><u>\$ 1,401,073</u></b>

### Permanently Restricted

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

	2014	2013
Perpetual trusts	\$ 986,170	\$ 901,491
Donor-restricted endowments	2,193,494	1,628,402
<b>Total permanently restricted net assets</b>	<b><u>\$ 3,179,664</u></b>	<b><u>\$ 2,529,893</u></b>

### *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 \$0 and \$18,871 as of June 30, 2014 and 2013, respectively. 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.

## LEADER DOGS FOR THE BLIND

### NOTES TO FINANCIAL STATEMENTS

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
<b>Endowment net asset comparison by type of fund as of June 30, 2014</b>				
Donor-restricted endowments	\$ -	\$ 9,833	\$ 2,193,494	\$ 2,203,327
<b>Changes in endowment net assets for the year ended June 30, 2014</b>				
Investment return				
Net investment income	\$ -	\$ 70,035	\$ -	\$ 70,035
Net realized/unrealized gain	18,871	9,833	-	28,704
Net investment return	18,871	79,868	-	98,739
Contributions	-	-	565,092	565,092
Appropriation of endowment assets for expenditure	-	(70,035)	-	(70,035)
Changes to endowment net assets	18,871	9,833	565,092	593,796
<b>Endowment net assets</b>				
Beginning of year	(18,871)	-	1,628,402	1,609,531
End of year	\$ -	\$ 9,833	\$ 2,193,494	\$ 2,203,327

## LEADER DOGS FOR THE BLIND

### NOTES TO FINANCIAL STATEMENTS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net asset comparison by type of fund as of June 30, 2013</b>				
Donor-restricted endowments	\$ (18,871)	\$ -	\$ 1,628,402	\$ 1,609,351
<b>Changes in endowment net assets for the year ended June 30, 2013</b>				
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
<b>Endowment net assets</b>				
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.

# LEADER DOGS FOR THE BLIND

## NOTES TO FINANCIAL STATEMENTS

### *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 \$200,765 and \$181,280 in 2014 and 2013, respectively for matching contributions. The Organization also made a discretionary employer contribution of \$110,872 and \$110,605 in 2014 and 2013, 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 \$23,554 and \$22,281 in 2014 and 2013, respectively. Included in prepaid expenses and other assets and an offsetting liability is \$65,650 and \$31,551 in 2014 and 2013, 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 \$3,323,298 and \$2,786,256 during the years ended June 30, 2014 and 2013, respectively.

The Foundation has pledged \$5,000,000 to the Organization related to the kennel redesign, which is recorded as a pledge receivable as of June 30, 2014. No similar pledges were made during 2013.

## LEADER DOGS FOR THE BLIND

### NOTES TO FINANCIAL STATEMENTS

As of June 30, 2014, the Organization has recorded a payable to the Foundation of \$60,000. No similar payables were recorded at 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, 2014 and 2013, the Organization contributed \$1,798,107 and \$2,969,824, 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 \$10,637 and \$13,493 for the year ended June 30, 2014 and 2013, respectively, and are recorded as in-kind donations.

The Foundation has agreed to reimburse the Organization related to expenses incurred on technology software up to \$250,000. The Organization has spent \$250,000 related to the technology software, which is recorded as a contribution receivable as of June 30, 2014. No similar receivable was recorded at June 30, 2013.

The Foundation had agreed to reimburse the Organization related to expenses incurred on the kennel redesign up to \$500,000. The Organization had spent \$154,256 related to the kennel redesign, which is recorded as a contribution receivable as of the year ended June 30, 2013. No similar receivable was recorded at June 30, 2014.

As noted in Note 5, the Foundation is a guarantor of the revolving credit facility that the Organization obtained subsequent to year-end.

### 11. COMMITMENTS

In connection with the construction of the Organization's canine development center, as discussed Note 1, the Organization entered into an \$11.4 million construction contract. The new center is being constructed on the site of the Organization's previous facility, which was partially demolished to allow for the construction. The contract calls for monthly billings based upon the percentage completed with a retainage amount to be paid upon completion. As of June 30, 2014, there were no payments made under the contract.

