Leader Dogs for the Blind

LEADER DOGS FOR THE BLIND

Year Ended June 30, 2016 (with comparative totals for 2015)

Financial Statements

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LEADER DOGS FOR THE BLIND

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INDEPENDENT AUDITORS' REPORT

December 12, 2016

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, 2016, 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, 2016, 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* 2015 financial statements, and our report dated November 24, 2015 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, 2015, 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 2016	June 30 2015
Current assets		
Cash and cash equivalents	$ 2,266,294	$ 2,953,064
Cash restricted for canine development center	1,015,271	433,478
Current portion of pledges receivable, net of discount of $26,107 in 2016 ($26,081 in 2015) (Note 2)	1,656,667	1,658,642
Contributions receivable	761,654	597,601
Prepaid expenses and other assets	698,633	650,528
Total current assets	**6,398,519**	**6,293,313**
Pledges receivable, less current portion, net of discount of $103,704 in 2016 ($185,253 in 2015) (Note 2)	2,646,351	4,006,164
Investments (including charitable gift annuities of $481,631 in 2016 and $533,938 in 2015) (Note 7)	2,740,621	2,812,019
Beneficial interests in trusts (Note 1)	1,129,962	1,184,819
Net property and equipment (Note 4)	20,148,049	17,163,623
Total assets	**$ 33,063,502**	**$ 31,459,938**
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 424,550	$ 856,980
Related party payable	-	1,075,859
Accrued payroll and other liabilities	651,305	514,276
Total current liabilities	**1,075,855**	**2,447,115**
Gift annuity liability	185,594	198,478
Term debt (Note 5)	4,467,301	2,267,301
Total liabilities	**5,728,750**	**4,912,894**
Net assets		
Undesignated	2,924,630	2,226,353
Board designated - net investment in property and equipment	15,680,748	14,896,322
Total unrestricted	**18,605,378**	**17,122,675**
Temporarily restricted	5,395,918	6,041,056
Permanently restricted	3,333,456	3,383,313
Total net assets	**27,334,752**	**26,547,044**
Total liabilities and net assets	**$ 33,063,502**	**$ 31,459,938**

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, 2015)

	Year Ended June 30, 2016				Year Ended June 30, 2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Public support					
Public support					
Lions' contributions	$ 2,015,212	$ -	$ -	$ 2,015,212	$ 1,954,076
Other contributions	2,359,965	-	5,000	2,364,965	2,523,057
Estates and bequests	5,621,460	-	-	5,621,460	3,187,958
Grants	3,325,886	712,204	-	4,038,090	3,871,073
In-kind donations	165,624	-	-	165,624	255,014
Special events, net of expenses	498,636	-	-	498,636	369,253
Total	**13,986,783**	**712,204**	**5,000**	**14,703,987**	**12,160,431**
Net assets released from restrictions	767,367	(767,367)	-	-	-
Total public support	**14,754,150**	**(55,163)**	**5,000**	**14,703,987**	**12,160,431**
Expenses					
Program					
Training	8,508,088	-	-	8,508,088	8,309,027
Orientation and mobility	352,864	-	-	352,864	290,855
Travel technology	169,658	-	-	169,658	150,471
Volunteer engagement and community outreach	544,028	-	-	544,028	588,608
Foundation support (Note 10)	1,866,302	-	-	1,866,302	1,085,321
Total program	**11,440,940**	**-**	**-**	**11,440,940**	**10,424,282**
Supporting services					
General and administrative	1,411,351	-	-	1,411,351	1,258,804
Philanthropy	2,245,553	-	-	2,245,553	1,864,558
Total supporting services	**3,656,904**	**-**	**-**	**3,656,904**	**3,123,362**
Total expenses	**15,097,844**	**-**	**-**	**15,097,844**	**13,547,644**
Change in net assets before non-operating income and expense	**(343,694)**	**(55,163)**	**5,000**	**(393,857)**	**(1,387,213)**
Non-operating income and expense					
Investment income (loss), net of expenses	(18,398)	89,049	-	70,651	(18,225)
Change in value of beneficial interests in trusts	-	-	(54,857)	(54,857)	198,649
Capital campaign revenue	-	1,554,633	-	1,554,633	2,910,416
Capital campaign expenses	(77,840)	-	-	(77,840)	(348,896)
Loss on disposal of property and equipment	(372,207)	-	-	(372,207)	-
Other revenue	61,185	-	-	61,185	31,608
Total	**(407,260)**	**1,643,682**	**(54,857)**	**1,181,565**	**2,773,552**
Net assets released from restrictions	2,233,657	(2,233,657)	-	-	-
Total non-operating income and expense	**1,826,397**	**(589,975)**	**(54,857)**	**1,181,565**	**2,773,552**
Change in net assets	**1,482,703**	**(645,138)**	**(49,857)**	**787,708**	**1,386,339**
Net assets, beginning of year	17,122,675	6,041,056	3,383,313	26,547,044	25,160,705
Net assets, end of year	**$18,605,378**	**$ 5,395,918**	**$ 3,333,456**	**$27,334,752**	**$ 26,547,044**

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

LEADER DOGS FOR THE BLIND

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	Program Services					Supporting Services			
	Training	Orientation and Mobility	Travel Technology	Volunteer Engagement and Community Outreach	Foundation Support (Note 10)	General and Administrative	Philanthropy	2016 Total Functional Expenses	2015 Total Functional Expenses
Compensation	$ 4,083,848	$ 177,075	$ 64,587	$ 277,203	$ -	$ 1,215,610	$ 702,247	$ 6,520,570	$ 6,183,047
Employee benefits	1,186,402	46,153	10,726	84,242	-	277,332	140,663	1,745,518	1,691,998
Insurance	147,605	1,986	-	20,690	-	21,027	6,110	197,418	182,328
Repairs and maintenance	194,415	1,792	-	6,866	-	82,791	22,787	308,651	296,537
Professional fees	13,507	2,000	-	-	-	101,761	4,880	122,148	120,515
Outside services	183,484	4,828	700	69,075	-	169,690	533,858	961,635	781,393
Service fees	42,855	7,593	1,367	4,079	-	181,687	76,873	314,454	199,338
Facility	222,864	550	-	144	-	90,259	62	313,879	408,883
Supplies	68,447	3,327	72,400	34,175	-	142,973	185,421	506,743	450,478
Travel	194,896	17,226	2,296	43,765	-	24,195	36,021	318,399	316,241
Client and canine	676,935	37,524	11,320	420	-	9,337	1,095	736,631	858,368
Lions clubs	-	-	-	123,635	-	-	-	123,635	132,208
Depreciation	920,933	-	-	-	-	140,928	-	1,061,861	840,989
Contributions made	-	-	-	-	1,866,302	-	-	1,866,302	1,085,321
Allocated shared expenses	571,897	52,810	6,262	(120,266)	-	(1,046,239)	535,536	-	-
Total expenses	**$ 8,508,088**	**$ 352,864**	**$ 169,658**	**$ 544,028**	**$ 1,866,302**	**$ 1,411,351**	**$ 2,245,553**	**$ 15,097,844**	**$ 13,547,644**

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

LEADER DOGS FOR THE BLIND

STATEMENTS OF CASH FLOWS

	June 30 2016	June 30 2015
Cash flows from operating activities		
Change in net assets	$ 787,708	$ 1,386,339
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,061,861	840,988
Donated investments	(139,296)	(224,111)
Pledges designated for capital campaign	(564,523)	(1,647,333)
Proceeds from sales of investments for operating purposes	179,950	180,328
Change in value of beneficial interests in trusts	54,854	(198,649)
Unrealized loss on investments	9,442	114,109
Net realized gain on investments	(786)	(15,728)
Loss on disposal of property and equipment	372,207	-
Changes in operating assets and liabilities that provided (used) cash		
Contributions receivable	(164,053)	194,127
Prepaid expenses and other assets	(48,105)	33,304
Accounts payable	(432,430)	391,031
Related party payable	(1,075,859)	1,075,859
Accrued payroll and vacation	137,029	104,996
Other liabilities	(12,884)	(35,034)
Net cash provided by operating activities	**165,115**	**2,200,226**
Cash flows from investing activities		
Proceeds from sales and redemptions of investments	636,914	817,855
Purchases of investments	(614,823)	(726,352)
Purchases of property and equipment	(4,418,494)	(6,208,633)
Net cash used in investing activities	**(4,396,403)**	**(6,117,130)**
Cash flows from financing activities		
Principal payments on note payable	-	(2,215,124)
Payments received on pledges designated for capital campaign	1,926,311	2,019,792
Proceeds from long-term debt	2,200,000	2,267,301
Cash flows provided by financing activities	**4,126,311**	**2,071,969**
Net decrease in cash and cash equivalents	**(104,977)**	**(1,844,935)**
Cash and cash equivalents, beginning of year	3,386,542	5,231,477
Cash and cash equivalents, end of year	**$ 3,281,565**	**$ 3,386,542**
Supplemental disclosures of cash flows information		
Cash paid for interest	$ 25,481	$ 40,141

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 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 launched a capital campaign in 2014 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, 2016, the Organization has reached their goal and raised $14.5 million toward the project, including $4.3 million in pledges receivable (Note 2).

Construction began in 2014 and is expected to be completed in December 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.

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, 2015 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 2015 financial statements, from which the summarized information was derived. Certain amounts as presented in the 2015 financial statements have been reclassified to conform to the 2016 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 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.

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, 2016, as the contributions receivable balance is short-term in nature.

Investments

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

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

Beneficial Interests in Trusts

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

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

Fair Value Measurement

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

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

Property and Equipment and Depreciation

Purchased property and equipment are stated at cost. Donated property and equipment is recorded at its estimated fair value at the date of the gift. Major improvements are capitalized while ordinary maintenance and repairs are expensed. Management 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, 2016 and 2015 are $326,370 and $6,591,360, respectively, of construction in progress incurred in connection with construction of the Organization's new facility (Notes 4 and 11).

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, 2016 and 2015.

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

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

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, 2016, the most recent statement of financial position presented herein, through December 12, 2016, the date these financial statements were available to be issued. No significant such events or transactions were identified.

New 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 fiscal years beginning after December 15, 2017. Management is currently evaluating the impact of the adoption of this amendment on the Organization’s financial statements.

2. PLEDGES RECEIVABLE (INCLUDING RELATED PARTY)

Pledges receivable are summarized as follows at June 30:

	2016	2015
Receivable in less than one year	$ 1,682,774	$ 1,684,723
Receivable in one to five years	2,750,055	4,191,417
Total unconditional pledges receivable	4,432,829	5,876,140
Less discounts to net present value	129,811	211,334
Net pledges receivable	**$ 4,303,018**	**$ 5,664,806**

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, 2016 and 2015. The Organization has not recorded a provision for doubtful pledges since it is the opinion of management that these receivables are fully collectible.

3. INVESTMENTS AND FAIR VALUE MEASUREMENT

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

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

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

Level 2: Inputs to the valuation methodology include:

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

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

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

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

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis. The description includes an indication of the level of the fair value hierarchy in which the assets are classified. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Mutual funds: Shares held in mutual funds are valued at quoted market prices that represent the NAV of shares held by the Plan 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 Plan 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. 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 following tables present the recorded amount of assets measured at fair value on a recurring basis at June 30:

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

2015	Level 1	Level 2	Level 3	Total
Investments				
Mutual funds				
Equity	$ 327,628	$ -	$ -	$ 327,628
Bond	195,594	-	-	195,594
Equity securities	196,193	-	-	196,193
Corporate bonds	1,841,198	-	-	1,841,198
Certificates of deposit	-	187,112	-	187,112
Other investments	64,294	-	-	64,294
Total investments	**$ 2,624,907**	**$ 187,112**	**$ -**	**$ 2,812,019**
Beneficial interests in trusts	**$ -**	**$ -**	**$ 1,184,819**	**$ 1,184,819**

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:

	2016	2015
Balance, beginning of year	$ 1,184,819	$ 986,170
Change in present value of estimated future distributions	(54,857)	198,649
Balance, end of year	**$ 1,129,962**	**$ 1,184,819**

NOTES TO FINANCIAL STATEMENTS

Investment gain (loss), which is net of related expenses of $8,664 and $9,830 in 2016 and 2015, respectively, is summarized as follows for the years ended June 30:

	2016	2015
Interest and dividend income	$ 79,307	$ 80,156
Net realized gain	786	15,728
Unrealized loss	(9,442)	(114,109)
Net investment gain (loss)	**$ 70,651**	**$ (18,225)**

4. PROPERTY AND EQUIPMENT

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

	2016	2015
Land	$ 419,541	$ 419,541
Land improvements	457,843	469,556
Buildings	26,069,941	16,927,567
Vehicles	828,405	757,880
Furniture and equipment	3,779,549	3,466,296
Construction in progress	390,862	6,752,693
Total property and equipment	31,946,141	28,793,533
Less accumulated depreciation	(11,798,092)	(11,629,910)
Net property and equipment	**$ 20,148,049**	**$ 17,163,623**

Purchases of property and equipment related to the capital campaign amounted to approximately $4,042,000 and $5,760,000 during the years ended June 30, 2016 and 2015, respectively.

5. DEBT

On July 25, 2014, the Organization entered into a $12,000,000 revolving credit facility with a bank in conjunction with the construction project discussed in Note 1. The revolving credit facility 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 bears interest at a rate equal to 0.95% plus LIBOR (effective rate of 1.40% at June 30, 2016). The revolving credit facility is guaranteed by the Foundation. Interest expense related to the long term debt during the years ended June 30, 2016 and 2015 was $28,537 and $32,078, respectively.

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 $58,094 and $65,289 for 2016 and 2015, 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, 2016:

Year	Amount
2017	$ 53,895
2018	34,763
2019	25,253
2020	7,994
Total minimum payments due	**$ 121,905**

7. NET ASSETS AND ENDOWMENTS

Board Designated

The Organization's Board of Trustees has designated $15,680,748 and $14,896,322 of unrestricted net assets as not being available for expenditure on general operations without prior Board approval as of June 30, 2016 and 2015, respectively.

Temporarily Restricted

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

	2016	2015
Charitable gift annuities	$ 481,631	$ 533,938
Time restricted contributions	287,500	295,000
Grants	25,000	69,720
Life insurance policies	229,318	232,261
Capital campaign	4,303,018	4,906,182
Other contributions	69,451	3,955
Total temporarily restricted net assets	**$ 5,395,918**	**$ 6,041,056**

Permanently Restricted

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

	2016	2015
Perpetual trusts	$ 1,129,962	$ 1,184,819
Donor-restricted endowments	2,203,494	2,198,494
Total permanently restricted net assets	**$ 3,333,456**	**$ 3,383,313**

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 $13,050 as of June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations during 2015.

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

NOTES TO FINANCIAL STATEMENTS

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net asset comparison by type of fund as of June 30, 2015				
Donor-restricted endowments	$ (13,050)	$ -	$ 2,198,494	$ 2,185,444
Changes in endowment net assets for the year ended June 30, 2015				
Investment return				
Net investment income	$ -	$ 76,601	$ -	$ 76,601
Net realized/unrealized loss	(13,050)	(9,833)	-	(22,883)
Net investment return (loss)	(13,050)	66,768	-	53,718
Contributions	-	-	5,000	5,000
Appropriation of endowment assets for expenditure	-	(76,601)	-	(76,601)
Changes to endowment net assets	(13,050)	(9,833)	5,000	(17,883)
Endowment net assets				
Beginning of year	-	9,833	2,193,494	2,203,327
End of year	**$ (13,050)**	**$ -**	**$ 2,198,494**	**$ 2,185,444**

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 $259,247 and $211,104 in 2016 and 2015, respectively, for matching contributions. The Organization also made a discretionary employer contribution of $100,325 and $100,714 in 2016 and 2015, 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 $34,272 and $31,669 in 2016 and 2015, respectively. Included in prepaid expenses and other assets and an offsetting liability is $143,081 and $103,867 in 2016 and 2015, 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 $3,237,036 and $3,136,678 during the years ended June 30, 2016 and 2015, respectively.

The Foundation pledged $5,000,000 to the Organization related to the kennel redesign in 2014. The balance outstanding at June 30, 2016 is $3,000,000, which is included in pledges receivable.

The Organization has a liquidity and spending policy to gift any unrestricted cash that exceeds 60 days of budgeted operating costs at the end of each fiscal year to the Foundation. During the year ended June 30, 2016 and 2015, the Organization contributed $1,853,700 and $1,075,859, respectively, to the Foundation based on the terms of this policy. The Organization has recorded a payable to the Foundation related to these gifts of $0 and $1,075,859 as of June 30, 2016 and 2015, respectively.

The Organization also provided managerial and accounting services to the Foundation. These services amounted to $12,602 and $9,462 for the year ended June 30, 2016 and 2015, respectively, and are recorded as in-kind donations.

As noted in Note 5, the Foundation is a guarantor of the revolving credit facility.

11. COMMITMENTS

In connection with the construction of the Organization's canine development center, as discussed in 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, 2016, payments totaling $7.6 million have been made under the contract.

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