

Guide Dogs for the Blind, Inc.

Financial Statements

June 30, 2020 and 2019



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Guide Dogs for the Blind, Inc.
San Rafael, California

We have audited the accompanying financial statements of Guide Dogs for the Blind, Inc. (a California nonprofit corporation) (the "Organization"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 the auditor's 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 Guide Dogs for the Blind, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Organization has adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. Our opinion is not modified with respect to these matters.

Emphasis of Matter

As described in Note 14 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.



Armanino^{LLP}
San Jose, California

October 2, 2020

Guide Dogs for the Blind, Inc.
Statements of Financial Position
June 30, 2020 and 2019
(In thousands)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,863	\$ 6,321
Other receivables	266	213
Pledges receivable, current portion	675	663
Bequests receivable	610	127
Prepaid expenses and other assets	511	841
Total current assets	5,925	8,165
Long-term assets		
Pledges receivable, net of current portion	743	1,204
Investments	370,357	380,634
Planned gifts	9,073	9,221
Property, plant, and equipment, net	48,359	44,378
Total long-term assets	428,532	435,437
Total assets	\$ 434,457	\$ 443,602
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 4,246	\$ 6,422
Equipment lease payable, current portion	60	58
Current portion of loans payable	1,051	358
Total current liabilities	5,357	6,838
Long-term liabilities		
Obligations under annuity agreements	2,722	3,245
Equipment lease payable	-	59
Loans payable, net of deferred issuance costs	27,125	23,503
Total long-term liabilities	29,847	26,807
Total liabilities	35,204	33,645
Net assets		
Without donor restrictions		
Board-designated operating reserve for sustainability	164,562	160,989
Available for infrastructure expansion and upgrades	100,000	100,000
Available for client's successor dogs	100,000	100,000
Generally available for program services	10,905	25,521
Total without donor restrictions	375,467	386,510
With donor restrictions		
	23,786	23,447
Total net assets	399,253	409,957
Total liabilities and net assets	\$ 434,457	\$ 443,602

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

Guide Dogs for the Blind, Inc.
Statements of Activities
For the Years Ended June 30, 2020 and 2019
(In thousands)

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue						
Fundraising						
Bequests and trusts	\$ 20,718	\$ 1,953	\$ 22,671	\$ 14,232	\$ 3,438	\$ 17,670
Contributions	8,812	1,464	10,276	8,504	2,090	10,594
Special campaigns	147	88	235	420	116	536
Special events	779	-	779	932	-	932
Less: special event costs	(347)	-	(347)	(510)	-	(510)
Total fundraising	<u>30,109</u>	<u>3,505</u>	<u>33,614</u>	<u>23,578</u>	<u>5,644</u>	<u>29,222</u>
Other income						
Investment income, net	4,672	7	4,679	17,489	143	17,632
Change in value of planned gifts	(680)	390	(290)	-	(514)	(514)
Other	454	-	454	650	-	650
Total other income	<u>4,446</u>	<u>397</u>	<u>4,843</u>	<u>18,139</u>	<u>(371)</u>	<u>17,768</u>
Total support and revenue	<u>34,555</u>	<u>3,902</u>	<u>38,457</u>	<u>41,717</u>	<u>5,273</u>	<u>46,990</u>
Net assets released from restriction	<u>3,563</u>	<u>(3,563)</u>	<u>-</u>	<u>3,230</u>	<u>(3,230)</u>	<u>-</u>
Total support, revenue and net assets released from restriction	<u>38,118</u>	<u>339</u>	<u>38,457</u>	<u>44,947</u>	<u>2,043</u>	<u>46,990</u>
Functional expenses						
Total program services	39,431	-	39,431	36,689	-	36,689
Management and general	3,269	-	3,269	3,123	-	3,123
Development	6,461	-	6,461	6,108	-	6,108
Total functional expenses	<u>49,161</u>	<u>-</u>	<u>49,161</u>	<u>45,920</u>	<u>-</u>	<u>45,920</u>
Change in net assets	(11,043)	339	(10,704)	(973)	2,043	1,070
Net assets, beginning of year	<u>386,510</u>	<u>23,447</u>	<u>409,957</u>	<u>387,483</u>	<u>21,404</u>	<u>408,887</u>
Net assets, end of year	<u>\$ 375,467</u>	<u>\$ 23,786</u>	<u>\$ 399,253</u>	<u>\$ 386,510</u>	<u>\$ 23,447</u>	<u>\$ 409,957</u>

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

Guide Dogs for the Blind, Inc.
Statements of Functional Expenses
For the Years Ended June 30, 2020 and 2019
(In thousands)

	2020				2019			
	Total Program Services	Management and General	Development	Total	Total Program Services	Management and General	Development	Total
Functional expenses								
Salaries and wages	\$ 18,736	\$ 1,535	\$ 1,696	\$ 21,967	\$ 17,164	\$ 1,464	\$ 1,601	\$ 20,229
Payroll taxes and employee benefits	5,256	310	324	5,890	4,708	287	350	5,345
Direct mail and publications	537	4	3,526	4,067	557	7	3,198	3,762
Veterinary services and supplies	3,758	-	-	3,758	3,876	1	1	3,878
Maintenance and repairs	2,147	257	153	2,557	1,656	235	115	2,006
Professional services and fees	1,104	680	382	2,166	1,029	573	374	1,976
Utilities and telecommunications	1,118	89	42	1,249	886	88	37	1,011
Transportation	1,066	33	72	1,171	1,458	45	139	1,642
Other	663	131	48	842	726	191	60	977
Dog food and supplies	821	-	8	829	628	-	3	631
Insurance	459	25	24	508	427	21	26	474
Workers' compensation	332	19	17	368	506	28	33	567
Interest	281	14	-	295	273	10	-	283
Custodian and security fees	203	15	6	224	170	16	6	192
Postage	47	18	36	101	66	27	58	151
Student food and services	95	-	-	95	125	-	-	125
Legal fees	8	36	42	86	26	32	33	91
General office expense	43	13	17	73	60	10	10	80
Depreciation and amortization	2,757	90	68	2,915	2,348	88	64	2,500
Total functional expenses	<u>\$ 39,431</u>	<u>\$ 3,269</u>	<u>\$ 6,461</u>	<u>\$ 49,161</u>	<u>\$ 36,689</u>	<u>\$ 3,123</u>	<u>\$ 6,108</u>	<u>\$ 45,920</u>

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

Guide Dogs for the Blind, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019
(In thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ (10,704)	\$ 1,070
Adjustments to reconcile change in net assets to net cash used in operating activities		
Unrealized loss on investments, net	39,137	38,240
Realized gain on sale of investments, net	(37,494)	(51,531)
Donations of stock	(960)	(500)
Gain on sale of property, plant, and equipment	(60)	(11)
Loss on write-off of property, plant and equipment	104	-
Change in value of planned gifts	290	514
Depreciation and amortization	2,915	2,500
Amortization of loan issuance costs	8	8
Contributions restricted for long-term investment	(339)	(774)
Changes in operating assets and liabilities		
Other receivables	(53)	(339)
Notes receivable	-	136
Pledges receivable	449	986
Bequests receivable	(483)	-
Prepaid expenses and other assets	330	112
Planned gifts	(665)	(2,361)
Accounts payable and accrued expenses	(2,265)	1,940
Net cash used in operating activities	<u>(9,790)</u>	<u>(10,010)</u>
Cash flows from investing activities		
Purchases of property, plant, and equipment	(6,971)	(11,201)
Proceeds from sale of property, plant, and equipment	120	11
Purchases of investments	(132,636)	(361,276)
Proceeds from sale of investments	142,230	373,837
Net cash provided by investing activities	<u>2,743</u>	<u>1,371</u>
Cash flows from financing activities		
Contributions restricted for long-term investment	339	87
Payments on equipment leases	(57)	(508)
Proceeds from issuance of loans payable, net	4,672	8,388
Payments on loans payable	(365)	-
Net cash provided by financing activities	<u>4,589</u>	<u>7,967</u>
Net decrease in cash and cash equivalents	(2,458)	(672)
Cash and cash equivalents, beginning of year	<u>6,321</u>	<u>6,993</u>
Cash and cash equivalents, end of year	<u>\$ 3,863</u>	<u>\$ 6,321</u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 321	\$ 260
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The accompanying notes are an integral part of these financial statements.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2020 and 2019
(In thousands)

1. ORGANIZATION AND OPERATIONS

Guide Dogs for the Blind, Inc. (GDB) is more than an industry-leading guide dog school; we are a passionate community that has served the visually impaired for over 78 years. GDB believes that ensuring people who are blind can live the lives they want is key to an inclusive world. Our community passionately commits to the absolute best practices in preparing dogs and clients for the guide dog lifestyle. And, GDB advocates for the policy reforms that change how the world views blindness and disability. Because when everyone is supported by and can contribute to society, our communities are stronger. Services are provided to students from the United States and Canada at no cost to them. More than 15,000 teams have graduated since GDB was founded in 1942.

As described in Note 14, in March 2020, the impact of COVID-19 impeded GDB's ability to perform in-person program services and guide dog training. Despite these obstacles, GDB staff has continued to provide unparalleled support to its clients employing new safety protocols and harnessing remote and virtual tools. Guide dog training services, orientation and mobility services, and youth program services have been re-envisioned and began to restart in the summer of 2020.

Guide Dog Programs

GDB is recognized as a world leader in the breeding, socialization, and training of guide dogs. During the year ended June 30, 2020, GDB served over 2,100 guide dog teams across the US and Canada. Client-Guide dog teams train and graduate from GDB's campuses in California and Oregon each year and GDB also provides clients with in-home training, if needed. GDB provides unparalleled support to its clients including veterinary financial assistance, dedicated field service representatives, a call-in support center, an alumni association and much more.

Orientation & Mobility Immersion Program

Three years ago, GDB expanded its service offering to include a free Orientation & Mobility (O&M) Immersion Program for people needing to improve the travel skills that are most relevant to becoming a successful guide dog handler. This expanded service has trained 118 clients to date and this year 33 clients were helped on their journey to greater safety, independence, and inclusion.

Youth Programs

GDB's K9 Buddy Program matches specially selected dogs to become wonderful companions to children and young adults who are blind or visually impaired. A dog can contribute to the heightening of sensory development, motivating a child to learn and enhancing self-esteem. K9 Buddies are provided to the visually impaired youth's family free-of-charge. GDB created seven K9 Buddy teams this year.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2020 and 2019
(In thousands)

1. ORGANIZATION AND OPERATIONS (continued)

Youth Programs (continued)

At Camp GDB, participants explore the companionship, independence, and responsibility of having a guide dog. Campers receive hands-on guide dog instruction with an emphasis on understanding the specific orientation and mobility skills required to be a successful guide dog handler, as well as the fitness and endurance necessary for guide dog travel. In the summer of 2019, camp took place in Oregon and was GDB's largest yet, with 19 children attending from North American and Argentina.

Support Network

GDB's partnerships with thousands of passionate volunteers across the country who donate their time, talents, and hearts are what make GDB a reality. GDB has over 2,500 volunteer puppy raisers in the ten western states, several hundred Breeder Custodians and foster volunteers, and nearly 800 campus volunteers. Volunteers welcome dogs into their homes; they act as program ambassadors; they provide administrative support to many departments, and they support the mission in a myriad of ways.

GDB is funded entirely by private donations; GDB receives no government funding. GDB's generous donors help GDB fulfill its life-changing mission through general contributions, grants, honor and memorial gifts, bequests, and numerous estate planning vehicles. Donors are recognized for their commitment to GDB through the President's Circle, dedicated to those who have made a substantial contribution during the course of a year. GDB's Legacy Society honors the vision of those who have included GDB in their estate plans.

Guide Dogs for the Blind, Inc. is a 501(c)(3) nonprofit, charitable organization. All donations are fully tax deductible.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements have been prepared on the accrual basis of accounting which recognizes support and revenue when earned and expenses when incurred.

Net assets and changes therein are classified as follows:

- *Net assets without donor restrictions* - net assets not subject to donor-imposed stipulations. Net assets without donor restrictions includes a board-designated operating reserve for sustainability and funds available for infrastructure expansion and upgrades, client's successor dogs and funds generally available for program services. The Board defined the operating reserve for sustainability as three years of expenses in the upcoming fiscal year budget.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2020 and 2019
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *Net assets with donor restrictions* - net assets whose use by GDB is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of GDB, as well as net assets subject to donor-imposed stipulations that required they be maintained in perpetuity. Net assets with donor restrictions also include the portion of donor-restricted endowment earnings that have not yet been appropriated for expenditure by GDB.

Change in accounting principle

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. GAAP. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. Revenue from contributions and investment income are not impacted by this new standard. GDB adopted ASU 2014-09 with a date of the initial application of July 1, 2019, using the full retrospective method. The adoption of ASU 2014-09 did not have an impact on GDB's financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, which clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. GDB adopted ASU 2018-08 with a date of the initial application of July 1, 2019, using the modified prospective method.

The adoption of ASU 2018-08 did not have a significant impact on GDB's financial position, results of operations, or cash flows. GDB has evaluated contributions received and has determined that there is no change as a result of the adoption of the standard.

Concentration of credit risk

GDB's financial instruments consist primarily of cash and cash equivalents, investments, receivables and planned gifts. Cash balances, may at times, exceed Federal Deposit Insurance Corporation limits on insurable amounts. GDB attempts to mitigate this risk by investing excess cash with major financial institutions.

In order to mitigate the credit market risk of investments, GDB maintains a formal investment policy that sets performance criteria and investment guidelines. During the year ended June 30, 2019, GDB changed to an outside chief investment officer (OCIO) model rather than retaining all discretion for selection of investments. The OCIO is responsible for making investment decisions within the parameters of the formal investment policy. The Investment Committee of the Board now monitors the performance of the OCIO.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2020 and 2019
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of credit risk (continued)

All receivables consist primarily of unsecured amounts due from individuals and estates. The credit risk associated with the receivables from individuals is mitigated by the number of individuals and estates comprising the receivable balance. The credit risk associated with the receivables from estates is mitigated by the legal trust or estate documents.

As of June 30, 2020 and 2019, two donors accounted for approximately 62% and 64% of GDB's outstanding pledges receivable, respectively. During the year ended June 30, 2020, one individual accounted for approximately 12% of bequests and trusts revenue.

Cash and cash equivalents

GDB considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Pledges receivable

GDB evaluates the collectability of its pledges receivable on an ongoing basis and records a reserve for potential uncollectible pledges receivable. During the years ended June 30, 2020 and 2019, GDB determined that all current pledges receivable were deemed collectible. Additionally, any pledges that are expected to be collected after one year have been discounted and are reflected in the financial statements at their net present value.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Investments received as contributions are recorded at fair value on the date of donation. Alternative investments are valued at the net asset value per unit or percentage of ownership as reported by the fund managers.

Fair value of investments in stock and other equities include those held in limited partnerships and trusts that are invested in a fund of funds and their fair values are recorded at values as determined by the individual fund managers. The ultimate liquidation of these investments is restricted to certain time periods and is generally limited to sale to the fund manager or distributions from the fund. Due to the inherent uncertainty of valuation of nonmarketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed and the differences could be material. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is reflected in the statements of activities net of investment fees. Investment income is classified as increases or decreases in net assets without donor restrictions, unless their use is restricted by the donor.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2020 and 2019
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Planned gifts

Planned gifts include gift annuities and various charitable remainder trusts (CRTs) which consist primarily of marketable securities.

Gift Annuities - GDB recognizes its remainder interest in its gift annuity fund as contribution revenue with donor restrictions in the period in which the assets are received from the donor. When GDB is the trustee of a gift annuity fund, the assets held in trust are recorded at fair value, as determined by quoted market price or other relevant valuation methods, and a corresponding liability is established to recognize the trust's future obligations. Collectability and changes in fair value of these contributions are evaluated periodically and charged or credited to income annually. The remaining balance which is recorded as obligations under annuity agreements (\$2,517 and \$3,022 at June 30, 2020 and 2019, respectively) represents the amount of the discount for future interest and is amortized over the expected life of the donor as net assets with donor restrictions using the appropriate discount rate and applicable mortality tables.

Charitable Remainder Trusts - GDB is the trustee of various charitable remainder trusts. The trusts provide for the payment of distributions to the trust's beneficiaries over the trust's term or the beneficiary's lifetime. The portion of the trust attributable to the future interest of GDB is recorded in the statements of activities as contribution revenue with donor restrictions in the year the trust is established. The corresponding liability for future amounts due beneficiaries is recorded as obligations under annuity agreements (\$205 and \$223 at June 30, 2020 and 2019, respectively) at the present value of the payments using an appropriate discount rate and applicable mortality tables.

Deferred loan issuance costs

Deferred loan issuance costs have been capitalized and are being amortized using the effective interest method over the life of the loan, which is 30 years. These capitalized costs are offset against the corresponding loans payable on the statements of financial position.

Property, plant, and equipment, net

Property, plant and equipment are recorded at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets which range from 3 to 50 years. GDB's policy is to capitalize property, plant and equipment expenditures or donated property, plant and equipment greater than \$10,000.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2020 and 2019
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long-lived assets

GDB evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to forecasted undiscounted future net cash flows expected to be generated by the asset. If the carrying amount exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Once an impairment charge is recorded, the carrying amount cannot be increased. There was no impairment recorded for the years ended June 30, 2020 and 2019.

Revenue recognition

Contributions are recognized as revenue when they are received or unconditionally promised as prescribed by ASC 958 – 605, *Not-for-Profit Entities - Revenue Recognition* ("ASC 958 – 605"). GDB reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulation expires, that is, when a stipulated time restriction ends or the purpose is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restriction. Conditional promises to give are not recorded as contributions until they become unconditional; that is when the barrier has been overcome and right of release/right of return no longer exists.

Donor-restricted contributions whose restrictions are met in the same reporting period as the contribution is recorded are reported as contributions with donor restrictions and net assets released from restriction as donor restrictions are met.

GDB is the beneficiary under various wills and trust agreements. Such amounts are recognized in GDB's financial statements as bequests receivable and planned gifts when clear title is established and the proceeds are measurable.

Contributed services and in-kind donations

During the years ended June 30, 2020 and 2019, approximately 15,000 and 29,000 hours of unpaid volunteers' time have been contributed to GDB's programs, respectively. The value of this contributed time is not reflected in the financial statements because there is no objective means of measurement of valuation.

GDB also receives in-kind and professional service donations, which are recognized as contribution revenue at the fair value of those services, if the services (a) create or enhance non-financial assets, or (b) require specialized skills that are provided by individuals possessing those skills, and would be purchased if not donated. In-kind donations for the years ended June 30, 2020 and 2019 totaled \$387 and \$432, respectively, and are classified as income and expense based on the nature of the donation.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2020 and 2019
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional expenses

Expenses have been charged to program services or support services classifications based on direct expenditures incurred. Any expenditure not directly chargeable is allocated among program services or support services classifications based on related usage.

Income taxes

GDB is a nonprofit corporation exempt from Federal income California franchise taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code, respectively. Therefore, these financial statements contain no provision for such taxes. Informational returns are filed annually with federal and state taxing authorities.

GDB recognizes the effect of income tax positions only if those positions are more likely than not of being sustained, and changes in recognition or measurement are reflected in the period in which the change in judgment occurs. GDB has evaluated its current tax positions and has concluded that as of June 30, 2020 and 2019, it does not have any significant uncertain tax positions for which a reserve would be necessary.

Fair value of financial instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. For investments recorded at fair value not determined by using an unadjusted net asset value, GDB is required to disclose the fair value in a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value.

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

- *Level 1* - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- *Level 2* - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- *Level 3* - Significant unobservable inputs for the asset or liability. Unobservable inputs reflect GDB's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include GDB's own data.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2020 and 2019
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Recent accounting pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued *Accounting Standards Update 2016-02, Leases (Topic 842)*. Under the amendments in this ASU, a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. This ASU was originally effective for fiscal years beginning after December 15, 2019. In July 2019, the FASB approved a proposal to defer, for one year, the implementation of this ASU for nonpublic companies and in May 2020, the FASB approved an additional one year deferral. This ASU will now be effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. GDB has not yet implemented this ASU and is in the process of assessing the effect on GDB's financial statements.

Subsequent events

GDB has evaluated subsequent through October 2, 2020, the date the financial statements were available to be issued, and has determined no subsequent events have occurred that would have a material impact on the presentation of GDB's financial statements.

3. PLEDGES RECEIVABLE, NET

Pledges receivable represent unconditional promises to give by donors. Pledges receivable expected to be collected after one year are recorded at present value using discount rates ranging between .61% and 2.69%, which is reflective of market considerations.

Pledges receivable, net consisted of the following:

	2020	2019
Receivable in less than one year	\$ 675	\$ 663
Receivable in one to five years	765	1,239
	1,440	1,902
Less: discount on pledges receivable	(22)	(35)
	\$ 1,418	\$ 1,867

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4. INVESTMENTS

Investments include domestic and international securities as well as pooled funds, such as mutual funds, limited partnerships, fund of funds, and collective trusts. The pooled funds consist of domestic and foreign securities, private investment funds, corporate convertible securities, and hedge funds. The investments in these funds may utilize derivative instruments.

Investments consisted of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 151	\$ 30,365
Domestic stock	76	215
Domestic securities and funds	74,629	51,694
International equity funds	81,164	58,941
Fixed income funds	118,660	81,782
Alternative investments	<u>95,677</u>	<u>157,637</u>
	<u>\$ 370,357</u>	<u>\$ 380,634</u>

The cash and cash equivalents of \$30,365 included in investments as of June 30, 2019 represent investments required to be liquidated to fulfill new alternative investment fund commitments.

Investment income consisted of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 7,092	\$ 5,819
Unrealized losses, net	(39,137)	(38,240)
Realized gains, net	<u>37,494</u>	<u>51,531</u>
	5,449	19,110
Less: investment expense	<u>(770)</u>	<u>(1,478)</u>
	<u>\$ 4,679</u>	<u>\$ 17,632</u>

During the year ended June 30, 2019, GDB recognized approximately \$47 million in realized gains as a result of the liquidation and reinvestment of assets associated with the adoption of the OCIO model (see Note 2).

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5. FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, GDB's assets at fair value as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Investments				
Cash and cash equivalents	\$ 151	\$ -	\$ -	\$ 151
Domestic stock	76	-	-	76
Domestic securities and funds	74,629	-	-	74,629
International equity funds	81,164	-	-	81,164
Fixed income funds	<u>118,660</u>	<u>-</u>	<u>-</u>	<u>118,660</u>
	274,680	-	-	274,680
Planned gifts	<u>-</u>	<u>-</u>	<u>9,073</u>	<u>9,073</u>
	<u>\$ 274,680</u>	<u>\$ -</u>	<u>\$ 9,073</u>	283,753
Investments measured at net asset value				<u>95,677</u>
				<u>\$ 379,430</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Investments				
Cash and cash equivalents	\$ 30,365	\$ -	\$ -	\$ 30,365
Domestic stock	215	-	-	215
Domestic securities and funds	51,694	-	-	51,694
International equity funds	58,941	-	-	58,941
Fixed income funds	<u>81,782</u>	<u>-</u>	<u>-</u>	<u>81,782</u>
	222,997	-	-	222,997
Planned gifts	<u>-</u>	<u>-</u>	<u>9,221</u>	<u>9,221</u>
	<u>\$ 222,997</u>	<u>\$ -</u>	<u>\$ 9,221</u>	232,218
Investments measured at net asset value				<u>157,637</u>
				<u>\$ 389,855</u>

There were no significant transfers in or out of Levels 1, 2 or 3 during the years ending June 30, 2020 and 2019.

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5. FAIR VALUE MEASUREMENTS (continued)

GDB uses the net asset value (NAV) to determine the fair value of all the underlying investments that (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The following table lists GDB's investments measured at NAV by major category as of June 30, 2020

Strategy	NAV in Funds	# of Funds	Redeemable	Non- Redeemable	Amount of Unfunded Commitments	Redemption Term	Redemption Restrictions
Absolute return	\$ 1,068	1	\$ -	\$ 1,068	\$ -	N/A	Non-redeemable
Private equity	34,098	5	-	34,098	20,923	N/A	Non-redeemable
Real assets	8,021	3	9	8,012	590	Quarterly	0 - 90 days
Natural resource	7,099	1	-	7,099	488	N/A	Non-redeemable
Venture capital	15,313	2	-	15,313	1,103	N/A	Non-redeemable
Hedge fund	30,078	1	-	30,078	-	N/A	Non-redeemable
	<u>\$ 95,677</u>		<u>\$ 9</u>	<u>\$ 95,668</u>	<u>\$ 23,104</u>		

The following table lists GDB's investments measured at NAV by major category as of June 30, 2019

Strategy	NAV in Funds	# of Funds	Redeemable	Non- Redeemable	Amount of Unfunded Commitments	Redemption Term	Redemption Restrictions
Absolute return	\$ 52,258	3	\$ 49,545	\$ 2,713	\$ -	Quarterly	0 - 95 days
Private equity	35,725	4	-	35,725	6,798	N/A	Non-redeemable
Real assets	43,813	5	35,364	8,449	1,055	Quarterly	0 - 90 days
Natural resource	10,794	1	-	10,794	488	N/A	Non-redeemable
Venture capital	15,047	2	-	15,047	1,650	N/A	Non-redeemable
	<u>\$ 157,637</u>		<u>\$ 84,909</u>	<u>\$ 72,728</u>	<u>\$ 9,991</u>		

GDB had additional unfunded commitments totaling \$46,300 as of June 30, 2019 for new alternative investment funds.

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6. PROPERTY, PLANT, AND EQUIPMENT, NET

Property, plant, and equipment consisted of the following as of June 30,:

	2020	2019
Land	\$ 996	\$ 996
Land improvements	2,393	2,369
Building improvements	7,007	6,923
Buildings	68,445	46,810
Furniture and fixtures	8,135	6,532
Vehicles	3,596	3,360
Communications media	159	159
Construction in progress	1,002	17,990
	91,733	85,139
Less: accumulated depreciation and amortization	(43,374)	(40,761)
	\$ 48,359	\$ 44,378

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 amounted to \$2,915 and \$2,500, respectively.

7. LINE OF CREDIT

In February 2019, GDB entered into a line of credit loan agreement with a borrowing limit of \$10,000. The line of credit bears interest at the rate as published in the Western Edition of The Wall Street Journal as the U.S. prime rate, minus one percent (2.25% and 4.50% at June 30, 2020 and 2019, respectively) and is secured by right, title and interest in all of GDB's personal property except for investments, assets held in trust of others including planned gifts, and donor restricted funds. The principle balance on the line of credit and all accrued and unpaid interest was originally due and payable on August 20, 2020. The line of credit loan agreement was amended on September 1, 2020, extending the maturity date to August 31, 2021. As of June 30, 2020 and 2019, there was no outstanding balance on the line of credit.

8. LOANS PAYABLE

On December 1, 2016, GDB received a California Enterprise Development Authority ("CEDA") Series A Tax Exempt Loan ("Series A loan") with a par value of \$9,600 and a Series B Tax Exempt Loan ("Series B loan") with a par value up to \$20,000 both which were issued by First Republic Bank to assist in funding construction of GDB's Puppy Center. In October 2018, the original loan agreement was amended to allow GDB to receive a Series C Tax Exempt Loan ("Series C loan") with a par value up to \$3,000. The amount outstanding on the Series A loan for the years ended June 30, 2020 and 2019 was \$9,474 and \$9,600, respectively. The amount outstanding on the Series B loan as of June 30, 2020 and 2019 was \$18,848 and \$14,410, respectively. The amount outstanding on the Series C loan as of June 30, 2020 and 2019 was \$54 and \$58, respectively.

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8. LOANS PAYABLE (continued)

GDB's net loan issuance costs associated with the loans payable amounted to \$200 and \$207 as of June 30, 2020 and 2019, respectively.

GDB is obligated to pay all debt service on the loan when due. Interest payments are due on the first of each month. The Series A and Series B loans bear variable interest, which is the greater of 1% or 67% of the LIBOR Index Rate plus .8% (1.00% and 2.43% at June 30, 2020 and 2019, respectively). On or before January 1, 2027, the rate may be converted, at GDB's option, to fixed at the Treasury Rate through maturity of the loan. Principal payments on the Series A loan are due beginning on February 1, 2020, continuing annually through February 1, 2047. Principal payments on the Series B loan are due beginning on August 1, 2020, continuing annually through February 1, 2047. Principal payments on the Series C loan are due beginning on February 1, 2021, continuing annually through February 1, 2047. Security for the loan includes all the personal property except the investments, restricted assets, and assets held in trust. In addition, security includes agreements not to encumber any of the real property.

The future maturities of the tax-exempt loan are as follows:

<u>Year ending June 30,</u>		
2021	\$	1,051
2022		1,051
2023		1,051
2024		1,051
2025		1,051
Thereafter		<u>23,121</u>
		28,376
Deferred loan issuance costs, net		<u>(200)</u>
	<u>\$</u>	<u>28,176</u>

The loans contain covenants that GDB must comply with on a semi-annual and annual basis. At June 30, 2020 and 2019, GDB was in compliance with all loan covenants.

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9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2020	2019
Restricted for a specified purpose		
Puppy Clubs	\$ 1,393	\$ 1,238
Team Sponsors	285	252
All others	235	244
	1,913	1,734
Restricted for passage of time		
Pledges receivable without donor restrictions	1,418	1,867
Planned gifts	7,053	6,663
Endowment earnings	1,339	1,459
	9,810	9,989
To be held in perpetuity	12,063	11,724
	\$ 23,786	\$ 23,447

Net assets of \$3,563 and \$3,230 were released during the years ended June 30, 2020 and 2019, respectively, in accordance with the donors' intent.

10. ENDOWMENT

On February 9, 2019, the Board of Directors changed how expenses were managed from using a spending policy to the use of a budgetary method with long range planning in order to focus on a much more integrated and mission-driven approach. The spending policy for board designated funds was eliminated and the Board defined sustainability as three years of current expenses. Three years of current expenses is now set aside in the net assets without donor restrictions. The impact of this decision was to effectively eliminate the board-designated endowment used in previous years by the Board of Directors. In eliminating the board-designated endowment, funds were re-designated to board-designated, non-endowment funds based on three years of current expenses, as well as other funds earmarked for future expenditures including infrastructure expansion and upgrades, client's successor dogs and other program services. As of June 30, 2020, GDB has 25 individual donor-restricted endowment funds.

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10. ENDOWMENT (continued)

Interpretation of relevant law

The Board of Directors of GDB has interpreted the California enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as allowing GDB to appropriate for expenditure or accumulate so much of an endowment fund as GDB determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. The remaining portion of the donor-restricted endowment fund that is not classified as held in perpetuity are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

Return objectives and risk parameters

For donor-restricted endowment funds, GDB has adopted investment policies that will provide a predictable stream of funding to programs supported by its restricted endowments. Endowment assets include those assets of donor restricted funds that GDB must hold in perpetuity.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, GDB relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending policy

For the years ended June 30, 2020 and 2019, the Board of Directors used specified donor restrictions or, where there were no specified donor restrictions, UPMIFA for managing its restricted endowments. Under UPMIFA, up to 7% of a rolling 5 year average may be appropriated for expenditures. The actual spending is reviewed periodically in light of economic conditions and relationship to the overall long term investment benchmarks.

Funds with deficiencies

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 UPMIFA requires GDB to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2020 and 2019.

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10. ENDOWMENT (continued)

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 13,402</u>	<u>\$ 13,402</u>

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 13,183</u>	<u>\$ 13,183</u>

Changes in endowment net assets for the fiscal years ended June 30, 2020 and 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, June 30, 2018	<u>\$ 361,443</u>	<u>\$ 13,082</u>	<u>\$ 374,525</u>
Interest and dividends	-	38	38
Net appreciation (realized and unrealized)	-	105	105
Contributions	-	87	87
Board re-designation of endowment	(361,443)	-	(361,443)
Appropriation of endowment assets	<u>-</u>	<u>(129)</u>	<u>(129)</u>
	<u>(361,443)</u>	<u>101</u>	<u>(361,342)</u>
Balance, June 30, 2019	<u>-</u>	<u>13,183</u>	<u>13,183</u>
Interest and dividends	-	56	56
Net appreciation (realized and unrealized)	-	(49)	(49)
Contributions	-	339	339
Appropriation of endowment assets	<u>-</u>	<u>(127)</u>	<u>(127)</u>
	<u>-</u>	<u>219</u>	<u>219</u>
Balance, June 30, 2020	<u>\$ -</u>	<u>\$ 13,402</u>	<u>\$ 13,402</u>

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11. CONTINGENCIES

GDB is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of GDB.

12. JOINT COSTS

For the years ended June 30, 2020 and 2019, GDB incurred joint costs of \$1,082 and \$1,327, respectively, for informational materials and activities that included fundraising appeals. Of those costs, \$271 and \$332 was allocated to program services and \$811 and \$995 was allocated to development for the years ended June 30, 2020 and 2019, respectively.

13. EMPLOYEE BENEFIT PLAN

GDB has a 403(b) defined contribution plan with discretionary matching employer contributions. For the years ended June 30, 2020 and 2019, GDB contributed dollar-for-dollar matching contributions to the defined contribution plan, up to a maximum of 4% of an employees' salary. For the years ended June 30, 2020 and 2019, GDB contributed \$768 and \$697, respectively.

14. RISKS AND UNCERTAINTIES

In December 2019, a novel strain of coronavirus ("COVID-19") was reported in Wuhan, China. On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders, including California and Oregon where GDB is headquartered and holds campuses. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which includes significant provisions to provide relief and assistance to affected organizations.

Impacts to GDB's operations include disruptions and restrictions on employees' ability to work and the fluctuations in investment balances due to the effect of the pandemic on the financial markets. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders and the ultimate impact. It is at least reasonably possible that this matter will negatively impact GDB. However, the financial impact and duration cannot be reasonably estimated at this time.

15. LIQUIDITY AND FUNDS AVAILABLE

As part of GDB's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

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15. LIQUIDITY AND FUNDS AVAILABLE (continued)

As part of this policy, GDB holds in its investment account a board designated operating reserve equal to at least three years of operating expenses that could be made available if needed. Spending from the board designated operating reserve is determined by the Board of Directors on an annual basis. The Board approved budgetary draw for the year ending June 30, 2021 is \$26,684.

Long-term investments include both the board designated operating reserve and donor-restricted funds. There are also certain limitations on availability of long-term investment funds totaling approximately \$96,000 at June 30, 2020 which are non-redeemable and therefore are not available to support general expenditures within one-year from the statement of financial position. Other long-term investments totaling approximately \$9 are subject to certain lockup restrictions, although GDB would be able to access these funds at the end of any calendar year with a 0 to 90 day redemption notice, but would otherwise not be available to support general expenditures within one year from the statement of financial position. As of June 30, 2020, GDB does not intend to redeem such investments.

GDB's CEDA Series A, Series B, and Series C loans issued to assist in funding construction of GDB's Puppy Center are collateralized by all personal property except the investments, restricted assets, and assets held in trust. In addition, security includes agreements not to encumber any of the real property. The loans payable balance as of June 30, 2020 totaled \$28,376. The loan agreements also specify a liquidity requirement whereby GDB is to maintain liquid assets in an amount not less than \$75,000.

Short-term pledges receivable consists of unconditional promises to give expected to be received within one year from June 30, 2020. Short-term pledges receivable will be available to support general operations of GDB.

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2020 to fund general expenditures and other obligations as they become due:

Financial assets available for general expenditure within one year:

Cash and cash equivalents	\$ 3,863
Other receivables	266
Pledges receivable, current portion	675
Bequests receivable	610
Board approved budgetary draw from investments	<u>26,684</u>
	<u>\$ 32,098</u>

Additionally, GDB has a committed line of credit in the amount of \$10,000, which it could draw upon in the event of an unanticipated liquidity need.