

Guide Dogs for the Blind, Inc.

Financial Statements

June 30, 2021 and 2020



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 24



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, 2021 and 2020, 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, 2021 and 2020, 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.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

October 1, 2021

Guide Dogs for the Blind, Inc.
Statements of Financial Position
June 30, 2021 and 2020
(In thousands)

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,234	\$ 3,863
Other receivables	201	266
Pledges receivable, current portion	507	675
Bequests receivable	1,396	610
Prepaid expenses and other assets	834	511
Total current assets	6,172	5,925
Long-term assets		
Pledges receivable, net of current portion	1,026	743
Investments	462,129	370,357
Planned gifts	8,512	9,073
Property, plant, and equipment, net	49,511	48,359
Total long-term assets	521,178	428,532
Total assets	\$ 527,350	\$ 434,457
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 5,024	\$ 4,246
Equipment lease payable, current portion	-	60
Current portion of loans payable	1,201	1,051
Total current liabilities	6,225	5,357
Long-term liabilities		
Obligations under annuity agreements	2,423	2,722
Loans payable, net of deferred issuance costs, net of current portion	29,840	27,125
Total long-term liabilities	32,263	29,847
Total liabilities	38,488	35,204
Net assets		
Without donor restrictions		
Board-designated operating reserve for sustainability	171,546	164,562
Available for infrastructure expansion and upgrades	100,000	100,000
Available for client's successor dogs	125,000	100,000
Generally available for expansion of client services	67,864	10,905
Total without donor restrictions	464,410	375,467
With donor restrictions	24,452	23,786
Total net assets	488,862	399,253
Total liabilities and net assets	\$ 527,350	\$ 434,457

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, 2021 and 2020
(In thousands)

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue						
Fundraising						
Bequests and trusts	\$ 12,757	\$ 524	\$ 13,281	\$ 20,718	\$ 1,953	\$ 22,671
Contributions	10,820	3,299	14,119	8,812	1,464	10,276
Special campaigns	-	-	-	147	88	235
Special events	830	-	830	779	-	779
Less: special event costs	(149)	-	(149)	(347)	-	(347)
Total fundraising	<u>24,258</u>	<u>3,823</u>	<u>28,081</u>	<u>30,109</u>	<u>3,505</u>	<u>33,614</u>
Other income						
Investment income, net	108,771	864	109,635	4,672	7	4,679
Change in value of planned gifts	1,300	-	1,300	(680)	390	(290)
Other	257	-	257	454	-	454
Total other income	<u>110,328</u>	<u>864</u>	<u>111,192</u>	<u>4,446</u>	<u>397</u>	<u>4,843</u>
Total support and revenue	134,586	4,687	139,273	34,555	3,902	38,457
Net assets released from restriction	<u>4,021</u>	<u>(4,021)</u>	<u>-</u>	<u>3,563</u>	<u>(3,563)</u>	<u>-</u>
Total support, revenue and net assets released from restriction	<u>138,607</u>	<u>666</u>	<u>139,273</u>	<u>38,118</u>	<u>339</u>	<u>38,457</u>
Functional expenses						
Program services	38,855	-	38,855	39,431	-	39,431
Management and general	3,518	-	3,518	3,269	-	3,269
Development	7,291	-	7,291	6,461	-	6,461
Total functional expenses	<u>49,664</u>	<u>-</u>	<u>49,664</u>	<u>49,161</u>	<u>-</u>	<u>49,161</u>
Change in net assets	88,943	666	89,609	(11,043)	339	(10,704)
Net assets, beginning 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>
Net assets, end of year	<u>\$ 464,410</u>	<u>\$ 24,452</u>	<u>\$ 488,862</u>	<u>\$ 375,467</u>	<u>\$ 23,786</u>	<u>\$ 399,253</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, 2021 and 2020
(In thousands)

	2021				2020			
	Program Services	Management and General	Development	Total	Program Services	Management and General	Development	Total
Functional expenses								
Salaries and wages	\$ 19,165	\$ 1,663	\$ 2,017	\$ 22,845	\$ 18,736	\$ 1,535	\$ 1,696	\$ 21,967
Payroll taxes and employee benefits	5,277	329	347	5,953	5,256	310	324	5,890
Direct mail and publications	217	2	3,807	4,026	537	4	3,526	4,067
Veterinary services and supplies	3,596	-	-	3,596	3,758	-	-	3,758
Professional services and fees	1,108	782	628	2,518	1,104	680	382	2,166
Maintenance and repairs	1,908	255	104	2,267	2,147	257	153	2,557
Utilities and telecommunications	1,252	107	43	1,402	1,118	89	42	1,249
Other	622	145	36	803	663	131	48	842
Insurance	534	30	30	594	459	25	24	508
Transportation	395	21	10	426	1,066	33	72	1,171
Dog food and supplies	394	-	4	398	821	-	8	829
Custodian and security fees	328	26	10	364	203	15	6	224
Interest	330	1	-	331	281	14	-	295
Workers' compensation	207	12	12	231	332	19	17	368
Postage	69	14	118	201	47	18	36	101
Legal fees	27	40	68	135	8	36	42	86
Student food and services	92	-	-	92	95	-	-	95
General office expense	27	9	5	41	43	13	17	73
Depreciation and amortization	3,307	82	52	3,441	2,757	90	68	2,915
Total functional expenses	<u>\$ 38,855</u>	<u>\$ 3,518</u>	<u>\$ 7,291</u>	<u>\$ 49,664</u>	<u>\$ 39,431</u>	<u>\$ 3,269</u>	<u>\$ 6,461</u>	<u>\$ 49,161</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, 2021 and 2020
(In thousands)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 89,609	\$ (10,704)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Unrealized (gain) loss on investments, net	(69,825)	39,137
Realized gain on sale of investments, net	(34,863)	(37,494)
Donations of stock	(895)	(960)
(Gain) loss on sale of property, plant, and equipment	95	(60)
Loss on write-off of property, plant and equipment	-	104
Change in value of planned gifts	(1,300)	290
Depreciation and amortization	3,441	2,915
Amortization of loan issuance costs	8	8
Contributions restricted for long-term investment	(151)	(339)
Changes in operating assets and liabilities		
Other receivables	65	(53)
Pledges receivable	(711)	449
Bequests receivable	(786)	(483)
Prepaid expenses and other assets	(323)	330
Planned gifts	1,562	(665)
Accounts payable and accrued expenses	<u>164</u>	<u>(2,265)</u>
Net cash used in operating activities	<u>(13,910)</u>	<u>(9,790)</u>
Cash flows from investing activities		
Purchases of property, plant, and equipment	(4,089)	(6,971)
Proceeds from sale of property, plant, and equipment	15	120
Purchases of investments	(158,992)	(132,636)
Proceeds from sale of investments	<u>172,803</u>	<u>142,230</u>
Net cash provided by investing activities	<u>9,737</u>	<u>2,743</u>
Cash flows from financing activities		
Cash received for contributions restricted for long-term investment	747	339
Payments on equipment leases	(60)	(57)
Proceeds from issuance of loans payable, net	3,860	4,672
Payments on loans payable	<u>(1,003)</u>	<u>(365)</u>
Net cash provided by financing activities	<u>3,544</u>	<u>4,589</u>
Net decrease in cash and cash equivalents	(629)	(2,458)
Cash and cash equivalents, beginning of year	<u>3,863</u>	<u>6,321</u>
Cash and cash equivalents, end of year	<u>\$ 3,234</u>	<u>\$ 3,863</u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 328	\$ 321
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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, 2021 and 2020
(In thousands)

1. ORGANIZATION AND OPERATIONS

Guide Dogs for the Blind, Inc. ("GDB") was founded nearly 80 years ago in 1942 and is the largest guide dog school in North America. GDB is more than an industry-leading guide dog school; GDB is a passionate community serving the visually impaired and more than 16,000 guide dog teams have been created since its inception.

GDB believes that everyone deserves to move through the world safely and confidently - to live the life they want to live. A guide dog is so much more than a mobility tool for someone with a visual impairment. A guide dog is a partner, confidence-builder, soulmate, travel companion, and social bridge. GDB's community commits to the absolute best practices in preparing dogs and clients for the guide dog lifestyle. A full complement of support services is provided to clients and includes orientation and mobility training services as well as youth services. GDB also 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, communities are stronger.

GDB is headquartered in San Rafael, California, has a campus in Boring, Oregon, and field support staff located throughout the United States. All services are provided to clients from the US and Canada at no cost. GDB does not receive government assistance and its full complement of free services are funded entirely by private donations.

Impact of COVID-19

As described in Note 14, in March 2020, the novel strain of coronavirus ("COVID-19") began to impact GDB's ability to perform in-person program services and guide dog training. Despite the difficulties presented by the pandemic, GDB staff and its community of passionate volunteers have been able to pivot, employing innovative ways to move its mission forward. GDB staff has continued to provide unparalleled support to its clients employing new safety protocols for training guide dog teams and Orientation and Mobility Immersion ("OMI") clients on both campuses and via in-home training. The team also harnessed remote and virtual tools. These tools included Town Halls and individualized virtual connections to ensure the ongoing health and well-being of GDB's clients and its dogs. GDB also provided puppy raising and foster care volunteers with the tools they needed to provide loving and expert care to the puppies and adult program dogs in their homes. Virtual tools also played a critical role in expanding Youth Programs as detailed below.

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, 2021, GDB served over 2,000 guide dog teams across the US and Canada. Guide dog teams train and graduate from GDB's campuses in California and Oregon, and this year, GDB expanded its in-home client training services. Technology was widely utilized to ensure the safety of clients and instructors. As part of GDB's client service commitment, clients had access to on-campus veterinary services; veterinary financial assistance; dedicated field service representatives; 24/7 call-in support; an alumni association, and much more.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

1. ORGANIZATION AND OPERATIONS (continued)

Orientation & Mobility Immersion Program

Four years ago, GDB expanded its service offering to include a free OMI 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 154 clients to date and this year 11 clients were helped on their journey to greater safety, independence, and inclusion. GDB trained clients on both campuses as well as conducted in-home trainings to continue to build momentum for this critical program. Instructors also employed special protocols to ensure the safety of all involved.

Youth Programs

While GDB's guide dog and OMI programs primarily serve adults, GDB also seeks out ways to engage youth who are blind or visually impaired. GDB has several free programs that provide youth and their families an opportunity to explore the guide dog lifestyle starting at a young age.

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 GDB's clients at no cost to their families. This year 24 K9 Buddy teams were created.

At Camp GDB, participants explore the companionship, independence, and responsibility of having a guide dog. Campers learn about 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. The 2021 Virtual Guide Dog summer camp program took place June 28 - July 2 with 14 participants between the ages of 14 and 17 from California to New York.

GDB also launched an exciting new workshop series called Ready Set FORWARD to introduce blind youth, their parents, and blindness professionals to the guide dog lifestyle. This innovative program will be shared with potential applicants and professionals at conferences and conventions this Fall.

Advocacy Efforts

GDB's Advocacy team is leading the industry with innovative advocacy initiatives. GDB is partnering with the American Foundation for the Blind to create a first of its kind blindness research project. The team also created a national Compassion During Covid campaign to help reduce challenges clients are facing during the pandemic.

GDB engaged in collaborative advocacy efforts in partnership with other service animal organizations and airlines to create a video that equips airport and airline personnel to provide safe and equitable service to travelers who are blind or visually impaired. GDB was also proud to co-sponsor California legislation to address the negative impact of fraudulent service animals while protecting public access rights for people with legitimate service animals like guide dogs.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

1. ORGANIZATION AND OPERATIONS (continued)

Support Network

GDB's partnerships with thousands of passionate volunteers who donate their time, talents, and hearts are what make GDB's mission a reality. GDB has up to 2,000 volunteer puppy raisers in the 10 western states, several hundred Breeder Custodians and foster care volunteers, and averages nearly 800 campus volunteers each year. 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's generous private 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 giving societies, dedicated to those who have made a substantial contribution. GDB's Legacy Society honors the vision of those who have included GDB in their estate plans.

GDB 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 3 years of expenses in the upcoming fiscal year budget.
- *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.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 utilizes 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 and the Investment Committee of the Board monitors the performance of the OCIO.

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, 2021 and 2020, two donors accounted for approximately 78% and 62% of GDB's outstanding pledges receivable, respectively. During the years ended June 30, 2021 and 2020, one individual accounted for approximately 31% and 12% of bequests and trusts revenue, respectively.

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, 2021 and 2020, 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.

Bequests receivable

Bequest revenue is recognized when cash is received or when clear title has been established and the proceeds are measurable. Receivables are recorded for the period ended as long as notice was received prior to the period end.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 (\$2,189 and \$2,517 at June 30, 2021 and 2020, 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 to beneficiaries is recorded as obligations under annuity agreements (\$234 and \$205 at June 30, 2021 and 2020, respectively) at the present value of the payments using an appropriate discount rate and applicable mortality tables.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Amortization of the loan issuance costs is charged to interest expense. 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.

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, 2021 and 2020.

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 are recorded and 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.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed services and in-kind donations

During the years ended June 30, 2021 and 2020, approximately 4,200 and 15,000 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, 2021 and 2020 totaled \$401 and \$387, respectively, and are classified as contributions and expense based on the nature of the donation.

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.

Advertising costs

GDB's policy is to expense advertising costs as the costs are incurred. Advertising costs totaled \$104 and \$125 for the years ended June 30, 2021 and 2020, respectively, and are included in direct mail and publications on the statements of functional expenses.

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, 2021 and 2020, it does not have any significant uncertain tax positions for which a reserve would be necessary.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 ("ASU") 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.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent accounting pronouncements (continued)

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Under this ASU, a not-for-profit entity is required to present contributed nonfinancial assets as a separate line-item in the statement of activities, apart from contributions of cash and other financial assets as well as include enhanced disclosures surrounding the nature and valuation techniques of the contributed nonfinancial assets. This ASU is effective for fiscal years beginning after June 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 events through October 1, 2021, 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:

	<u>2021</u>	<u>2020</u>
Receivable in less than one year	\$ 507	\$ 675
Receivable in one to five years	<u>1,047</u>	<u>765</u>
	1,554	1,440
Less: discount on pledges receivable	<u>(21)</u>	<u>(22)</u>
	<u><u>\$ 1,533</u></u>	<u><u>\$ 1,418</u></u>

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 387	\$ 151
Domestic stock	76	76
Domestic securities and funds	170,881	74,629
International equity funds	31,681	81,164
Fixed income funds	136,108	118,660
Alternative investments	<u>122,996</u>	<u>95,677</u>
	<u>\$ 462,129</u>	<u>\$ 370,357</u>

Investment income consisted of the following:

	<u>2021</u>	<u>2020</u>
Interest and dividend income	\$ 5,914	\$ 7,092
Unrealized gains (losses), net	69,825	(39,137)
Realized gains, net	<u>34,863</u>	<u>37,494</u>
	110,602	5,449
Less: investment expense	<u>(967)</u>	<u>(770)</u>
	<u>\$ 109,635</u>	<u>\$ 4,679</u>

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

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, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Investments				
Cash and cash equivalents	\$ 387	\$ -	\$ -	\$ 387
Domestic stock	76	-	-	76
Domestic securities and funds	170,881	-	-	170,881
International equity funds	31,681	-	-	31,681
Fixed income funds	<u>136,108</u>	-	-	<u>136,108</u>
	339,133	-	-	339,133
Planned gifts	<u>-</u>	-	<u>8,512</u>	<u>8,512</u>
	<u>\$ 339,133</u>	<u>\$ -</u>	<u>\$ 8,512</u>	347,645
Investments measured at net asset value				<u>122,996</u>
				<u>\$ 470,641</u>

The following table sets forth by level, within the fair value hierarchy, the Organization'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>118,660</u>
	274,680	-	-	274,680
Planned gifts	<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>

There were no significant transfers in or out of Levels 1, 2 or 3 during the years ending June 30, 2021 and 2020.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

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, 2021:

Strategy	NAV in Funds	# of Funds	Redeemable	Non- Redeemable	Amount of Unfunded Commitments	Redemption Term	Redemption Restrictions
Absolute return	\$ 664	1	\$ -	\$ 664	\$ -	N/A	Non-redeemable
Private equity	45,405	5	-	45,405	18,722	N/A	Non-redeemable
Real assets	6,203	5	-	6,203	903	Quarterly	0 - 90 days
Natural resource	7,921	1	-	7,921	338	N/A	Non-redeemable
Venture capital	25,734	2	-	25,734	678	N/A	Non-redeemable
Hedge fund	37,069	1	-	37,069	-	N/A	Non-redeemable
	<u>\$ 122,996</u>		<u>\$ -</u>	<u>\$ 122,996</u>	<u>\$ 20,641</u>		

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>		

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

6. PROPERTY, PLANT, AND EQUIPMENT, NET

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

	2021	2020
Land	\$ 996	\$ 996
Land improvements	3,935	2,393
Building improvements	8,066	7,007
Buildings	68,007	68,445
Furniture and fixtures	6,466	8,135
Vehicles	3,430	3,596
Communications media	159	159
Construction in progress	1,725	1,002
	92,784	91,733
Less: accumulated depreciation and amortization	(43,273)	(43,374)
	\$ 49,511	\$ 48,359

Depreciation and amortization expense for the years ended June 30, 2021 and 2020 amounted to \$3,441 and \$2,915, 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% at June 30, 2021 and 2020) and is secured by the 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, 2021 and 2020, 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, 2021 and 2020 was \$9,158 and \$9,474, respectively. The amount outstanding on the Series B loan as of June 30, 2021 and 2020 was \$19,122 and \$18,848, respectively. The amount outstanding on the Series C loan as of June 30, 2021 and 2020 was \$2,953 and \$54, respectively.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

8. LOANS PAYABLE (continued)

GDB's net loan issuance costs associated with the loans payable amounted to \$192 and \$200 as of June 30, 2021 and 2020, 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, 2021 and 2020, 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>	
2022	\$ 1,201
2023	1,201
2024	1,201
2025	1,201
2026	1,201
Thereafter	<u>25,228</u>
	31,233
Deferred loan issuance costs, net	<u>(192)</u>
	<u>\$ 31,041</u>

The loans contain covenants that GDB must comply with on a semi-annual and annual basis. At June 30, 2021 and 2020, GDB was in compliance with all loan covenants.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2021	2020
Restricted for a specified purpose		
Puppy Clubs	\$ 1,385	\$ 1,393
Team Sponsors	325	285
All others	313	235
	2,023	1,913
Restricted for passage of time		
Pledges receivable without donor restrictions	1,533	1,418
Planned gifts	6,930	7,053
Endowment earnings	1,962	1,339
	10,425	9,810
To be held in perpetuity	12,004	12,063
	\$ 24,452	\$ 23,786

Net assets of \$4,021 and \$3,563 were released during the years ended June 30, 2021 and 2020, 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 client services. As of June 30, 2021, GDB has 25 individual donor-restricted endowment funds.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

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, 2021 and 2020, 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, 2021 and 2020.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

10. ENDOWMENT (continued)

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2021 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u> -</u>	\$ <u> 13,966</u>	\$ <u> 13,966</u>

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>

Changes in endowment net assets for the fiscal years ended June 30, 2021 and 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</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>
Interest and dividends	-	82	82
Net appreciation (realized and unrealized)	-	782	782
Contributions	-	141	141
Donor-approved release	-	(200)	(200)
Appropriation of endowment assets	<u> -</u>	<u> (241)</u>	<u> (241)</u>
	<u> -</u>	<u> 564</u>	<u> 564</u>
Balance, June 30, 2021	<u>\$ <u> -</u></u>	<u>\$ <u> 13,966</u></u>	<u>\$ <u> 13,966</u></u>

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

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, 2021 and 2020, GDB incurred joint costs of \$1,061 and \$1,082, respectively, for informational materials and activities that included fundraising appeals. Of those costs, \$265 and \$271 was allocated to program services and \$796 and \$811 was allocated to development for the years ended June 30, 2021 and 2020, respectively.

13. EMPLOYEE BENEFIT PLAN

GDB has a 403(b) defined contribution plan with discretionary matching employer contributions. For the years ended June 30, 2021 and 2020, 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, 2021 and 2020, GDB contributed \$821 and \$768, respectively.

14. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared 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.

The COVID-19 pandemic remains a rapidly evolving situation and, as described in Note 1, while there was no material adverse financial impact to GDB during the years ended June 30, 2021 and 2020, there is uncertainty around the ultimate financial impact.

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.

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 years ending June 30, 2022 and 2021 is \$27,065 and \$26,684, respectively.

Guide Dogs for the Blind, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

15. LIQUIDITY AND FUNDS AVAILABLE (continued)

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 \$123,000, and \$96,000 at June 30, 2021 and 2020, respectively, which are non-redeemable and therefore are not available to support general expenditures within one-year from the statement of financial position.

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 trusts. In addition, security includes agreements not to encumber any of the real property. The loans payable balance as of June 30, 2021 and 2020 totaled \$31,233 and \$28,376, respectively. 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, 2021 and 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, 2021 and 2020 to fund general expenditures and other obligations as they become due:

Financial assets available for general expenditure within one year as of June 30,:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,234	\$ 3,863
Other receivables	201	266
Pledges receivable, current portion	507	675
Bequests receivable	1,396	610
Board approved budgetary draw from investments	<u>27,065</u>	<u>26,684</u>
	<u>\$ 32,403</u>	<u>\$ 32,098</u>