

**NATIONAL EDUCATION FOR
ASSISTANCE DOG SERVICES, INC.**

FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2013

AND

INDEPENDENT AUDITOR'S REPORT

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
National Education for Assistance Dog Services, Inc.
West Boylston, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of National Education for Assistance Dog Services, Inc. which comprise the statement of financial position as of August 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 National Education for Assistance Dog Services, Inc. as of August 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited National Education for Assistance Dog Services, Inc.'s 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 14, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bollus Lynch, LLP

Worcester, Massachusetts
November 13, 2013

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2013

(With Summarized Financial Information for 2012)

	Operating	Restricted	Endowment	Totals	
				2013	2012
Assets					
Current assets					
Cash and cash equivalents	\$ 64,892	\$ 28,307	\$ -	\$ 93,199	\$ 60,425
Accounts receivable, net	22,995	-	-	22,995	22,995
Pledges receivable	70,496	-	-	70,496	41,000
Prepaid expenses	10,825	-	-	10,825	-
Other current assets	6,142	-	-	6,142	4,545
Total current assets	175,350	28,307	-	203,657	128,965
Investments	230,204	521,258	1,988,976	2,740,438	2,754,539
Long-term pledges receivable	108,000	-	-	108,000	60,000
Notes receivable	-	-	-	-	80,975
Property, plant and equipment, net	1,917,774	-	-	1,917,774	1,903,540
Due (to) from other funds	(697,544)	697,544	-	-	-
Total assets	\$ 1,733,784	\$ 1,247,109	\$ 1,988,976	\$ 4,969,869	\$ 4,928,019
Liabilities and Net Assets					
Current Liabilities					
Current maturities of long-term debt	\$ 23,538	\$ -	\$ -	\$ 23,538	\$ 22,170
Accounts payable and accrued liabilities	119,621	-	-	119,621	64,978
Total current liabilities	143,159	-	-	143,159	87,148
Long-term liabilities					
Long-term debt, less current maturities	250,287	-	-	250,287	273,780
Net assets					
Unrestricted					
Operating	(336,242)	-	-	(336,242)	(424,506)
Board designated for investment	-	-	413,435	413,435	583,624
Plant	1,676,580	-	-	1,676,580	1,676,580
Total unrestricted	1,340,338	-	413,435	1,753,773	1,835,698
Temporarily restricted	-	1,247,109	-	1,247,109	1,155,852
Permanently restricted	-	-	1,575,541	1,575,541	1,575,541
Total net assets	1,340,338	1,247,109	1,988,976	4,576,423	4,567,091
Total liabilities and net assets	\$ 1,733,784	\$ 1,247,109	\$ 1,988,976	\$ 4,969,869	\$ 4,928,019

See accompanying independent auditor's report and notes to financial statements.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2013
 (With Summarized Financial Information for 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2013	2012
Support and revenue					
General fees and contributions	\$ 1,186,148	\$ 540,518	\$ -	\$ 1,726,666	\$ 1,728,245
Contributed goods and services	160,708	-	-	160,708	221,981
Grants and foundation gifts	204,187	152,325	-	356,512	368,218
Interest income	1,642	-	-	1,642	9,101
Investment return	132,911	-	-	132,911	68,014
Other income	3,188	-	-	3,188	4,932
Net assets released from restrictions	<u>601,586</u>	<u>(601,586)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,290,370</u>	<u>91,257</u>	<u>-</u>	<u>2,381,627</u>	<u>2,400,491</u>
Expenses					
Training program	2,048,596	-	-	2,048,596	2,138,206
Management and general	151,254	-	-	151,254	199,246
Fund raising	<u>172,445</u>	<u>-</u>	<u>-</u>	<u>172,445</u>	<u>173,940</u>
Total expenses	<u>2,372,295</u>	<u>-</u>	<u>-</u>	<u>2,372,295</u>	<u>2,511,392</u>
Change in net assets	(81,925)	91,257	-	9,332	(110,901)
Net assets, beginning of year	<u>1,835,698</u>	<u>1,155,852</u>	<u>1,575,541</u>	<u>4,567,091</u>	<u>4,677,992</u>
Net assets, end of year	<u>\$ 1,753,773</u>	<u>\$ 1,247,109</u>	<u>\$ 1,575,541</u>	<u>\$ 4,576,423</u>	<u>\$ 4,567,091</u>

See accompanying independent auditor's report and notes to financial statements.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2013
 (With Summarized Financial Information for 2012)

	Training Program	Management and General	Fund Raising	Totals	
				2013	2012
Salaries and benefits	\$ 1,229,636	\$ 101,264	\$ 115,730	\$ 1,446,630	\$ 1,435,538
Kennel supplies and dog care	61,581	-	-	61,581	59,231
Veterinary fees	154,708	-	-	154,708	222,175
Purchase of dogs	106,975	-	-	106,975	106,235
Education	2,628	-	-	2,628	2,667
Repairs and maintenance	17,284	-	-	17,284	21,323
Motor vehicles	31,236	-	-	31,236	34,271
Rent expense	1,273	-	-	1,273	14,949
Utilities	60,541	1,261	1,261	63,063	57,509
Telephone	7,200	424	847	8,471	9,391
Insurance	33,663	-	-	33,663	31,266
Fund raising expense	-	-	16,058	16,058	17,578
Advertising and printing	33,325	3,124	15,621	52,070	64,388
Office supplies	66,218	7,358	-	73,576	78,985
Postage	11,034	20	2,938	13,992	28,788
Professional services	99,459	32,523	19,287	151,269	171,030
Travel and entertainment	21,763	220	-	21,983	27,351
Bank fees	5,832	492	703	7,027	4,059
Interest expense	17,443	-	-	17,443	19,288
Depreciation	82,931	4,365	-	87,296	87,538
Miscellaneous	3,866	203	-	4,069	17,832
Total Expenses	<u>\$ 2,048,596</u>	<u>\$ 151,254</u>	<u>\$ 172,445</u>	<u>\$ 2,372,295</u>	<u>\$ 2,511,392</u>

See accompanying independent auditor's report and notes to financial statements.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2013
(With Summarized Financial Information for 2012)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ 9,332	\$ (110,901)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	87,296	87,538
Non-cash contributions	(10,000)	-
Loss on disposition of property, plant, and equipment	2,143	-
Investment gains	(132,911)	(68,487)
Contributions restricted for capital improvement	(18,500)	(76,000)
Changes in operating assets and liabilities		
Accounts receivable and other	(89,918)	(95,683)
Accounts payable and accrued liabilities	21,893	33,626
Net cash used in operating activities	<u>(130,665)</u>	<u>(229,907)</u>
Cash flows from investing activities:		
Purchases of investments	(345,636)	(845,867)
Proceeds from sale and maturity of investments	492,648	981,126
Proceeds from disposition of property, plant, and equipment	549	-
Collection of note receivable	80,975	11,350
Purchases of property, plant, and equipment	(61,472)	(46,264)
Net cash provided by investing activities	<u>167,064</u>	<u>100,345</u>
Cash flows from financing activities:		
Contributions restricted for capital improvement	18,500	76,000
Principal payments of long-term debt	(22,125)	(21,186)
Net cash provided by (used in) financing activities	<u>(3,625)</u>	<u>54,814</u>
Net change in cash and cash equivalents	32,774	(74,748)
Cash and cash equivalents, beginning of year	<u>60,425</u>	<u>135,173</u>
Cash and cash equivalents, end of year	<u>\$ 93,199</u>	<u>\$ 60,425</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 17,443	\$ 19,288

See accompanying independent auditor's report and notes to financial statements.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business

National Education for Assistance Dog Services, Inc. (NEADS) is a non-profit organization that was established in 1976 to provide canine assistance for people who are deaf or have a disability. These assistance dogs become an extension of their handlers and bring freedom, physical autonomy, and relief from social isolation to their human partners.

Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Subsequent events

NEADS has evaluated the financial statement impact of subsequent events occurring through November 13, 2013, the date that the financial statements were available to be issued.

Method of accounting

The financial statements of NEADS have been prepared on the accrual basis. Accordingly, assets are recorded when the organization obtains the rights to ownership or is entitled to claims for receipt and liabilities are recorded when the obligations are incurred.

Financial statement presentation

NEADS presents information regarding its financial position and activities according to three classifications of net assets described as follows:

Unrestricted - All resources over which the governing board has discretionary control. The governing board may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

Temporarily Restricted - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.

Permanently Restricted - Endowment resources accumulated through donations or grants that are subject to the restriction in perpetuity that the principal be invested. Investment income may be either an unrestricted or temporarily restricted resource when earned, determined according to the gift instruments.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with NEADS financial statements for the year ended August 31, 2012, from which the summarized information was derived.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of credit risk

NEADS maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. NEADS has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable

Receivables are reflected on the statement of financial position net of allowances for doubtful accounts. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the clients.

Investments

Investments in equity securities with readily determinable fair values and all debt securities are presented at fair value. Alternative investments are generally comprised of debt securities that are traded on a private over-the-counter market for institutional investors. These alternative investments are carried at estimated fair values as provided by the investment manager. NEADS reviews and evaluates the values reported on statements and audits provided by the investment manager and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. Gains or losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Investment income is recorded in unrestricted assets unless its use is temporarily or permanently restricted by explicit donor stipulations.

Endowment Funds

NEADS's endowment consists of donor restricted funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed or legal restrictions.

The Board of Directors has interpreted state law as allowing the utilization of appreciation on permanently restricted assets unless explicit donor stipulations specify how net appreciation must be used. As a result of this interpretation, NEADS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by NEADS in a manner consistent with the standard of prudence prescribed by state law.

In accordance with the Uniform Prudent Management of Institutional Funds Act, NEADS may consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purposes of the organization and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the organization; and the investment policies of the organization.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Funds (continued)

NEADS has adopted investment and spending policies for its endowment assets that attempt to provide a predictable stream of funding for its programs while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board, NEADS's Investment Committee shall seek to invest the endowment funds in such a manner that the investments will provide a spendable return consistent with a long-term goal of preserving the funds in real terms. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, NEADS 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). NEADS has invested in mutual funds that target a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NEADS has a policy of appropriating for distribution each quarter actual income plus realized and unrealized gains. In establishing this policy, NEADS considered the long-term expected return on its endowment. This is consistent with NEADS' objective to maintain the purchasing power of its endowment.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor imposed restrictions require NEADS to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. Such deficiencies amounted to \$281,901 as of August 31, 2013. In accordance with the Board's interpretation of relevant state law, appropriation of appreciation on these funds has been suspended until such time as the deficiency has been restored and the fair value of the fund exceeds the level required to be retained permanently.

Property, plant and equipment

Property, plant, and equipment is recorded at cost. Depreciation is computed using the straight line method.

Dog Training Fees

NEADS receives fees and contributions from its clients for training assistance dogs. These funds are recognized as revenue upon completion of the training program. Funds received in advance for a dog that has not completed training are included in temporarily restricted general fees and contributions.

Contributions, gifts, grants

Contributions, gifts, grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Contributions may include actual gifts or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Contributions of assets other than cash are recorded at their estimated fair value on the date of the gift. Contributions that the donor requires to be used to acquire long-lived assets (for example, land, buildings, furniture, fixtures, and equipment) are reported as temporarily restricted until the long-lived assets have been acquired, at which time the entity reflects the expiration of the donor-imposed restriction as a reclassification included in net assets released from restrictions. Restricted gifts or promises to give are required to be reported as restricted support in the period received and are then reclassified to unrestricted net assets upon satisfaction of the donor restriction. Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, are recognized when the conditions on which they depend are substantially met.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional expenses

Expenses are charged to each program based upon direct expenditures incurred. Expenditures not directly chargeable are allocated to each function.

Advertising and promotion

All costs associated with advertising and promoting NEADS are expensed in the year incurred.

Donated goods and services

Donated goods and services with a clearly measurable monetary value, which the organization would have been required to purchase, are recorded as unrestricted support and expense in the period received. Other services and those which are not clearly measurable are not recorded in the financial statements.

2 - PLEDGES RECEIVABLE

Payments of pledges as of August 31, 2013 are expected to be received as follows:

2014	\$ 70,496
2015	70,000
2016	<u>38,000</u>
	<u>\$ 178,496</u>

3 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2013</u>	<u>2012</u>
Donor restricted endowments:		
Unrestricted	\$ (281,901)	\$ (281,901)
Permanently restricted	1,575,541	1,575,541
Board designated endowment	834,222	865,525
Temporarily restricted	521,258	521,258
Unrestricted	<u>91,318</u>	<u>74,116</u>
	<u>\$ 2,740,438</u>	<u>\$ 2,754,539</u>

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

3 - INVESTMENTS (Continued)

Investments are comprised of the following:

	<u>2013</u>	<u>2012</u>
Money market funds	\$ 262,866	\$ 171,587
Real estate investment trust	354,167	338,292
Taxable bonds	697,653	711,589
Equity based mutual funds	936,906	1,193,353
Alternative investments	488,846	339,718
	<u>\$ 2,740,438</u>	<u>\$ 2,754,539</u>

Investment return is reflected in the financial statements for 2013 and 2012 as follows:

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 103,495	\$ 101,219
Net realized and unrealized gains	49,218	(11,594)
Investment management fees	(19,802)	(21,611)
Total return on investments	<u>\$ 132,911</u>	<u>\$ 68,014</u>

As discussed in Note 1, NEADS's investments are reported at fair value. Market value in the investment markets has been volatile since August 31, 2013. As a result, the fair value of the NEADS's investment portfolio as of the date of the independent auditor's report may be different than amounts reported at August 31, 2013.

4 - ENDOWMENT ASSETS

Endowment assets include board designated and donor restricted funds. Changes in endowment assets for the year ended August 31, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 583,624	\$ -	\$ 1,575,541	\$ 2,159,165
Investment return:				
Interest and dividend income	33,960	48,426	-	82,386
Net investment gains	17,488	24,937	-	42,425
Total investment return	51,448	73,363	-	124,811
Appropriation for expenditure	(221,637)	(73,363)	-	(295,000)
Endowment assets, end of year	<u>\$ 413,435</u>	<u>\$ -</u>	<u>\$ 1,575,541</u>	<u>\$ 1,988,976</u>

5 - NOTE RECEIVABLE – OTHER

NEADS held a note receivable from an unrelated organization. The note was secured by certain assets of the unrelated organization and carried interest at 6%. This note was paid off during 2013.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment, together with estimated useful lives, consist of the following:

	Estimated Useful Lives	2013	2012
Land	-	\$ 172,890	\$ 172,890
Buildings and improvements	15-39 years	2,356,612	2,358,571
Furniture and equipment	3 - 7 years	447,362	388,951
Motor vehicles	5 years	180,971	168,627
Construction in process	-	196,933	168,491
		<u>3,354,768</u>	<u>3,257,530</u>
Less: Accumulated depreciation and amortization		<u>1,436,994</u>	<u>1,353,990</u>
		<u>\$ 1,917,774</u>	<u>\$ 1,903,540</u>

Depreciation expense for property, plant, and equipment was \$87,296 and \$87,538 in 2013 and 2012, respectively.

7 - LONG-TERM DEBT

Long-term debt consists of the following:

	2013	2012
Note payable, secured by property, due in monthly principal installments of \$1,840, including interest at 6%, through August 2021.	\$ 141,125	\$ 154,378
Note payable, secured by property, due in monthly installments of \$716, including interest at 6%, through August 2022.	60,320	64,981
Note payable, secured by property, due in monthly installments of \$716, including interest at 6%, through August 2025.	<u>72,380</u>	<u>76,591</u>
	273,825	295,950
Less: Current maturities of long-term debt	<u>23,538</u>	<u>22,170</u>
	<u>\$ 250,287</u>	<u>\$ 273,780</u>

Maturities of long-term debt in subsequent years are as follows:

2014	\$ 23,538
2015	24,989
2016	26,530
2017	28,167
2018	29,904
Thereafter	<u>140,697</u>
	<u>\$ 273,825</u>

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

8 - NET ASSETS

Temporarily restricted net assets as of August 31, 2013 and 2012 are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Expansion project	\$ 45,059	\$ 55,000
Capital acquisition	130,142	77,103
Dog training programs	<u>1,071,908</u>	<u>1,023,749</u>
	<u>\$ 1,247,109</u>	<u>\$ 1,155,852</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by the donors as follows:

	<u>2013</u>	<u>2012</u>
Expansion project	\$ 28,441	\$ -
Capital acquisition	12,911	10,000
Completion of dog training programs	<u>560,234</u>	<u>547,140</u>
	<u>\$ 601,586</u>	<u>\$ 557,140</u>

Permanently restricted net assets are restricted to:

	<u>2013</u>	<u>2012</u>
Investment in perpetuity, the income and appreciation from which is expendable for general operating needs	\$ 392,906	\$ 392,906
Investment in perpetuity, the income and appreciation from which is temporarily restricted to the Canines for Combat Veterans program	<u>1,182,635</u>	<u>1,182,635</u>
	<u>\$ 1,575,541</u>	<u>\$ 1,575,541</u>

The Board of Directors has designated \$834,222 and \$865,525 of unrestricted net assets for long-term investment as of August 31, 2013 and 2012, respectively.

9 - ENDOWMENT

During 1992, a donation of \$50,000 was made to the Greater Worcester Community Foundation to benefit NEADS. This donation is managed by the Community Foundation Distribution Committee. NEADS will be entitled to the net income and as much of the principal as the Distribution Committee deems necessary to support the operational and/or needs of NEADS. NEADS will recognize this support when it is received. No support has been recognized in these financial statements.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

10 - DONATED GOODS AND SERVICES

Donated goods and services were comprised of the following:

	<u>2013</u>	<u>2012</u>
Goods		
Kennel supplies and dog care	\$ 47,247	\$ 28,569
Purchase of dogs	-	5,700
Services		
Veterinary fees	<u>113,461</u>	<u>187,712</u>
	<u>\$ 160,708</u>	<u>\$ 221,981</u>

11 - FAIR VALUE MEASUREMENTS

NEADS follows the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 820, "Fair Value Measurements" (ASC Topic 820). This standard defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements.

Determination of Fair Value

NEADS uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with ASC Topic 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based on quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair Value Hierarchy

In accordance with ASC Topic 820, NEADS groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based on 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 for substantially the full term of the assets or liabilities.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

11 - FAIR VALUE MEASUREMENTS (Continued)

Fair Value Hierarchy (continued)

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2013 and 2012.

Money market, mutual funds, bonds, and equities: Valued at the closing price reported on the active market on which the individual securities are traded.

Alternative investments - NEADS, as a practical expedient, estimates the fair value of its alternative investments based on the net asset value (or its equivalent) as reported by the fund manager. NEADS has evaluated the audited financial statements of its holdings as of the balance sheet date and believes that reported net asset value (or its equivalent) is calculated consistent with the guidance of ASC 820-10-35-59. Classification within the fair value hierarchy is based on the existence of restrictions on NEADS's ability to redress its holdings.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although NEADS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NEADS's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at August 31, 2013 as follows:

	August 31, 2013			Total
	Level 1	Level 2	Level 3	
Investments				
Money market funds	\$ 262,866	\$ -	\$ -	\$ 262,866
Real estate investment trust	-	-	354,167	354,167
Taxable bonds	697,653	-	-	697,653
Equity based mutual funds	936,906	-	-	936,906
Alternatives	-	-	488,846	488,846
Total investments	<u>\$ 1,897,425</u>	<u>\$ -</u>	<u>\$ 843,013</u>	<u>\$ 2,740,438</u>

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

11 - FAIR VALUE MEASUREMENTS (Continued)

Fair Value Hierarchy (continued)

NEADS's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at August 31, 2012 as follows:

	August 31, 2012			Total
	Level 1	Level 2	Level 3	
Investments				
Money market funds	\$ 171,587	\$ -	\$ -	\$ 171,587
Real estate investment trust	-	-	338,292	338,292
Taxable bonds	711,589	-	-	711,589
Equity based mutual funds	1,193,353	-	-	1,193,353
Alternatives	-	-	339,718	339,718
Total investments	<u>\$ 2,076,529</u>	<u>\$ -</u>	<u>\$ 678,010</u>	<u>\$ 2,754,539</u>

NEADS does not measure any liabilities at fair value on a recurring or non-recurring basis on the statement of financial position.

A reconciliation of liabilities measured at fair value using significant unobservable inputs (level 3) follows:

	2013	2012
Beginning balance	\$ 678,010	\$ 481,184
Purchases	108,000	150,000
Interest and dividends	45,230	37,814
Total unrealized gain included in changes in net assets	11,773	9,012
Ending balance	<u>\$ 843,013</u>	<u>\$ 678,010</u>

As discussed above to the financial statements, NEADS estimates the fair value of its investments in certain entities using the net asset value per share of the investment. Further information about these investments is presented below:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Real estate investment trust	\$ 354,167	\$ -	Quarterly	None
Private equity	488,846	-	Quarterly	None
	<u>\$ 843,013</u>	<u>\$ -</u>		

The private equity funds are closed end funds with an indeterminate liquidation period. Prior to liquidation, NEADS is eligible to have their investments purchased back through a limited repurchase program at a price that may reflect a discount from the purchase price paid for the shares being repurchased. NEADS intends to hold these investments until liquidation by the fund and does not intend to take part in the repurchase program.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

11 - FAIR VALUE MEASUREMENTS (Continued)

Fair Value Hierarchy (continued)

The real estate investment trust is a fund which invests in multifamily communities that may be wholly owned by the manager for held through joint venture arrangements with institutional or other real estate investors. The fair value of the investment in this fund has been estimate using the net asset value of NEADS' ownership interest. The investment in this fund can be redeemed under the fund's share redemption program which is subject to significant conditions and limitations. NEADS does not intent to take part in this share redemption program. It is estimated that the underlying assets of the fund will be liquidated within the next three to five years or listed on a national securities exchange.

12 - RETIREMENT PLAN

NEADS has a 403(b) retirement plan covering substantially all employees. NEADS made matching contributions to the plan in the amount of \$5,224 and \$5,366 in 2013 and 2012, respectively.

13 - LEASES

NEADS leases equipment under a long-term lease agreement classified as an operating lease for financial statement purposes.

Future minimum lease payments as of August 31, 2013 are as follows:

Year Ending

2014	\$ 15,228
2015	15,228
2016	15,228
2017	15,228
2018	6,345
	<hr/>
	\$ 67,257

14 - TAX-EXEMPT STATUS

National Education for Assistance Dog Services, Inc. qualifies as a tax-exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax is required. Management annually reviews for uncertain tax positions along with any related interest and penalties and believes that NEADS has no uncertain tax positions that would have a material adverse effect, individually or in the aggregate upon NEADS's statements of financial position, or the related statements of activities, or cash flows. NEADS's income tax returns in the U.S. federal jurisdiction. NEADS is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2010.