

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

FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2012

AND

INDEPENDENT AUDITOR'S REPORT

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2012

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 15

INDEPENDENT AUDITOR'S REPORT

Board of Directors
National Education for Assistance Dog Services, Inc.

We have audited the accompanying statement of financial position of National Education for Assistance Dog Services, Inc. as of August 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative financial information has been derived from the Organization's 2011 financial statements and, in our report dated December 6, 2011, we expressed an unqualified opinion on those statements.

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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Bollus Lynch, LLP

Worcester, Massachusetts
November 14, 2012

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012

(With Summarized Financial Information for 2011)

	Operating	Restricted	Endowment	Totals	
				2012	2011
Assets					
Current assets					
Cash and cash equivalents	\$ 60,425	\$ -	\$ -	\$ 60,425	\$ 135,173
Accounts receivable	22,995	-	-	22,995	30,982
Pledges receivable	11,000	30,000	-	41,000	-
Other current assets	4,545	-	-	4,545	1,875
Total current assets	98,965	30,000	-	128,965	168,030
Investments	74,116	521,258	2,159,165	2,754,539	2,821,311
Long-term pledges receivable	-	60,000	-	60,000	-
Notes receivable	80,975	-	-	80,975	92,325
Property, plant and equipment, net	1,903,540	-	-	1,903,540	1,944,814
Due (to) from other funds	(544,594)	544,594	-	-	-
Total assets	\$ 1,613,002	\$ 1,155,852	\$ 2,159,165	\$ 4,928,019	\$ 5,026,480
Liabilities and Net Assets					
Current Liabilities					
Current maturities of long-term debt	\$ 22,170	\$ -	\$ -	\$ 22,170	\$ 20,882
Accounts payable and accrued liabilities	64,978	-	-	64,978	31,352
Total current liabilities	87,148	-	-	87,148	52,234
Long-term liabilities					
Long-term debt, less current maturities	273,780	-	-	273,780	296,254
Net assets					
Unrestricted					
Operating	(424,506)	-	-	(424,506)	(298,763)
Board designated for investment	-	-	583,624	583,624	722,510
Plant	1,676,580	-	-	1,676,580	1,676,580
Total unrestricted	1,252,074	-	583,624	1,835,698	2,100,327
Temporarily restricted	-	1,155,852	-	1,155,852	1,002,124
Permanently restricted	-	-	1,575,541	1,575,541	1,575,541
Total net assets	1,252,074	1,155,852	2,159,165	4,567,091	4,677,992
Total liabilities and net assets	\$ 1,613,002	\$ 1,155,852	\$ 2,159,165	\$ 4,928,019	\$ 5,026,480

See accompanying notes to financial statements.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2012
 (With Summarized Financial Information for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2012	2011
Support and revenue					
General fees and contributions	\$ 1,203,877	\$ 524,368	\$ -	\$ 1,728,245	\$ 1,703,770
Contributed goods and services	221,981	-	-	221,981	282,034
Grants and foundation gifts	181,718	186,500	-	368,218	156,180
Interest income	9,101	-	-	9,101	6,225
Investment return	68,014	-	-	68,014	251,828
Other income	4,932	-	-	4,932	-
Net assets released from restrictions	557,140	(557,140)	-	-	-
Total support and revenue	<u>2,246,763</u>	<u>153,728</u>	<u>-</u>	<u>2,400,491</u>	<u>2,400,037</u>
Expenses					
Training program	2,138,206	-	-	2,138,206	2,109,011
Management and general	199,246	-	-	199,246	173,717
Fund raising	173,940	-	-	173,940	136,582
Total expenses	<u>2,511,392</u>	<u>-</u>	<u>-</u>	<u>2,511,392</u>	<u>2,419,310</u>
Change in net assets	(264,629)	153,728	-	(110,901)	(19,273)
Net assets, beginning of year	<u>2,100,327</u>	<u>1,002,124</u>	<u>1,575,541</u>	<u>4,677,992</u>	<u>4,697,265</u>
Net assets, end 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>

See accompanying notes to financial statements.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2012
 (With Summarized Financial Information for 2011)

	Training Program	Management and General	Fund Raising	Totals	
				2012	2011
Salaries and benefits	\$ 1,162,356	\$ 160,062	\$ 113,120	\$ 1,435,538	\$ 1,248,342
Kennel supplies and dog care	59,231	-	-	59,231	63,634
Veterinary fees	222,175	-	-	222,175	254,709
Purchase of dogs	106,235	-	-	106,235	116,872
Education	2,667	-	-	2,667	897
Repairs and maintenance	21,323	-	-	21,323	30,081
Motor vehicles	34,271	-	-	34,271	27,206
Rent expense	14,949	-	-	14,949	2,923
Utilities	55,209	1,150	1,150	57,509	62,905
Telephone	7,982	470	939	9,391	7,624
Insurance	31,266	-	-	31,266	31,223
Fund raising expense	-	-	17,578	17,578	9,352
Advertising and printing	56,621	3,666	4,101	64,388	79,504
Office supplies	71,087	7,898	-	78,985	84,075
Postage	27,062	-	1,726	28,788	29,952
Professional services	115,937	20,173	34,920	171,030	207,890
Travel and entertainment	27,077	274	-	27,351	46,971
Bank fees	3,369	284	406	4,059	3,762
Interest expense	19,288	-	-	19,288	17,646
Depreciation	83,160	4,377	-	87,538	87,221
Miscellaneous	16,941	892	-	17,832	6,521
Total Expenses	<u>\$ 2,138,206</u>	<u>\$ 199,246</u>	<u>\$ 173,940</u>	<u>\$ 2,511,392</u>	<u>\$ 2,419,310</u>

See accompanying notes to financial statements.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2012
(With Summarized Financial Information for 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	\$ (110,901)	\$ (19,273)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	87,538	87,221
Investment gains	(68,487)	(252,041)
Contributions restricted for capital improvement	(76,000)	-
Changes in operating assets and liabilities		
Accounts receivable and other	(95,683)	80,150
Accounts payable and accrued liabilities	<u>33,626</u>	<u>(34,379)</u>
Net cash used in operating activities	<u>(229,907)</u>	<u>(138,322)</u>
Cash flows from investing activities:		
Purchases of investments	(845,867)	(820,625)
Proceeds from sale and maturity of investments	981,126	1,051,004
Collection of note receivable	11,350	10,307
Purchases of property, plant and equipment	<u>(46,264)</u>	<u>(28,798)</u>
Net cash provided by investing activities	<u>100,345</u>	<u>211,888</u>
Cash flows from financing activities:		
Contributions restricted for capital improvement	76,000	-
Principal payments of long-term debt	<u>(21,186)</u>	<u>(17,809)</u>
Net cash provided by (used in) financing activities	<u>54,814</u>	<u>(17,809)</u>
Net change in cash and cash equivalents	(74,748)	55,757
Cash and cash equivalents, beginning of year	<u>135,173</u>	<u>79,416</u>
Cash and cash equivalents, end of year	<u>\$ 60,425</u>	<u>\$ 135,173</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 19,288	\$ 20,778

See accompanying 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

The Organization has evaluated the financial statement impact of subsequent events occurring through November 14, 2012, 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, 2011, 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.

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.

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.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Funds (continued)

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. No funds were appropriated during 2012.

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, 2012. 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.

Functional expenses

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

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012 are expected to be received as follows:

2013	\$ 41,000
2014	30,000
2015	<u>30,000</u>
	<u>\$ 101,000</u>

3 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2012</u>	<u>2011</u>
Donor restricted endowments:		
Unrestricted	\$ (281,901)	\$ (281,901)
Permanently restricted	1,575,541	1,575,541
Board designated endowment	865,525	1,004,411
Temporarily restricted	521,258	521,258
Unrestricted	<u>74,116</u>	<u>2,002</u>
	<u>\$ 2,754,539</u>	<u>\$ 2,821,311</u>

Investments are comprised of the following:

	<u>2012</u>	<u>2011</u>
Money market funds	\$ 171,587	\$ 385,674
Real estate investment trust	338,292	322,309
Taxable bonds	711,589	553,906
Equity based mutual funds	1,193,353	1,400,547
Alternative investments	<u>339,718</u>	<u>158,875</u>
	<u>\$ 2,754,539</u>	<u>\$ 2,821,311</u>

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - INVESTMENTS (Continued)

Investment return is reflected in the financial statements for 2012 and 2011 as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 101,219	\$ 65,654
Net realized and unrealized gains	(11,594)	211,082
Investment management fees	<u>(21,611)</u>	<u>(24,908)</u>
Total return on investments	<u>\$ 68,014</u>	<u>\$ 251,828</u>

As discussed in Note 1, the Organization's investments are reported at fair value. Market value in the investment markets has been volatile since August 31, 2012. As a result, the fair value of the Organization's investment portfolio as of the date of the independent auditor's report may be different than amounts reported at August 31, 2012.

4 - ENDOWMENT ASSETS

Endowment assets include board designated and donor restricted funds. Changes in endowment assets for the year ended August 31, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 722,510	\$ -	\$ 1,575,541	\$ 2,298,051
Investment return:				
Interest and dividend income, net	34,787	44,068	-	78,855
Net investment gains (losses)	<u>(5,621)</u>	<u>(7,120)</u>	<u>-</u>	<u>(12,741)</u>
Total investment return	29,166	36,948	-	66,114
Withdrawals	<u>(168,052)</u>	<u>(36,948)</u>	<u>-</u>	<u>(205,000)</u>
Endowment assets, end of year	<u>\$ 583,624</u>	<u>\$ -</u>	<u>\$ 1,575,541</u>	<u>\$ 2,159,165</u>

5 - NOTE RECEIVABLE – OTHER

NEADS holds a note receivable from one of its partners. The note is secured by certain assets of the partner's Organization and bears interest at 6%.

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	2012	2011
Land	-	\$ 172,890	\$ 172,890
Buildings and improvements	15-39 years	2,358,571	2,332,367
Furniture and equipment	3 - 7 years	388,951	386,011
Motor vehicles	5 years	168,627	151,507
Construction in process	-	168,491	168,491
		3,257,530	3,211,266
Less: Accumulated depreciation and amortization		1,353,990	1,266,452
		<u>\$ 1,903,540</u>	<u>\$ 1,944,814</u>

Depreciation expense for property, plant, and equipment was \$87,538 and \$87,221 in 2012 and 2011, respectively.

7 - LONG-TERM DEBT

Long-term debt consists of the following:

	2012	2011
Note payable, secured by property, due in monthly principal installments of \$1,840, including interest at 6%, through August 2021.	\$ 154,378	\$ 166,862
Note payable, secured by property, due in monthly installments of \$716, including interest at 6%, through August 2022.	64,981	69,556
Note payable, secured by property, due in monthly installments of \$716, including interest at 6%, through August 2025.	76,591	80,718
	295,950	317,136
Less: Current maturities of long-term debt	22,170	20,882
	<u>\$ 273,780</u>	<u>\$ 296,254</u>

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

2013	\$ 22,170
2014	23,537
2015	24,989
2016	26,530
2017	28,189
Thereafter	170,535
	<u>\$ 295,950</u>

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

8 - NET ASSETS

Temporarily restricted net assets as of August 31, 2012 and 2011 are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Expansion project	\$ 55,000	\$ 5,000
Capital acquisition	77,103	61,103
Dog training programs	<u>1,023,749</u>	<u>936,021</u>
	<u>\$ 1,155,852</u>	<u>\$ 1,002,124</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>2012</u>	<u>2011</u>
Capital acquisition	\$ 10,000	\$ 13,897
Completion of dog training programs	<u>547,140</u>	<u>316,778</u>
	<u>\$ 557,140</u>	<u>\$ 330,675</u>

Permanently restricted net assets are restricted to:

	<u>2012</u>	<u>2011</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 \$865,525 and \$1,004,411 of unrestricted net assets for long-term investment as of August 31, 2012 and 2011, 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>2012</u>	<u>2011</u>
Goods		
Kennel supplies and dog care	\$ 28,569	\$ 35,754
Purchase of dogs	5,700	15,000
Services		
Veterinary fees	<u>187,712</u>	<u>231,280</u>
	<u>\$ 221,981</u>	<u>\$ 282,034</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.

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.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

11 - FAIR VALUE MEASUREMENTS (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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>\$ 2,414,821</u>	<u>\$ -</u>	<u>\$ 339,718</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:

Beginning balance	\$ 158,875
Purchases	150,000
Total unrealized gain included in changes in net assets	<u>30,843</u>
Ending balance	<u>\$ 339,718</u>

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

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Private equity	<u>\$ 339,718</u>	<u>\$ -</u>	Not Eligible	N/A

The private equity funds are closed end funds with a liquidation period of five to seven years. However, this liquidation period may extend for an indefinite period until such a time FS Investment Corporation completes a liquidity event. Prior to this liquidation period, 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 the liquidity event and does not intend to take part in the repurchase program.

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 \$5,366 and \$5,084 in 2012 and 2011, respectively.

NATIONAL EDUCATION FOR ASSISTANCE DOG SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

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, 2012 are as follows:

Year Ending

2012	\$	20,784
2013		20,784
2014		<u>15,588</u>
	\$	<u>57,156</u>

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 2009.