

NEADS, INC.
FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018
AND
INDEPENDENT AUDITOR'S REPORT

NEADS, INC.
FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
NEADS, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of NEADS, Inc. which comprise the statement of financial position as of August 31, 2018, 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 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 NEADS, Inc. as of August 31, 2018, 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 NEADS, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bollus Lynch, LLP

Worcester, Massachusetts
December 5, 2018

NEADS, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2018

(With Summarized Comparative Financial Information for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2018	2017
Assets					
Current assets					
Cash	\$ 446,150	\$ 727,635	\$ -	\$ 1,173,785	\$ 571,006
Grants and other receivables	-	-	-	-	82,895
Pledges receivable, net	30,000	-	-	30,000	236,068
Prepaid expenses	56,633	-	-	56,633	32,991
Other current assets	3,403	-	-	3,403	2,983
Total current assets	536,186	727,635	-	1,263,821	925,943
Investments	1,280,468	1,491,098	392,906	3,164,472	3,321,973
Property, plant, and equipment, net	3,933,816	-	-	3,933,816	3,607,405
Total assets	\$ 5,750,470	\$ 2,218,733	\$ 392,906	\$ 8,362,109	\$ 7,855,321
Liabilities and Net Assets					
Current Liabilities					
Line of credit	\$ 75,000	\$ -	\$ -	\$ 75,000	\$ 135,000
Current maturities of long-term debt	34,661	-	-	34,661	32,717
Accounts payable and accrued liabilities	301,876	-	-	301,876	183,069
Total current liabilities	411,537	-	-	411,537	350,786
Long-term liabilities					
Long-term debt, less current maturities	111,713	-	-	111,713	146,345
Total long-term liabilities	111,713	-	-	111,713	146,345
Net assets					
Unrestricted					
Undesignated	4,137,542	-	-	4,137,542	3,243,336
Board designated for endowment	1,089,678	-	-	1,089,678	950,423
Total unrestricted	5,227,220	-	-	5,227,220	4,193,759
Temporarily restricted	-	2,218,733	-	2,218,733	2,771,525
Permanently restricted	-	-	392,906	392,906	392,906
Total net assets	5,227,220	2,218,733	392,906	7,838,859	7,358,190
Total liabilities and net assets	\$ 5,750,470	\$ 2,218,733	\$ 392,906	\$ 8,362,109	\$ 7,855,321

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

NEADS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2018

(With Summarized Comparative Financial Information for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2018	2017
Support and revenue					
General fees and contributions	\$ 1,919,746	\$ 403,664	\$ -	\$ 2,323,410	\$ 1,882,686
Contributed goods and services	242,247	-	-	242,247	235,718
Grants and foundation gifts	69,825	538,530	-	608,355	1,104,443
Interest income	1,498	-	-	1,498	997
Investment return	165,429	22,191	-	187,620	228,305
Other income	39	-	-	39	698
Net assets released from restrictions	<u>1,517,177</u>	<u>(1,517,177)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>3,915,961</u>	<u>(552,792)</u>	<u>-</u>	<u>3,363,169</u>	<u>3,452,847</u>
Expenses					
Program	2,489,473	-	-	2,489,473	2,259,429
Management and general	216,588	-	-	216,588	232,325
Fund raising	<u>176,439</u>	<u>-</u>	<u>-</u>	<u>176,439</u>	<u>185,741</u>
Total expenses	<u>2,882,500</u>	<u>-</u>	<u>-</u>	<u>2,882,500</u>	<u>2,677,495</u>
Change in net assets	1,033,461	(552,792)	-	480,669	775,352
Net assets, beginning of year	<u>4,193,759</u>	<u>2,771,525</u>	<u>392,906</u>	<u>7,358,190</u>	<u>6,582,838</u>
Net assets, end of year	<u>\$ 5,227,220</u>	<u>\$ 2,218,733</u>	<u>\$ 392,906</u>	<u>\$ 7,838,859</u>	<u>\$ 7,358,190</u>

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

NEADS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2018

(With Summarized Comparative Financial Information for 2017)

	Program	Management and General	Fund Raising	Totals	
				2018	2017
Salaries and benefits	\$ 1,382,001	\$ 174,875	\$ 139,286	\$ 1,696,162	\$ 1,585,349
Kennel supplies and dog care	137,245	-	-	137,245	141,187
Veterinary fees	196,419	-	-	196,419	171,900
Purchase of dogs	105,201	-	-	105,201	108,905
Education	19,722	-	-	19,722	4,502
Repairs and maintenance	26,929	293	2,049	29,271	29,164
Motor vehicles	25,367	-	-	25,367	21,867
Rent expense	857	-	-	857	13,576
Utilities	55,748	606	4,242	60,596	35,908
Telephone	9,472	571	1,370	11,413	14,559
Insurance	39,862	3,656	1,781	45,299	47,128
Fund raising expense	-	-	2,583	2,583	5,383
Advertising and printing	53,146	1,361	11,503	66,010	72,263
Office supplies	75,410	1,481	1,180	78,071	43,724
Postage	11,818	233	1,654	13,705	15,423
Professional services	141,831	26,075	5,153	173,059	159,660
Travel and entertainment	21,694	1,298	1,396	24,388	21,735
Fees	-	1,258	-	1,258	567
Interest expense	13,116	-	-	13,116	18,549
Depreciation	172,872	606	4,242	177,720	161,096
Miscellaneous	763	4,275	-	5,038	5,050
Total Expenses	<u>\$ 2,489,473</u>	<u>\$ 216,588</u>	<u>\$ 176,439</u>	<u>\$ 2,882,500</u>	<u>\$ 2,677,495</u>

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

NEADS, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2018

(With Summarized Comparative Financial Information for 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 480,669	\$ 775,352
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	177,720	161,096
Non-cash contributions of property, plant and equipment	-	(2,394)
Investment gains	(124,746)	(184,951)
Contributions restricted for capital improvement	(180,168)	(184,857)
Changes in operating assets and liabilities:		
Grants, pledges, and other receivables	263,963	(123,266)
Prepaid expenses and other assets	(24,062)	(20,955)
Accounts payable and accrued liabilities	118,807	27,501
Net cash provided by operating activities	<u>712,183</u>	<u>447,526</u>
Cash flows from investing activities:		
Purchases of investments	(445,372)	(186,677)
Proceeds from sales and maturities of investments	727,619	122,345
Purchases of property, plant, and equipment	<u>(504,131)</u>	<u>(167,772)</u>
Net cash used in investing activities	<u>(221,884)</u>	<u>(232,104)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Acquisition of property, plant and equipment	205,168	164,857
Payments on line of credit	(60,000)	(25,000)
Principal payments of long-term debt	(32,688)	(31,422)
Principal payments of capital lease obligation	<u>-</u>	<u>(4,426)</u>
Net cash provided by financing activities	<u>112,480</u>	<u>104,009</u>
Net change in cash	602,779	319,431
Cash, beginning of year	<u>571,006</u>	<u>251,575</u>
Cash, end of year	<u>\$ 1,173,785</u>	<u>\$ 571,006</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 13,116</u>	<u>\$ 18,549</u>

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

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business

NEADS, Inc. 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 December 5, 2018, 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, 2017, from which the summarized information was derived.

NEADS, 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.

Pledges receivable

Pledges receivable are unconditional promises to give, that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in less than one year are reported at net realizable value. Pledges receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectable pledges receivable is determined based on management's evaluation of the collectability of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed

Investments

Investments in equity securities with readily determinable fair values and all debt securities are presented at fair value. Alternative investments which do not have readily determinable fair values are carried at estimated fair values using the net asset value per share of the investment as a practical expedient, as reported by the fund managers. 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. It's endowment includes both donor restricted endowment funds and funds designated by the Board to function as endowments. 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.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment funds (continued)

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 policy.

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. There were no such deficiencies as of August 31, 2018.

Property, plant, and equipment

Property, plant, and equipment is recorded at cost. Donated assets are recorded at fair value as of the date of the gift. Depreciation is computed using the straight-line method. The cost of maintenance and repairs is charged to income as incurred.

Contributions, gifts, and grants

Contributions, gifts, and 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.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions, gifts, and grants (continued)

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. Restricted gifts or promises to give that are received and have the donor-imposed restriction satisfied in the same year are reported as unrestricted net assets. 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.

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, 2018 are expected to be received as follows:

2019	\$ 33,000
Less: Reserve for uncollectible pledges	<u>3,000</u>
	<u>\$ 30,000</u>

3 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2018</u>	<u>2017</u>
Donor restricted endowments		
Permanently restricted	\$ 392,906	\$ 392,906
Board designated endowment	1,089,678	950,423
Temporarily restricted	1,491,098	1,978,644
Unrestricted	<u>190,790</u>	<u>-</u>
	<u>\$ 3,164,472</u>	<u>\$ 3,321,973</u>

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - INVESTMENTS (Continued)

Investments are comprised of the following:

	<u>2018</u>	<u>2017</u>
Money market funds	\$ 103,583	\$ 504,929
Certificates of deposit	-	52,017
Taxable bonds	1,167,899	1,011,253
Equity based mutual funds	1,781,720	1,642,977
Alternative investments	<u>111,270</u>	<u>110,797</u>
	<u>\$ 3,164,472</u>	<u>\$ 3,321,973</u>

Investment return is reflected in the financial statements for 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 85,072	\$ 63,757
Net realized and unrealized gains	124,746	184,951
Investment management fees	<u>(22,198)</u>	<u>(20,403)</u>
Total return on investments	<u>\$ 187,620</u>	<u>\$ 228,305</u>

As discussed in Note 1, NEADS's investments are reported at fair value. The investment markets have been volatile since August 31, 2018. 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, 2018.

4 - ENDOWMENT ASSETS

Endowment assets include board designated and donor restricted funds. Changes in endowment assets for the year ended August 31, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 950,423	\$ -	\$ 392,906	\$ 1,343,329
Investment return				
Interest and dividend income	17,988	7,436	-	25,424
Net investment gains	<u>35,690</u>	<u>14,755</u>	<u>-</u>	<u>50,445</u>
Total investment return	53,678	22,191	-	75,869
Additions	192,931	-	-	192,931
Appropriation for expenditure	22,191	(22,191)	-	-
Withdrawals	<u>(129,545)</u>	<u>-</u>	<u>-</u>	<u>(129,545)</u>
Endowment assets, end of year	<u>\$ 1,089,678</u>	<u>\$ -</u>	<u>\$ 392,906</u>	<u>\$ 1,482,584</u>

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - PROPERTY, PLANT, AND EQUIPMENT

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

	<u>Estimated Useful Lives</u>	<u>2018</u>	<u>2017</u>
Land	-	\$ 172,890	\$ 172,890
Buildings and improvements	15 - 39 years	4,554,337	4,501,032
Furniture and equipment	3 - 7 years	604,769	590,340
Motor vehicles	5 years	143,588	145,282
Construction in process	-	519,681	105,923
		<u>5,995,265</u>	<u>5,515,467</u>
Less: Accumulated depreciation and amortization		<u>2,061,449</u>	<u>1,908,062</u>
		<u>\$ 3,933,816</u>	<u>\$ 3,607,405</u>

Depreciation expense for property, plant, and equipment was \$177,720 and \$161,096 in 2018 and 2017, respectively.

6 - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2018</u>	<u>2017</u>
Note payable, secured by property, due in monthly principal installments of \$1,840, including interest at 6%, through August 2021.	\$ 62,727	\$ 80,604
Note payable, secured by property, due in monthly installments of \$716, including interest at 6%, through August 2022.	28,776	35,328
Note payable, secured by property, due in monthly installments of \$716, including interest at 6%, through August 2025.	48,934	54,384
Note payable, secured by property, due in monthly installments of \$256, including interest at 3.49%, through August 2020.	5,937	8,746
	<u>146,374</u>	<u>179,062</u>
Less: Current maturities of long-term debt	<u>34,661</u>	<u>32,717</u>
	<u>\$ 111,713</u>	<u>\$ 146,345</u>

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

2019	\$ 34,661
2020	36,731
2021	37,989
2022	13,551
2023	7,385
Thereafter	<u>16,057</u>
	<u>\$ 146,374</u>

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - LONG-TERM DEBT (Continued)

NEADS has a revolving line of credit agreement with its bank to meet the needs of construction currently in progress. This line of credit is available through March 2019. The agreement has a borrowing limit of \$175,000, secured by certain assets of NEADS. The interest rate to be charged on the principal balance is a variable rate which is 0.25% over the Commerce Bank & Trust Company Base Rate which is currently at 4.50%. Outstanding advances on this line of credit were \$75,000 and \$135,000 at August 31, 2018 and 2017, respectively.

7 - NET ASSETS

Temporarily restricted net assets as of August 31, 2018 and 2017 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Capital acquisition and expansion	\$ 314,224	\$ 584,193
Dog training programs	<u>1,904,509</u>	<u>2,187,332</u>
	<u>\$ 2,218,733</u>	<u>\$ 2,771,525</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>2018</u>	<u>2017</u>
Capital acquisition and expansion	\$ 438,838	\$ 128,230
Completion of dog training programs	<u>1,078,339</u>	<u>1,959,154</u>
	<u>\$ 1,517,177</u>	<u>\$ 2,087,384</u>

Permanently restricted net assets are restricted to:

	<u>2018</u>	<u>2017</u>
Investment in perpetuity, the income and appreciation from which is expendable for general operating needs	<u>\$ 392,906</u>	<u>\$ 392,906</u>

The Board of Directors has designated \$1,089,678 and \$950,423 of unrestricted net assets for long-term investment as of August 31, 2018 and 2017, respectively.

8 - 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 operations and/or needs of NEADS. NEADS will recognize this support when it is received. No support has been recognized in these financial statements.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - 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.

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, 2018 and 2017.

Money market, mutual funds, bonds, and equities: Valued at the closing price reported on the active market on which the individual securities are traded. Fair value hierarchy for each is based on the level of active trading within the respective markets for each asset or liability.

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.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - FAIR VALUE MEASUREMENTS (Continued)

Fair Value Hierarchy (continued)

Certificates of deposit: Valued based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads, and new issue data. Fair value measurements are obtained by management from a third-party pricing service and are not adjusted by management.

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, 2018 as follows:

	August 31, 2018			Total
	Level 1	Level 2	Level 3	
Investments				
Money market funds	\$ 103,583	\$ -	\$ -	\$ 103,583
Taxable bonds	1,167,899	-	-	1,167,899
Equity based mutual funds	1,781,720	-	-	1,781,720
Total assets in the fair value hierarchy	<u>\$ 3,053,202</u>	<u>\$ -</u>	<u>\$ -</u>	3,053,202
Investments measured at net asset value				<u>111,270</u>
Total investments at fair value				<u>\$ 3,164,472</u>

NEADS's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at August 31, 2017 as follows:

	August 31, 2017			Total
	Level 1	Level 2	Level 3	
Investments				
Money market funds	\$ 504,929	\$ -	\$ -	\$ 504,929
Certificates of deposit	-	52,017	-	52,017
Taxable bonds	1,011,253	-	-	1,011,253
Equity based mutual funds	1,642,977	-	-	1,642,977
Total assets in the fair value hierarchy	<u>\$ 3,159,159</u>	<u>\$ 52,017</u>	<u>\$ -</u>	3,211,176
Investments measured at net asset value				<u>110,797</u>
Total investments at fair value				<u>\$ 3,321,973</u>

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

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - FAIR VALUE MEASUREMENTS (Continued)

Fair Value Hierarchy (continued)

As discussed above in 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:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Private equity funds	\$ 111,270	\$ -	Quarterly	None

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.

10 - RETIREMENT PLAN

NEADS has a 403(b) retirement plan covering substantially all employees. NEADS made matching contributions to the plan in the amount of \$4,421 and \$4,191 in 2018 and 2017, respectively.

11 - 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, 2018 are as follows:

Year Ending	
2019	\$ 9,498
2020	8,948
2021	8,766
2022	8,766
2023	-
	<u>\$ 35,978</u>

Lease expense was \$12,605 and \$11,397 in 2018 and 2017, respectively.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - DONATED GOODS AND SERVICES

Donated goods and services were comprised of the following:

	<u>2018</u>	<u>2017</u>
Goods		
Kennel supplies and dog care	\$ 119,467	\$ 120,191
Vehicles	-	2,394
Services		
Veterinary fees	<u>122,780</u>	<u>113,133</u>
	<u>\$ 242,247</u>	<u>\$ 235,718</u>

13 - TAX-EXEMPT STATUS

NEADS qualifies as a tax-exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). 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 files 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 2015.

14 - COMMITMENTS AND CONTINGENCIES

The Organization entered into a construction contract for renovation of the kennel in the amount of \$1,069,120. As of August 31, 2018, \$788,424 of this commitment is still outstanding.

The Organization is subject to certain legal matters, including litigation and claims, which arise in the normal course of business. Management believes that the effects, if any, relative to these matters will not have a material effect on the Organization's financial statements.

15 - RECLASSIFICATION

Certain amounts in the 2017 financial statements have been reclassified to conform with the 2018 presentation. Such reclassifications had no effect on change in net assets as previously reported.