

NEADS, INC.
FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2020
AND
INDEPENDENT AUDITOR'S REPORT

NEADS, INC.
FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2020

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 - 20

INDEPENDENT AUDITOR'S REPORT

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, 2020, 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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 4, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bollus Lynch, LLP

Worcester, Massachusetts
December 2, 2020

NEADS, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2020

(With Summarized Comparative Financial Information for 2019)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2020	2019
Assets				
Current assets				
Cash	\$ 1,388,394	\$ 579,139	\$ 1,967,533	\$ 855,129
Grants and other receivables	500	-	500	-
Contributions receivable, net	-	7,000	7,000	132,000
Prepaid expenses	21,273	-	21,273	14,322
Other current assets	6,042	-	6,042	4,393
Total current assets	1,416,209	586,139	2,002,348	1,005,844
Investments	1,512,679	1,862,469	3,375,148	3,087,753
Long-term contributions receivable, net	-	-	-	7,000
Property and equipment, net	5,417,266	80,152	5,497,418	5,035,056
Total assets	\$ 8,346,154	\$ 2,528,760	\$ 10,874,914	\$ 9,135,653
Liabilities and Net Assets				
Current Liabilities				
Note payable, bank	\$ 466,378	\$ -	\$ 466,378	\$ 26,378
Current maturities of long-term debt	37,997	-	37,997	36,505
Current maturities of capital lease obligations	4,082	-	4,082	3,770
Accounts payable and accrued liabilities	759,926	-	759,926	245,262
Total current liabilities	1,268,383	-	1,268,383	311,915
Long-term liabilities				
Long-term debt, less current maturities	37,436	-	37,436	75,464
Long-term capital lease obligation, less current maturities	5,581	-	5,581	9,664
Total long-term liabilities	43,017	-	43,017	85,128
Net assets				
Without donor restrictions				
Undesignated	5,922,260	-	5,922,260	5,569,180
Board designated for endowment	1,112,494	-	1,112,494	974,881
Total net assets without donor restrictions	7,034,754	-	7,034,754	6,544,061
With donor restrictions				
	-	2,528,760	2,528,760	2,194,549
Total net assets	7,034,754	2,528,760	9,563,514	8,738,610
Total liabilities and net assets	\$ 8,346,154	\$ 2,528,760	\$ 10,874,914	\$ 9,135,653

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

NEADS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2020

(With Summarized Comparative Financial Information for 2019)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2020	2019
Support and revenue				
General fees and contributions	\$ 1,986,690	\$ 371,271	\$ 2,357,961	\$ 2,348,298
Contributed goods and services	324,268	-	324,268	228,354
Grants and foundation gifts	463,083	720,545	1,183,628	1,320,544
Interest income	2,531	-	2,531	1,867
Investment return	116,955	151,939	268,894	75,173
Other income	1,501	-	1,501	23,531
Net assets released from restrictions	909,544	(909,544)	-	-
Total support and revenue	<u>3,804,572</u>	<u>334,211</u>	<u>4,138,783</u>	<u>3,997,767</u>
Expenses				
Program	2,765,782	-	2,765,782	2,576,322
Management and general	315,890	-	315,890	304,236
Fundraising	232,207	-	232,207	217,458
Total expenses	<u>3,313,879</u>	<u>-</u>	<u>3,313,879</u>	<u>3,098,016</u>
Change in net assets	490,693	334,211	824,904	899,751
Net assets, beginning of year	<u>6,544,061</u>	<u>2,194,549</u>	<u>8,738,610</u>	<u>7,838,859</u>
Net assets, end of year	<u>\$ 7,034,754</u>	<u>\$ 2,528,760</u>	<u>\$ 9,563,514</u>	<u>\$ 8,738,610</u>

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

NEADS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2020

(With Summarized Comparative Financial Information for 2019)

	Program	Management and General	Fund Raising	Totals	
				2020	2019
Salaries and benefits	\$ 1,677,122	\$ 260,246	\$ 149,989	\$ 2,087,357	\$ 1,833,201
Kennel supplies and dog care	132,817	-	-	132,817	139,937
Veterinary fees	309,812	-	-	309,812	183,715
Purchase of dogs	32,500	-	-	32,500	116,161
Education	3,083	-	-	3,083	24,260
Repairs and maintenance	48,350	526	3,679	52,555	60,509
Motor vehicles	16,653	-	-	16,653	27,275
Rent expense	325	-	-	325	1,300
Utilities	56,327	612	4,286	61,225	62,625
Telephone	14,601	880	2,111	17,592	16,194
Insurance	42,769	3,029	1,847	47,645	43,066
Fund raising expense	-	-	13,207	13,207	7,524
Advertising and printing	48,716	2,628	1,300	52,644	68,319
Office supplies	49,585	7,694	4,435	61,714	76,094
Postage	9,355	323	3,246	12,924	13,570
Professional services	62,385	35,817	10,303	108,505	180,796
Travel and entertainment	11,196	86	773	12,055	30,506
Fees	-	2,201	32,745	34,946	8,585
Interest expense	13,337	-	-	13,337	11,982
Depreciation	221,428	612	4,286	226,326	189,635
Miscellaneous	15,421	1,236	-	16,657	2,762
Total expenses	<u>\$ 2,765,782</u>	<u>\$ 315,890</u>	<u>\$ 232,207</u>	<u>\$ 3,313,879</u>	<u>\$ 3,098,016</u>

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

NEADS, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2020

(With Summarized Comparative Financial Information for 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 824,904	\$ 899,751
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	226,326	189,635
Net investment (gains) losses	(224,345)	(23,669)
Contributions restricted for capital improvement	(105,152)	(524,003)
Changes in operating assets and liabilities:		
Grants and other receivables	(500)	-
Contributions receivable	132,000	(59,000)
Prepaid expenses and other assets	(8,600)	41,321
Accounts payable and accrued liabilities	413,083	51,443
Net cash provided by operating activities	<u>1,257,716</u>	<u>575,478</u>
Cash flows from investing activities:		
Purchases of investments	(136,786)	(51,067)
Proceeds from sales and maturities of investments	73,736	151,455
Purchases of property and equipment	<u>(587,107)</u>	<u>(1,382,724)</u>
Net cash used in investing activities	<u>(650,157)</u>	<u>(1,282,336)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Acquisition of property and equipment	105,152	474,003
Net borrowings (payments) on line of credit	440,000	(48,622)
Principal payments of long-term debt	(36,536)	(34,405)
Principal payments of capital lease obligation	<u>(3,771)</u>	<u>(2,774)</u>
Net cash provided by financing activities	<u>504,845</u>	<u>388,202</u>
Net change in cash	1,112,404	(318,656)
Cash, beginning of year	<u>855,129</u>	<u>1,173,785</u>
Cash, end of year	<u>\$ 1,967,533</u>	<u>\$ 855,129</u>

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

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF ORGANIZATION

NEADS, Inc. (“NEADS”) is a non-profit organization that breeds, raises, trains and places Service Dogs with adults and children who are deaf or physically disabled, veterans with PTSD, and children with autism. In addition, NEADS Assistance Dogs provide integrated therapeutic assistance when partnered with professionals in the classroom, hospital, ministry and courthouse settings.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NEADS prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. The significant accounting and reporting policies used by NEADS are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis 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.

Accounting estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, NEADS management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. NEADS management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Net assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions - Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of NEADS, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. In addition, the governing board of NEADS may elect to designate such resources for specific purposes. This designation may be removed at the board’s discretion.

Net assets with donor restrictions - Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor’s instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; NEADS must continue to use the resources in accordance with the donor’s instructions.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets (continued)

NEADS unspent contributions are included in this class if the donor limited their use.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by NEADS, unless the donor provides more specific directions about the period of its use.

Summarized comparative information

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 the NEADS financial statements for the year ended August 31, 2019, from which the summarized information was derived.

Classification of transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

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.

Contributions receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at net realizable value at the date of promise. That net realizable 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 uncollectible contributions 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. NEADS, Inc. did not have an allowance for uncollectible contributions receivable recorded at August 31, 2020 and 2019.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are reported 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 reported by the investment managers as a practical expedient. NEADS reviews and evaluates the net asset values reported by the investment managers and has determined that the net asset values are calculated in a manner consistent with the measurement principles of FASB ASC Topic 946 as of the balance sheet date. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Investment income is recorded in net assets without donor restriction unless its use is restricted by explicit donor stipulations.

Endowment funds

NEADS endowment consists of individual donor restricted funds established for a variety of purposes. Its endowment includes both donor restricted endowment funds and funds designated by NEADS 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.

As required by generally accepted accounting principles, NEADS classifies as donor 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 as non-expendable net assets is classified as expendable 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 NEADS 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 NEADS; and the investment policies of NEADS.

NEADS has adopted investment and spending policies for its board-designated and other 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, the endowment assets are invested in a portfolio of debt and equity securities with the objective of achieving long-term capital appreciation while moderating the level of investment risk. 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 debt and equity securities 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, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment funds (continued)

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. NEADS may appropriate for expenditure from these underwater endowment funds in accordance with the prudent measures prescribed by state law. There were no such deficiencies as of August 31, 2020 or 2019.

Property and equipment

Property and equipment are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. All land and buildings are capitalized. Equipment is capitalized if it has a cost of \$2,500 or more and a useful life when acquired of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets.

Impairment of long-lived assets and long-lived assets to be disposed of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Contributions, gifts, and grants

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

Gifts-in-kind contributions

NEADS receives contributions in a form other than cash or investments. If material, donated supplies and other items are recorded as contributions at the date of gift and as expenses when the donated items are placed into service or distributed. If NEADS receives a contribution of land, buildings, or equipment, the contributed asset is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets NEADS capitalization policy. Donated use of facilities is reported as contributions and as expenses at the estimated fair value of similar space for rent under similar conditions. If the use of the space is promised unconditionally for a period greater than one year, the contribution is reported as a contribution and an unconditional promise to give at the date of gift, and the expense is reported over the term of use.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gifts-in-kind contributions (continued)

NEADS benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in NEADS program operations and in its fund-raising events. However, the majority of the contributed services do not meet the criteria for recognition in financial statements. GAAP allows recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. Donated services, primarily veterinary services, that met these criteria of \$159,610 and \$70,766 were recognized in 2020 and 2019, respectively.

Expense recognition and allocation

The cost of providing NEADS programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, benefits, and payroll taxes are allocated based on activity reports prepared by key personnel.
- Occupancy, depreciation, amortization, and interest are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.
- Telephone and internet services, insurance, supplies and miscellaneous expenses that cannot be directly identified are allocated on the same basis as occupancy for each program and supporting activity.

Management periodically evaluates the basis on which costs are allocated.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of NEADS.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. NEADS generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, joint costs have been allocated between fundraising and general and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred. Advertising expense was \$52,644 and \$68,319 in 2020 and 2019, respectively.

Tax-exempt status

NEADS is exempt from federal income taxation 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). Contributions to NEADS are tax deductible to donors under Section 170 of the IRC. NEADS is not classified as a private foundation.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - RISKS AND UNCERTAINTIES

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020 declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which NEADS operates. While it is unknown how long these conditions will last and what the complete financial effect will be to NEADS, NEADS anticipates continued economic volatility which could have a material impact to its business operations due to ongoing government restrictions and mandated protocols surrounding re-opening from prior quarantine and isolation orders.

In April 2020, NEADS received proceeds in the amount of \$340,000 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for operating needs with an opportunity for such loans to be forgiven as a grant by meeting certain established spending requirements. NEADS has accounted for these proceeds as a conditional grant in accordance with FASB ASC 958-65, whereby grant revenue is not recognized until certain conditions are substantially met or explicitly waived. NEADS currently believes that its use of the funds is consistent with the PPP and it has met the conditions for forgiveness of the loan. As a result, these proceeds have been recorded in the statement of activities as grants and foundation gifts.

Additionally, it is possible that estimates made in the financial statements may be materially and adversely impacted in the near term as a result of the pandemic, including the valuation of investments. See footnote 17 for additional risks regarding NEADS’s investments.

4 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of August 31, 2020 and 2019 are:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 1,967,533	\$ 855,129
Grants and other receivables	500	-
Contributions receivable, net	7,000	139,000
Investments	<u>3,375,148</u>	<u>3,087,753</u>
Total financial assets	5,350,181	4,081,882
Less: Financial assets held to meet donor-imposed restrictions:		
Contributions receivable unavailable for spending until due, which are also subject to purpose restrictions	7,000	139,000
Purpose-restricted net assets	2,128,854	1,662,643
Endowment assets	392,906	392,906
Less: Board-designated endowment assets, net of 2021 draw	<u>1,019,364</u>	<u>901,881</u>
Amount available for general expenditures within one year	<u>\$ 1,802,057</u>	<u>\$ 985,452</u>

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - LIQUIDITY AND AVAILABILITY (Continued)

The above table reflects endowment funds as unavailable because it is NEADS's intention to invest those resources for the long-term support of NEADS. However, in the case of need, the Board of Directors could appropriate resources from the donor-restricted funds available for general use (\$392,906) or from its designated endowment fund (\$1,112,494). In accordance with NEADS' spending policy, the Board of Directors has approved a 2021 appropriation of \$93,130 from its board-designated endowment assets. Notes 2 and 9 provide more information about those funds and about the spending policies for all endowment funds.

NEADS regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. NEADS receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. In addition, the Organization receives support without donor restrictions; such support has historically represented more than 70% of annual program funding needs. In addition to the available financial assets summarized above, NEADS has various sources of liquidity at its disposal, including a line of credit. See note 8 for information about the NEADS's line of credit.

5 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2020</u>	<u>2019</u>
Donor restricted endowment	\$ 392,906	\$ 392,906
Board-designated endowment	1,112,494	974,881
With donor restrictions	1,469,563	1,351,839
Without donor restrictions	<u>400,185</u>	<u>368,127</u>
	<u>\$ 3,375,148</u>	<u>\$ 3,087,753</u>

Investments are comprised of the following:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 118,189	\$ 71,456
Fixed income – mutual and exchange traded funds	1,241,972	1,160,683
Equity based mutual funds	1,941,012	1,742,992
Alternative investments	<u>73,975</u>	<u>112,622</u>
	<u>\$ 3,375,148</u>	<u>\$ 3,087,753</u>

Investment return is reflected in the financial statements for 2020 and 2019 as follows:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 67,457	\$ 72,089
Net realized and unrealized gains	224,345	23,669
Investment management fees	<u>(22,908)</u>	<u>(20,585)</u>
Total investment return	<u>\$ 268,894</u>	<u>\$ 75,173</u>

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - PROPERTY AND EQUIPMENT

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

	<u>Estimated Useful Lives</u>	<u>2020</u>	<u>2019</u>
Land	-	\$ 172,890	\$ 172,890
Buildings and improvements	15 - 39 years	6,224,504	6,084,861
Furniture and equipment	3 - 7 years	678,893	646,375
Motor vehicles	5 years	218,414	218,414
Construction in process	-	651,422	134,895
		<u>7,946,123</u>	<u>7,257,435</u>
Less: Accumulated depreciation and amortization		<u>2,448,705</u>	<u>2,222,379</u>
		<u>\$ 5,497,418</u>	<u>\$ 5,035,056</u>

Depreciation expense for property and equipment was \$226,326 and \$189,635 in 2020 and 2019, respectively.

7 - NOTES PAYABLE, BANK

NEADS has a line of credit, due on demand, with its bank with a borrowing limit of \$175,000. The line of credit is 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 Berkshire Bank Base Rate which is currently at 3.50%. Outstanding advances on this line of credit were \$16,378 and \$26,378 at August 31, 2020 and 2019, respectively.

NEADS established a note payable with a bank in May 2019 to meet the needs of construction currently in progress with a maximum obligation of \$640,000. The amount of the note is collateralized by certain investments of NEADS. Interest is equal to the prime rate (2.75% at August 31, 2020). Outstanding advances on this line of credit were \$450,000 at August 31, 2020.

8 - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2020</u>	<u>2019</u>
Note payable, secured by property, due in monthly principal installments of \$1,840, including interest at 6%, through August 2021.	\$ 23,605	\$ 43,756
Note payable, secured by property, due in monthly installments of \$716, including interest at 6%, through August 2022.	14,956	22,341
Note payable, secured by property, due in monthly installments of \$716, including interest at 6%, through August 2025.	36,872	43,074
Note payable, secured by property, due in monthly installments of \$256, including interest at 3.49%, through August 2020.	<u>-</u>	<u>2,798</u>
	75,433	111,969
Less: Current maturities of long-term debt	<u>37,997</u>	<u>36,505</u>
	<u>\$ 37,436</u>	<u>\$ 75,464</u>

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - LONG-TERM DEBT (Continued)

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

2021	\$ 37,997
2022	14,072
2023	7,385
2024	7,840
2025	<u>8,139</u>
	<u>\$ 75,433</u>

9 - ENDOWMENT ASSETS

Endowment assets include board designated and donor restricted funds. Changes in endowment assets for the year ended August 31, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beginning of year	\$ 974,881	\$ 392,906	\$ 1,367,787
Investment return:			
Interest and dividends	21,298	8,584	29,882
Net appreciation (realized/unrealized)	70,831	28,547	99,378
Investment management fees	<u>(7,233)</u>	<u>(2,915)</u>	<u>(10,148)</u>
Total investment return	84,896	34,216	119,112
Additions	92,237	-	92,237
Appropriation for expenditure	<u>(39,520)</u>	<u>(34,216)</u>	<u>(73,736)</u>
End of year	<u>\$ 1,112,494</u>	<u>\$ 392,906</u>	<u>\$ 1,505,400</u>

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)

10 - LEASES

NEADS leases certain equipment under a capital lease agreement. Property and equipment includes the following furniture equipment acquired under current capital lease agreements:

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 16,178	\$ 16,178
Less: Accumulated depreciation	<u>7,078</u>	<u>3,033</u>
	<u>\$ 9,100</u>	<u>\$ 13,145</u>

Future minimum lease payments under this capital lease, together with the present value of future minimum lease payments as of August 31, 2020 are as follows:

Year Ending	
2021	\$ 4,706
2022	4,706
2023	<u>1,177</u>
Total minimum lease payments	10,589
Less: Amount representing interest	<u>926</u>
Present value of minimum lease payments	<u>\$ 9,663</u>

NEADS also 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, 2020 are as follows:

Year Ending	
2021	\$ 13,286
2022	13,286
2023	4,585
2024	<u>164</u>
	<u>\$ 31,321</u>

Lease expense was \$18,149 and \$14,220 in 2020 and 2019, respectively

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

11 - NET ASSETS WITH DONOR RESTRICTIONS

At August 31, 2020 and 2019, net assets with donor restrictions are available for the following purposes or periods:

	<u>2020</u>	<u>2019</u>
Purpose restrictions, available for spending:		
Capital acquisition and expansion	\$ 80,152	\$ 5,507
Dog training programs	<u>2,048,702</u>	<u>1,657,136</u>
Total purpose restricted net assets	<u>2,128,854</u>	<u>1,662,643</u>
Time restrictions:		
Contributions receivable, which are unavailable for spending until due, some of which are also subject to purpose restrictions	<u>7,000</u>	<u>139,000</u>
Endowment funds, which must be appropriated by the Board of Directors before use:		
Investment in perpetuity, the income and appreciation from which is expendable for general operating needs	<u>392,906</u>	<u>392,906</u>
Total net assets with donor restrictions	<u>\$ 2,528,760</u>	<u>\$ 2,194,549</u>

The Board of Directors has designated \$1,112,494 and \$974,881 of net assets without donor restriction for long-term investment as of August 31, 2020 and 2019, respectively.

During 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by donors as follows:

	<u>2020</u>	<u>2019</u>
Purpose restrictions:		
Capital acquisition and expansion	\$ 25,000	\$ 832,720
Completion of dog training programs	<u>884,544</u>	<u>1,539,650</u>
	<u>\$ 909,544</u>	<u>\$ 2,372,370</u>

12 - FAIR VALUE MEASUREMENTS

NEADS reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are as follows:

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.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - FAIR VALUE MEASUREMENTS (Continued)

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.

When available, NEADS measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for many of the assets and liabilities that NEADS is required to measure at fair value (for example, unconditional promises to give and in-kind contributions).

The primary uses of fair value measures in NEADS financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of endowment and long-term investments.

Determination of fair value

Following is a description of the valuation methodologies used for items measured at fair value. There have been no changes in the methodologies used during the year ended August 31, 2020.

Money market, fixed income mutual and exchange traded funds and equity based mutual funds: 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.

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, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)12 - FAIR VALUE MEASUREMENTS (Continued)

NEADS financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at August 31, 2020 as follows:

	August 31, 2020			Total
	Level 1	Level 2	Level 3	
Investments				
Money market funds	\$ 118,189	\$ -	\$ -	\$ 118,189
Fixed income – mutual and exchange traded funds	1,241,972	-	-	1,241,972
Equity based mutual funds	1,941,012	-	-	1,941,012
Total assets in the fair value hierarchy	<u>\$ 3,301,173</u>	<u>\$ -</u>	<u>\$ -</u>	3,301,173
Investments measured at net asset value				<u>73,975</u>
Total investments at fair value				<u>\$ 3,375,148</u>

NEADS financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at August 31, 2019 as follows:

	August 31, 2019			Total
	Level 1	Level 2	Level 3	
Investments				
Money market funds	\$ 71,456	\$ -	\$ -	\$ 71,456
Fixed income – mutual and exchange traded funds	1,160,683	-	-	1,160,683
Equity based mutual funds	1,742,992	-	-	1,742,992
Total assets in the fair value hierarchy	<u>\$ 2,975,131</u>	<u>\$ -</u>	<u>\$ -</u>	2,975,131
Investments measured at net asset value				<u>112,622</u>
Total investments at fair value				<u>\$ 3,087,753</u>

There were no transfers between the levels during the year. NEADS policy is to recognize transfers in and out of the levels at the end of the fiscal year; interim changes in the availability of fair value inputs are not recognized.

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)

12 - FAIR VALUE MEASUREMENTS (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	<u>\$ 73,975</u>	<u>\$ -</u>	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.

13 - RETIREMENT PLAN

NEADS has a 403(b) retirement plan covering substantially all employees. NEADS made matching contributions to the plan in the amount of \$7,661 and \$7,101 in 2020 and 2019, respectively.

14 - DONATED GOODS AND SERVICES

Donated goods and services were comprised of the following:

	<u>2020</u>	<u>2019</u>
Goods		
Kennel supplies and dog care	\$ 164,658	\$ 157,588
Services		
Veterinary & professional fees	<u>159,610</u>	<u>70,766</u>
	<u>\$ 324,268</u>	<u>\$ 228,354</u>

15 - STATEMENT OF CASH FLOWS

Supplemental disclosures of cash flows information is as follows:

Non-cash investing activities

The Organization recorded \$101,581 of capital expenditures as part of construction in progress that was included in accounts payable, trade at August 31, 2020.

Cash paid for interest totaled \$13,337 and \$11,982 in 2020 and 2019, respectively.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

16 - COMMITMENTS AND CONTINGENCIES

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.

17 - CONCENTRATIONS OF RISK

NEADS investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments to NEADS financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes in any one class.

18 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 2, 2020, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.