

NEADS, INC.
FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2023
AND
INDEPENDENT AUDITOR'S REPORT

NEADS, INC.
FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
NEADS, Inc.

Opinion

We have audited the financial statements of NEADS, Inc. (NEADS), which comprise the statement of financial position as of August 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of NEADS as of August 31, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of NEADS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 3 to the financial statements, NEADS adopted the provisions of ASU 2016-02 - Leases. Our report is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about NEADS' ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITOR'S REPORT

(Continued)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 NEADS' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NEADS' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited NEADS' 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 18, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ballus Lynch, LLP

Worcester, Massachusetts
January 18, 2024

NEADS, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2023

(With Summarized Comparative Information for 2022)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2023	2022
Assets				
Current assets				
Cash	\$ 415,414	\$ 273,672	\$ 689,086	\$ 770,544
Grants and other receivables	66,487	-	66,487	107,484
Contributions receivable, net	-	158,775	158,775	215,776
Prepaid expenses	53,785	-	53,785	46,431
Other current assets	9,224	-	9,224	7,313
Total current assets	544,910	432,447	977,357	1,147,548
Investments				
Long-term contributions receivable, net	3,086,754	2,912,293	5,999,047	3,896,324
Property and equipment, net	-	130,000	130,000	260,000
Right-of-use asset, operating leases, net	8,842,876	-	8,842,876	8,862,871
	26,862	-	26,862	-
Total assets	<u>\$ 12,501,402</u>	<u>\$ 3,474,740</u>	<u>\$ 15,976,142</u>	<u>\$ 14,166,743</u>
Liabilities and Net Assets				
Current liabilities				
Note payable, bank	\$ 232,000	\$ -	\$ 232,000	\$ 345,000
Current maturities of long-term debt	-	-	-	7,385
Current maturities of capital lease obligations	-	-	-	1,161
Current portion of operating lease liabilities	6,014	-	6,014	-
Accounts payable and accrued liabilities	470,364	-	470,364	327,391
Total current liabilities	708,378	-	708,378	680,937
Long-term liabilities				
Long-term debt, less current maturities	-	-	-	16,130
Operating lease liabilities, net current portion	20,848	-	20,848	-
Total liabilities	729,226	-	729,226	697,067
Net assets				
Without donor restrictions				
Undesignated	9,880,698	-	9,880,698	8,373,687
Board designated for endowment	1,891,478	-	1,891,478	1,737,368
Total net assets without donor restrictions	11,772,176	-	11,772,176	10,111,055
With donor restrictions	-	3,474,740	3,474,740	3,358,621
Total net assets	11,772,176	3,474,740	15,246,916	13,469,676
Total liabilities and net assets	<u>\$ 12,501,402</u>	<u>\$ 3,474,740</u>	<u>\$ 15,976,142</u>	<u>\$ 14,166,743</u>

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

NEADS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2023
(With Summarized Comparative Information for 2022)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2023	2022
Support and revenue				
General fees and contributions	\$ 3,480,995	\$ 390,406	\$ 3,871,401	\$ 3,243,193
Contributed goods and services	111,088	-	111,088	187,688
Grants and foundation gifts	712,947	686,342	1,399,289	1,465,158
Interest income	2,490	-	2,490	3,403
Net investment return	125,225	155,612	280,837	(704,438)
Other income	87,001	-	87,001	783
Loss on disposal of property and equipment	(44,782)	-	(44,782)	-
Fundraising events				
Ticket sales, sponsorships and auction	254,615	-	254,615	138,831
In-kind contributions	13,873	-	13,873	9,485
Less: Direct benefit to donors	(31,629)	-	(31,629)	(25,535)
Net revenue from fundraising events	236,859	-	236,859	122,781
Net assets released from restrictions	1,116,241	(1,116,241)	-	-
Total support and revenue	5,828,064	116,119	5,944,183	4,318,568
Expenses				
Program	3,165,035	-	3,165,035	3,047,740
Management and general	375,784	-	375,784	437,689
Fundraising	626,124	-	626,124	352,202
Total expenses	4,166,943	-	4,166,943	3,837,631
Change in net assets	1,661,121	116,119	1,777,240	480,937
Net assets, beginning of year	10,111,055	3,358,621	13,469,676	12,988,739
Net assets, end of year	\$ 11,772,176	\$ 3,474,740	\$ 15,246,916	\$ 13,469,676

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

NEADS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2023
(With Summarized Comparative Information for 2022)

	Program	Management and General	Fund Raising	Totals	
				2023	2022
Salaries and benefits	\$ 1,928,148	\$ 258,002	\$ 357,006	\$ 2,543,156	\$ 2,303,902
Kennel supplies and dog care	80,619	-	1,961	82,580	146,888
Veterinary fees	276,963	-	3,898	280,861	282,116
Repairs and maintenance	137,143	1,436	5,026	143,605	108,735
Motor vehicles	17,654	216	1,422	19,292	23,221
Rent expense	4,533	-	-	4,533	1,273
Utilities	87,254	914	3,198	91,366	84,388
Telephone	21,278	223	780	22,281	22,270
Insurance	47,269	4,438	1,732	53,439	52,667
Registration and filing fees	-	800	10,425	11,225	10,137
Advertising and printing	39,657	9,062	82,049	130,768	182,815
Office supplies	77,022	11,331	20,470	108,823	91,661
Postage	11,170	334	2,466	13,970	18,390
Professional services	55,838	64,368	1,310	121,516	127,854
Fundraising expense	-	-	127,595	127,595	77,932
Travel and entertainment	27,962	17,940	1,716	47,618	18,230
Fees	-	328	22,688	23,016	36,670
Interest expense	22,316	-	-	22,316	15,100
Depreciation	327,696	3,431	12,010	343,137	234,874
Miscellaneous	2,513	2,961	2,001	7,475	24,043
Total expenses	3,165,035	375,784	657,753	4,198,572	3,863,166
Special fundraising events					
Direct benefit to donors	-	-	(31,629)	(31,629)	(25,535)
	<u>\$ 3,165,035</u>	<u>\$ 375,784</u>	<u>\$ 626,124</u>	<u>\$ 4,166,943</u>	<u>\$ 3,837,631</u>

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

NEADS, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2023

(With Summarized Comparative Information for 2022)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,777,240	\$ 480,937
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	343,137	234,874
Amortization of right-of-use assets for operating leases	3,756	-
Government grant income	(503,447)	-
Loss on disposition of property and equipment	44,782	2,332
Net investment return	(177,423)	746,371
Contributions and grants restricted for capital improvement	(87,900)	(190,621)
Non-cash contribution - debt forgiveness	(22,309)	-
Changes in operating assets and liabilities:		
Grants and other receivables	40,997	(32,554)
Contributions receivable	187,001	(407,669)
Prepaid expenses and other current assets	(9,265)	(8,252)
Operating lease liabilities	(3,756)	-
Accounts payable and accrued liabilities	142,973	(219,583)
Net cash provided by operating activities	<u>1,735,786</u>	<u>605,835</u>
Cash flows from investing activities:		
Purchases of investments	(1,946,371)	(635,920)
Proceeds from sales and maturities of investments	21,071	73,475
Purchases of property and equipment	(367,924)	(1,780,644)
Net cash used in investing activities	<u>(2,293,224)</u>	<u>(2,343,089)</u>
Cash flows from financing activities:		
Proceeds from contributions and grants restricted for:		
Acquisition of property and equipment	87,900	293,239
Proceeds from government grant	503,447	-
Net payments on line of credit	(113,000)	(50,000)
Principal payments of long-term debt	(1,206)	(15,316)
Principal payments of capital lease obligation	(1,161)	(4,420)
Net cash provided by financing activities	<u>475,980</u>	<u>223,503</u>
Net change in cash	(81,458)	(1,513,751)
Cash, beginning of year	<u>770,544</u>	<u>2,284,295</u>
Cash, end of year	<u>\$ 689,086</u>	<u>\$ 770,544</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 NEADS financial statements for the year ended August 31, 2022, 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.

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 recorded an allowance for uncollectible contributions receivable of \$2,000 and \$0 at August 31, 2023 and 2022, respectively.

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. Such deficiencies amounted to \$44,403 and \$67,834 as of August 31, 2023 and 2022, respectively.

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.

Leases

NEADS determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) NEADS obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. NEADS also considers whether its service arrangements include the right to control the use of an asset.

NEADS recognizes most leases on its statement of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the statement of activities.

NEADS made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or September 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, NEADS made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (continued)

NEADS has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, vehicle and equipment asset classes. The non-lease components typically represent additional services transferred to NEADS, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

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 of cash and other financial assets

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.

Contributions of non-financial assets

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 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 \$47,493 and \$66,203 were recognized in 2023 and 2022, respectively.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$130,768 and \$182,815 in 2023 and 2022, 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 - ADOPTION OF ACCOUNTING PRINCIPLE

In February 2016, the FASB issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the income statement. NEADS adopted Topic 842 on September 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, NEADS has applied Topic 842 to reporting periods beginning on September 1, 2022, while prior periods continue to be reported and disclosed in accordance with NEADS's historical accounting treatment under ASC Topic 840, Leases.

NEADS elected the "package of practical expedients" under the transition guidance within Topic 842, in which NEADS does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. NEADS has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on September 1, 2022.

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to NEADS's operating leases of \$30,618 at September 1, 2022. The adoption of the new lease standard did not materially impact change in net assets or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

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, 2023 and 2022 are:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash	\$ 689,086	\$ 770,544
Grants and other receivables	66,487	107,484
Contributions receivable, net	288,775	475,776
Investments	<u>5,999,047</u>	<u>3,896,324</u>
Total financial assets	7,043,395	5,250,128
Less: Financial assets held to meet donor-imposed restrictions:		
Contributions receivable unavailable for spending until due, which are also subject to purpose restrictions	288,775	475,776
Purpose-restricted net assets, net	2,837,462	2,557,773
Endowment assets	348,503	325,072
Less: Board-designated endowment assets, net	<u>1,891,478</u>	<u>1,737,368</u>
Amount available for general expenditures within one year	<u>\$ 1,677,177</u>	<u>\$ 154,139</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 (\$348,503) or from its designated endowment fund (\$1,891,478). 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. NEADS anticipates releasing approximately \$1 million annually from purpose restricted resources as it satisfies its program requirements. In addition, the Organization receives support without donor restrictions; such support has historically represented more than 80% 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 7 for information about the NEADS's line of credit.

5 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2023</u>	<u>2022</u>
Donor restricted endowment	\$ 348,503	\$ 325,072
Board-designated endowment	1,891,478	1,737,368
With donor restrictions	2,563,790	1,833,884
Without donor restrictions	<u>1,195,276</u>	<u>-</u>
	<u>\$ 5,999,047</u>	<u>\$ 3,896,324</u>

Investments are comprised of the following:

	<u>2023</u>	<u>2022</u>
Money market funds	\$ 36,127	\$ 42,156
U.S. Treasury bonds	853,820	-
Mutual funds and ETFs	5,047,680	3,790,206
Alternative investments	<u>61,420</u>	<u>63,962</u>
	<u>\$ 5,999,047</u>	<u>\$ 3,896,324</u>

Investment return is reflected in the financial statements as follows:

	<u>2023</u>	<u>2022</u>
Interest and dividend income	\$ 131,247	\$ 70,948
Net realized and unrealized gains (losses)	177,423	(746,371)
Investment management fees	<u>(27,833)</u>	<u>(29,015)</u>
Total investment return	<u>\$ 280,837</u>	<u>\$ (704,438)</u>

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - INVESTMENTS (Continued)

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.

6 - PROPERTY AND EQUIPMENT

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

	Estimated Useful Lives	2023	2022
Land	-	\$ 642,618	\$ 642,618
Buildings and improvements	15 - 39 years	10,208,001	10,008,006
Furniture and equipment	3 - 7 years	953,734	901,918
Motor vehicles	5 years	182,650	218,414
Construction in process	-	1,500	-
		11,988,503	11,770,956
Less: Accumulated depreciation and amortization		3,145,627	2,908,085
		<u>\$ 8,842,876</u>	<u>\$ 8,862,871</u>

Depreciation expense for property and equipment was \$343,137 and \$234,874 in 2023 and 2022, respectively.

7 - NOTES PAYABLE, BANK

NEADS has a line of credit, due on demand, with its bank with a borrowing limit of \$645,000. The line of credit is secured by certain assets of NEADS. Interest is equal to the prime rate, minus 0.50% (8.00% at August 31, 2023). Outstanding advances on this line of credit were \$232,000 and \$345,000 at August 31, 2023 and 2022, respectively.

8 - LONG-TERM DEBT

Long-term debt consists of the following:

	2023	2022
Note payable, secured by property, due in monthly installments of \$716, including interest at 6%, through August 2025. Note was fully forgiven in November 2022, the balance of which was recorded as contribution revenue.	\$ -	\$ 23,515
	-	23,515
Less: Current maturities of long-term debt	-	7,385
	<u>\$ -</u>	<u>\$ 16,130</u>

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - ENDOWMENT ASSETS

Endowment assets include board designated and donor restricted funds. Changes in endowment assets for the year ended August 31, 2023 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets, beginning of year	\$ 1,737,368	\$ 325,072	\$ 2,062,440
Investment return:			
Interest and dividends	58,523	10,950	69,473
Net appreciation (realized/unrealized)	79,113	14,803	93,916
Investment management fees	<u>(12,411)</u>	<u>(2,322)</u>	<u>(14,733)</u>
Total investment return	125,225	23,431	148,656
Additions	49,956	-	49,956
Appropriation for expenditure	<u>(21,071)</u>	<u>-</u>	<u>(21,071)</u>
Endowment assets, end of year	<u>\$ 1,891,478</u>	<u>\$ 348,503</u>	<u>\$ 2,239,981</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.

10 - LEASES

NEADS leases equipment under operating lease agreements that generally have terms of 5 years. The leases may contain a termination option, where the rights to terminate are held by either the Organization or the lessor. There are no extension options included in the leases. NEADS' operating leases generally do not contain any material restrictive covenants or residual value guarantees.

Operating lease cost is recognized on a straight-line basis over the lease term. The components of lease expense are as follows for the year ended August 31, 2023:

Operating leases:	
Operating lease cost	<u>\$ 4,439</u>

Operating lease expenses was \$15,691 for the year ended August 31, 2022.

Supplemental balance sheet information related to leases is as follows as of August 31, 2023:

Operating leases:	
Equipment	\$ 30,618
Less: Accumulated amortization	<u>3,756</u>
Right-of-use assets for operating leases, net	<u>\$ 26,862</u>

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

10 - LEASES (Continued)

Cash paid for amounts included in measurement of lease liabilities:

Operating cash outflows - payments on operating leases \$ 3,906

Weighted average remaining lease term

Operating leases 4.31 years

Weighted average discount rate

Operating leases 4.02%

Future minimum lease commitments, as determined under Topic 840, for all non-cancelable leases are consistent with future undiscounted cash flows under Topic 842. Future undiscounted cash flows and a reconciliation to the lease liabilities recognized on the statement of financial position as follows as of August 31, 2023:

Years ending	<u>Operating Lease</u>
2024	\$ 7,106
2025	6,637
2026	6,402
2027	6,402
2028	<u>2,667</u>
Total lease payments	29,214
Less: Imputed interest	<u>2,352</u>
Total present value of lease liabilities	<u><u>\$ 26,862</u></u>

11 - NET ASSETS WITH DONOR RESTRICTIONS

At August 31, 2023 and 2022, net assets with donor restrictions are available for the following purposes or periods:

	<u>2023</u>	<u>2022</u>
Purpose restrictions, available for spending:		
Capital acquisition and expansion	\$ 87,900	\$ -
Dog training programs	<u>2,749,562</u>	<u>2,557,773</u>
Total purpose restricted net assets	<u>2,837,462</u>	<u>2,557,773</u>
Time restrictions:		
Contributions receivable, which are unavailable for spending until due, some of which are also subject to purpose restrictions	<u>288,775</u>	<u>475,776</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>348,503</u>	<u>325,072</u>
Total net assets with donor restrictions	<u><u>\$ 3,474,740</u></u>	<u><u>\$ 3,358,621</u></u>

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

11 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

The Board of Directors has designated \$1,891,478 and \$1,737,368 of net assets without donor restriction for long-term investment as of August 31, 2023 and 2022, respectively.

During 2023 and 2022, 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>2023</u>	<u>2022</u>
Purpose restrictions:		
Capital acquisition and expansion	\$ -	\$ 2,871,769
Completion of dog training programs	<u>1,116,241</u>	<u>952,250</u>
	<u>\$ 1,116,241</u>	<u>\$ 3,824,019</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.

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.

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, 2023.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - FAIR VALUE MEASUREMENTS (Continued)

Determination of fair value

Money market, mutual funds, and exchange traded 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.

U.S. Treasury bonds: Valued at the closing prices reported in The Wall Street Business Journal based on the maturity date of the bond.

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 statement of financial position 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 financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at August 31, 2023 as follows:

	August 31, 2023			
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	\$ 36,127	\$ -	\$ -	\$ 36,127
U.S. Treasury bonds	-	853,820	-	853,820
Mutual funds and ETFs	5,047,680	-	-	5,047,680
Total investments in the fair value hierarchy	<u>\$ 5,083,807</u>	<u>\$ 853,820</u>	<u>\$ -</u>	5,937,627
Investments measured at net asset value				<u>61,420</u>
Total investments				<u>\$ 5,999,047</u>

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, 2022 as follows:

	August 31, 2022			Total
	Level 1	Level 2	Level 3	
Investments				
Money market funds	\$ 42,156	\$ -	\$ -	\$ 42,156
Mutual funds and ETFs	<u>3,790,206</u>	<u>-</u>	<u>-</u>	<u>3,790,206</u>
Total investments in the fair value hierarchy	<u>\$ 3,832,362</u>	<u>\$ -</u>	<u>\$ -</u>	3,832,362
Investments measured at net asset value				<u>63,962</u>
Total investments				<u>\$ 3,896,324</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.

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:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private equity funds	<u>\$ 61,420</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 \$7,537 and \$7,679 in 2023 and 2022, respectively.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

14 - DONATED GOODS AND SERVICES

Donated goods and services were comprised of the following:

	<u>2023</u>	<u>2022</u>
Goods		
Kennel supplies and dog care	\$ 63,595	\$ 121,485
Auction items	13,873	9,485
Services		
Veterinary & professional fees	<u>47,493</u>	<u>66,203</u>
	<u>\$ 124,961</u>	<u>\$ 197,173</u>

15 - STATEMENT OF CASH FLOWS

Supplemental disclosures of cash flows information is as follows:

Cash paid for interest totaled \$22,316 and \$15,100 in 2023 and 2022, respectively.

16 - GOVERNMENT GRANTS

In response to the COVID-19 pandemic, the Coronavirus Aid Relief and Economic Security Act (“CARES Act”) was passed to provide funding to businesses negatively impacted by the pandemic. The CARES Act provides an employee retention credit, which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The tax credit is equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through December 31, 2020. Additional relief provisions were passed by the United States government, which extend and slightly expand the qualified wage caps on these credits through September 30, 2021. Based on these additional provisions, the tax credit is now equal to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee has been increased to \$10,000 of qualified wages per quarter. The Organization applied for and received credits of \$503,447 during 2023. Such credits are included in grants and foundation gifts on the statement of activities.

17 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 18, 2024, 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.