

**NEADS, INC.**  
***FINANCIAL STATEMENTS***  
***YEAR ENDED AUGUST 31, 2024***  
***AND***  
***INDEPENDENT AUDITOR'S REPORT***

NEADS, INC.  
FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2024

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 20

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, 2024, 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, 2024, 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.

**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' 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 18, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Ballus Lynch, LLP*

Worcester, Massachusetts  
January 15, 2025

NEADS, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2024

(With Summarized Comparative Information for 2023)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2024	2023
Assets				
Current assets				
Cash	\$ 380,716	\$ 637,513	\$ 1,018,229	\$ 689,086
Grants and other receivables	-	-	-	66,487
Contributions receivable, net	-	242,082	242,082	158,775
Prepaid expenses	80,812	-	80,812	53,785
Other current assets	8,681	-	8,681	9,224
Total current assets	470,209	879,595	1,349,804	977,357
Investments				
Long-term contributions receivable, net	-	-	-	130,000
Property and equipment, net	8,624,855	-	8,624,855	8,842,876
Right-of-use asset, operating leases, net	27,148	-	27,148	26,862
Total assets	<u>\$ 12,557,170</u>	<u>\$ 4,003,128</u>	<u>\$ 16,560,298</u>	<u>\$ 15,976,142</u>
Liabilities and Net Assets				
Current liabilities				
Note payable, bank	\$ 196,000	\$ -	\$ 196,000	\$ 232,000
Current portion of operating lease liabilities	7,330	-	7,330	6,014
Accounts payable and accrued liabilities	463,295	-	463,295	470,364
Total current liabilities	666,625	-	666,625	708,378
Long-term liabilities				
Operating lease liabilities, net of current portion	19,818	-	19,818	20,848
Total liabilities	686,443	-	686,443	729,226
Net assets				
Without donor restrictions				
Undesignated	9,748,183	-	9,748,183	9,880,698
Board designated for endowment	2,122,544	-	2,122,544	1,891,478
Total net assets without donor restrictions	11,870,727	-	11,870,727	11,772,176
With donor restrictions	-	4,003,128	4,003,128	3,474,740
Total net assets	11,870,727	4,003,128	15,873,855	15,246,916
Total liabilities and net assets	<u>\$ 12,557,170</u>	<u>\$ 4,003,128</u>	<u>\$ 16,560,298</u>	<u>\$ 15,976,142</u>

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

NEADS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2024  
(With Summarized Comparative Information for 2023)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2024	2023
Support and revenue				
General fees and contributions	\$ 2,776,300	\$ 879,982	\$ 3,656,282	\$ 3,871,401
Contributed goods and services	128,394	-	128,394	111,088
Grants and foundation gifts	188,800	193,100	381,900	895,842
Government grant income	-	-	-	503,447
Interest income	1,405	-	1,405	2,490
Net investment return	377,082	355,770	732,852	280,837
Other income	9,561	-	9,561	87,001
Loss on disposal of property and equipment	-	-	-	(44,782)
Fundraising events				
Ticket sales, sponsorships and auction	253,054	-	253,054	254,615
In-kind contributions	30,103	-	30,103	13,873
Less: Direct benefit to donors	(36,089)	-	(36,089)	(31,629)
Net revenue from fundraising events	247,068	-	247,068	236,859
Net assets released from restrictions - purpose	900,464	(900,464)	-	-
Total support and revenue	4,629,074	528,388	5,157,462	5,944,183
Expenses				
Program	3,375,891	-	3,375,891	3,165,035
Management and general	420,985	-	420,985	375,784
Fundraising	733,647	-	733,647	626,124
Total expenses	4,530,523	-	4,530,523	4,166,943
Change in net assets	98,551	528,388	626,939	1,777,240
Net assets, beginning of year	11,772,176	3,474,740	15,246,916	13,469,676
Net assets, end of year	\$ 11,870,727	\$ 4,003,128	\$ 15,873,855	\$ 15,246,916

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

NEADS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2024  
(With Summarized Comparative Information for 2023)

	Program	Management and General	Fundraising	Totals	
				2024	2023
Salaries and benefits	\$ 2,221,170	\$ 251,007	\$ 317,222	\$ 2,789,399	\$ 2,543,156
Kennel supplies and dog care	106,437	-	3,093	109,530	82,580
Veterinary fees	248,377	-	3,792	252,169	280,861
Repairs and maintenance	111,027	1,163	4,069	116,259	143,605
Motor vehicles	20,120	542	1,694	22,356	19,292
Rent expense	-	-	-	-	4,533
Utilities	70,665	740	2,590	73,995	91,366
Telephone	29,040	304	1,064	30,408	22,281
Insurance	64,403	4,617	1,803	70,823	53,439
Registration and filing fees	225	921	9,100	10,246	11,225
Advertising and printing	972	1,733	134,209	136,914	130,768
Office supplies	47,338	13,630	37,728	98,696	108,823
Postage	9,343	26	5,858	15,227	13,970
Professional services	75,684	131,072	53,023	259,779	121,516
Fundraising expense	-	-	149,617	149,617	127,595
Travel and entertainment	14,071	7,952	3,894	25,917	47,618
Fees	309	779	24,721	25,809	23,016
Interest expense	16,042	-	-	16,042	22,316
Depreciation	338,056	3,540	12,389	353,985	343,137
Miscellaneous	2,612	2,959	3,870	9,441	7,475
Total expenses	3,375,891	420,985	769,736	4,566,612	4,198,572
Special fundraising events					
Direct benefit to donors	-	-	(36,089)	(36,089)	(31,629)
	<u>\$ 3,375,891</u>	<u>\$ 420,985</u>	<u>\$ 733,647</u>	<u>\$ 4,530,523</u>	<u>\$ 4,166,943</u>

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

## NEADS, INC.

## STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2024

(With Summarized Comparative Information for 2023)

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Change in net assets	\$ 626,939	\$ 1,777,240
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	353,985	343,137
Amortization of right-of-use assets for operating leases	6,492	3,756
Government grant income	-	(503,447)
Loss on disposition of property and equipment	-	44,782
Net investment gains	(545,420)	(177,423)
Contributions and grants restricted for capital improvement	(584,400)	(87,900)
Non-cash contribution - debt forgiveness	-	(22,309)
Changes in operating assets and liabilities:		
Grants and other receivables	66,487	40,997
Contributions receivable	141,968	187,001
Prepaid expenses and other current assets	(26,484)	(9,265)
Operating lease liabilities	(6,492)	(3,756)
Accounts payable and accrued liabilities	15,336	142,973
Net cash provided by operating activities	<u>48,411</u>	<u>1,735,786</u>
Cash flows from investing activities:		
Purchases of investments	(242,637)	(1,946,371)
Proceeds from sales and maturities of investments	228,613	21,071
Purchases of property and equipment	(158,369)	(367,924)
Net cash used in investing activities	<u>(172,393)</u>	<u>(2,293,224)</u>
Cash flows from financing activities:		
Proceeds from contributions and grants restricted for:		
Capital improvement	489,125	87,900
Proceeds from government grant	-	503,447
Net payments on line of credit	(36,000)	(113,000)
Principal payments of long-term debt	-	(1,206)
Principal payments of capital lease obligation	-	(1,161)
Net cash provided by financing activities	<u>453,125</u>	<u>475,980</u>
Net change in cash	329,143	(81,458)
Cash, beginning of year	<u>689,086</u>	<u>770,544</u>
Cash, end of year	<u>\$ 1,018,229</u>	<u>\$ 689,086</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, 2023, 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 \$0 and \$2,000 at August 31, 2024 and 2023, 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 \$1,830 and \$44,403 as of August 31, 2024 and 2023, 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. 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.

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 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 \$33,929 and \$47,493 were recognized in 2024 and 2023, 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 \$136,914 and \$130,768 in 2024 and 2023, 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 is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2021.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

3 - 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, 2024 and 2023 are:

	<u>2024</u>	<u>2023</u>
Financial assets:		
Cash	\$ 1,018,229	\$ 689,086
Grants and other receivables	-	66,487
Contributions receivable, net	242,082	288,775
Investments	<u>6,558,491</u>	<u>5,999,047</u>
Total financial assets	7,818,802	7,043,395
Less: Financial assets held to meet donor-imposed restrictions:		
Contributions receivable unavailable for spending until due, which are also subject to purpose restrictions	242,082	288,775
Purpose-restricted net assets, net	3,369,970	2,837,462
Endowment assets	391,076	348,503
Less: Board-designated endowment assets, net	<u>2,122,544</u>	<u>1,891,478</u>
Amount available for general expenditures within one year	<u>\$ 1,693,130</u>	<u>\$ 1,677,177</u>

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 (\$391,076 of which \$392,906 is the original gift) or from its designated endowment fund (\$2,122,544). Notes 2 and 7 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 6 for information about the NEADS's line of credit.

4 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2024</u>	<u>2023</u>
Donor restricted endowment	\$ 391,076	\$ 348,503
Board-designated endowment	2,122,544	1,891,478
With donor restrictions	2,732,457	2,563,790
Without donor restrictions	<u>1,312,414</u>	<u>1,195,276</u>
	<u>\$ 6,558,491</u>	<u>\$ 5,999,047</u>

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

4 - INVESTMENTS (Continued)

Investments are comprised of the following:

	<u>2024</u>	<u>2023</u>
Money market funds	\$ 74,110	\$ 36,127
U.S. Treasury bonds	601,806	853,820
Mutual funds and exchange traded funds	5,819,758	5,047,680
Alternative investments	<u>62,817</u>	<u>61,420</u>
	<u>\$ 6,558,491</u>	<u>\$ 5,999,047</u>

Investment return is reflected in the financial statements as follows:

	<u>2024</u>	<u>2023</u>
Interest and dividend income	\$ 225,184	\$ 131,247
Net realized and unrealized gains	545,420	177,423
Investment management fees	<u>(37,752)</u>	<u>(27,833)</u>
Total investment return	<u>\$ 732,852</u>	<u>\$ 280,837</u>

NEADS investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Market risks include global events which could impact the value of investment securities such as a pandemic or international conflict. 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.

5 - PROPERTY AND EQUIPMENT

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

	Estimated Useful Lives	<u>2024</u>	<u>2023</u>
Land	-	\$ 642,618	\$ 642,618
Buildings and improvements	15 - 39 years	10,220,250	10,208,001
Furniture and equipment	3 - 7 years	953,734	953,734
Motor vehicles	5 years	182,650	182,650
Construction in process	-	<u>125,215</u>	<u>1,500</u>
		12,124,467	11,988,503
Less: Accumulated depreciation and amortization		<u>3,499,612</u>	<u>3,145,627</u>
		<u>\$ 8,624,855</u>	<u>\$ 8,842,876</u>

Depreciation expense for property and equipment was \$353,985 and \$343,137 in 2024 and 2023, respectively.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

6 - NOTES PAYABLE, BANK

NEADS has a line of credit, due on demand, with its bank with a borrowing limit of \$640,000. 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, 2024). Outstanding advances on this line of credit were \$196,000 and \$232,000 at August 31, 2024 and 2023, respectively.

7 - ENDOWMENT ASSETS

Endowment assets include board designated and donor restricted funds. Changes in endowment assets for the year ended August 31, 2024 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets, beginning of year	\$ 1,891,478	\$ 348,503	\$ 2,239,981
Investment return:			
Interest and dividends	71,000	13,081	84,081
Net appreciation (realized/unrealized)	171,969	31,685	203,654
Investment management fees	(11,903)	(2,193)	(14,096)
Total investment return	231,066	42,573	273,639
Endowment assets, end of year	<u>\$ 2,122,544</u>	<u>\$ 391,076</u>	<u>\$ 2,513,620</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.

8 - 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 years ended August 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Operating leases:		
Operating lease cost	\$ 7,225	\$ 4,439
Variable lease cost	2,006	1,162
Short-term lease cost	5,821	12,219
Total lease cost	<u>\$ 15,052</u>	<u>\$ 17,820</u>

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

8 - LEASES (Continued)

Supplemental balance sheet information related to leases is as follows as of August 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Operating leases:		
Equipment	\$ 35,815	\$ 30,618
Less: Accumulated amortization	<u>8,667</u>	<u>3,756</u>
Right-of-use assets for operating leases, net	<u>\$ 27,148</u>	<u>\$ 26,862</u>
Weighted average remaining lease term:		
Operating leases	3.85 years	4.31 years
Weighted average discount rate		
Operating leases	3.99%	4.02%

Future undiscounted cash flows and a reconciliation to the lease liabilities recognized on the statement of financial position as follows as of August 31, 2024:

Years ending	<u>Operating Lease</u>
2025	\$ 7,825
2026	7,825
2027	7,825
2028	4,090
2029	<u>1,660</u>
Total lease payments	29,225
Less: Imputed interest	<u>(2,077)</u>
Total present value of lease liabilities	<u>\$ 27,148</u>

9 - GOVERNMENT GRANTS

NEADS recorded refundable tax credits of \$503,447 as government grant income on the statement of activities for the year ended August 31, 2023 under the Employee Retention Tax Credit (ERTC) provisions of the CARES Act, Consolidated Appropriations Act, and American Rescue Plan Act. The ERTC is a refundable tax credit against certain employment taxes paid after March 12, 2020 through December 31, 2021.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

10 - NET ASSETS WITH DONOR RESTRICTIONS

At August 31, 2024 and 2023, net assets with donor restrictions are available for the following purposes or periods:

	<u>2024</u>	<u>2023</u>
Purpose restrictions, available for spending:		
Capital acquisition and expansion	\$ 672,300	\$ 87,900
Dog training programs	<u>2,697,670</u>	<u>2,749,562</u>
Total purpose restricted net assets	<u>3,369,970</u>	<u>2,837,462</u>
Time restrictions:		
Contributions receivable, which are unavailable for spending until due, some of which are also subject to purpose restrictions	<u>242,082</u>	<u>288,775</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 (original gift \$392,906)	<u>391,076</u>	<u>348,503</u>
Total net assets with donor restrictions	<u>\$ 4,003,128</u>	<u>\$ 3,474,740</u>

The Board of Directors has designated \$2,122,544 and \$1,891,478 of net assets without donor restriction for long-term investment as of August 31, 2024 and 2023, respectively.

During 2024 and 2023, 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>2024</u>	<u>2023</u>
Expiration of time restrictions	\$ 151,129	\$ 165,669
Purpose restrictions:		
Completion of dog training programs	<u>749,335</u>	<u>950,572</u>
	<u>\$ 900,464</u>	<u>\$ 1,116,241</u>

11 - 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.

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

11 - FAIR VALUE MEASUREMENTS (Continued)

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, 2024.

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, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

11 - 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, 2024 as follows:

	August 31, 2024			Total
	Level 1	Level 2	Level 3	
Investments				
Money market funds	\$ 74,110	\$ -	\$ -	\$ 74,110
U.S. Treasury bonds	-	601,806	-	601,806
Mutual funds and ETFs	5,819,758	-	-	5,819,758
Total investments in the fair value hierarchy	<u>\$ 5,893,868</u>	<u>\$ 601,806</u>	<u>\$ -</u>	6,495,674
Investments measured at net asset value				62,817
Total investments				<u>\$ 6,558,491</u>

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			Total
	Level 1	Level 2	Level 3	
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				61,420
Total investments				<u>\$ 5,999,047</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:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Private equity funds	<u>\$ 62,817</u>	<u>\$ -</u>	Quarterly	None

NEADS, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

11 - FAIR VALUE MEASUREMENTS (Continued)

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.

12 - RETIREMENT PLAN

NEADS has a 403(b) retirement plan covering substantially all employees. NEADS made matching contributions to the plan in the amount of \$7,396 and \$7,537 in 2024 and 2023, respectively.

13 - DONATED GOODS AND SERVICES

Donated goods and services were comprised of the following:

	<u>2024</u>	<u>2023</u>
Goods		
Kennel supplies and dog care	\$ 94,465	\$ 63,595
Auction items	30,103	13,873
Services		
Veterinary & professional fees	<u>33,929</u>	<u>47,493</u>
	<u>\$ 158,497</u>	<u>\$ 124,961</u>

14 - STATEMENT OF CASH FLOWS

Supplemental disclosures of cash flows information is as follows:

Cash paid for interest totaled \$16,042 and \$22,316 in 2024 and 2023, respectively.

Supplemental cash flow information related to leases is as follows for the years ended August 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows – payments on operating leases	\$ 7,225	\$ 4,439
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	\$ 6,778	\$ 30,618
Derecognition of right-of-use assets and lease liabilities from modifications:		
Operating leases	\$ 1,581	\$ -

15 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 15, 2025, 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.