

D.A.R.E. America
FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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Walters & Sklyar LLP

Independent Auditors' Report

To the Board of Directors of
D.A.R.E. America
Culver City, California

We have audited the accompanying financial statements of D.A.R.E. America (a California nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of D.A.R.E. America as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended December 31, 2018, D.A.R.E. America early-adopted new accounting guidance, Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-profit Entities*. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The financial statements of D.A.R.E. America as of and for the year ended December 31, 2017, were audited by other auditors whose report dated March 26, 2018, expressed an unmodified opinion on those statements.

Walters & Sklyar LLP

Woodland Hills, California

June 9, 2020

D.A.R.E. America
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
ASSETS:		
Cash and cash equivalents	\$ 825,711	\$ 1,210,831
Royalty receivable, no allowance necessary	201,438	155,695
Contributions receivable, no allowance necessary	137,084	31,281
Investments	1,206,339	1,050,883
Prepaid expenses and deposits	146,999	43,559
Property and equipment, net	<u>25,404</u>	<u>27,172</u>
 TOTAL ASSETS	 <u>\$ 2,542,975</u>	 <u>\$ 2,519,421</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts payable and accrued expenses	\$ 279,842	\$ 262,095
Deferred rent	<u>126,393</u>	<u>-</u>
 Total liabilities	 <u>406,235</u>	 <u>262,095</u>
 COMMITMENTS AND CONTINGENCIES		
	-	-
 NET ASSETS:		
Without donor restrictions	1,999,656	2,226,045
With donor restrictions	<u>137,084</u>	<u>31,281</u>
 Total net assets	 <u>2,136,740</u>	 <u>2,257,326</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 2,542,975</u>	 <u>\$ 2,519,421</u>

The accompanying notes are an integral part of the financial statements

D.A.R.E. America
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT:			
Grants and contributions	\$ 88,451	\$ 137,084	\$ 225,535
Royalty income	1,988,470	-	1,988,470
Fundraising events, net of direct expenses of \$28,335	(4,185)	-	(4,185)
Sweepstakes and other promotional campaign income	13,341,646	-	13,341,646
Income from investments	19,281	-	19,281
	<u>15,433,663</u>	<u>137,084</u>	<u>15,570,747</u>
NET ASSETS RELEASED FROM RESTRICTIONS:			
Satisfaction of program restrictions	<u>31,281</u>	<u>(31,281)</u>	<u>-</u>
Total net assets released from restrictions	<u>31,281</u>	<u>(31,281)</u>	<u>-</u>
Total revenue, support, and net assets released from restrictions	<u>15,464,944</u>	<u>105,803</u>	<u>15,570,747</u>
EXPENSES:			
Program services	5,832,139	-	5,832,139
Supporting services:			
Fundraising	9,106,435	-	9,106,435
General and administrative	752,759	-	752,759
	<u>9,859,194</u>	<u>-</u>	<u>9,859,194</u>
Total supporting services	<u>9,859,194</u>	<u>-</u>	<u>9,859,194</u>
Total expenses	<u>15,691,333</u>	<u>-</u>	<u>15,691,333</u>
CHANGE IN NET ASSETS	(226,389)	105,803	(120,586)
NET ASSETS, beginning of year	<u>2,226,045</u>	<u>31,281</u>	<u>2,257,326</u>
NET ASSETS, end of year	<u>\$ 1,999,656</u>	<u>\$ 137,084</u>	<u>\$ 2,136,740</u>

The accompanying notes are an integral part of the financial statements

D.A.R.E. America
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT:			
Grants and contributions	\$ 150,287	\$ 31,281	\$ 181,568
Royalty income	2,000,185	-	2,000,185
Fundraising events, net of direct expenses of \$3,500	24,650	-	24,650
Sweepstakes and other promotional campaign income	10,384,766	-	10,384,766
Income from investments	<u>9,354</u>	<u>-</u>	<u>9,354</u>
Total revenues and support	<u>12,569,242</u>	<u>31,281</u>	<u>12,600,523</u>
NET ASSETS RELEASED FROM RESTRICTIONS:			
Satisfaction of program restrictions	<u>27,935</u>	<u>(27,935)</u>	<u>-</u>
Total net assets released from restrictions	<u>27,935</u>	<u>(27,935)</u>	<u>-</u>
Total revenue, support, and net assets released from restrictions	<u>12,597,177</u>	<u>3,346</u>	<u>12,600,523</u>
EXPENSES:			
Program services	4,489,455	-	4,489,455
Supporting services:			
Fundraising	6,948,625	-	6,948,625
General and administrative	<u>629,499</u>	<u>-</u>	<u>629,499</u>
Total supporting services	<u>7,578,124</u>	<u>-</u>	<u>7,578,124</u>
Total expenses	<u>12,067,579</u>	<u>-</u>	<u>12,067,579</u>
CHANGE IN NET ASSETS	529,598	3,346	532,944
NET ASSETS, beginning of year	<u>1,696,447</u>	<u>27,935</u>	<u>1,724,382</u>
NET ASSETS, end of year	<u>\$ 2,226,045</u>	<u>\$ 31,281</u>	<u>\$ 2,257,326</u>

The accompanying notes are an integral part of the financial statements

D.A.R.E. America
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (120,586)	\$ 532,944
Adjustments to reconcile change in net assets to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation	6,552	1,213
Changes in assets and liabilities:		
(Increase) in royalty receivable	(45,743)	(2,152)
(Increase) in contributions receivable	(105,803)	(3,346)
Decrease in other receivables	-	68,549
(Increase) in prepaid expenses and deposits	(103,440)	(17,048)
Increase (decrease) in accounts payable and accrued expenses	17,747	(68,465)
Increase in deferred rent	<u>126,393</u>	<u>-</u>
Net cash and cash equivalents (used in) provided by operating activities	<u>(224,880)</u>	<u>511,695</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in investments	(155,456)	(600,871)
Acquisition of property and equipment	<u>(4,784)</u>	<u>(26,957)</u>
Net cash and cash equivalents (used in) investing activities	<u>(160,240)</u>	<u>(627,828)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(385,120)	(116,133)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,210,831</u>	<u>1,326,964</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 825,711</u></u>	<u><u>\$ 1,210,831</u></u>

The accompanying notes are an integral part of the financial statements

D.A.R.E. America
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services				Supporting Services			Total
	Curriculum Program	Educ & Instr'l Mat'ls Prog	Awareness Program	Total Program	Fundraising	General and Administrative	Total Supporting	
Bank and credit card fees	\$ 8,548	\$ 3,483	\$ 19,629	\$ 31,660	\$ 39,197	\$ 4,523	\$ 43,720	\$ 75,380
Contracted services	792,486	322,865	1,819,783	2,935,134	8,978,150	419,305	9,397,455	12,332,589
Depreciation	-	-	-	-	-	6,552	6,552	6,552
Educational materials	64,480	26,270	148,065	238,815	-	-	-	238,815
Employee benefits	15,336	6,248	35,215	56,799	-	8,487	8,487	65,286
Insurance	-	-	-	-	-	14,666	14,666	14,666
Legal and accounting	27,862	11,351	63,980	103,193	-	15,420	15,420	118,613
Marketing and communication	3,195	1,302	7,336	11,833	-	1,768	1,768	13,601
Occupancy	59,722	24,331	137,140	221,193	-	33,052	33,052	254,245
Office expense	7,923	3,228	18,194	29,345	-	4,385	4,385	33,730
Payroll taxes	21,842	8,899	50,157	80,898	-	12,088	12,088	92,986
Postage and shipping	7,419	3,023	17,037	27,479	34,021	3,926	37,947	65,426
Printing and reproduction	5,861	2,388	13,458	21,707	26,875	3,101	29,976	51,683
Salaries	319,569	130,195	733,826	1,183,590	-	176,858	176,858	1,360,448
Scholarships	5,130	2,090	11,780	19,000	-	-	-	19,000
Supplies	4,760	1,939	10,931	17,630	-	2,634	2,634	20,264
Telephone	6,148	2,505	14,118	22,771	28,192	3,253	31,445	54,216
Travel and conferences	224,395	91,420	515,277	831,092	-	42,741	42,741	873,833
Total functional expenses	<u>\$ 1,574,676</u>	<u>\$ 641,537</u>	<u>\$ 3,615,926</u>	<u>\$ 5,832,139</u>	<u>\$ 9,106,435</u>	<u>\$ 752,759</u>	<u>\$ 9,859,194</u>	<u>\$ 15,691,333</u>

The accompanying notes are an integral part of the financial statements

D.A.R.E. America
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services				Supporting Services			Total
	Curriculum Program	Educ & Instr'l Mat'ls Prog	Awareness Program	Total Program	Fundraising	General and Administrative	Total Supporting	
Bank and credit card fees	\$ 3,053	\$ 1,244	\$ 7,010	\$ 11,307	\$ 13,999	\$ 1,615	\$ 15,614	\$ 26,921
Contracted services	516,564	210,452	1,186,185	1,913,201	6,873,737	273,314	7,147,051	9,060,252
Depreciation	-	-	-	-	-	1,213	1,213	1,213
Educational materials	71,292	29,045	163,709	264,046	-	-	-	264,046
Employee benefits	20,751	8,454	47,652	76,857	-	11,484	11,484	88,341
Insurance	-	-	-	-	-	13,231	13,231	13,231
Legal and accounting	24,020	9,786	55,157	88,963	-	13,293	13,293	102,256
Occupancy	24,416	9,947	56,065	90,428	-	13,512	13,512	103,940
Office expense	5,879	2,395	13,499	21,773	-	3,253	3,253	25,026
Payroll taxes	20,940	8,531	48,085	77,556	-	11,589	11,589	89,145
Postage and shipping	5,008	2,040	11,502	18,550	22,966	2,650	25,616	44,166
Printing and reproduction	4,083	1,663	9,376	15,122	18,723	2,160	20,883	36,005
Salaries	302,891	123,400	695,528	1,121,819	-	167,628	167,628	1,289,447
Scholarships	6,075	2,475	13,950	22,500	-	-	-	22,500
Supplies	7,889	3,214	18,116	29,219	-	4,366	4,366	33,585
Telephone	4,187	1,706	9,614	15,507	19,200	2,215	21,415	36,922
Travel and conferences	195,104	79,487	448,016	722,607	-	107,976	107,976	830,583
Total functional expenses	\$ 1,212,152	\$ 493,839	\$ 2,783,464	\$ 4,489,455	\$ 6,948,625	\$ 629,499	\$ 7,578,124	\$ 12,067,579

The accompanying notes are an integral part of the financial statements

D.A.R.E. America

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

D.A.R.E. America (the Organization) was incorporated in January 1989 as a California nonprofit organization for the purpose of developing and implementing drug abuse resistance, safety and prevention educational programs worldwide. The Organization is supported primarily through donations, special events, sweepstakes and other promotional campaign income, and license royalties.

Local D.A.R.E. programs currently operate in all 50 states and U.S. territories, and 46 other countries.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recently Adopted Accounting Guidance

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The Organization adopted the provisions of ASU 2016-14 upon its effectivity for the year ended December 31, 2018 and, accordingly, the presentation of financial statements and notes herein reflect such adoption.

Basis of Presentation

The accompanying financial statements of the Organization have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

In accordance with GAAP, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Net assets without donor restrictions are not subject to donor-imposed restrictions, or the donor-imposed restrictions have expired. Net assets without donor restrictions represent funds that are fully available, at the discretion of management and the Board of Directors, for the Organization to utilize in its programs or supporting activities.

D.A.R.E. America

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

- Net assets with donor restrictions are subject to donor-imposed stipulations, which include (a) restrictions that may or will be met either by actions of the Organization and/or the passage of time, and (b) stipulations that require the corpus to be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions. As restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Contributions

Contributions are recognized as revenue when they are received or unconditionally pledged. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Grant Income

The Organization receives grant income from various local companies and non-profit organizations to support its mission and provide specific program services. Grant income is recorded and recognized in accordance with the contribution policy described above.

In-Kind Contributions

In accordance with GAAP, in-kind services are recognized if the services (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

The Organization receives significant amount of donated services from unpaid volunteers that are essential to the completion of the Organization's purposes. However, these services have not been recorded in the financial statements since they do not meet the accounting criteria necessary for recognition.

Royalty Income

The Organization has license agreements with third-parties granting them nonexclusive, nontransferable rights to use the D.A.R.E. trademarks in conjunction with the design, manufacture, distribution and sale of products in the United States.

D.A.R.E. America

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Royalty Income – Continued

Royalties from license agreements are recorded as revenue when earned. For the years ended December 31, 2018 and 2017, the Organization received royalties from one licensee that accounted for approximately 95% and 98%, respectively, of total royalty income.

Sweepstakes and Other Promotional Campaign Income

Sweepstakes and other promotional fundraising campaigns are held to provide additional revenue in support of the Organization's mission. The Organization obtains the services of third-party professional fundraising companies to hold such campaigns. Although these events are not central to the Organization's program, they are a normal part of operations providing a significant stream of revenues and expenses.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of three months or less that are readily convertible to known amounts of cash, or that are convertible to cash on demand, and are subject to an insignificant risk of changes in fair value. These amounts are recorded at cost, which approximates fair value.

Investments

In accordance with GAAP, investments are measured at fair value based on quoted market prices in the statements of financial position. Investment income or loss (including interest, dividends, realized and unrealized gains or losses on investments) is reflected in the changes in net assets.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term, and that such changes could materially affect the amounts reported in the statements of financial position.

Property and Equipment

Property and equipment are recorded at cost when purchased. Donated property and equipment is recorded at its estimated fair market value on the date it was received. Depreciation on property and equipment is computed using the straight-line method over the economic useful life of each asset. Useful lives range from three to seven years.

D.A.R.E. America

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property and Equipment – Continued

Maintenance and repair costs are expensed as they are incurred, while renewals and improvements of a significant nature are capitalized. At the time of retirement or disposal of property and equipment, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the changes in net assets.

Impairment of Long-Lived Assets

In accordance with GAAP, the Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such review indicates an asset may not be recoverable, an impairment loss is recognized for the excess of the carrying amount over the fair value of an asset to be held and used or over the fair value less cost to sell an asset to be disposed. During the years ended December 31, 2018 and 2017, there were no events or changes in circumstances indicating that the carrying amount of the assets may not be recoverable.

Educational and Awareness Materials

Educational and awareness materials such as workbooks, curriculum, and videos of the D.A.R.E. program are purchased by the Organization for distribution to students and instructors. Upon purchase, these materials are immediately transferred to the D.A.R.E. program students and instructors. Accordingly, the costs of these materials are expensed as incurred and not recorded as inventory.

Deferred Rent

The Organization's lease for its facility contains incentives such as rent abatements and improvement allowance. Lease incentives are taken into account in determining total rent expense to be recognized during the term of the lease. In accordance with FASB Accounting Standards Concept (ASC) 840, *Leases*, differences between straight-line periodic rent expense and periodic cash rental payments are recorded as deferred rent liability in the statements of financial position.

Advertising

Advertising costs are expensed as incurred. For the year ended December 31, 2018, advertising costs amounted to \$13,601. For the year ended December 31, 2017, advertising costs were insignificant.

D.A.R.E. America

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Functional Expenses

The costs of providing program activities or supporting services have been summarized on a functional basis in the financial statements. Expenses that are specifically associated with a program activity or supporting service are allocated to that activity. Expenses that are attributable to more than one program or supporting function are allocated by management based on estimates of time, effort and actual benefits provided.

Income Taxes

D.A.R.E. America is exempt from federal and state income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and the corresponding provisions of the California Revenue and Taxation Code, except to the extent of unrelated business income (UBI) as defined by the IRC. The Organization evaluates uncertain tax positions through its review of the sources of income to identify UBI and certain other matters, including those which may affect its tax exempt status. The effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2018 and 2017, the Organization had no uncertain tax positions requiring accrual.

The Organization files federal and California exempt organization returns. It is no longer subject to income tax examinations by taxing authorities for years before 2015 for their federal and 2014 for their state tax filings.

Fair Value of Financial Instruments

Financial instruments included in the Organization's statements of financial position include cash and cash equivalents, receivables, investments, and accounts payable. The carrying amounts of such financial instruments represent a reasonable estimate of the fair values due to their short-term maturities.

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions, and judgments that affect the reported amounts of assets and liabilities and amounts disclosed in the notes to the financial statements at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time made, actual results could differ materially from those estimates.

D.A.R.E. America

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, investments, and receivables. The Organization maintains cash and cash equivalents, and investments with high credit quality financial institutions. Cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, such balances may be in excess of the FDIC insurance limit. Investments, which as of December 31, 2018 and 2017 consisted of short-term CDs with original maturities of more than three months, are also insured by the FDIC up to \$250,000.

With respect to receivables, the Organization performs on-going evaluations of each donor and licensee, and maintains an allowance for doubtful accounts as necessary to cover potential losses. As of December 31, 2018 and 2017, the Organization had receivables from two donors that accounted for approximately 81% and 90%, respectively, of total contributions receivable. As of December 31, 2018 and 2017, the Organization had receivable from one licensee that accounted for approximately 81% and 96%, respectively, of total royalty receivable.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. Upon adoption of ASU 2016-02, the operating lease disclosed in Note 6 – Commitments will be reported on the statements of financial position as gross-up asset and liability. In November 2019, the FASB issued ASU 2019-10 deferring the effective date of ASU 2016-02 to annual reporting periods beginning December 15, 2020. Early adoption is permitted. The Organization is currently evaluating the impact that this guidance will have on its statements of financial position or financial statement disclosures.

The Organization reviewed all other significant newly-issued accounting pronouncements and concluded that they either are not applicable to its operations or that no material effect is expected on its financial statements as a result of future adoption.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. Such reclassifications have no effect on changes in net assets as previously reported.

D.A.R.E. America

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

The Organization evaluated events occurring between December 31, 2018 and June 9, 2020, the date these financial statements were available to be issued, and determined that there were no material subsequent events that required recognition or disclosure in these financial statements, except as noted below.

The recent Coronavirus outbreak (COVID-19), which was designated as a pandemic by the World Health Organization on March 11, 2020, continues to spread both in the United States and globally, and related government and private sector responsive actions may adversely affect the Organization's operations, employee availability, financial condition, liquidity, and cash flows. At this time, it is impossible to predict the ultimate impact of the COVID-19 pandemic as the situation is rapidly evolving.

NOTE 3 - INVESTMENTS

As of December 31, 2018 and 2017, investments consist of short-term CDs with original maturities of more than three months, which are stated at fair value based upon quoted market prices. Investments amounted to \$1,206,339 and \$1,050,883 as of December 31, 2018 and 2017, respectively.

Income from investments consisted of interest and dividends income of \$19,281 and \$9,354 for the years ended December 31, 2018 and 2017, respectively.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Office equipment	\$ 27,875	\$ 23,147
Furniture and fixtures	<u>43,582</u>	<u>43,526</u>
	71,457	66,673
Less: accumulated depreciation and amortization	<u>(46,053)</u>	<u>(39,501)</u>
	<u>\$ 25,404</u>	<u>\$ 27,172</u>

Depreciation expense for the years ended December 31, 2018 and 2017 amounted to \$6,552 and \$1,213, respectively.

D.A.R.E. America

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of contributions receivable amounting to \$137,084 and \$31,281 as of December 31, 2018 and 2017, respectively.

Net assets with donor restrictions were released from restrictions by satisfying the time requirements, that is, collection of contributions receivable amounting to \$31,281 and \$27,935 during the years ended December 31, 2018 and 2017, respectively.

NOTE 6 - COMMITMENTS

Operating Lease

The Organization leases its facility under an operating lease agreement that commenced in April 2018 and expires in November 2025 requiring minimum monthly payments of approximately \$15,800, subject to escalation.

Future minimum lease payments are as follows at December 31, 2018.

<u>Year Ending December 31,</u>	
2019	\$ 162,260
2020	200,262
2021	206,268
2022	212,460
2023	218,835
2024 and thereafter	<u>438,066</u>
	\$ <u>1,438,151</u>

Prior to April 2018, the Organization was leasing its facility under an operating lease agreement that required minimum monthly payments of approximately \$8,200.

During the years ended December 31, 2018 and 2017, total rent expense for facility leases amounted to \$204,831 and \$95,579, respectively, and are included in occupancy expense in the financial statements.

NOTE 7 - LEGAL MATTERS

The Organization may, from time-to-time, be involved in litigation and regulatory investigations that arise in the normal course of doing business. Management believes that the resolution of such matters, if any, will not have a material adverse effect on the financial position of the Organization.

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NOTES TO FINANCIAL STATEMENTS

NOTE 8 - AVAILABILITY OF FINANCIAL ASSETS

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows at December 31:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 825,711	\$ 1,210,831
Royalty receivable	201,438	155,695
Contributions receivable	137,084	31,281
Investments	<u>1,206,339</u>	<u>1,050,883</u>
	<u>\$ 2,370,572</u>	<u>\$ 2,448,690</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization invests cash in excess of daily requirements in short-term investments.

NOTE 9 - RELATED PARTY TRANSACTIONS

The spouse of a Director is a key employee at a licensee that pays royalties to the Organization. Approximately \$1,876,000 and \$1,954,000 of royalty income was received from this licensee during the years ended December 31, 2018 and 2017, respectively. In addition, approximately \$126,000 and \$268,000 of educational materials were purchased from this related party during the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the net receivable balance from this related party amounted to \$142,790 and \$144,601, respectively.

A Director is a key employee at an entity that provides contracted services to the Organization. Contracted services purchased from this related party amounted to \$185,000 and \$77,000 during the years ended December 31, 2018 and 2017, respectively. At December 31, 2018, there was no balance payable to this related party. At December 31, 2017, the balance payable to this related party amounted to \$15,417.

A conflict of interest policy, procedures and reporting processes are in place for staff and board. The relationships cited above exist and have been acknowledged as required per the Organization's conflict of interest policy and procedure.

NOTE 10 - RETIREMENT PLAN

The Organization maintains a voluntary and salary reduction only 403(b) plan for the benefit of substantially all eligible employees. Employees may defer compensation up to the current IRC limits.