

D.A.R.E. America
FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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Walters & Sklyar LLP

Independent Auditors' Report

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

Opinion

We have audited the accompanying financial statements of D.A.R.E. America (a California nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of D.A.R.E. America and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 D.A.R.E. America's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 generally accepted auditing standards 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 a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, 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 D.A.R.E. America's 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 D.A.R.E. America's 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.

Walters & Sklyar LLP

Woodland Hills, California

December 3, 2022

D.A.R.E. America
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

ASSETS

	2021	2020
ASSETS:		
Cash and cash equivalents	\$ 1,527,390	\$ 870,864
Royalty receivable, no allowance necessary	117,681	140,450
Investments	449,961	-
Prepaid expenses and deposits	55,046	94,752
Property and equipment, net	35,822	19,420
Intangible asset, net	743,065	-
 TOTAL ASSETS	 \$ 2,928,965	 \$ 1,125,486

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts payable and accrued expenses	\$ 871,381	\$ 575,994
Credit card payable	-	71,830
Installment payment payable	550,000	-
Deferred rent	126,559	143,175
SBA economic injury disaster loan	150,000	150,000
Other liabilities	50,500	-
 Total liabilities	 1,748,440	 940,999
 COMMITMENTS AND CONTINGENCIES	 -	 -
NET ASSETS:		
Without donor restrictions	1,180,525	184,487
 Total net assets	 1,180,525	 184,487
 TOTAL LIABILITIES AND NET ASSETS	 \$ 2,928,965	 \$ 1,125,486

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, 2021

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT:			
Grants and contributions	\$ 411,753	\$ -	\$ 411,753
Royalty income	1,344,998	-	1,344,998
Other promotional campaign income	19,852,761	-	19,852,761
Income from investments	<u>245</u>	<u>-</u>	<u>245</u>
Total revenues and support	<u>21,609,757</u>	<u>-</u>	<u>21,609,757</u>
NET ASSETS RELEASED FROM RESTRICTIONS:			
Satisfaction of program restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue, support, and net assets released from restrictions	<u>21,609,757</u>	<u>-</u>	<u>21,609,757</u>
EXPENSES:			
Program services	11,563,412	-	11,563,412
Supporting services:			
Fundraising	7,735,085	-	7,735,085
General and administrative	<u>1,315,222</u>	<u>-</u>	<u>1,315,222</u>
Total supporting services	<u>9,050,307</u>	<u>-</u>	<u>9,050,307</u>
Total expenses	<u>20,613,719</u>	<u>-</u>	<u>20,613,719</u>
CHANGE IN NET ASSETS	996,038	-	996,038
NET ASSETS, beginning of year	<u>184,487</u>	<u>-</u>	<u>184,487</u>
NET ASSETS, end of year	<u>\$ 1,180,525</u>	<u>\$ -</u>	<u>\$ 1,180,525</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, 2020

	Without donor restrictions	With donor restrictions	Total
REVENUES AND SUPPORT:			
Grants and contributions	\$ 316,678	\$ -	\$ 316,678
Royalty income	983,397	-	983,397
Fundraising events, net of direct expenses of \$399	29,633	-	29,633
Other promotional campaign income	11,452,218	-	11,452,218
Income from investments	6,736	-	6,736
Total revenues and support	12,788,662	-	12,788,662
NET ASSETS RELEASED FROM RESTRICTIONS:			
Satisfaction of program restrictions	3,847	(3,847)	-
Total net assets released from restrictions	3,847	(3,847)	-
Total revenue, support, and net assets released from restrictions	12,792,509	(3,847)	12,788,662
EXPENSES:			
Program services	7,612,033	-	7,612,033
Supporting services:			
Fundraising	5,292,186	-	5,292,186
General and administrative	830,849	-	830,849
Total supporting services	6,123,035	-	6,123,035
Total expenses	13,735,068	-	13,735,068
CHANGE IN NET ASSETS	(942,559)	(3,847)	(946,406)
NET ASSETS, beginning of year	1,127,046	3,847	1,130,893
NET ASSETS, end of year	\$ 184,487	\$ -	\$ 184,487

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, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 996,038	\$ (946,406)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	15,198	6,229
Changes in assets and liabilities:		
Decrease in royalty receivable	22,769	22,808
Decrease in contributions receivable	-	3,847
Decrease in prepaid expenses and deposits	39,706	43,022
Increase in accounts payable and accrued expenses	295,387	154,271
(Decrease) increase in credit card payable	(71,830)	71,830
(Decrease) in deferred rent	(16,616)	(10,610)
Increase in other liabilities	50,500	-
	1,331,152	(655,009)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in investments	(449,961)	251,198
Acquisition of property and equipment	(24,665)	(1,292)
	(474,626)	249,906
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from SBA economic injury disaster loan	-	150,000
Payments on installment payment payable	(200,000)	-
	(200,000)	150,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	656,526	(255,103)
CASH AND CASH EQUIVALENTS, beginning of year	870,864	1,125,967
CASH AND CASH EQUIVALENTS, end of year	\$ 1,527,390	\$ 870,864

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY:

During the year ended December 31, 2021, an intangible asset amounting to \$750,000 was acquired by entering into a copyright transfer agreement that requires installment payments consisting of \$200,000 in 2021, and then quarterly payments of \$68,750 beginning March 2022 through December 2023.

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, 2021

	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	\$ 1,442	\$ 2,595	\$ 24,799	\$ 28,836	\$ 35,702	\$ 4,119	\$ 39,821	\$ 68,657
Charitable contributions	-	-	-	-	-	168,313	168,313	168,313
Contracted services	88,440	159,192	1,521,172	1,768,804	7,643,917	252,686	7,896,603	9,665,407
Depreciation and amortization	-	-	-	-	-	15,198	15,198	15,198
Educational materials	187,640	337,752	3,227,412	3,752,804	-	-	-	3,752,804
Employee benefits	3,797	6,834	65,301	75,932	-	11,346	11,346	87,278
Insurance	-	-	-	-	-	17,721	17,721	17,721
Legal and accounting	14,643	26,357	251,857	292,857	-	43,760	43,760	336,617
Marketing and communication	154,726	278,506	2,661,283	3,094,515	-	462,399	462,399	3,556,914
Occupancy	9,041	16,274	155,506	180,821	-	27,019	27,019	207,840
Office expense	2,087	3,757	35,903	41,747	-	6,238	6,238	47,985
Payroll taxes	5,589	10,060	96,132	111,781	-	16,703	16,703	128,484
Postage and shipping	1,062	1,912	18,271	21,245	26,303	3,035	29,338	50,583
Printing and reproduction	157	282	2,695	3,134	3,879	448	4,327	7,461
Salaries	86,495	155,691	1,487,713	1,729,899	-	258,491	258,491	1,988,390
Scholarships	1,125	2,025	19,350	22,500	-	-	-	22,500
Supplies	440	792	7,564	8,796	-	1,314	1,314	10,110
Telephone	1,021	1,838	17,562	20,421	25,284	2,917	28,201	48,622
Travel and conferences	20,466	36,839	352,015	409,320	-	23,515	23,515	432,835
Total functional expenses	\$ 578,171	\$ 1,040,706	\$ 9,944,535	\$ 11,563,412	\$ 7,735,085	\$ 1,315,222	\$ 9,050,307	\$ 20,613,719

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, 2020

	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	\$ 2,323	\$ 2,534	\$ 16,260	\$ 21,117	\$ 26,145	\$ 3,016	\$ 29,161	\$ 50,278
Charitable contributions	-	-	-	-	-	47,536	47,536	47,536
Contracted services	114,280	124,670	799,963	1,038,913	5,179,804	148,416	5,328,220	6,367,133
Depreciation and amortization	-	-	-	-	-	6,229	6,229	6,229
Educational materials	230,884	251,874	1,616,189	2,098,947	-	-	-	2,098,947
Employee benefits	8,819	9,620	61,731	80,170	-	11,980	11,980	92,150
Insurance	-	-	-	-	-	14,396	14,396	14,396
Legal and accounting	8,188	8,932	57,313	74,433	-	11,121	11,121	85,554
Marketing and communication	180,195	196,576	1,261,363	1,638,134	-	244,779	244,779	1,882,913
Occupancy	19,890	21,698	139,230	180,818	-	27,019	27,019	207,837
Office expense	4,256	4,643	29,793	38,692	-	5,782	5,782	44,474
Payroll taxes	12,236	13,349	85,654	111,239	-	16,622	16,622	127,861
Postage and shipping	5,047	5,506	35,329	45,882	56,806	6,554	63,360	109,242
Printing and reproduction	137	150	961	1,248	1,545	178	1,723	2,971
Salaries	183,751	200,455	1,286,254	1,670,460	-	249,609	249,609	1,920,069
Scholarships	2,200	2,400	15,400	20,000	-	-	-	20,000
Supplies	832	908	5,826	7,566	-	1,131	1,131	8,697
Telephone	2,478	2,703	17,343	22,524	27,886	3,216	31,102	53,626
Travel and conferences	61,808	67,426	432,656	561,890	-	33,265	33,265	595,155
Total functional expenses	<u>\$ 837,324</u>	<u>\$ 913,444</u>	<u>\$ 5,861,265</u>	<u>\$ 7,612,033</u>	<u>\$ 5,292,186</u>	<u>\$ 830,849</u>	<u>\$ 6,123,035</u>	<u>\$ 13,735,068</u>

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, other promotional campaign income, and license royalties.

Local D.A.R.E. programs currently operate in all 50 states and U.S. territories, and 29 other countries.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.
- 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.

Risks and Uncertainties

The severity of the continued impact of the COVID-19 pandemic on the Organization's business depends on a number of factors, including, but not limited to, how long the pandemic will last, whether/when recurrences of the virus and its variants may arise, what restrictions may be enacted or re-enacted and the availability and acceptance of vaccines, all of which are uncertain and cannot be predicted. As such, the extent to which the COVID-19 pandemic may materially impact the Organization's financial condition, liquidity, or changes in net assets remains uncertain.

D.A.R.E. America

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as net assets without donor 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 companies 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.

Royalties from license agreements are recorded as revenue when earned. For the years ended December 31, 2021 and 2020, the Organization received royalties from one licensee that accounted for approximately 77% and 91%, respectively, of total royalty income.

Other Promotional Campaign Income

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.

D.A.R.E. America

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

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.

Intangible Asset

Intangible asset pertains to copyrights and intellectual property ownership of the D.A.R.E. Versions of a curricula as defined in the copyright transfer agreement entered into during the year ended December 31, 2021. The copyrights and intellectual property were capitalized at cost of \$750,000 at the date of acquisition, and are amortized using the straight line method over eight years. Accumulated amortization and amortization expense on intangible asset as of and for the year ended December 31, 2021 amounted to \$6,935.

Impairment of Long-Lived Assets

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.

D.A.R.E. America

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Impairment of Long-Lived Assets – Continued

During the years ended December 31, 2021 and 2020, 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.

Installment Payment Payable

As a result of the acquisition of intangible asset for \$750,000 during the year ended December 31, 2021, the Organization is required to make quarterly installment payments of \$68,750 beginning March 2022 through December 2023 (an initial installment payment of \$200,000 was made in 2021). Accordingly, installment payment payable amounted to \$550,000 at December 31, 2021.

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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 years ended December 31, 2021 and 2020, advertising costs amounted to \$7,195 and \$8,000, respectively.

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.

D.A.R.E. America

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, 2021 and 2020, 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 2018 for their federal and 2017 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, accounts payable, and credit card payable. The carrying amounts of such financial instruments represent a reasonable estimate of the fair values due to their short-term maturities. The fair value of debt is determined using current applicable rates for similar instruments and approximates its carrying value.

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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include those related to the Organization's allocation of certain expenses between programs and supporting services, allowance for doubtful accounts, estimates of useful lives of property and equipment as well as intangible asset, determination of lease terms, and accounting for impairment losses and litigation. Actual results could differ from those estimates.

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.

D.A.R.E. America

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Concentrations of Credit Risk – Continued

Investments, which at December 31, 2021 consist of short-term CDs with original maturities of more than three month, 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, 2021 and 2020, the Organization had receivables from three and two licensees that accounted for approximately 96% and 93%, respectively, of total royalty receivable.

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (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 June 2020, the FASB issued ASU 2020-05 deferring the effective date of ASU 2016-02 to annual reporting periods beginning after December 15, 2021. 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.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 is intended to improve transparency in the reporting of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit organizations, including transparency on how those assets are used and how they are valued. The ASU is required to be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021. Early adoption is permitted. The Organization is currently evaluating the impact that this guidance will have on its financial statements.

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 2020 financial statements to conform to the 2021 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, 2021 and December 3, 2022, 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 for the subsequent forgiveness of the second paycheck protection program loan disclosed in Note 7.

NOTE 3 - INVESTMENTS

As of December 31, 2021, 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 \$449,961 as of December 31, 2021. Income from investments consist of interest income of \$245 for the year ended December 31, 2021.

There was no investments as of December 31, 2020. Income from investments held during the year ended December 31, 2020 consist of interest income of \$6,736.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Vehicles and office equipment	\$ 54,933	\$ 30,268
Furniture and fixtures	<u>45,926</u>	<u>45,926</u>
	100,859	76,194
Less: accumulated depreciation	<u>(65,037)</u>	<u>(56,774)</u>
	<u>\$ 35,822</u>	<u>\$ 19,420</u>

Depreciation expense on property and equipment for the years ended December 31, 2021 and 2020 amounted to \$8,263 and \$6,229, respectively.

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

There were no net assets with donor restrictions as of December 31, 2021 and 2020.

Net assets with donor restrictions were released from restrictions by satisfying the time requirements, that is, collection of contributions receivable amounting to \$3,847 during the year ended December 31, 2020.

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NOTES TO FINANCIAL STATEMENTS

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 \$17,300, subject to escalation.

Future minimum lease payments are as follows at December 31, 2021.

<u>Year Ending</u> <u>December 31,</u>	
2022	\$ 212,460
2023	218,835
2024	225,399
2025	<u>212,667</u>
	<u>\$ 869,361</u>

During the years ended December 31, 2021 and 2020, total rent expense for the facility lease amounted to \$196,320 and \$193,597, respectively, and are included in occupancy expense in the financial statements.

NOTE 7 - SBA PAYCHECK PROTECTION PROGRAM LOANS

In March 2020, Congress passed the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The CARES Act established the Paycheck Protection Program (PPP), which authorizes loans to small businesses for payroll, rent, utilities, and interest on mortgages and existing debt. The PPP is administered by the U.S. Small Business Administration (SBA). Loans obtained through the PPP are eligible to be forgiven as long as the proceeds are used for qualifying purposes and certain other conditions are met. During each of the years ended December 31, 2021 and 2020, the Organization received PPP loans amounting to \$277,000. The Organization utilized the loans for purposes consistent with the PPP in order to be granted full forgiveness.

As of December 31, 2020, all \$277,000 of qualifying expenses for the first PPP loan had been incurred; and in September 2021, the first PPP loan was fully forgiven by the SBA. As of December 31, 2021, all \$277,000 of qualifying expenses for the second PPP loan had been incurred; and, subsequent to year-end, in February 2022, the second PPP loan was fully forgiven by the SBA.

Because the condition had been substantially met for forgiveness by December 31, 2021 and 2020, in accordance with the Organization's contribution policy, the full amount of the second and first PPP loans is included in grants and contributions without donor restrictions in the accompanying statements of activities and changes in net assets for the years ended December 31, 2021 and 2020, respectively.

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NOTES TO FINANCIAL STATEMENTS

NOTE 8 - SBA ECONOMIC INJURY DISASTER ADVANCE AND LOAN

During the year ended December 31, 2020, the Organization received an advance amounting to \$10,000 under the COVID-19 Economic Injury Disaster Loan (EIDL) program. While the SBA refers to this program as an advance, it was written into law as a grant, which means that the advance does not have to be repaid. The amount is included in grants and contributions without donor restrictions in the accompanying statement of activities and changes in net assets.

In June 2020, the Organization received a loan under the EIDL program amounting to \$150,000. The EIDL loan bears interest at 2.75% and is payable in monthly principal and interest payments of \$641 beginning December 2022. Any balance of principal and interest is due in June 2050. The EIDL loan is secured by all tangible and intangible assets of the Organization.

NOTE 9 - 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.

NOTE 10 - 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,527,390	\$ 870,864
Royalty receivable	117,681	140,450
Investments	<u>449,961</u>	<u>-</u>
	<u>\$ 2,095,032</u>	<u>\$ 1,011,314</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 11 - RELATED PARTY TRANSACTIONS

A Director is a member of a law firm from which the Organization purchased legal services during the years ended December 31, 2021 and 2020 totaling to approximately \$37,700 and \$1,700, respectively. At December 31, 2021 and 2020, the balance payable to this related party amounted to \$850 and \$876, respectively.

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NOTES TO FINANCIAL STATEMENTS

NOTE 11 - RELATED PARTY TRANSACTIONS – CONTINUED

The spouse of a Director is a key employee at a licensee that pays royalties to the Organization. Approximately \$1,071,300 and \$854,000 of royalty income was received from this licensee during the years ended December 31, 2021 and 2020, respectively. In addition, approximately \$282,000 and \$307,000 of educational materials were purchased from this related party during the years ended December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, the net receivable balance from this related party amounted to \$54,541 and \$84,644, 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 approximately \$241,100 and \$229,000 during the years ended December 31, 2021 and 2020, respectively. There was no balance payable to this related party at December 31, 2021 and 2020.

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 12 - 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.