

**D.A.R.E. America**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

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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 statements of financial position as of December 31, 2019 and 2018, 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.

### **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 audits. We conducted our audits 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, 2019 and 2018, 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.

## **Emphasis of a Matter**

As discussed in Note 2 to the financial statements, D.A.R.E. America adopted the new accounting guidance Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, effective January 1, 2019. Our opinion is not modified with respect to this matter.

*Walters & Sklyar LLP*

Woodland Hills, California

March 24, 2021

**D.A.R.E. America**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2019 AND 2018**

ASSETS

|  | <u>2019</u>             | <u>2018</u>             |
|--|-------------------------|-------------------------|
| ASSETS:  |                         |                         |
| Cash and cash equivalents                        | \$ 1,125,967            | \$ 825,711              |
| Royalty receivable, no allowance necessary       | 163,258                 | 201,438                 |
| Contributions receivable, no allowance necessary | 3,847                   | 137,084                 |
| Investments                                      | 251,198                 | 1,206,339               |
| Prepaid expenses and deposits                    | 137,774                 | 146,999                 |
| Property and equipment, net                      | <u>24,357</u>           | <u>25,404</u>           |
| <br>TOTAL ASSETS                                 | <br><u>\$ 1,706,401</u> | <br><u>\$ 2,542,975</u> |

LIABILITIES AND NET ASSETS

|                                       |                         |                         |
|---------------------------------------|-------------------------|-------------------------|
| LIABILITIES:                          |                         |                         |
| Accounts payable and accrued expenses | \$ 421,723              | \$ 279,842              |
| Deferred rent                         | <u>153,785</u>          | <u>126,393</u>          |
| <br>Total liabilities                 | <br><u>575,508</u>      | <br><u>406,235</u>      |
| <br>COMMITMENTS AND CONTINGENCIES     | <br>-                   | <br>-                   |
| NET ASSETS:                           |                         |                         |
| Without donor restrictions            | 1,127,046               | 1,999,656               |
| With donor restrictions               | <u>3,847</u>            | <u>137,084</u>          |
| <br>Total net assets                  | <br><u>1,130,893</u>    | <br><u>2,136,740</u>    |
| <br>TOTAL LIABILITIES AND NET ASSETS  | <br><u>\$ 1,706,401</u> | <br><u>\$ 2,542,975</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, 2019**

|  | Without donor<br>restrictions | With donor<br>restrictions | Total        |
|--|-------------------------------|----------------------------|--------------|
| <b>REVENUES AND SUPPORT:</b>   |                               |                            |              |
| Grants and contributions   | \$ 609,723                    | \$ 3,847                   | \$ 613,570   |
| Royalty income   | 1,906,484                     | -                          | 1,906,484    |
| Fundraising events, net of direct expenses of \$12,824               | 9,572                         | -                          | 9,572        |
| Sweepstakes and other promotional campaign income                    | 10,197,231                    | -                          | 10,197,231   |
| Income from investments  | 16,941                        | -                          | 16,941       |
| Total revenues and support   | 12,739,951                    | 3,847                      | 12,743,798   |
| <b>NET ASSETS RELEASED FROM RESTRICTIONS:</b>                        |                               |                            |              |
| Satisfaction of program restrictions                                 | 137,084                       | (137,084)                  | -            |
| Total net assets released from restrictions                          | 137,084                       | (137,084)                  | -            |
| Total revenue, support, and net assets released<br>from restrictions | 12,877,035                    | (133,237)                  | 12,743,798   |
| <b>EXPENSES:</b>   |                               |                            |              |
| Program services   | 7,851,972                     | -                          | 7,851,972    |
| Supporting services:   |                               |                            |              |
| Fundraising  | 5,167,918                     | -                          | 5,167,918    |
| General and administrative   | 729,755                       | -                          | 729,755      |
| Total supporting services  | 5,897,673                     | -                          | 5,897,673    |
| Total expenses   | 13,749,645                    | -                          | 13,749,645   |
| CHANGE IN NET ASSETS   | (872,610)                     | (133,237)                  | (1,005,847)  |
| NET ASSETS, beginning of year  | 1,999,656                     | 137,084                    | 2,136,740    |
| NET ASSETS, end of year  | \$ 1,127,046                  | \$ 3,847                   | \$ 1,130,893 |

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<br/>restrictions</u> | <u>With donor<br/>restrictions</u> | <u>Total</u>        |
|---|---------------------------------------|------------------------------------|---------------------|
| <b>REVENUES AND SUPPORT:</b>                                      |                                       |                                    |                     |
| 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   | <u>19,281</u>                         | <u>-</u>                           | <u>19,281</u>       |
| Total revenues and support  | <u>15,433,663</u>                     | <u>137,084</u>                     | <u>15,570,747</u>   |
| <b>NET ASSETS RELEASED FROM RESTRICTIONS:</b>                     |                                       |                                    |                     |
| 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>   |
| <b>EXPENSES:</b>  |                                       |                                    |                     |
| Program services  | 5,832,139                             | -                                  | 5,832,139           |
| Supporting services:  |                                       |                                    |                     |
| Fundraising   | 9,106,435                             | -                                  | 9,106,435           |
| General and administrative  | <u>752,759</u>                        | <u>-</u>                           | <u>752,759</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**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

|  | 2019           | 2018         |
|--|----------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                |              |
| Change in net assets   | \$ (1,005,847) | \$ (120,586) |
| Adjustments to reconcile change in net assets to net cash and cash equivalents (used in) operating activities: |                |              |
| Depreciation   | 4,672          | 6,552        |
| Changes in assets and liabilities:   |                |              |
| Decrease (increase) in royalty receivable  | 38,180         | (45,743)     |
| Decrease (increase) in contributions receivable  | 133,237        | (105,803)    |
| Decrease (increase) in prepaid expenses and deposits   | 9,225          | (103,440)    |
| Increase in accounts payable and accrued expenses  | 141,881        | 17,747       |
| Increase in deferred rent  | 27,392         | 126,393      |
| Net cash and cash equivalents (used in) operating activities   | (651,260)      | (224,880)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                |              |
| Net change in investments  | 955,141        | (155,456)    |
| Acquisition of property and equipment  | (3,625)        | (4,784)      |
| Net cash and cash equivalents provided by (used in) investing activities                                       | 951,516        | (160,240)    |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>   | 300,256        | (385,120)    |
| <b>CASH AND CASH EQUIVALENTS, beginning of year</b>  | 825,711        | 1,210,831    |
| <b>CASH AND CASH EQUIVALENTS, end of year</b>  | \$ 1,125,967   | \$ 825,711   |

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, 2019**

|                                  | 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        | \$ 8,317            | \$ 2,407                   | \$ 11,161           | \$ 21,885           | \$ 27,097           | \$ 3,127                   | \$ 30,224           | \$ 52,109            |
| Contracted services              | 290,408             | 84,065                     | 389,757             | 764,230             | 5,020,393           | 109,176                    | 5,129,569           | 5,893,799            |
| Depreciation                     | -                   | -                          | -                   | -                   | -                   | 4,672                      | 4,672               | 4,672                |
| Educational materials            | 905,420             | 262,095                    | 1,215,168           | 2,382,683           | -                   | -                          | -                   | 2,382,683            |
| Employee benefits                | 27,273              | 7,895                      | 36,603              | 71,771              | -                   | 10,725                     | 10,725              | 82,496               |
| Insurance                        | -                   | -                          | -                   | -                   | -                   | 14,696                     | 14,696              | 14,696               |
| Legal and accounting             | 25,965              | 7,516                      | 34,847              | 68,328              | -                   | 10,210                     | 10,210              | 78,538               |
| Marketing and communication      | 581,867             | 168,436                    | 780,927             | 1,531,230           | -                   | 228,804                    | 228,804             | 1,760,034            |
| Occupancy                        | 78,166              | 22,627                     | 104,907             | 205,700             | -                   | 30,737                     | 30,737              | 236,437              |
| Office expense                   | 9,838               | 2,848                      | 13,205              | 25,891              | -                   | 3,869                      | 3,869               | 29,760               |
| Payroll taxes                    | 37,333              | 10,807                     | 50,106              | 98,246              | -                   | 14,680                     | 14,680              | 112,926              |
| Postage and shipping             | 28,001              | 8,105                      | 37,580              | 73,686              | 91,231              | 10,527                     | 101,758             | 175,444              |
| Printing and reproduction        | 826                 | 239                        | 1,109               | 2,174               | 2,692               | 310                        | 3,002               | 5,176                |
| Salaries                         | 553,078             | 160,102                    | 742,289             | 1,455,469           | -                   | 217,484                    | 217,484             | 1,672,953            |
| Scholarships                     | 7,600               | 2,200                      | 10,200              | 20,000              | -                   | -                          | -                   | 20,000               |
| Supplies                         | 7,186               | 2,080                      | 9,645               | 18,911              | -                   | 2,826                      | 2,826               | 21,737               |
| Telephone                        | 8,135               | 2,355                      | 10,917              | 21,407              | 26,505              | 3,058                      | 29,563              | 50,970               |
| Travel and conferences           | 414,337             | 119,939                    | 556,085             | 1,090,361           | -                   | 64,854                     | 64,854              | 1,155,215            |
| <b>Total functional expenses</b> | <b>\$ 2,983,750</b> | <b>\$ 863,716</b>          | <b>\$ 4,004,506</b> | <b>\$ 7,851,972</b> | <b>\$ 5,167,918</b> | <b>\$ 729,755</b>          | <b>\$ 5,897,673</b> | <b>\$ 13,749,645</b> |

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

### 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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, to improve the consistency of revenue recognition practices across industries for economically similar transactions. The core principle is that an entity recognizes revenue for goods or services to customers in an amount that reflects the consideration it expects to receive in return. The Organization adopted the provisions of ASU 2014-09 effective January 1, 2019 using the modified retrospective approach. Under this method, the guidance is applied only to the most current period presented in the financial statements. The adoption of this new standard did not have a material impact on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU assists entities in (a) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as an exchange (reciprocal) transactions subject to other guidance and (b) determining whether a contribution is conditional. The Organization adopted ASU 2018-08 during the year ended December 31, 2019, using the modified prospective basis. The adoption of this standard did not have a material impact on the financial statements.

In August 2016, the FASB issued 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.

## D.A.R.E. America

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

##### 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.

##### 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.

## D.A.R.E. America

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

##### 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.

Royalties from license agreements are recorded as revenue when earned. For the years ended December 31, 2019 and 2018, the Organization received royalties from one licensee that accounted for approximately 97% and 95%, 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.

## D.A.R.E. America

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

##### Investments – Continued

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.

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, 2019 and 2018, 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.

## D.A.R.E. America

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

##### 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 years ended December 31, 2019 and 2018, advertising costs amounted to \$12,248 and \$13,601, 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.

##### 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, 2019 and 2018, 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 2016 for their federal and 2015 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.

## D.A.R.E. America

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

##### 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.

##### 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, 2019 and 2018 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, 2019 and 2018, the Organization had receivables from one and two donors that accounted for approximately 100% and 81%, respectively, of total contributions receivable. As of December 31, 2019 and 2018, the Organization had receivable from one licensee that accounted for approximately 89% and 81%, 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.

**D.A.R.E. America**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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.

**Subsequent Events**

The Organization evaluated events occurring between December 31, 2019 and March 24, 2021, 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.

In March 2020, the World Health Organization declared the Coronavirus outbreak (COVID-19) to be a global pandemic. The pandemic has adversely impacted health and economic conditions, and has greatly contributed to significant deterioration and instability in the financial markets. Related government and private sector responsive actions may adversely affect the Organization's operations, employee availability, financial condition, liquidity, and cash flows. Also, the Organization's investments may experience significant fluctuations in fair value after December 31, 2019. At this time, it is impossible to predict the ultimate impact of the COVID-19 pandemic.

In April 2020, the Organization received a loan under the U.S. Small Business Administration's (SBA) Paycheck Protection Program (PPP) amounting to \$277,000. The PPP loan bears interest at 1.00% and is due in April 2022. The PPP allows for a portion of the loan (up to the full amount) to be forgiven based on qualifying expenses. The amount of the loan that will be forgiven is uncertain at this time.

In May 2020, the Organization received an advance under the SBA's Economic Injury Disaster Loan (EIDL) program amounting to \$10,000. The EIDL advance does not have to be repaid.

In June 2020, the Organization received a loan under the SBA's 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 June 2022. Any balance of principal and interest is due in June 2050.

**NOTE 3 - INVESTMENTS**

As of December 31, 2019 and 2018, 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 \$251,198 and \$1,206,339 as of December 31, 2019 and 2018, respectively.

## D.A.R.E. America

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 3 - INVESTMENTS – CONTINUED

Income from investments consist of interest and dividends income of \$16,941 and \$19,281 for the years ended December 31, 2019 and 2018, respectively.

#### NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

|  | <u>2019</u>      | <u>2018</u>      |
|--|------------------|------------------|
| Office equipment                                   | \$ 29,483        | \$ 27,875        |
| Furniture and fixtures                             | <u>45,418</u>    | <u>43,401</u>    |
|  | 74,901           | 71,276           |
| Less: accumulated depreciation<br>and amortization | <u>(50,544)</u>  | <u>(45,872)</u>  |
|  | <u>\$ 24,357</u> | <u>\$ 25,404</u> |

Depreciation expense for the years ended December 31, 2019 and 2018 amounted to \$4,672 and \$6,552, respectively.

#### NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of contributions receivable amounting to \$3,847 and \$137,084 as of December 31, 2019 and 2018, respectively.

Net assets with donor restrictions were released from restrictions by satisfying the time requirements, that is, collection of contributions receivable amounting to \$137,084 and \$31,281 during the years ended December 31, 2019 and 2018, 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 \$16,300, subject to escalation.

**D.A.R.E. America**

**NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - COMMITMENTS – CONTINUED

Operating Lease – Continued

Future minimum lease payments are as follows at December 31, 2019.

| <u>Year Ending</u><br><u>December 31,</u> |                     |
|---|---------------------|
| 2020                                      | \$ 200,262          |
| 2021                                      | 206,268             |
| 2022                                      | 212,460             |
| 2023                                      | 218,835             |
| 2024                                      | 225,399             |
| 2025                                      | <u>212,667</u>      |
|   | \$ <u>1,275,891</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, 2019 and 2018, total rent expense for facility lease amounted to \$222,259 and \$204,831, 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.

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>2019</u>         | <u>2018</u>         |
|---------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 1,125,967        | \$ 825,711          |
| Royalty receivable        | 163,258             | 201,438             |
| Contributions receivable  | 3,847               | 137,084             |
| Investments               | <u>251,198</u>      | <u>1,206,339</u>    |
|                           | \$ <u>1,544,270</u> | \$ <u>2,370,572</u> |

**D.A.R.E. America**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - AVAILABILITY OF FINANCIAL ASSETS – CONTINUED**

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**

A Director is a member of a law firm from which the Organization purchased legal services during the years ended December 31, 2019 and 2018 totaling to approximately \$5,700 and \$13,400, respectively. There was no balance payable to this related party at December 31, 2019. At December 31, 2018, the balance payable to this related party amounted to \$13,462.

The spouse of a Director is a key employee at a licensee that pays royalties to the Organization. Approximately \$1,872,000 and \$1,876,000 of royalty income was received from this licensee during the years ended December 31, 2019 and 2018, respectively. In addition, approximately \$625,000 and \$126,000 of educational materials were purchased from this related party during the years ended December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the net receivable balance from this related party amounted to \$100,451 and \$142,790, 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 \$209,000 and \$185,000 during the years ended December 31, 2019 and 2018, respectively. At December 31, 2019, the balance payable to this related party amounted to \$17,467. At December 31, 2018, there was no balance payable to this related party.

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.