

D.A.R.E. AMERICA

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2012 AND 2011

D.A.R.E. AMERICA

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Independent Auditor's Report

**Board of Directors
D.A.R.E. America**

Report on the Financial Statements

We have audited the accompanying statement of financial position of D.A.R.E. America as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows 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 errors.

Auditor's 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 auditor's 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, 2012 and 2011, and the changes in its net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Loeb + Troper LLP

April 4, 2013
New York, New York

D.A.R.E. AMERICA

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 660,391	\$ 235,479
Due from licensees (Note 3)	155,596	174,195
Contributions receivable - current	68,925	58,736
Prepaid expenses	36,446	43,867
Fixed assets - Net (Note 4)	<u>4,140</u>	<u>1,386</u>
Total assets	<u>\$ 925,498</u>	<u>\$ 513,663</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 307,563	\$ 263,578
Net assets (Exhibit B)		
Unrestricted	<u>617,935</u>	<u>250,085</u>
Total liabilities and net assets	<u>\$ 925,498</u>	<u>\$ 513,663</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

D.A.R.E. AMERICA

STATEMENT OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Revenues		
Grants and contracts		\$ 202,149
Contributions and special events	\$ 1,223,531	\$ 1,281,457
Less direct costs of special events	<u>(13,750)</u>	<u>(10,005)</u>
Interest income	146	1,923
License royalties (Notes 2 and 3)	<u>2,355,324</u>	<u>2,209,640</u>
Total revenues	<u>3,565,251</u>	<u>3,685,164</u>
Expenses (Exhibit C)		
Program service - education and awareness	2,616,581	3,758,781
General and administrative	402,685	379,758
Fund raising	<u>178,135</u>	<u>97,782</u>
Total expenses	<u>3,197,401</u>	<u>4,236,321</u>
Change in unrestricted net assets (Exhibit D)	367,850	(551,157)
Net assets - unrestricted - beginning of year	<u>250,085</u>	<u>801,242</u>
Net assets - unrestricted - end of year (Exhibit A)	<u>\$ 617,935</u>	<u>\$ 250,085</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012					2011				
	Program Service	General and	Fund	Direct Costs	Total	Program Service	General and	Fund	Direct Costs	Total
	Education and Awareness	Administrative	Raising	of Special Events		Educational and Awareness	Administrative	Raising	of Special Events	
Payroll and related benefits	\$ 1,370,423	\$ 204,332	\$ 96,254		\$ 1,671,009	\$ 1,724,396	\$ 213,431	\$ 90,406		\$ 2,028,233
Outside services	286,860	6,230	69,612		362,702	993,823	17,414	725		1,011,962
Travel and conferences	540,747	9,866	7,849		558,462	684,607	1,666	6,251		692,524
Educational materials	249,474	114	1,307		250,895	183,589				183,589
Catering				\$ 13,750	13,750				\$ 10,005	10,005
Postage and shipping	54,690	13,085	2,806		70,581	42,657	11,550			54,207
Legal, accounting and bank fees	6,403	103,413	197		110,013	7,541	56,149	400		64,090
Occupancy (Note 6)	44,421	19,836			64,257	53,845	24,045			77,890
Telephone	36,206	812			37,018	40,879	8,180			49,059
Insurance		29,020			29,020		28,866			28,866
Supplies	3,476	9,441			12,917	7,058	9,285			16,343
Scholarships	20,000				20,000	20,000				20,000
Depreciation		719			719		3,089			3,089
Registration and license fees		3,922			3,922		3,655			3,655
Repairs and maintenance	205	444			649	386	364			750
Miscellaneous	3,676	1,451	110		5,237		2,064			2,064
Total expenses	2,616,581	402,685	178,135	13,750	3,211,151	3,758,781	379,758	97,782	10,005	4,246,326
Less direct costs of special events				(13,750)	(13,750)				(10,005)	(10,005)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 2,616,581	\$ 402,685	\$ 178,135	\$ -	\$ 3,197,401	\$ 3,758,781	\$ 379,758	\$ 97,782	\$ -	\$ 4,236,321

See independent auditor's report.

The accompanying notes are an integral part of these statements.

D.A.R.E. AMERICA

STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 367,850	\$ (551,157)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	719	3,089
Decrease (increase) in assets		
Due from licensees	18,599	34,840
Contributions receivable	(10,189)	29,122
Prepaid expenses	7,421	(11,431)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	43,985	(109,641)
Net cash provided (used) by operating activities	<u>428,385</u>	<u>(605,178)</u>
Cash flows from investing activities		
Purchase of fixed assets	(3,473)	(695)
Purchase of investments		(100,000)
Proceeds from maturities of investments		671,407
Net cash provided (used) by investing activities	<u>(3,473)</u>	<u>570,712</u>
Net change in cash and cash equivalents	424,912	(34,466)
Cash and cash equivalents - beginning of year	<u>235,479</u>	<u>269,945</u>
Cash and cash equivalents - end of year	<u>\$ 660,391</u>	<u>\$ 235,479</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

D.A.R.E. AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 1 - DESCRIPTION OF ORGANIZATION

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

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

D.A.R.E. America is a qualified tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. It is located in California and is exempt from California franchise tax under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provisions for federal or state income taxes are included in the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The financial statements of the Organization have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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. Actual results could differ from those estimates.

Cash and cash equivalents - The Organization considers highly liquid investments with maturities of three months or less when acquired to be cash equivalents.

Contributions receivable - Unconditional promises to give are recorded as receivables and revenues and are recognized when the promises are made at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates. Conditional promises to give are not included as support until the conditions are substantially met.

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D.A.R.E. AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Due from licensees - Due from licensees represents amounts due from vendors who are authorized to market products with the D.A.R.E. trademarks.

Allowance for uncollectibles - The Organization has determined that no allowance for uncollectible accounts for due from licensees or contributions receivable is necessary as of December 31, 2012 and 2011. Such estimate is based on management's assessments of the creditworthiness of its licensees and donors, the aged basis of its receivables, as well as current economic conditions and historical information. No interest is accrued on outstanding receivables.

Fixed assets - Fixed assets are recorded at cost. The Organization capitalizes all equipment in excess of \$500 when the estimated useful life is greater than one year. Depreciation is recorded using the straight-line method based on estimated useful lives of three to five years.

Net assets - The Organization reports information regarding its financial position and activities according to classes of net assets: unrestricted net assets and temporarily restricted net assets. It is the policy of the Organization to record restricted support as unrestricted where the donor restrictions have been satisfied within the same reporting period.

Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Revenues - Revenues from fund-raising events are recorded as revenues when earned. The fund-raising costs associated with the direct benefits received by donors are reflected as special event expenses. Royalties received in conjunction with the Organization's license agreements are recorded as revenue when earned.

Contributions - Contributions received, whether as cash, other assets or promise of future payment, are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction accomplishes, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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D.A.R.E. AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated services - The value of donated services is reported at fair value at the date the services are received. It is estimated that organizations participating in the D.A.R.E. program donated services valued in excess of \$138,000,000 for 2012 and 2011. This estimate is based upon information collected by a contact person appointed by each state (usually a state or local government employee) to perform a liaison function between D.A.R.E. America and participating organizations in each state and the District of Columbia and Puerto Rico. These amounts have not been included in the financial statements.

Educational and awareness materials - Educational and awareness materials such as workbooks, curriculum, videos, etc., 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 D.A.R.E. program students and instructors and, therefore, such items are considered as immediately expensed and are not maintained as inventory.

Functional expenses - The cost of providing the Organization's services has been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services for which the costs have been incurred.

Uncertainty in income taxes - The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2009 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through April 4, 2013, which is the date the financial statements were available to be issued.

NOTE 3 - DUE FROM LICENSEES

D.A.R.E. America has entered into license agreements with companies granting nonexclusive, nontransferable rights to use the D.A.R.E. trademarks in conjunction with design, manufacture, distribution and sale of products in the United States.

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D.A.R.E. AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 4 - FIXED ASSETS

At December 31, 2012 and 2011, fixed assets consisted of \$59,255 and \$55,782 of office equipment. Accumulated depreciation was \$55,115 and \$54,396 in 2012 and 2011, respectively. During 2012 and 2011, the Organization purchased \$3,473 and \$695 of office equipment.

NOTE 5 - RELATED-PARTY TRANSACTIONS

In 2012, the Organization purchased legal services totaling \$37,835 from a law firm of which a Director is a member of the firm. No purchases were made in 2011.

NOTE 6 - OFFICE RENT

D.A.R.E. America has a cancelable lease arrangement for office space through October 2021. The annual rent expense for 2012 and 2011 was \$55,067 and \$66,242, respectively.

The future minimum payments are:

2013	\$	84,867
2014		87,414
2015		90,036
2016		92,737
2017		95,519
2018		98,385
2019		101,336
2020		104,376
2021		89,144