

**D.A.R.E. AMERICA**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**DECEMBER 31, 2014 AND 2013**

**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 financial statements of D.A.R.E. America, which comprise the statement of financial position as of December 31, 2014 and 2013, 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, 2014 and 2013, 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.

*Loeb & Troper LLP*

April 2, 2015  
New York, New York

## D.A.R.E. AMERICA

## STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,180,749	\$ 894,654
Due from licensees (Note 3)	141,831	164,210
Other receivables	99,997	296,936
Contributions receivable - current	58,205	84,380
Prepaid expenses	30,309	51,493
Fixed assets - net (Note 4)	<u>5,668</u>	<u>4,877</u>
Total assets	<u>\$ 1,516,759</u>	<u>\$ 1,496,550</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 249,918	\$ 634,281
Net assets (Exhibit B)		
Unrestricted	<u>1,266,841</u>	<u>862,269</u>
Total liabilities and net assets	<u>\$ 1,516,759</u>	<u>\$ 1,496,550</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Revenues		
Grants	\$ 40,000	
Contributions and special events	\$ 854,638	\$ 698,672
Less direct costs of special events	<u>(5,170)</u>	<u>(1,406)</u>
Sweepstakes program income	1,356,006	1,828,021
Interest income	440	310
License royalties (Notes 2 and 3)	<u>2,227,633</u>	<u>2,396,180</u>
Total revenues	<u>4,473,547</u>	<u>4,921,777</u>
Expenses (Exhibit C)		
Program service - education and awareness	2,180,999	2,298,899
General and administrative	688,251	704,617
Fund raising	<u>1,199,725</u>	<u>1,673,927</u>
Total expenses	<u>4,068,975</u>	<u>4,677,443</u>
Change in unrestricted net assets (Exhibit D)	404,572	244,334
Net assets - unrestricted - beginning of year	<u>862,269</u>	<u>617,935</u>
Net assets - unrestricted - end of year (Exhibit A)	<u>\$ 1,266,841</u>	<u>\$ 862,269</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014					2013				
	Program Service Education and Awareness	General and Administrative	Fund Raising	Direct Costs of Special Events	Total	Program Service Education and Awareness	General and Administrative	Fund Raising	Direct Costs of Special Events	Total
Payroll and related benefits	\$ 954,432	\$ 230,270	\$ 304,863		\$ 1,489,565	\$ 920,407	\$ 222,958	\$ 328,812		\$ 1,472,177
Outside services	302,214	17,700	846,954		1,166,868	488,991	5,572	1,103,732		1,598,295
Travel and conferences	556,860	9,579	11,704		578,143	537,139	8,520	13,972		559,631
Educational materials	181,856	10,574	33,358		225,788	181,072				181,072
Promotions and catering				\$ 5,170	5,170			224,553	\$ 1,406	225,959
Postage and shipping	53,600	8,933	2,804		65,337	40,025	6,321	2,274		48,620
Legal, accounting and bank fees	3,271	275,980			279,251	5,280	326,621	584		332,485
Occupancy (Note 6)	67,495	27,595			95,090	65,435	27,529			92,964
Telephone	36,875	1,160			38,035	35,124	940			36,064
Insurance		39,527			39,527		26,171			26,171
Supplies	3,743	9,662			13,405	4,274	9,191			13,465
Scholarships	20,000				20,000	20,000				20,000
Depreciation		2,756			2,756		1,931			1,931
Registration and license fees	139	3,258	42		3,439	444	3,529			3,973
Repairs and maintenance	514	462			976	556	539			1,095
Unrelated business income tax		49,612			49,612		64,795			64,795
Miscellaneous		1,183			1,183	152				152
Total expenses	2,180,999	688,251	1,199,725	5,170	4,074,145	2,298,899	704,617	1,673,927	1,406	4,678,849
Less direct costs of special events				(5,170)	(5,170)				(1,406)	(1,406)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 2,180,999	\$ 688,251	\$ 1,199,725	\$ -	\$ 4,068,975	\$ 2,298,899	\$ 704,617	\$ 1,673,927	\$ -	\$ 4,677,443

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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 404,572	\$ 244,334
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	2,756	1,931
Decrease (increase) in assets		
Due from licensees	22,379	(8,614)
Other receivables	196,939	(296,936)
Contributions receivable	26,175	(15,455)
Prepaid expenses	21,184	(15,047)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	<u>(384,363)</u>	<u>326,718</u>
Net cash provided by operating activities	289,642	236,931
Cash flows from investing activities		
Purchase of fixed assets	<u>(3,547)</u>	<u>(2,668)</u>
Net change in cash and cash equivalents	286,095	234,263
Cash and cash equivalents - beginning of year	<u>894,654</u>	<u>660,391</u>
Cash and cash equivalents - end of year	<u>\$ 1,180,749</u>	<u>\$ 894,654</u>
Cash paid for unrelated business income tax	<u>\$ 124,057</u>	<u>-</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, 2014 AND 2013

#### 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. The Organization is supported primarily through contributions, sweepstakes program income, and license royalties.

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

The Organization 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 other than for unrelated business income tax.

#### 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, 2014 AND 2013****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, other receivables or contributions receivable is necessary as of December 31, 2014 and 2013. 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.

***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. Sweepstakes income is recorded as sales are made.

***Grants and contributions*** - Unconditional grants and contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily restricted or permanently 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, 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, 2014 AND 2013****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Donated services*** It is estimated that organizations participating in the D.A.R.E. program donated services valued in excess of \$138,000,000 in each of the years ended December 31, 2014 and 2013. 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 the Organization 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.

***Operating leases*** - Operating leases are recorded on the straight-line method. Deferred assets or liabilities are recorded when material differences exist.

***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 ended December 31, 2011 and subsequent remain subject to examination by applicable taxing authorities.

***Subsequent events*** - Subsequent events have been evaluated through April 2, 2015, which is the date the financial statements were available to be issued.

**NOTE 3 - DUE FROM LICENSEES/ROYALTY INCOME**

The Organization 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, 2014 AND 2013****NOTE 4 - FIXED ASSETS**

At December 31, 2014 and 2013, fixed assets consisted of \$65,470 and \$61,923 of office equipment. Accumulated depreciation was \$59,802 and \$57,046 in 2014 and 2013, respectively.

**NOTE 5 - RELATED-PARTY TRANSACTIONS**

In 2014 and 2013, the Organization purchased legal services totaling \$503,442 and \$410,411, respectively from a law firm of which a Director is a member of the firm. These amounts have been partially offset by insurance recoveries.

The spouse of a Director is a key employee at a company which pays royalties to D.A.R.E. America. In 2014, \$2,150,000 was paid to D.A.R.E. America from that company.

**NOTE 6 - OFFICE RENT**

D.A.R.E. America has a lease arrangement for office space through October 2021. The lease can be canceled with six months notice after October 2016. The annual rent expense for 2014 and 2013 was \$87,414 and \$84,868, respectively.

The future minimum payments are:

2015	\$	90,036
2016		92,737
2017		95,519
2018		98,385
2019		101,336
2020		104,376
2021		<u>89,144</u>
	\$	<u>671,533</u>