

SADD, INC.

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
SADD, Inc.

We have audited the accompanying financial statements of SADD, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 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 error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 audits 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 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 SADD, Inc. as of June 30, 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.

Benedetto, Geagan & King

Northborough, Massachusetts
November 6, 2014

SADD, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

| | June 30, | |
|---|------------|------------|
| | 2014 | 2013 |
| <u>ASSETS</u> | | |
| <u>Current Assets</u> | | |
| Cash | \$ 130,701 | \$ 138,682 |
| Unconditional promises to give | 30,512 | 98,825 |
| Grants receivable | 95,229 | 94,385 |
| Accounts receivable | 16,830 | 2,794 |
| Other current assets | 13,582 | 19,420 |
| Total Current Assets | 286,854 | 354,106 |
| <u>Property and Equipment</u> | | |
| Furniture and equipment | 96,202 | 96,202 |
| | 96,202 | 96,202 |
| Less: Accumulated depreciation | (95,649) | (95,584) |
| Net Property and Equipment | 553 | 618 |
| <u>Other Assets</u> | | |
| Split-dollar life insurance receivable | 347,995 | 347,995 |
| Total Other Assets | 347,995 | 347,995 |
| Total Assets | \$ 635,402 | \$ 702,719 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| <u>Current Liabilities</u> | | |
| Accounts payable and accrued expenses | \$ 242,749 | \$ 229,333 |
| Accrued payroll, vacations and withholdings | 33,538 | 56,571 |
| Deferred revenue | - | 61,871 |
| Total Current Liabilities / Total Liabilities | 276,287 | 347,775 |
| <u>Net Assets</u> | | |
| Unrestricted net assets | 286,944 | 354,944 |
| Temporarily restricted net assets | 72,171 | - |
| Total Net Assets | 359,115 | 354,944 |
| Total Liabilities and Net Assets | \$ 635,402 | \$ 702,719 |

See accompanying notes

SADD, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

| | <u>June 30,</u> | |
|--|-------------------|-------------------|
| | <u>2014</u> | <u>2013</u> |
| <u>UNRESTRICTED NET ASSETS</u> | | |
| <u>Support and Revenue</u> | | |
| <u>Public Support</u> | | |
| Contributions – corporate | \$ 591,508 | \$ 859,357 |
| Contributions – telemarketing | 510,130 | 569,996 |
| Government grants | 306,665 | 348,220 |
| Contributions - foundations and general | 91,656 | 141,683 |
| Total Unrestricted Public Support | <u>1,499,959</u> | <u>1,919,256</u> |
| <u>Revenue</u> | | |
| Program service fees | 188,525 | 62,095 |
| SADD, Inc. custom products sales | 23,517 | 31,046 |
| Investment income | 22 | 68 |
| Total Unrestricted Revenue | <u>212,064</u> | <u>93,209</u> |
| Total Unrestricted Support and Revenue | <u>1,712,023</u> | <u>2,012,465</u> |
| <u>Net Assets Released from Restrictions - satisfied by payments</u> | <u>-</u> | <u>22,887</u> |
| Total Unrestricted Support, Revenue and Other Support | 1,712,023 | 2,035,352 |
| <u>Expenses</u> | | |
| Program services | 1,298,049 | 1,372,005 |
| Supporting services | | |
| Management and general | 181,817 | 183,833 |
| Fundraising | 300,157 | 429,769 |
| Total Expenses | <u>1,780,023</u> | <u>1,985,607</u> |
| <u>Increase (Decrease) in Unrestricted Net Assets</u> | <u>(68,000)</u> | <u>49,745</u> |
| <u>TEMPORARILY RESTRICTED NET ASSETS</u> | | |
| <u>Support and Revenue</u> | | |
| <u>Public Support</u> | | |
| Contributions - corporate | 66,500 | - |
| Contributions - foundations and general | 5,671 | - |
| Net assets released from restrictions satisfied by payments | <u>-</u> | <u>(22,887)</u> |
| <u>Increase (Decrease) in Temporarily Restricted Net Assets</u> | <u>72,171</u> | <u>(22,887)</u> |
| <u>Increase in Net Assets</u> | 4,171 | 26,858 |
| <u>Net Assets – Beginning of Year</u> | <u>354,944</u> | <u>328,086</u> |
| <u>Net Assets – End of Year</u> | <u>\$ 359,115</u> | <u>\$ 354,944</u> |

See accompanying notes

SADD, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

June 30, 2014

| | Program Services | | | Supporting Services | | |
|--|-----------------------------------|--------------------------------|------------------|--------------------------------|-------------|--------------|
| | National Awareness Programs | State Awareness Programs | Total Program | Manage- ment and General | Fundraising | Total |
| <u>Compensation and Related Expenses</u> | | | | | | |
| Compensation | \$ 292,762 | \$ 151,016 | \$ 443,778 | \$ 85,974 | \$ 13,378 | \$ 543,130 |
| Fringe benefits | 27,096 | 1,297 | 28,393 | 23,611 | 348 | 52,352 |
| Payroll taxes | 33,793 | 11,457 | 45,250 | 7,581 | 1,219 | 54,050 |
| Total Compensation and Related Exp. | 353,651 | 163,770 | 517,421 | 117,166 | 14,945 | 649,532 |
| <u>Other Expenses</u> | | | | | | |
| Telemarketing costs | - | - | - | - | 284,408 | 284,408 |
| Conferences, travel & conventions | 142,196 | 19,551 | 161,747 | - | - | 161,747 |
| Consulting services | 223,408 | 23,131 | 246,539 | - | - | 246,539 |
| Equipment rental & maintenance | 5,406 | - | 5,406 | 1,352 | - | 6,758 |
| Grants and awards | 3,460 | - | 3,460 | - | - | 3,460 |
| Insurance | 1,394 | - | 1,394 | 6,856 | 17 | 8,267 |
| Interest | - | - | - | 2,727 | - | 2,727 |
| Newsletters and surveys | 222,312 | 4,958 | 227,270 | - | - | 227,270 |
| Occupancy costs | 25,245 | - | 25,245 | 4,455 | - | 29,700 |
| Office supplies expense | 32,640 | - | 32,640 | 15,678 | 308 | 48,626 |
| Postage and shipping | 11,709 | 373 | 12,082 | 509 | 127 | 12,718 |
| Professional fees | 5,590 | 7 | 5,597 | 31,323 | 352 | 37,272 |
| Program communications | 11,873 | 135 | 12,008 | - | - | 12,008 |
| Program materials | 13,714 | 22,022 | 35,736 | - | - | 35,736 |
| Scholarships | 4,500 | - | 4,500 | - | - | 4,500 |
| Telephone | 6,792 | 160 | 6,952 | 1,738 | - | 8,690 |
| Total expenses before depreciation | 1,063,890 | 234,107 | 1,297,997 | 181,804 | 300,157 | 1,779,958 |
| Depreciation expense | 52 | - | 52 | 13 | - | 65 |
| Total Expenses | \$ 1,063,942 | \$ 234,107 | \$ 1,298,049 | \$ 181,817 | \$ 300,157 | \$ 1,780,023 |

SADD, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

June 30, 2013

| | Program Services | | | Supporting Services | | |
|--|-----------------------------|--------------------------|---------------------|------------------------|-------------------|---------------------|
| | National Awareness Programs | State Awareness Programs | Total Program | Management and General | Fundraising | Total |
| <u>Compensation and Related Expenses</u> | | | | | | |
| Compensation | \$ 299,552 | \$ 173,053 | \$ 472,605 | \$ 84,724 | \$ 12,850 | \$ 570,179 |
| Fringe benefits | 14,979 | 2,861 | 17,840 | 16,841 | 383 | 35,064 |
| Payroll taxes | 29,131 | 13,239 | 42,370 | 6,991 | 1,115 | 50,476 |
| Total Compensation and Related Exp. | 343,662 | 189,153 | 532,815 | 108,556 | 14,348 | 655,719 |
| <u>Other Expenses</u> | | | | | | |
| Telemarketing costs | - | - | - | - | 414,476 | 414,476 |
| Conferences, travel & conventions | 116,694 | 27,994 | 144,688 | - | - | 144,688 |
| Consulting services | 199,622 | 54,250 | 253,872 | - | - | 253,872 |
| Equipment rental & maintenance | 6,494 | - | 6,494 | 1,623 | - | 8,117 |
| Grants and awards | 3,072 | - | 3,072 | - | - | 3,072 |
| Insurance | 860 | - | 860 | 6,268 | 11 | 7,139 |
| Interest | - | - | - | 12,588 | - | 12,588 |
| Newsletters and surveys | 311,104 | 276 | 311,380 | - | - | 311,380 |
| Occupancy costs | 25,245 | - | 25,245 | 4,455 | - | 29,700 |
| Office supplies expense | 33,322 | 7,058 | 40,380 | 15,765 | 418 | 56,563 |
| Postage and shipping | 12,438 | 157 | 12,595 | 530 | 133 | 13,258 |
| Professional fees | 5,212 | 35 | 5,247 | 32,344 | 385 | 37,976 |
| Program communications | 12,006 | - | 12,006 | - | - | 12,006 |
| Program materials | 8,443 | 4,092 | 12,535 | - | - | 12,535 |
| Scholarships | 4,000 | - | 4,000 | - | - | 4,000 |
| Telephone | 6,241 | 10 | 6,251 | 1,563 | - | 7,814 |
| Total expenses before depreciation | 1,088,415 | 283,025 | 1,371,440 | 183,692 | 429,770 | 1,984,902 |
| Depreciation expense | 564 | - | 564 | 141 | - | 705 |
| Total Expenses | <u>\$ 1,088,979</u> | <u>\$ 283,025</u> | <u>\$ 1,372,004</u> | <u>\$ 183,833</u> | <u>\$ 429,770</u> | <u>\$ 1,985,607</u> |

SADD, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

| | June 30, | |
|--|----------------|----------------|
| | 2014 | 2013 |
| <u>Cash Flows From Operating Activities</u> | | |
| Increase in net assets | \$ 4,171 | \$ 26,858 |
| Adjustments to reconcile change in net assets to net cash used or provided in operating activities | | |
| Depreciation | 65 | 705 |
| (Increase) decrease in operating assets | | |
| Unconditional promises to give | 68,313 | 44,532 |
| Grants receivable | (844) | 63,612 |
| Accounts receivable | (14,036) | 3,250 |
| Other current assets | 5,838 | (7,456) |
| Increase (decrease) in operating liabilities | | |
| Accounts payable and accrued expenses | 13,416 | (122,809) |
| Accrued payroll, vacations and withholdings | (23,033) | 20,443 |
| Deferred revenue | (61,871) | 61,871 |
| Net cash (used) provided in operating activities | (7,981) | 91,006 |
| <u>Net Increase (Decrease) in Cash</u> | (7,981) | 91,006 |
| <u>Cash at Beginning of Year</u> | 138,682 | 47,676 |
| <u>Cash at End of Year</u> | \$ 130,701 | \$ 138,682 |
| <u>Supplemental Disclosure</u> | | |
| Cash paid for interest | \$ 2,727 | \$ 12,588 |

See accompanying notes

SADD, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

(A) Nature of Activities

SADD, Inc. is a Massachusetts nonprofit corporation chartered in 1982 under Massachusetts General Laws Chapter 180. The Organization's mission is to empower young people to successfully confront the risks and pressures that challenge them in their daily lives. In this regard the following two major programs have been developed:

- 1) National Awareness Program – This program focuses on creating, equipping and sustaining a network of student-led chapters in schools and communities focused on peer-to-peer education. The Organization conducts a national conference annually and prepares newsletters which address various programs and projects students can utilize in their schools; responds to inquiries regarding the development of SADD Chapters; and also develops programs, projects and kits for chapters, communities and families. The Organization also provides speakers for chapters throughout the country.
- 2) State Awareness Program – These programs are funded by grants awarded from the Massachusetts Department of Public Health, the Arizona Governor's Office of Highway Safety and the Ohio Department of Public Safety. These programs called for the development of campaigns aimed at deterring underage drinking, drug use and impaired driving and other destructive decisions. These grants also provided funding for a SADD state coordinator in their respective states.

(B) Method of Accounting

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and accordingly, reflect all significant receivables, payables, and other liabilities.

(C) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(D) Functional Classification of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

SADD, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

(E) Promises to Give

Contributions are recognized when the donor makes a promise to give to SADD, INC. that is, in substance, unconditional. Contributions that are received subject to certain donor stipulations are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. As of June 30, 2014 and 2013 all contributions were considered unconditional promises to give. Management estimates that all promises to give are to be received within one year.

Because of the high percentage of unfulfilled pledges, unconditional promises to give at year end reflect management's estimate of collectible pledges.

(F) Accounts Receivable

Accounts receivable reflect amounts due to SADD, Inc. from custom product sales and other related program services. The Organization considers accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is required. (Note E)

(G) Property and Equipment

Property and equipment is stated at cost or, if donated, at the approximate fair value at the date of donation. It is the Organization's policy to capitalize acquisitions in excess of \$500. Lesser amounts are expensed. Fixed assets are being depreciated/amortized using a straight-line method, with a half of a year's depreciation/amortization recognized in the years of acquisition and disposal. Estimated useful lives are as follows:

| | |
|-------------------------|----------|
| Furniture and equipment | 3-5 yrs. |
|-------------------------|----------|

Depreciation expense for the years ended June 30, 2014 and 2013 were \$65 and \$705 respectively.

(H) Deferred Revenue

Revenues from program fees associated with chapter development are deferred until the fiscal year in which the services are performed. There was no deferred revenue at June 30, 2014. However, deferred revenue from advanced program fees for the year ended June 30, 2013 was \$61,871.

(I) Contributed Services and Materials

For the years ended June 30, 2014 and 2013, \$215,278 and \$309,000 of contributed services and materials meeting the requirements for recognition in the financial statements have been recorded, respectively. They are included in the statements of activities as follows:

SADD, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

(I) Contributed Services and Materials (continued)

| <u>Support and Revenue</u> | June 30, | |
|---|------------|------------|
| | 2014 | 2013 |
| Contributions – corporate | | |
| Survey produced for Organization | \$ 140,000 | \$ 225,000 |
| Brochures and program materials produced | 23,826 | 39,000 |
| Public relations staff time | 40,000 | 45,000 |
| Total Contributions – corporate | 203,826 | 309,000 |
| Contributions – foundations and general | | |
| Meetings and travel | 11,452 | - |
| Total Contributions – foundations and general | 11,452 | - |
| Total Support and Revenue | \$ 215,278 | \$ 309,000 |
| <u>Expenses</u> | | |
| Program services | \$ 215,278 | \$ 309,000 |
| Total | \$ 215,278 | \$ 309,000 |

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

(J) Income Taxes

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code as evidenced by an exemption letter dated September 15, 1982. The Organization is also exempt from Massachusetts state income tax and sales tax.

As of June 30, 2014, the tax years that remain subject to examination by taxing authorities begin with the year ended June 30, 2010. Tax returns for the years ended June 30, 2011, 2012 and 2013 remain open to examination by taxing authorities. Management believes that all positions taken in those returns would be sustained if examined by taxing authorities.

(K) Subsequent Events

Management has evaluated subsequent events through November 6, 2014, the date on which the financial statements were available to be issued.

SADD, INC.
NOTES TO FINANCIAL STATEMENTS

Note 2. Split-Dollar Life Insurance Receivable

The Organization has entered into a split-dollar life insurance agreement with the founder of SADD, Inc. Under the agreement, upon the death of the founder the Organization will receive all premiums paid, with the remaining proceeds reverting to the beneficiary of the policy. An asset has been recognized equal to the premiums paid as of June 30, 2014 and 2013. Split-dollar life insurance receivable at June 30, 2014 and 2013 was \$347,995 for both years.

Note 3. Lease Commitments

Operating Leases

As of June 30, 2014 SADD, Inc. had entered into a non-cancellable operating lease agreement for the rental of office equipment expiring May, 2019. Future minimum rentals, on an annual basis, are as follows:

| | |
|--------------------------|-----------|
| Year ended June 30, 2015 | \$ 4,817 |
| Year ended June 30, 2016 | 4,817 |
| Year ended June 30, 2017 | 4,817 |
| Year ended June 30, 2018 | 4,817 |
| Year ended June 30, 2019 | 3,613 |
| Total | \$ 22,881 |

Rent expense for the years ended June 30, 2014 and 2013 was \$6,758 and \$8,117, respectively.

Note 4. Line of Credit

At June 30, 2014 and 2013, the Organization had a revolving line of credit in the amount of \$75,000. The line is subject to a variable interest rate per annum, equal to the prime rate as published in the Wall Street Journal plus 2 percentage points. At June 30, 2014 and 2013, the variable interest rate was 5.25%. Interest on the note is payable monthly. Outstanding principal plus all accrued unpaid interest is payable on demand. There was no outstanding balance as of June 30, 2014 and 2013.

Note 5. Post-Employment Benefits

The organization has provided post-employment benefits for two former executive directors. Post-employment benefits which are included in fringe benefits on the Statements of Functional Expenses are summarized as follows for the years ending June 30, 2014 and 2013:

| | June 30, | |
|---------------------------|-----------|-----------|
| | 2014 | 2013 |
| Health insurance premiums | \$ 13,525 | \$ 14,279 |
| Post-employment benefits | \$ 13,525 | \$ 14,279 |

SADD, INC.
NOTES TO FINANCIAL STATEMENTS

Note 6. Employee Benefit Plan

In January of 2008, the Organization adopted a Salary Reduction Agreement under Section 401(k) of the Internal Revenue Code. Under the Plan, the Organization can make discretionary contributions to be determined annually. Eligible employees must be twenty-one (21) years old and a full-time employee and have completed one year of service (1000+ hours per year) before they can participate in the plan. The Organization made no contribution for the year ended June 30, 2014. However, the Organization contributed \$6,853 for the year ended June 30, 2013.

Note 7. Fundraising Expenses

The Organization contracted with professional fundraisers. Total fundraising expense for the year ended June 30, 2014 was \$300,157 of which \$284,408 was paid directly to the fundraiser. For the year ended June 30, 2013, total fundraising expense was \$429,769 of which \$414,476 was paid directly to the fundraiser.

Note 8. Grants and Awards

The Organization grants awards to various state coordinators for specific purposes as well as chapters that meet certain criteria. The Organization also allows students that are enrolled in local SADD chapters apply for educational scholarships. For the years ended June 30, 2014 and 2013, the Organization granted awards and scholarships totaling \$7,960 and \$7,072, respectively.

Note 9. Related Party Transactions

SADD, Inc. has engaged Summit Communications Management Corporation for consulting services. These services included assistance with the *Teen Driving Survey* and associated speaking engagements. The former Chairman of the Board of Directors of SADD, Inc., Mr. Stephen Wallace, also serves as the president of Summit Communications Management Corporation.

For the years ending June 30, 2014 and 2013 fees paid to Summit Communications Management Corporation totaling \$90,996 and \$78,750 respectively were incurred and are included in Consulting Services under Program Services on the Statement of Functional Expenses.

Included in accounts payable as of June 30, 2014 and 2013 were amounts due to Summit Communications Management Corporation of \$22,500 and \$15,000 respectively.

SADD, INC.
NOTES TO FINANCIAL STATEMENTS

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 and 2013 are available for the following purpose:

| | <u>2014</u> | <u>2013</u> |
|---|------------------|-------------|
| Liberty Mutual – survey and related materials | \$ 37,500 | \$ - |
| NRSF – updating of database | 25,000 | - |
| Faulkner Holdings – updating of database | 4,000 | - |
| Silent auction – 2015 scholarships | <u>5,671</u> | <u>-</u> |
| Total Temporarily Restricted Net Assets | <u>\$ 72,171</u> | <u>\$ -</u> |

Net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

| | <u>2014</u> | <u>2013</u> |
|-----------------------------------|-------------|------------------|
| Purpose restriction accomplished: | | |
| Corporate contributions | \$ - | \$ 22,887 |
| Total restrictions released | <u>\$ -</u> | <u>\$ 22,887</u> |