

SADD, INC.
FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORT
YEAR ENDED JUNE 30, 2016

Smith  Sullivan
& Brown PC
CERTIFIED PUBLIC ACCOUNTANTS

80 Flanders Road, Suite 200  Westborough, Massachusetts 01581
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SADD, INC.

REPORT ON FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Vision

SADD envisions a world in which young people make positive decisions that advance their health and safety.

Mission

SADD's mission is to empower young people to successfully confront the risks and pressures that challenge them in their daily lives.

We accomplish this by creating, equipping, and sustaining a network of student-run chapters in schools and communities focused on peer-to-peer education. SADD fosters a sense of belonging and promotes resiliency, leadership and advocacy skills so that young people make positive life decisions that will carry them throughout life.

Values

- *SADD is an inclusive organization, welcoming all youth seeking support for healthy and safe development.*
- *SADD is a respectful organization that invites active youth participation and expects youth leadership. Youth voices will be sought out, respected, strengthened, shared and affirmed. SADD will endorse this approach at all levels of the organization (local, state and national) and will encourage others also to incorporate this approach.*
- *We believe young people's health and safety is improved through positive peer-to-peer interactions, healthy relationships with family and caring adults, and collaboration and alliance with other entities that also support youth.*
- *We promote broad understanding of the risks facing youth and the importance of reinforcing protective factors. We do this through scientifically supported programs and practices and by sharing youth voices and youth perspectives on issues and laws and policies that involve the education, culture, health, safety and treatment of youth.*
- *We will be effective in accomplishing our mission through caring, compassionate, committed reinforcement of protective factors and elimination of risk factors for individual teens, and by pursuing best practices, sharing scientific knowledge and integrating evidence-based approaches into our work from concept to implementation to evaluation.*

SADD, INC.
REPORT ON FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

C O N T E N T S

	<i>Pages</i>
Independent Auditors' Report.....	1 - 2
Management Discussion and Analysis.....	3 - 4
Statement of Financial Position as of June 30, 2016	5
Statement of Activities for the Year Ended June 30, 2016.....	6
Statement of Functional Expenses for the Year Ended June 30, 2016.....	7 - 8
Statement of Cash Flows for the Year Ended June 30, 2016.....	9
Notes to Financial Statements.....	10 - 20

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
SADD, Inc.
Marlborough, Massachusetts

We have audited the accompanying financial statements of SADD, Inc. (a Massachusetts nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 of 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 Organization'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 Organization'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, 2016 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
SADD, Inc.

Other Matter

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The nonaccounting information shown on pages three and four, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The nonaccounting information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Smith, Sullivan & Brown, PC

Westborough, Massachusetts
November 3, 2016

SADD, INC.

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2016

SADD Background and Accomplishments

Starting in February 2015, the SADD board of directors, the new CEO, and the small national staff together has undertaken the monumental work of rebuilding the SADD organization from the inside out. The intent of this work is to create a vibrant, sustainable organization that has the capacity to take full advantage of the numerous opportunities that pass before them.

Our rebuilding efforts to date align with the goals in the 5-year strategic plan. The work spans the four main strategic priorities outlined in the plan and includes a focus on Branding, National Network, Programs, and Sustainability. Over the past twelve months we are excited to report that great strides have been made to first identify and correct deficiencies while at the same time, leveraging the numerous strengths of the Organization. The following list highlights and provides more detail on the accomplishments made, and shows a clear trajectory to improvement for the Organization as a whole.

- **Personnel Strategy**
 - Reorganized and reduced administrative positions to focus on revenue-generating positions
 - Utilized outsourced expertise to create more efficient and effective operations
 - Strategically hiring in-house State Coordinators to help gain control over SADD brand and programming

- **Financial Operations**
 - Hired new audit firm and conducted a thorough financial operations review
 - Took several major steps to improve internal controls, generate more monthly cash flow, and increase revenue
 - Steps included: renegotiating contracts, establishing and documenting accounting best-practices, and implementing new systems to gain accuracy, efficiency and transparency

- **Branding/Marketing/Communications**
 - Launched new website
 - Initiated complete redesign of all marketing materials to promote a youthful, consistent look and feel
 - Creating more engaging digital marketing materials
 - Increased SADD visibility by attending more industry events
 - Developed a SADD Symposium Series to position SADD as a leader in the field of youth health and safety and to provide a way to increase national networking and partner relations.
 - Revamped the SADD National Conference to focus more on the educational value for attendees and to promote a more professional perception of the Organization

- **Network**
 - Creating new and rebuilding strategic partner relationships
 - Addressed the condition of the national State Coordinator network and:
 - Took steps to improve communication and information flow
 - Ensure State Coordinators operate under a contract with stated parameters, responsibilities, goals and objectives
 - Improve the quality and value of the State Coordinator meetings and trainings

SADD, INC.

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2016

- **Fundraising**
 - Increased number of corporate sponsors as well as the dollar amounts with existing relationships
 - Gained several direct funding relationships with state highway offices
 - Increased NHTSA funding relationships and working on negotiating a three-year umbrella agreement with expanded program funding
 - Implemented peer-to-peer fundraising technology platform to increase unrestricted revenue from SADD members and non-SADD individual donors/sponsors
 - Identified telemarketing type fundraising to have a negative impact on achieving financial sustainability as well as public perception and drafted a plan to reduce dependence on this stream of revenue to include:
 - Launch new fundraising and donor database technology
 - Establish donor marketing and communications processes
 - Develop annual fundraising campaigns and materials

SADD, INC.

STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2016

ASSETS

CURRENT ASSETS:

Cash	\$ 95,678
Accounts Receivable, Program Services	243,998
Grants and Sponsorships Receivable	164,000
Telemarketing Pledges Receivable	57,667
Prepaid Expenses	16,274
Total Current Assets	<u>577,617</u>

NON-CURRENT ASSETS:

Grants and Sponsorships Receivable, Non-Current	50,000
Capitalized Software and Website Development, Net	36,649
Split-Dollar Life Insurance Receivable	267,580
Total Non-Current Assets	<u>354,229</u>

TOTAL ASSETS

\$ 931,846

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Line-of-Credit	\$ 35,000
Notes Payable	28,225
Accounts Payable and Accrued Expenses	393,461
Accrued Salaries, Vacation and Related Costs	32,829
Deferred Revenue	37,500
Total Current Liabilities	<u>527,015</u>

NET ASSETS:

Unrestricted Net Assets	181,036
Temporarily Restricted Net Assets	223,795
Total Net Assets	<u>404,831</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 931,846

SADD, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL ACTIVITIES</u>
<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>			
<i>Support and Revenues:</i>			
Gifts, Grants and Contributions	\$ 262,772	\$ 371,000	\$ 633,772
Government Grants	487,243	-	487,243
Telemarketing Revenue	302,935	-	302,935
Event Sponsorships and Fees	321,772	-	321,772
Program Service Revenue	112,418	-	112,418
Donated Goods and Services	275,440	-	275,440
Interest Income	19	-	19
Total Support and Revenues	<u>1,762,599</u>	<u>371,000</u>	<u>2,133,599</u>
 <i>Reclassification of Net Assets:</i>			
Net Assets Released from Restriction	<u>271,139</u>	<u>(271,139)</u>	<u>-</u>
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>2,033,738</u>	<u>99,861</u>	<u>2,133,599</u>
 <u>FUNCTIONAL EXPENSES:</u>			
Program Services	1,529,575	-	1,529,575
Administrative	186,369	-	186,369
Fund Raising	<u>281,013</u>	<u>-</u>	<u>281,013</u>
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>1,996,957</u>	<u>-</u>	<u>1,996,957</u>
<u>CHANGE IN NET ASSETS</u>	36,781	99,861	136,642
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>144,255</u>	<u>123,934</u>	<u>268,189</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 181,036</u>	<u>\$ 223,795</u>	<u>\$ 404,831</u>

SADD, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

(Page 1 of 2)

	<u>PROGRAM</u> <u>SERVICES</u>	<u>ADMINI-</u> <u>STRATIVE</u>	<u>FUND</u> <u>RAISING</u>	<u>TOTAL</u> <u>FUNCTIONAL</u> <u>EXPENSES</u>
Salaries	\$ 335,723	\$ 79,388	\$ 24,305	\$ 439,416
Payroll Taxes	31,272	7,395	2,264	40,931
Employee Benefits	31,562	16,820	1,492	49,874
Telemarketing Expenses	-	-	219,085	219,085
Professional Fees and Consultants	185,343	43,979	7,841	237,163
Supplies and Materials	143,327	-	-	143,327
Office Expense	23,711	6,236	5,368	35,315
Occupancy	20,457	9,219	2,822	32,498
Telephone	4,486	1,436	440	6,362
Travel and Conferences Costs	457,055	1,582	7,092	465,729
Insurance	2,001	4,112	275	6,388
Printing and Postage	27,628	595	1,344	29,567
Scholarships and Awards	5,350	-	-	5,350
Miscellaneous	-	1,043	3,909	4,952
Amortization Expense	11,660	1,555	4,776	17,991
Interest Expense	-	13,009	-	13,009
	<hr/>	<hr/>	<hr/>	<hr/>
Total Functional Expenses Before In-Kind Donations	1,279,575	186,369	281,013	1,746,957
Donated Goods and Services	250,000	-	-	250,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total Functional Expenses	<u>\$ 1,529,575</u>	<u>\$ 186,369</u>	<u>\$ 281,013</u>	<u>\$ 1,996,957</u>

SADD, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

(Page 2 of 2)

	<u>SPEAKS</u>	<u>NATIONAL CONFERENCE</u>	<u>HEALTH AND SAFETY</u>	<u>STUDENT LEADERSHIP COUNCIL</u>	<u>SADD NATIONAL</u>	<u>TOTAL PROGRAM SERVICES</u>
Salaries	\$ 10,636	\$ 24,705	\$ 251,238	\$ 10,724	\$ 38,420	\$ 335,723
Payroll Taxes	991	2,301	23,402	999	3,579	31,272
Employee Benefits	595	2,625	24,293	598	3,451	31,562
Professional Fees and Consultants	6,504	1,952	94,134	35	82,718	185,343
Supplies and Materials	287	3,449	107,778	13,055	18,758	143,327
Office Expense	3,781	975	11,432	146	7,377	23,711
Occupancy	419	2,869	12,278	429	4,462	20,457
Telephone	65	447	3,212	67	695	4,486
Travel and Conferences Costs	10,570	270,498	109,152	11,658	55,177	457,055
Insurance	41	280	1,199	42	439	2,001
Printing and Postage	546	395	6,901	-	19,786	27,628
Scholarships and Awards	-	750	2,000	-	2,600	5,350
Amortization Expense	369	858	8,727	372	1,334	11,660
Total Functional Expenses Before In-Kind Donations	34,804	312,104	655,746	38,125	238,796	1,279,575
Donated Goods and Services	-	-	-	-	250,000	250,000
Total Functional Expenses	<u>\$ 34,804</u>	<u>\$ 312,104</u>	<u>\$ 655,746</u>	<u>\$ 38,125</u>	<u>\$ 488,796</u>	<u>\$ 1,529,575</u>

SADD, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets \$ 136,642

*Adjustments to Reconcile the Above to Net Cash
Used by Operating Activities:*

Amortization Expense 17,991
Donated Professional Services for Capitalized Website Development (25,440)

(Increase) Decrease in Current Assets:

Accounts Receivable, Program Services (167,465)
Grants and Sponsorships Receivable (164,000)
Telemarketing Pledges Receivable (8,579)
Prepaid Expenses (5,895)

Increase (Decrease) in Current Liabilities:

Accounts Payable and Accrued Expenses 224,696
Accrued Salaries, Vacation and Related Costs 8,309
Deferred Revenue 37,500
Accrued Interest on Note Payable 1,225

(Increase) Decrease in Other Assets:

Grants and Sponsorships Receivable, Non-Current (50,000)
Cash Outlay for Capitalized Software and Website Development (29,200)
Split-Dollar Life Insurance Receivable 7,368
Net Adjustment (153,490)

NET CASH USED BY OPERATING ACTIVITIES

(16,848)

CASH FLOWS FROM FINANCING ACTIVITIES:

Advances on Line-of-Credit, Net of Repayments 35,000
Proceeds from Notes Payable 32,000
Principal Repayments of Notes Payable (5,000)
Net Cash Flows from Investing Activities 62,000

NET INCREASE IN CASH BALANCES

45,152

CASH - BEGINNING OF YEAR

50,526

CASH - END OF YEAR

\$ 95,678

Supplemental Disclosure :

Interest Paid

\$ 4,416

SADD, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 ORGANIZATION

SADD, Inc. (“SADD” or the “Organization”), was incorporated in 1982 under the provisions of Massachusetts General Laws Chapter 180 and qualifies as a tax-exempt not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code. The Organization has been classified as an organization which is not a private foundation under Section 509(a); accordingly, contributions made to this Organization qualify for the maximum charitable deduction for federal income tax purposes.

NOTE 2 PROGRAM SERVICES

Formerly known as Students Against Driving Drunk, SADD has been the nation’s premier youth health and safety organization since 1981 working to empower teens to stand strong against destructive decisions and to shape the world around them for the better. This is accomplished by equipping the network with science-based, peer-to-peer prevention programs and awareness campaigns and providing students with dynamic leadership development opportunities at the local, state and national level.

YOUTH EDUCATION AND EMPOWERMENT

Peer-to-Peer Health & Safety Programs:

This is the heart and soul of SADD. All SADD chapters have access to seasonal peer-to-peer educational, awareness and community engagement campaigns to help them address the most prevalent issues facing our teens today. These campaigns involve the entire community: schools, parents, law enforcement, local government, and other community partners who are interested in saving lives and ensuring our students are equipped to stand strong against making destructive decisions.

YOUTH ACTIVISM AND LEADERSHIP

National Level:

SADD SPEAKs (Students for Policy, Education, Advocacy & Knowledge): SADD’s premier Advocacy Institute trains groups of teen leaders in advocacy and the public policy process around SADD issues, media, public speaking, and leadership. The capstone event includes a Congressional briefing and visits with legislators in Washington, D.C. SPEAKs delegates will continue their work in the fall with national webinars, speaking opportunities, and advocacy efforts on the state and local level.

SADD National Student Leadership Council (SLC): The SLC plays a major role in the nationwide success of SADD. Members work directly with the SADD National staff on projects while maintaining active leadership roles with their own local chapters. Often called upon to represent the national organization, SLC members travel to conferences, media events, and task force meetings and are a valuable resource to our partners as focus groups and ambassadors.

Student of the Year (SOY): Chosen from a national pool of outstanding candidates, the SADD National Student of the Year leads the Student Leadership Council, represents SADD on a national basis speaking at conferences, conducting national media interviews and holding a voting position on the Board of Directors.

SADD, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 2 *(Continued)*

State Level:

Student Advisory Board (SAB): State Advisory Boards: Select students hold state-level leadership positions and assist State Coordinators with annual planning, program evaluation, and coordinating state-level mass communications and promotion of SADD news and information.

Local Level:

SADD Chapters: Each chapter is governed by student officers who agree to uphold the integrity of the SADD mission and who make a commitment to implement the programs in their schools and communities.

SADD National Conference:

Each year, hundreds of SADD Chapter students, Advisors, State Coordinators and professionals from the teen health and safety community come to the national conference to celebrate the power of positive peer-pressure and receive intensive training in three specialized prevention subject tracks: Traffic Safety, Substance Abuse, and Personal Health and Safety. The Conference offers 30+ youth-and-adult-led workshops that prepare our next generation of leaders to shape the future and make the world a better place. Workshop topics include: Peer-to-Peer Prevention Strategies, Education on Emerging Teen Issues, Action Planning & Goal Setting, Public Speaking, Media Training, Advocacy, Fundraising and Peer Leadership.

STATE COORDINATOR RECRUITMENT & SUPPORT

State Coordinators: SADD State Coordinators are professionals in the field who are responsible for chapter management and development, technical support and building relationships within their state with corporate, government and nonprofit partners on behalf of SADD. SADD National hosts bi-annual trainings, utilizes social and electronic media to send news and information, research results, and national level media campaign information and talking points. National sponsor and partner relationships are leveraged at the state level to provide additional funding, program development, and opportunities for professional networking and collaboration.

SADD State Coordinators are professionals in each state who align with the vision, mission, and values of the Organization and who commit to developing, strengthening, and supporting the SADD network in their state. Currently, SADD State Coordinators connect to the national office and operate in several ways. A State Coordinator may be an employee of a state agency or nonprofit organization that is dedicated to youth health and safety education, prevention, intervention and teen empowerment, a direct employee of SADD, or a dedicated, experienced professional who volunteers to assist in helping develop chapters and provide technical support to adult chapter advisors and students as needed.

There are SADD chapters in all 50 states and currently, there are 31 states with Coordinators. In states without an official State Coordinator, SADD National manages the state activity directly.

CHAPTER ADVISOR TRAINING & SUPPORT: All chapters have adult advisors and other caring, involved adults who help guide chapter activities. Using a combination of print, social media and electronic media, chapter advisors have a direct connection with the national office to share ideas, engage in two-way conversation, and receive news and information relevant to SADD chapter operations.

SADD, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 2 (Continued)

TEEN BEHAVIORAL RESEARCH: In partnership with Liberty Mutual, SADD conducts teen driver surveys and publishes findings and other materials for parents and teens.

NATIONAL POLICY POSITIONS: SADD national establishes positions on issues affecting teens and provides insight and guidance for the State level policy actions.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies which affect significant elements of the Organization's financial statements are described below to enhance the usefulness of the financial statements to the reader. The preparation of financial statements in conformity with generally accepted accounting principles 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; however, adherence to generally accepted accounting principles, has in management's opinion, resulted in reliable and consistent financial reporting by the Organization.

Basis of Accounting:

The Organization's policy is to maintain its books and prepare its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when a liability has been incurred.

Financial Statement Presentation:

As required by the *FASB Accounting Standards Codification*TM, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

These classifications are related to the existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets - consists of assets, public support, dues and program revenues which are available and used for activities and programs. Unrestricted net assets represent the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Contributions are considered available for unrestricted use unless specifically restricted by the donor. In addition, unrestricted net assets of the Organization include funds which represent unrestricted net asset resources designated by the Board of Directors for specific purposes.

Temporarily Restricted Net Assets - includes funds with donor-imposed restrictions which permit the donee organization to expend the assets as specified and are satisfied either by the passage of time or by actions of the Organization. Resources of this nature originate from gifts, grants, bequests, contracts and investment income earned on restricted funds. In the accompanying financial statements, temporarily restricted net assets consist of program restricted gifts.

SADD, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 3 (Continued)

Permanently Restricted Net Assets - includes resources which have a permanent donor-imposed restriction which stipulates that the assets are to be maintained permanently, but permits the Organization to expend part or all of the income derived from the donated assets. For the year presented, SADD did not have any assets of this nature.

Accounts Receivable:

Accounts Receivable, Program Services represent amounts which are due to SADD from government contracts, custom product sales, royalties, national conference registration fees and other related program services. *Grants and Sponsorships Receivable* represent amounts which are due to SADD from sponsorship and fees related to the annual national conference and from promises to give made by individuals and organizations. *Telemarketing Pledges Receivable* represent pledges through the Organization's telemarketing fundraising campaign.

Receivables are classified as current if they are scheduled for payment within one year, and non-current when the expected payment date exceeds one year. For the year presented, all non-current receivables are due in FY 2018 and FY 2019.

Management periodically reviews receivables to determine if any balances are uncollectible. Management believes that all receivables are collectible; therefore, no allowance for doubtful amounts has been established. If a balance is determined to be uncollectible, an allowance for doubtful amounts will be established at that time.

Property and Equipment:

Property and equipment purchases in excess of \$500 are capitalized at cost, if purchased, or if donated, at fair value at the date of receipt. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major betterments are capitalized as additions to property and equipment. Depreciation of property and equipment is computed using the straight-line method, and is charged against support and revenue over the estimated useful lives of the assets, as expressed in terms of years. The Organization has no assets that meet the recognition criteria.

Intangible Assets:

Intangible Assets consisting of software and website development costs have been capitalized and will be amortized over a three-year period. The intangible assets are presented net of accumulated amortization on the Statement of Financial Position.

SADD, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 3 (Continued)

Revenue Recognition:

Gifts, Grants and Contributions:

As required by the *FASB Accounting Standards Codification*TM, contributions are required to be recorded as receivables and revenues and the Organization is required to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions may include gifts of cash, collection items, or promises to give.

Contributions, including unconditional promises to give, are recognized as revenues in the period the commitment is received. Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are reported at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved, when such amounts are considered material.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction until the restriction expires, at which time temporarily restricted net assets are reclassified to unrestricted net assets. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Government Grants:

SADD is the recipient of federal cooperative agreement awards from the U.S. Department of Transportation National Highway Traffic Safety Administration (“NHTSA”). SADD is also the subrecipient of five federal and state award agreements that are administered by the respective States, which include additional NHTSA funding. These contracts are administered on a cost reimbursement basis; accordingly, the funding sources are billed as eligible costs are incurred, and program service revenues along with the related receivables are recorded in the period during which the costs were incurred and the services were delivered. The terms of the direct federal awards expire September 30, 2016 and future funding is not guaranteed (*See Note 17*). Total revenue recognized from direct and passthrough NHTSA awards amounted to \$482,243 for the year ended June 30, 2016.

Telemarketing Revenue:

Contributions received through the Organization’s fundraising campaign are recorded as revenue throughout the year upon receipt from donors. Annually, pledges receivable from telemarketing are recorded based on actual cash receipts subsequent to year end, which approximates the net realizable value.

SADD, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 3 *(Continued)*

Event Sponsorships and Fees:

Sponsorships related to the annual national conference are recorded as revenue throughout the year upon receipt of a commitment. Registration fees are recognized when the national conference occurs.

Program Service Revenue:

For the year presented, *Program Service Revenue* consists of fees for driver safety program, Student Advisory Board, database funding, custom product sales and various other programs that are recognized as revenue in the period in which the related services are performed or products are sold.

Donated Goods and Services:

As required by the *FASB Accounting Standards Codification*TM, SADD maintains a policy whereby contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recognized as revenue on the Statement of Activities and are reported as offsetting expenses on the Statement of Functional Expenses or capitalized as assets on the Statement of Financial Position.

Functional Expenses:

As required by the *FASB Accounting Standards Codification*TM, the Organization allocates its expenses on a functional basis among its various programs and support services. Expenses which can be identified with a specific program and support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated on various statistical bases. Supporting services are those related to operating and managing the SADD and its programs on a day-to-day basis. Supporting services have been sub-classified as follows:

Administrative - includes all activities related to SADD internal management and accounting for program services.

Fund Raising - includes all activities related to maintaining contributor information, membership development, telephone solicitations, grant writing, distribution of materials and other similar projects related to the procurement of funds for the Organization's programs.

NOTE 4 CAPITALIZED SOFTWARE AND WEBSITE DEVELOPMENT

Website development costs and custom software with a combined cost basis of \$54,640 were capitalized during FY 2016. The capitalized acquisition includes donated website development fees of \$25,440 (See Note 12). *Amortization Expense* for the fiscal year ended June 30, 2016 was \$17,991, and these costs are presented net of the accumulated amortization. The annual amortization expense is expected to be \$18,213 for FY 2017 and \$18,436 for FY 2018.

SADD, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 5 GRANTS AND PLEDGES RECEIVABLE

The Organization's non-current grants and sponsorships receivable are as follows:

<u>Year Pledge to Be Paid</u>	<u>Balance of Grants Due as of June 30, 2016</u>
June 30, 2018	\$25,000
June 30, 2019	<u>25,000</u>
Total	<u>\$50,000</u>

NOTE 6 SPLIT-DOLLAR LIFE INSURANCE RECEIVABLE

Upon the employment termination of SADD's founder, the Organization entered into a split-dollar life insurance agreement. The agreement designates the founder as the owner of the policy and calls for SADD to pay all of the premiums on the policy. Under the agreement, upon the death of the founder, the Organization will receive all premiums paid less accumulated interest on outstanding loans, with the remaining proceeds reverting to the beneficiary of the policy. The agreement also includes an automatic loan provision in which loans were incurred against the policy if the premiums were not paid and an assignment provision whereby SADD will receive its portion of the proceeds before other distributions upon final payout. The loan provisions were triggered in years during which SADD elected to not pay the premiums. As of June 30, 2016, the balance of the loan was \$227,662.

Interest continues to be accrued on the loan balance at adjustable rates (4.37% as of June 30, 2016). The annual interest incurred during FY 2016 related to this agreement was \$7,368 and has been included in *Interest Expense* in the accompanying Statement of Functional Expenses.

NOTE 7 LINE-OF-CREDIT

As of June 30, 2016, SADD had a \$75,000 revolving line-of-credit with Marlborough Savings Bank that is due on demand and renews annually. Interest is payable monthly at the Wall Street Journal prime rate plus 2% (5.25% as of June 30, 2016) and was \$4,416 for the year ended June 30, 2016. The line-of-credit requires, and is collateralized by, an invoice from a government agency to support advances. As of June 30, 2016, \$35,000 was outstanding on the line-of-credit.

NOTE 8 TELEMARKETING REVENUE

Contractual Arrangement:

SADD is party to a telemarketing agreement with The Heritage Company ("Heritage"), a professional solicitor. The current agreement has been extended through December 31, 2016, and grants Heritage the exclusive right to conduct SADD's nationally directed fundraising campaign. The agreement stipulates that Heritage will be compensated at the rate of \$30 per hour in addition to costs for postage and fulfillment. The agreement estimates that SADD will receive no less than 30% of the gross fundraising proceeds. For the year ended June 30, 2016, SADD reported gross proceeds of \$302,935 and professional solicitor expenses of \$219,085.

SADD, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 9 FISCAL AGENT AGREEMENT

Arizona SADD (a state chapter) is a party to a fiscal agent agreement with SADD. Under this agreement, funds are held by Arizona SADD on behalf of the Organization and the salary and benefits for certain employees, as well as certain incidental charges, are paid through the use of these funds. There are no fiscal agency fees paid in this arrangement. Funds in the amount of \$2,638 were held by Arizona SADD on behalf of the Organization and have been included in *Cash* in the accompanying Statement of Financial Position as of June 30, 2016.

NOTE 10 NET ASSETS

Temporarily Restricted:

The following is a summary of temporarily restricted net assets as of June 30, 2016:

<u>Nature of Restriction</u>	<u>Amount</u>
National Conference Sponsorship	\$ 75,000
SPEAKs Training Program	50,000
DomeShift Conference	50,000
Development Director Position	34,000
Scholarships	7,795
Rock the Belt Kits	7,000
Total	<u>\$223,795</u>

For the year presented, net assets were released from restriction for the following programs and purposes:

<u>Nature of Restriction</u>	<u>Amount</u>
SPEAKs Training Program	\$ 65,000
Advocacy	50,000
Student Advisory Board, Driver Safety	40,139
Virtual Communications Training	25,000
Website	35,000
ThinkFast Youth Driver Safety	25,000
Health and Safety	20,000
DomeShift Conference	10,000
Scholarships	1,000
Total	<u>\$271,139</u>

SADD, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 11 DONATED GOODS AND SERVICES

As further discussed in Note 4, during FY 2016, donated website development fees totaling \$25,440 were capitalized. For the year presented, the Organization recognized the following additional in-kind contributions as expenses with offsetting contribution revenue from Liberty Mutual in its financial statements:

	<u>Amount</u>
Survey Produced for SADD	\$190,000
Brochures and Program Materials Produced	20,000
Public Relations Staff Time	<u>40,000</u>
Total	<u>\$250,000</u>

In addition to the above in-kind contributions, many individuals volunteer their time and perform a variety of tasks that assist the Organization. Although these donations are significant, they do not met the recognition criteria and, therefore, they have not been recognized in the accompanying financial statements.

NOTE 12 RELATED PARTY TRANSACTIONS

Notes Payable:

In September 2015, SADD signed two promissory notes for \$16,000 each. The promissory notes were signed and funds were received from the Chairman of the Board of Directors of SADD and a company that a SADD member founded and is President. These funds are payable upon demand and interest accumulates at the rate of 5.25% per annum simple interest and was \$1,225 for the year ended June 30, 2016. The notes are secured by SADD's interest in the Split-Dollar Life Insurance Receivable and other general assets of SADD.

Compensation for Services:

During FY 2015, SADD contracted with a company to develop a new website. This company is owned by a Board member. The contract cost was \$46,640, with SADD responsible for \$21,200 and the company donated the remainder. The project cost has been capitalized and is included in *Capitalized Software and Website Development* in the Statement of Financial Position as of June 30, 2016.

Board of Directors:

A parent of an employee serves as a voting member of the Organization's Board of Directors.

Post-Employment Benefits:

SADD has provided post-employment benefits for two former Executive Directors and their spouses. Post-employment benefits, consisting of health insurance premiums of \$11,795, have been included in *Employee Benefits* on the accompanying Statement of Functional Expenses for the year ended June 30, 2016.

SADD, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 13 LEASE OBLIGATIONS

SADD entered into various non-cancellable operating lease agreements for the rental of office equipment with terms through June 2017. For the year ended June 30, 2016, total rent payments under these agreements amounted to \$10,068 and have been reported as *Office Expense* and *Telephone* in the accompanying Statement of Functional Expenses.

During FY 2016, the Organization occupied office space in Marlborough, Massachusetts under a tenant-at-will agreement. Rent expense under this agreement totaled \$31,300 and is included in *Occupancy* in the accompanying Statement of Functional Expenses.

In June 2016, SADD entered into a lease agreement for office space in Marlborough, Massachusetts. Under this lease, the Organization is obligated for rent of \$28,800, paid monthly, through December 2017.

Total future minimum obligations under the above lease agreements are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2017	\$28,140
June 30, 2018	<u>8,000</u>
Total	<u>\$36,140</u>

NOTE 14 RETIREMENT PLAN

SADD maintains a qualified 401(k) retirement plan. The plan allows eligible employees of the Organization to defer a percentage of their earnings from current taxation. Under the existing plan, the Organization may make a discretionary contribution each year. There was no contribution to the plan for the year ended June 30, 2016.

NOTE 15 SCHOLARSHIPS AND AWARDS

SADD grants awards to various state coordinators for specific purposes as well as chapters that meet certain criteria. SADD also allows students that are enrolled in local SADD chapters to apply for educational scholarships. For the year ended June 30, 2016, *Scholarships and Awards* consisted of the following:

	<u>Amount</u>
State Chapter Awards	\$4,350
Student Scholarships	<u>1,000</u>
Total	<u>\$5,350</u>

NOTE 16 CONCENTRATIONS

Receivables:

For the year ended June 30, 2016, the balance due from two State contracts accounted for 54% of total *Accounts Receivable, Program Services*. For the year ended June 30, 2016, the balance due from one donor organization accounted for 58% of total *Grants and Pledges Receivable*.

SADD, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 16 *(Continued)*

Accounts Payable and Accrued Expenses:

For the year ended June 30, 2016, the balance owed to the professional solicitor for telemarketing fees accounted for 22% of total *Accounts Payable and Accrued Expenses*. For the year ended June 30, 2016, the balance owed for National Conference fees accounted for 42% of total *Accounts Payable and Accrued Expenses*.

NOTE 17 SUBSEQUENT EVENTS

Management is required to consider events subsequent to the financial statement date for potential adjustment to or disclosure in the financial statements. Therefore, Management has evaluated subsequent events through November 3, 2016, the date which the financial statements were available for issue, and noted the following event which met the disclosure criteria:

Federal Awards:

Subsequent to year end, four NHTSA grants and subgrants with a combined maximum obligation of \$465,000 were renewed to provide traffic safety programming and to continue the Student of the Year program for a five-year period.