

**FIGHT THE NEW DRUG, INC.**  
**AUDITED FINANCIAL STATEMENTS**  
Years Ended December 31, 2019 and 2018

**TABLE OF CONTENTS**

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	<u>Page</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>AUDITED FINANCIAL STATEMENTS:</b>	
Statements of Financial Position	2
Statements of Activities	3
Statement of Functional Expenses – 2019	4
Statement of Functional Expenses – 2018	4
Statements of Cash Flows	5
Notes to the Financial Statements	6



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Fight the New Drug, Inc.

We have audited the accompanying financial statements of Fight the New Drug, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, 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 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 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 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 Fight the New Drug, Inc. as of December 31, 2019 and 2018 and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Squire &amp; Company, PC".

Orem, Utah  
August 4, 2020

**FIGHT THE NEW DRUG, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2019 and 2018

	2019	2018
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash	\$ 728,825	\$ 550,072
Accounts receivable	7,406	38,210
Prepaid expenses	11,597	8,300
Inventory	70,028	98,446
Total current assets	<u>817,856</u>	<u>695,028</u>
<b>Fixed Assets:</b>		
Furniture and equipment	81,762	52,181
Accumulated depreciation	(32,410)	(39,819)
Net fixed assets	<u>49,352</u>	<u>12,362</u>
<b>Related Party Note Receivable</b>	<u>-</u>	<u>1,390,426</u>
Total assets	<u>\$ 867,208</u>	<u>\$ 2,097,816</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 19,576	\$ 41,937
Accrued expenses	38,479	29,699
Total current liabilities	<u>58,055</u>	<u>71,636</u>
<b>Net Assets Without Donor Restrictions:</b>		
Designated for inventory and fixed assets	119,380	110,808
Undesignated	689,773	1,915,372
Total net assets	<u>809,153</u>	<u>2,026,180</u>
Total liabilities and net assets	<u>\$ 867,208</u>	<u>\$ 2,097,816</u>

The accompanying notes are an integral part of these financial statements.

**FIGHT THE NEW DRUG, INC.**  
**STATEMENTS OF ACTIVITIES**  
Years Ended December 31, 2019 and 2018

	2019	2018
<b>Net Assets Without Donor Restrictions:</b>		
Revenues and support:		
Donations	\$ 1,178,643	\$ 1,030,544
In-kind donations	120,000	117,810
Other revenue	3,752	5,109
Sale of merchandise:		
Revenue	260,009	309,608
Direct costs	(164,230)	(192,927)
Net sale of merchandise	95,779	116,681
Program service fees	52,064	104,861
Interest	-	88,533
Net assets released from restrictions	-	239,234
Total revenues and support	1,450,238	1,702,772
Expenses and losses:		
Program services:		
Education	673,151	677,844
Mobilization	775,895	614,924
Supporting services:		
Administrative	48,634	85,126
Fundraising	129,159	141,022
Total expenses	1,626,839	1,518,916
Loss on sale of note receivable	(1,040,426)	-
Total expenses and losses	2,667,265	1,518,916
Change in net assets without donor restrictions	(1,217,027)	183,856
<b>Net Assets with Donor Restrictions:</b>		
Net assets released from restrictions	-	(239,234)
<b>Change in Net Assets</b>	(1,217,027)	(55,378)
<b>Net Assets at Beginning of Year</b>	2,026,180	2,081,558
<b>Net Assets at End of Year</b>	\$ 809,153	\$ 2,026,180

The accompanying notes are an integral part of these financial statements.

**FIGHT THE NEW DRUG, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2019

	Program Services			Supporting Services		Total Functional Expenses
	Education	Mobilization	Total	Administrative	Fundraising	
Wages and benefits	\$ 384,047	\$ 407,013	\$ 791,060	\$ 40,687	\$ 104,497	\$ 936,244
Promotion	86,102	211,288	297,390	150	334	297,874
Supplies	7,656	8,780	16,436	252	2,490	19,178
Professional services	127,674	90,847	218,521	4,913	12,679	236,113
Office	7,410	9,021	16,431	434	814	17,679
Travel	28,038	5,355	33,393	184	656	34,233
Insurance	3,418	4,968	8,386	406	916	9,708
Depreciation	5,515	2,413	7,928	258	431	8,617
Other	5,889	14,422	20,311	-	2,983	23,294
Occupancy	17,402	21,788	39,190	1,350	3,359	43,899
Total	<u>\$ 673,151</u>	<u>\$ 775,895</u>	<u>\$ 1,449,046</u>	<u>\$ 48,634</u>	<u>\$ 129,159</u>	<u>\$ 1,626,839</u>

The accompanying notes are an integral part of this financial statement.

**FIGHT THE NEW DRUG, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2018

	Program Services			Supporting Services		Total Functional Expenses
	Education	Mobilization	Total	Administrative	Fundraising	
Wages and benefits	\$ 149,412	\$ 265,483	\$ 414,895	\$ 63,455	\$ 110,388	588,738
Promotion	-	193,385	193,385	-	-	193,385
Supplies	5,674	12,361	18,035	351	9,923	28,309
Professional services	456,470	95,105	551,575	15,146	8,755	575,476
Office	4,543	3,528	8,071	640	855	9,566
Travel	28,682	3,455	32,137	4	108	32,249
Insurance	3,866	7,540	11,406	1,129	1,838	14,373
Depreciation	4,236	1,853	6,089	199	330	6,618
Grants	-	7,744	7,744	-	-	7,744
Other	7,996	6,867	14,863	767	4,171	19,801
Occupancy	16,965	17,603	34,568	3,435	4,654	42,657
Total	<u>\$ 677,844</u>	<u>\$ 614,924</u>	<u>\$ 1,292,768</u>	<u>\$ 85,126</u>	<u>\$ 141,022</u>	<u>\$ 1,518,916</u>

The accompanying notes are an integral part of this financial statement.

**FIGHT THE NEW DRUG, INC.**  
**STATEMENTS OF CASH FLOWS**  
Years Ended December 31, 2019 and 2018

	2019	2018
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ (1,217,027)	\$ (55,378)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Loss on sale of note receivable	1,040,426	-
(Gain) loss on sale of fixed assets	(500)	596
Accrued interest	-	(38,532)
Depreciation	8,671	6,618
Changes in operating assets and liabilities:		
Accounts receivable	30,804	(16,964)
Inventory	28,418	(25,757)
Prepaid expenses	(3,297)	840
Accounts payable	(22,361)	10,763
Accrued expenses	8,780	14,514
Total adjustments	<u>1,090,941</u>	<u>(47,922)</u>
Net cash used by operating activities	(126,086)	(103,300)
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sale of fixed assets	500	1,000
Proceeds from sales of note receivable	350,000	-
Purchases of fixed assets	(45,661)	-
Net cash provided by investing activities	<u>304,839</u>	<u>1,000</u>
<b>Net Change in Cash</b>	178,753	(102,300)
<b>Cash at Beginning of Year</b>	<u>550,072</u>	<u>652,372</u>
<b>Cash at End of Year</b>	<u>\$ 728,825</u>	<u>\$ 550,072</u>

**Supplementary Data:**

The Organization paid no interest or income taxes during the years ended December 31, 2019 and 2018.

During 2019, the Organization sold a note receivable and accrued interest totaling \$1,390,426 by accepting cash in the amount of \$350,000.

The accompanying notes are an integral part of these financial statements.



**FIGHT THE NEW DRUG, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Fight the New Drug, Inc. (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.

**Organization**

The Organization was organized in the State of Utah in October 2008 for the purpose of providing individuals the opportunity to make an informed decision regarding pornography by raising awareness on its harmful effects using only science, facts, and personal accounts.

**Financial Statement Presentation**

The Organization reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors.

*Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions. The only limits on the use of these net assets are the broad limits resulting for the nature of the organization, the environment in which it operates, the purposes specified in its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

The Organization has designated a portion of net assets to indicate that such assets (inventory and fixed assets) are not available for appropriation. All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the use of the related resources is subject to donor-imposed restrictions. All expenses and net losses are reported as decreases in net assets without donor restrictions.

*Net assets with donor restrictions* – Net assets that are restricted by a donor for use for a particular purpose or in a particular future period. The Organization's unspent contributions are classified in this class if the donor limited their use. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from with donor restrictions to net assets without donor restrictions.

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the use of the related resources is subject to donor restrictions. All expenses and net losses are reported as decreases in net assets without donor restrictions.

**Accounts Receivable**

Accounts receivable represent amounts owed for services provided or expenses paid on behalf of others. The Organization has not established an allowance for doubtful accounts. The Organization believes all amounts are fully collectible.

**FIGHT THE NEW DRUG, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Inventory**

Inventory consists of apparel and other merchandise held for resale reported at the lower of cost or market.

**Fixed Assets**

All fixed assets are recorded at cost (or, if donated, at the estimated fair value at the date of donation). Fixed assets valued at \$1,000 or more are capitalized and depreciated, using the straight-line depreciation method, over the useful lives of 3 to 7 years.

**Allocation of Expenses**

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Direct costs are charged specifically to programs. Certain costs are allocated to one or more program or supporting functions based on time and effort or other measurable inputs. Such allocations are determined by management on an equitable basis.

**Donated Services**

The Organization recognized the value of online search advertising totaling \$120,000 and \$117,810 as an in-kind donation for the years ended December 31, 2019 and 2018. The same amount has been recognized as an expense in the Mobilization program. The Organization also has many individuals who volunteer their time and perform a variety of tasks; however, no amount has been reflected for such services.

**Tax Status**

The Organization is exempt from federal income tax under Section 501(a) of the Internal Revenue Code (except for net income derived from unrelated business activities) and is classified as a Section 501(c)(3) public charity. Also, the Organization is not subject to state income taxes.

**Estimates**

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 support and expenses during the reporting period. Actual results could differ from those estimates.

**New Accounting Pronouncement**

The Organization has adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). Analysis of various provisions of this ASU resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued financial statements were required.

**FIGHT THE NEW DRUG, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Subsequent Events**

The Organization has evaluated subsequent events through August 4, 2020, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

**NOTE 2 – FIXED ASSETS**

Fixed assets consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Furniture	\$ 34,014	\$ 24,194
Computer equipment	<u>47,748</u>	<u>27,987</u>
	81,762	52,181
Accumulated depreciation	<u>(32,410)</u>	<u>(39,819)</u>
	<u>\$ 49,352</u>	<u>\$ 12,362</u>

Repairs and maintenance that do not significantly increase the useful life of the asset are charged to expense as incurred.

**NOTE 3 – SALES OF ASSETS / NOTE RECEIVABLE**

During 2017, the Organization sold its recovery programs (Fortify and Candeo) to an entity owned by the Organization's president and board member. These recovery programs included software, literature, materials, website domains, trademarks, copyrights, and related intellectual property for \$1,350,000. The Organization accepted a note receivable of \$1,350,000 for the sale of the recovery programs.

This note receivable bore interest at 6.5 percent, required monthly payments of \$10,000, was to mature in August 2030, and was secured by the assets sold. The Organization did not receive the monthly payments during 2019 and the note was determined to be in default. The Organization then sold this note receivable for \$350,000 during the year ended December 31, 2019 recognizing a loss on sale of \$1,040,426.

**NOTE 4 – FUNCTIONAL EXPENSES**

The statement of activities reflects expenses by functional area. The following is a description of the functional areas:

*Education* – develops creative ways to share research and personal accounts, in an effort to educate individuals on the harmful effects of pornography and its link to sex trafficking in order to fulfill our mission and catalyze a youth-driven movement.

*Mobility* – transforms followers and passive observers, and empowers them to become advocates creating social change when it comes to pornography and all issues of sexual exploitation.

**FIGHT THE NEW DRUG, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 5 – OPERATING LEASE**

The Organization leases office space under a noncancelable operating lease expiring January 2021. Lease payments were \$35,427 and \$38,836 for the years ended December 31, 2019 and 2018, respectively. Future minimum payments due under this lease are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2020	\$ 43,119
2021	3,602

The Organization subleases a portion of its office space to a related entity on a month-to-month basis. Sublease revenue was \$1,800 and \$6,650 for the years ended December 31, 2019 and 2018, respectively.

**NOTE 6 – RELATED PARTY TRANSACTIONS**

The Organization sold its recovery programs to an entity owned by the Organization’s president and board member (see Note 3). In addition, the Organization entered into a lead generation agreement with this entity. When an individual purchases a recovery program as a result of the Organization’s referral, the Organization will receive a referral fee.

This same entity subleased office space from the Organization (see Note 6) and utilized the services of Organization staff and reimbursed the Organization for amounts paid on its behalf. The total owed the Organization was \$0 and \$24,917, at December 31, 2019 and 2018, respectively. This amount is included in accounts receivable on the statements of financial position.

**NOTE 7 – CONCENTRATIONS OF RISK**

**Cash Deposits**

At December 31, 2019, the carrying amount of the Organization’s cash deposits was \$728,825 and the bank balance was \$728,900, of which \$250,000 was covered by federal depository insurance.

**Revenue and Support**

The Organization received a substantial portion of its donations (51 and 68 percent) from four donors during the years ended December 31, 2019 and 2018, respectively.

**FIGHT THE NEW DRUG, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 8 – AVAILABILITY AND LIQUIDITY**

The following represents the Organization’s financial assets at December 31:

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash	\$ 728,825	\$ 550,072
Accounts receivable	<u>7,406</u>	<u>38,210</u>
Total financial assets	736,231	588,282
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>-</u>	<u>-</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 736,231</u>	<u>\$ 588,282</u>

The Organization’s goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$400,000).