

FIGHT THE NEW DRUG, INC.
AUDITED FINANCIAL STATEMENTS
Years Ended December 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019 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 & Company, PC".

Orem, Utah
June 4, 2021

FIGHT THE NEW DRUG, INC.
STATEMENTS OF FINANCIAL POSITION

December 31, 2020 and 2019

| | 2020 | 2019 |
|---|-------------------|-------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 821,242 | \$ 728,825 |
| Accounts receivable | 1,097 | 7,406 |
| Prepaid expenses | 11,702 | 11,597 |
| Inventory | 78,117 | 70,028 |
| | <u>912,158</u> | <u>817,856</u> |
| Total current assets | 912,158 | 817,856 |
| Fixed Assets: | | |
| Furniture and equipment | 81,762 | 81,762 |
| Accumulated depreciation | (47,182) | (32,410) |
| | <u>34,580</u> | <u>49,352</u> |
| Net fixed assets | 34,580 | 49,352 |
| Total assets | <u>\$ 946,738</u> | <u>\$ 867,208</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accounts payable | \$ 18,860 | \$ 19,576 |
| Accrued expenses | 55,667 | 38,479 |
| | <u>74,527</u> | <u>58,055</u> |
| Total current liabilities | 74,527 | 58,055 |
| Net Assets without Donor Restrictions: | | |
| Designated for inventory and fixed assets | 112,697 | 119,380 |
| Undesignated | 759,514 | 689,773 |
| | <u>872,211</u> | <u>809,153</u> |
| Total net assets | 872,211 | 809,153 |
| Total liabilities and net assets | <u>\$ 946,738</u> | <u>\$ 867,208</u> |

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

FIGHT THE NEW DRUG, INC.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|--------------------------|--------------------------|
| Net Assets without Donor Restrictions: | | |
| Revenues and support: | | |
| Donations | \$ 1,190,329 | \$ 1,178,643 |
| In-kind donations | 120,000 | 120,000 |
| Other revenue | - | 3,752 |
| Sale of merchandise: | | |
| Revenue | 333,712 | 260,009 |
| Direct costs | (203,821) | (164,230) |
| Net sale of merchandise | <u>129,891</u> | <u>95,779</u> |
| Program service fees | <u>31,563</u> | <u>52,064</u> |
| Total revenues and support | 1,471,783 | 1,450,238 |
| Expenses: | | |
| Program services: | | |
| Education | 571,373 | 673,151 |
| Mobilization | 808,554 | 775,895 |
| Supporting services: | | |
| Administrative | 48,595 | 48,634 |
| Fundraising | <u>121,427</u> | <u>129,159</u> |
| Total expenses | 1,549,949 | 1,626,839 |
| Gains (Losses): | | |
| Gain on PPP loan forgiveness | 141,224 | - |
| Loss on sale of note receivable | <u>-</u> | <u>(1,040,426)</u> |
| Total gains (losses) | <u>141,224</u> | <u>(1,040,426)</u> |
| Change in Net Assets | 63,058 | (1,217,027) |
| Net Assets at Beginning of Year | <u>809,153</u> | <u>2,026,180</u> |
| Net Assets at End of Year | <u><u>\$ 872,211</u></u> | <u><u>\$ 809,153</u></u> |

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

FIGHT THE NEW DRUG, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2020

| | Program Services | | | Supporting Services | | Total Functional Expenses |
|-----------------------|-------------------|-------------------|---------------------|---------------------|-------------------|---------------------------------|
| | Education | Mobilization | Total | Administrative | Fundraising | |
| Wages and benefits | \$ 455,847 | \$ 435,992 | \$ 891,839 | \$ 32,351 | \$ 104,189 | \$ 1,028,379 |
| Promotion | 1,328 | 183,413 | 184,741 | - | - | 184,741 |
| Supplies | 3,577 | 2,521 | 6,098 | 929 | 2,358 | 9,385 |
| Professional services | 68,230 | 90,994 | 159,224 | 9,446 | 9,911 | 178,581 |
| Office | 1,128 | 1,697 | 2,825 | 964 | 171 | 3,960 |
| Travel | 8,764 | 5,056 | 13,820 | 27 | - | 13,847 |
| Insurance | 4,814 | 6,927 | 11,741 | 502 | 979 | 13,222 |
| Depreciation | 9,454 | 4,136 | 13,590 | 443 | 739 | 14,772 |
| Grants | - | 50,000 | 50,000 | - | - | 50,000 |
| Interest | - | - | - | 724 | - | 724 |
| Other | 132 | 530 | 662 | 35 | 180 | 877 |
| Occupancy | 18,099 | 27,288 | 45,387 | 3,174 | 2,900 | 51,461 |
| Total | <u>\$ 571,373</u> | <u>\$ 808,554</u> | <u>\$ 1,379,927</u> | <u>\$ 48,595</u> | <u>\$ 121,427</u> | <u>\$ 1,549,949</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, 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 | 81,102 | 211,288 | 292,390 | 150 | 334 | 292,874 |
| 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 |
| Grants | 5,000 | - | 5,000 | - | - | 5,000 |
| 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.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Cash Flows from Operating Activities: | | |
| Change in net assets | \$ 63,058 | \$ (1,217,027) |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | | |
| Gain on PPP loan forgiveness | (141,224) | - |
| Loss on sale of note receivable | - | 1,040,426 |
| Gain on sale of fixed assets | - | (500) |
| Accrued interest on PPP loan | 724 | - |
| Depreciation | 14,772 | 8,617 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 6,309 | 30,804 |
| Inventory | (8,089) | 28,418 |
| Prepaid expenses | (105) | (3,297) |
| Accounts payable | (716) | (22,361) |
| Accrued expenses | 17,188 | 8,780 |
| Total adjustments | <u>(111,141)</u> | <u>1,090,887</u> |
| Net cash used by operating activities | (48,083) | (126,140) |
| Cash Flows from Investing Activities: | | |
| Proceeds from sale of fixed assets | - | 500 |
| Proceeds from sale of note receivable | - | 350,000 |
| Purchases of fixed assets | - | (45,607) |
| Net cash provided by investing activities | - | 304,893 |
| Cash Flows from Financing Activities: | | |
| Proceeds from PPP loan | <u>140,500</u> | <u>-</u> |
| Net Change in Cash | 92,417 | 178,753 |
| Cash at Beginning of Year | <u>728,825</u> | <u>550,072</u> |
| Cash at End of Year | <u>\$ 821,242</u> | <u>\$ 728,825</u> |

Supplementary Data:

The Organization paid no interest or income taxes during the years ended December 31, 2020 and 2019.

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

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

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.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as contributions without donor restrictions.

Revenue Recognition

The Organization recognizes revenue when cash, an unconditional promise to give, or grant award has been received.

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

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.

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 as an in-kind donation for each of the years ended December 31, 2020 and 2019. 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.

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

Subsequent Events

The Organization has evaluated subsequent events through June 4, 2021, 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>2020</u> | <u>2019</u> |
|--------------------------|------------------|------------------|
| Furniture | \$ 34,014 | \$ 34,014 |
| Computer equipment | <u>47,748</u> | <u>47,748</u> |
| | 81,762 | 81,762 |
| Accumulated depreciation | <u>(47,182)</u> | <u>(32,410)</u> |
| | <u>\$ 34,580</u> | <u>\$ 49,352</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.

Mobilization – 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

NOTE 5 – OPERATING LEASE

The Organization leases office space under a noncancelable operating lease expiring January 2024. Lease payments were \$43,119 and \$35,427 for the years ended December 31, 2020 and 2019, respectively. Future minimum payments due under this lease are as follows:

| <u>Year Ending</u> <u>December 31,</u> | |
|---|-----------|
| 2021 | \$ 40,810 |
| 2022 | 45,741 |
| 2023 | 47,117 |
| 2024 | 3,936 |

The Organization subleased a portion of its office space to a related entity on a month-to-month basis. Sublease revenue was \$0 and \$1,800 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, respectively. This amount is included in accounts receivable on the statements of financial position.

NOTE 7 – CONCENTRATIONS OF RISK

Cash Deposits

At December 31, 2020, the carrying amount of the Organization’s cash deposits was \$821,242 and the bank balance was \$723,091, of which \$250,000 was covered by federal depository insurance.

Revenue and Support

The Organization received a substantial portion of its donations (62 and 64 percent) from four donors during the years ended December 31, 2020 and 2019, respectively.

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

NOTE 8 – AVAILABILITY AND LIQUIDITY

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

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|-------------------|
| Financial assets at year end: | | |
| Cash | \$ 821,242 | \$ 728,825 |
| Accounts receivable | <u>1,097</u> | <u>7,406</u> |
| Total financial assets | 822,339 | 736,231 |
| 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>\$ 822,339</u> | <u>\$ 736,231</u> |

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

NOTE 9 – PPP LOAN

The Organization received loan proceeds of \$140,500 under the Paychecks Protection Program (PPP) during 2020. The PPP, established as part of Coronavirus Aid, Relief and Economic Security (CARES) Act, provides for loans to qualifying businesses. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes (including payroll, benefits, rent and utilities) and maintains its payroll levels.

The Organization has used the loan proceeds consistent with the PPP guidelines and the loan and accrued interest (\$724) were forgiven during the year ended December 31, 2020.