

FIGHT THE NEW DRUG, INC.
AUDITED FINANCIAL STATEMENTS
Years Ended December 31, 2022 and 2021

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
AUDITED FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statements of Activities	4
Statement of Functional Expenses – 2022	5
Statement of Functional Expenses – 2021	6
Statements of Cash Flows	7
Notes to the Financial Statements	8



Independent Auditor's Report

Board of Directors
Fight the New Drug, Inc.

Opinion

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, 2022 and 2021, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Fight the New Drug, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Fight the New Drug, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one

resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fight the New Drug, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Fight the New Drug, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Squire & Company, PC

Orem, Utah
April 6, 2023

FIGHT THE NEW DRUG, INC.
STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	2022	2021
ASSETS		
Current Assets:		
Cash	\$ 340,189	\$ 756,548
Accounts and contributions receivable	349,831	26,631
Prepaid expenses	5,243	3,964
Inventory	55,509	58,587
	<u>750,772</u>	<u>845,730</u>
Total current assets	750,772	845,730
Fixed Assets:		
Furniture and equipment	101,222	91,307
Accumulated depreciation	(73,626)	(58,933)
	<u>27,596</u>	<u>32,374</u>
Net fixed assets	27,596	32,374
Operating Lease Right-of-Use Asset	<u>49,449</u>	<u>-</u>
Total assets	<u>\$ 827,817</u>	<u>\$ 878,104</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 25,447	\$ 14,126
Accrued expenses	44,907	46,542
Current portion of operating lease liability	46,243	-
	<u>116,597</u>	<u>60,668</u>
Total current liabilities	116,597	60,668
Operating Lease Liability, less current portion	<u>3,926</u>	<u>-</u>
Total liabilities	120,523	60,668
Net Assets:		
Without donor restrictions:		
Designated for inventory and fixed assets	83,105	90,961
Undesignated	617,189	706,475
With donor restrictions	7,000	20,000
	<u>707,294</u>	<u>817,436</u>
Total net assets	707,294	817,436
Total liabilities and net assets	<u>\$ 827,817</u>	<u>\$ 878,104</u>

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

FIGHT THE NEW DRUG, INC.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2022 and 2021

	2022	2021
Net Assets without Donor Restrictions:		
Revenues and support:		
Donations	\$ 840,742	\$ 1,226,062
In-kind donations	120,000	120,000
Employee retention credit	326,085	-
Other revenue	3,279	3,475
Sale of merchandise:		
Revenue	282,886	306,458
Direct costs	(192,216)	(177,895)
Net sale of merchandise	90,670	128,563
Program service fees	53,279	20,448
Net assets released from restrictions	18,000	-
Total revenues and support	1,452,055	1,498,548
Expenses:		
Program services:		
Education	676,877	636,743
Mobilization	774,029	806,414
Supporting services:		
Administrative	51,197	52,779
Fundraising	47,094	77,387
Total expenses	1,549,197	1,573,323
Change in net assets without donor restrictions	(97,142)	(74,775)
Net Assets with Donor Restrictions:		
Donations	5,000	20,000
Net assets released from restrictions	(18,000)	-
Change in net assets with donor restrictions	(13,000)	20,000
Change in Net Assets	(110,142)	(54,775)
Net Assets at Beginning of Year	817,436	872,211
Net Assets at End of Year	\$ 707,294	\$ 817,436

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

FIGHT THE NEW DRUG, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2022

	Program Services			Supporting Services		Total Functional Expenses
	Education	Mobilization	Total	Administrative	Fundraising	
Wages and benefits	\$ 545,168	\$ 476,631	\$ 1,021,799	\$ 38,887	\$ 36,012	\$ 1,096,698
Grants	900	-	900	-	-	900
Promotion	-	186,457	186,457	-	-	186,457
Supplies	3,082	1,657	4,739	29	1,628	6,396
Professional services	71,024	52,553	123,577	9,018	6,008	138,603
Office	9,574	11,661	21,235	670	674	22,579
Travel	8,876	8,713	17,589	1	-	17,590
Insurance	3,406	3,890	7,296	301	308	7,905
Depreciation	10,327	4,518	14,845	484	808	16,137
Other	118	120	238	1	2	241
Occupancy	24,402	27,829	52,231	1,806	1,654	55,691
Total	<u>\$ 676,877</u>	<u>\$ 774,029</u>	<u>\$ 1,450,906</u>	<u>\$ 51,197</u>	<u>\$ 47,094</u>	<u>\$ 1,549,197</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, 2021

	Program Services			Supporting Services		Total Functional Expenses
	Education	Mobilization	Total	Administrative	Fundraising	
Wages and benefits	\$ 518,635	\$ 470,765	\$ 989,400	\$ 32,426	\$ 61,645	\$ 1,083,471
Promotion	-	192,744	192,744	708	-	193,452
Supplies	1,723	2,088	3,811	106	1,891	5,808
Professional services	73,629	89,128	162,757	15,758	8,606	187,121
Office	7,689	10,666	18,355	1,189	883	20,427
Travel	147	4,365	4,512	29	118	4,659
Insurance	4,987	6,113	11,100	327	451	11,878
Depreciation	9,803	4,288	14,091	460	766	15,317
Other	-	-	-	-	569	569
Occupancy	20,130	26,257	46,387	1,776	2,458	50,621
Total	<u>\$ 636,743</u>	<u>\$ 806,414</u>	<u>\$ 1,443,157</u>	<u>\$ 52,779</u>	<u>\$ 77,387</u>	<u>\$ 1,573,323</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, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities:		
Change in net assets	\$ (110,142)	\$ (54,775)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Loss on sale of fixed assets	63	-
Depreciation	16,137	15,317
Amortization of right-of-use asset	44,244	-
Changes in operating assets and liabilities:		
Accounts and contributions receivable	(323,200)	(25,534)
Prepaid expenses	(1,279)	7,738
Inventory	3,078	19,530
Accounts payable	11,321	(4,734)
Accrued expenses	(1,635)	(9,125)
Operating lease liability	(43,524)	-
Total adjustments	<u>(294,795)</u>	<u>3,192</u>
Net cash used by operating activities	(404,937)	(51,583)
Cash Flows from Investing Activities:		
Proceeds from sale of fixed assets	1,200	-
Purchases of fixed assets	<u>(12,622)</u>	<u>(13,111)</u>
Net cash used by investing activities	<u>(11,422)</u>	<u>(13,111)</u>
Net Change in Cash	(416,359)	(64,694)
Cash at Beginning of Year	<u>756,548</u>	<u>821,242</u>
Cash at End of Year	<u>\$ 340,189</u>	<u>\$ 756,548</u>

Supplementary Data:

The Organization paid no interest or income taxes during the years ended December 31, 2022 and 2021.

Non-cash investing and financing activities during the year ended December 31, 2022 included the following:
The Organization recognized an operating lease right-of-use asset of \$93,693 and a corresponding operating lease liability.

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 and Contributions Receivable

Accounts receivable represent amounts owed for services provided or expenses paid on behalf of others. Contributions receivable represent amounts received shortly after year end but dated in the year. The Organization has not established an allowance for doubtful accounts. The Organization believes all amounts are fully collectable.

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, 2022 and 2021. 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

Recent Accounting Pronouncements

The Organization adopted ASU No. 2016-02, *Leases* (Topic 842), as of January 1, 2022, using the modified retrospective approach. The modified retrospective approach provides a method for recording existing leases at the application date. In addition, the Organization elected the available practical expedients permitted under the transaction guidance within the new standard. The Organization continues to use Topic 840 for presentation of leases as of and for the year ended December 31, 2021.

The adoption of the new standard had a material impact in the Organization's balance sheets but did not have an impact in the Organization's statements of income or cash flows. The most significant impact was the recognition of operating lease right-of-use assets and operating lease liabilities. Adoption of the new standard resulted in the recording of an operating lease asset and operating lease liability of \$93,693 as of January 1, 2022.

Subsequent Events

The Organization has evaluated subsequent events through April 6, 2023, 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>2022</u>	<u>2021</u>
Furniture	\$ 34,014	\$ 34,014
Computer equipment	<u>67,208</u>	<u>57,293</u>
	101,222	91,307
Accumulated depreciation	<u>(73,626)</u>	<u>(58,933)</u>
	<u>\$ 27,596</u>	<u>\$ 32,374</u>

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

NOTE 3 – 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 4 – OPERATING LEASE

Lease (Topic 840)

The Organization leases office space under a noncancelable operating lease with 3 percent escalating rent every 12 months expiring January 2024. Rent payments were \$44,412 for the year ended December 31, 2021.

Lease (Topic 842)

The Organization leases office space under a noncancelable operating lease with 3 percent escalating rent every 12 months expiring January 2024, with a 3 percent interest rate. Rent payments were \$46,461 for the year ended December 31, 2022.

The weighted-average remaining lease term of the operating leases was 1.08 years at December 31, 2022. The weighted-average discount rate for the operating leases was 3 percent at December 31, 2022.

Future minimum payments due under this lease are as follows:

	Year Ending December 31,	
	2023	\$ 47,117
	2024	<u>3,936</u>
Total undiscounted cash flows		51,053
Amount representing interest		<u>(884)</u>
Total lease liability		50,169
Current portion		<u>(46,243)</u>
Long-term portion		<u><u>\$ 3,926</u></u>

NOTE 5 – CONCENTRATIONS OF RISK

Cash Deposits

At December 31, 2022, the carrying amount of the Organization’s cash deposits and the bank balance was \$340,189, of which \$250,000 was covered by federal depository insurance.

Revenue and Support

The Organization received a substantial portion of its donations, 30 percent from one donor and 60 percent from two donors, during the years ended December 31, 2022 and 2021, respectively.

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

NOTE 6 – RELATED PARTY TRANSACTIONS

Board members or organizations affiliated with board members of the Organization contributed \$132,500 and \$500,000 during the years ended December 31, 2022 and 2021, respectively.

NOTE 7 – AVAILABILITY AND LIQUIDITY

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

	<u>2022</u>	<u>2021</u>
Financial assets at year end:		
Cash	\$ 340,189	\$ 756,548
Accounts receivable	<u>349,831</u>	<u>26,631</u>
Total financial assets	690,020	783,179
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>(7,000)</u>	<u>(20,000)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 683,020</u>	<u>\$ 803,179</u>

The Organization’s goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$400,000). Operating expenses are defined as total expenses less depreciation.