SHATTERPROOF, A NONPROFIT CORPORATION
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Shatterproof, A Nonprofit Corporation and Affiliates

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Shatterproof, A Nonprofit Corporation and Affiliates, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Shatterproof, A Nonprofit Corporation and Affiliates as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United states of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. 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 Shatterproof, A Nonprofit Corporation and Affiliates, 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Shatterproof, A Nonprofit Corporation and Affiliates' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 generally accepted auditing standards and *Government Auditing Standards* 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Shatterproof, A Nonprofit Corporation and Affiliates' 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Shatterproof, A Nonprofit Corporation and Affiliates' 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.

Report on 2021 Summarized Comparative Information

We have previously audited Shatterproof, A Nonprofit Corporation and Affiliates' 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 1, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidated schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2023, on our consideration of Shatterproof, A Nonprofit Corporation and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Shatterproof, A Nonprofit Corporation and Affiliates' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shatterproof, A Nonprofit Corporation and Affiliates' internal control over financial reporting and compliance.

Citrin Cooperman & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Melville, New York
September 28, 2023

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

	2022	2021
Assets:		
Cash	$ 3,520,765	$ 8,279,586
Operating investments	10,592,326	1,476,491
Accounts receivable and promises to give, net	3,777,821	1,101,058
Prepaid expenses and other current assets	383,700	234,457
Property and equipment, net	1,301,845	74,879
Intangible assets	258,386	258,386
TOTAL ASSETS	$ 19,834,843	$ 11,424,857
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	$ 1,054,039	$ 477,158
Deferred revenue	824,800	451,864
Refundable advances	1,519,187	1,088,661
Paycheck Protection Program - loan payable	-	647,472
Total liabilities	3,398,026	2,665,155
Commitments and contingencies (Note 11)		
Net Assets:		
Without donor restrictions	9,138,788	6,533,724
With donor restrictions	7,298,029	2,225,978
Total net assets	16,436,817	8,759,702
TOTAL LIABILITIES AND NET ASSETS	$ 19,834,843	$ 11,424,857

See accompanying notes to consolidated financial statements.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022
(with summarized comparative totals for the year ended December 31, 2021)

		Without donor Restrictions	With donor Restrictions	Total 2022	Total 2021
Public support and revenue:					
Contributions		$ 9,928,299	$10,584,853	$ 20,513,152	$ 8,569,178
Contributed services, media time and space		1,242,338	-	1,242,338	6,833,322
Event contributions, sponsorship and fees	$1,761,479		-	-	-
Less: direct benefit to donors and sponsors	(142,377)		-	-	-
Net revenues from special events		1,619,102	-	1,619,102	1,483,539
Miscellaneous income		115,058	-	115,058	14,004
Net assets released from restrictions		5,512,802	(5,512,802)	-	-
Total public support and revenue		18,417,599	5,072,051	23,489,650	16,900,043
Expenses:					
Program services expenses:					
Education and awareness		6,713,753	-	6,713,753	8,838,972
Treatment task force		3,690,101	-	3,690,101	2,716,706
Public policy		1,944,041	-	1,944,041	1,548,184
Total program services expenses		12,347,895	-	12,347,895	13,103,862
Supporting services expenses:					
Fundraising		2,581,619	-	2,581,619	1,364,396
General and administrative		1,724,325	-	1,724,325	950,040
Total supporting services expenses		4,305,944	-	4,305,944	2,314,436
Total expenses		16,653,839	-	16,653,839	15,418,298
Change in net assets before other income		1,763,760	5,072,051	6,835,811	1,481,745
Other income:					
Employee retention credit income		193,832	-	193,832	204,054
Paycheck Protection Program loan forgiveness		647,472	-	647,472	583,255
Total other income		841,304	-	841,304	787,309
Change in net assets		2,605,064	5,072,051	7,677,115	2,269,054
Net assets - beginning		6,533,724	2,225,978	8,759,702	6,490,648
NET ASSETS - ENDING		$ 9,138,788	$ 7,298,029	$ 16,436,817	$ 8,759,702

See accompanying notes to consolidated financial statements.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022
(with summarized comparative financial information for the year ended December 31, 2021)

	Program Services				Support Services				
	Education and Awareness	Treatment Quality Measurement	Public Policy	Total Program Expenses	Fundraising	General and Administrative	Special Event Direct Costs	2022 Total	2021 Summarized Total
Advertising and donated media	$ 1,691,028	$ 282,379	$ 7,500	$ 1,980,907	$ 150,093	$ -	$ -	$ 2,131,000	$ 7,108,947
Salaries and employee benefits	2,765,377	2,272,604	1,060,790	6,098,771	1,630,273	680,578	-	8,409,622	4,746,557
Consulting and outside services	197,183	228,929	578,703	1,004,815	9,938	-	-	1,014,753	913,155
Event costs	810,116	-	-	810,116	436,216	-	133,889	1,380,221	279,137
Legal and accounting fees	63,284	189,853	15,820	268,957	-	209,026	-	477,983	717,793
Conferences, meetings and travel	189,617	108,554	55,804	353,975	63,728	4,932	-	422,635	58,791
Technology and communications	282,022	89,774	127,347	499,143	128,916	35,814	-	663,873	459,353
Depreciation and amortization	28,827	4,435	4,435	37,697	6,652	-	-	44,349	113,227
Occupancy expenses	19,690	1,406	2,813	23,909	2,813	1,406	-	28,128	25,258
Program expense	658,746	510,375	88,682	1,257,803	26,092	7,129	-	1,291,024	886,002
Bank and credit card fees	-	-	-	-	110,461	-	-	110,461	79,961
Office expenses	-	-	-	-	15,016	682,041	-	697,057	70,963
Printing and postage	3,552	355	710	4,617	1,421	1,066	8,488	15,592	18,784
Supplies	4,311	1,437	1,437	7,185	-	7,185	-	14,370	21,407
Insurance	-	-	-	-	-	23,084	-	23,084	13,894
Bad debt expense (recovery)	-	-	-	-	-	72,064	-	72,064	(14,850)
	6,713,753	3,690,101	1,944,041	12,347,895	2,581,619	1,724,325	142,377	16,796,216	15,498,379
Special event expenses reported directly	-	-	-	-	-	-	(142,377)	(142,377)	(80,081)
TOTAL EXPENSES REPORTED BY FUNCTION	$ 6,713,753	$ 3,690,101	$1,944,041	$12,347,895	$ 2,581,619	$ 1,724,325	$ -	$16,653,839	$15,418,298

See accompanying notes to consolidated financial statements.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ 7,677,115	$ 2,269,054
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	44,349	113,227
Paycheck Protection Program loan forgiveness	(647,472)	(583,255)
Change in discount to present value promises to give	-	(3,804)
Net appreciation on operating investments	(316,504)	(80,411)
Bad debt (recovery) expense	72,064	(14,850)
Donated securities	(769,808)	(125,179)
Changes in operating assets and liabilities:		
Accounts receivable and promises to give	(2,748,827)	327,146
Deferred revenue	803,462	1,199,572
Prepaid expenses and other current assets	(149,243)	(83,138)
Accounts payable and accrued expenses	576,881	(217,598)
Net cash provided by operating activities	4,542,017	2,800,764
Cash flows from investing activities:		
Purchases of operating investments	(47,694,475)	(732)
Proceeds from sales of operating investments	39,664,952	321,250
Purchases of property and equipment	(1,271,315)	(63,787)
Net cash provided by (used in) investing activities	(9,300,838)	256,731
Cash provided by financing activities:		
Proceeds from Paycheck Protection Program - loan payable	-	647,472
Net change in cash	(4,758,821)	3,704,967
Cash - beginning	8,279,586	4,574,619
CASH - ENDING	$ 3,520,765	$ 8,279,586

See accompanying notes to consolidated financial statements.

NOTE 1. ORGANIZATION

Shatterproof, A Nonprofit Corporation and Affiliates ("Shatterproof") is a national nonprofit dedicated to reversing the addiction crisis in the United States. Founded by hospitality executive Gary Mendell in 2013, Shatterproof draws from the extensive business experience of its senior leadership and uses a for-profit, ROI-focused lens to create results. Shatterproof's strict commitment to science-based solutions, and transformational change informs the business plan the organization executes daily. Shatterproof's primary sources of revenue and support are contributions from the public, corporations, foundations, and state governments.

Shatterproof qualifies as a charitable organization under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 4 of Chapter 180 of the Massachusetts General Laws. During 2018, Shatterproof formed its consolidated affiliates, Shatterproof Workplace and Family Program, LLC and Shatterproof Treatment Compare, LLC (the "Affiliates"). The Affiliates are Delaware Limited Liability Companies that were formed to carry out certain programs established by Shatterproof. Shatterproof is the sole member of both Affiliates. There was no activity for the Affiliates during the years ended December 31, 2022 and 2021. Shatterproof fulfills its mission through work within the following three key pillars:

Transforming the Treatment System

The Shatterproof National Principles of Care© set a national standard of quality care for addiction treatment. Based upon these principles, Shatterproof created Treatment Atlas ™ (Addiction Treatment, Locator, Assessment, and Standards platform), the nation's first quality measurement system for addiction treatment. Launched in July 2020, Treatment Atlas ® is a public facing website that uses validated measures to assess the quality of substance use disorder treatment being provided at treatment facilities and displays this information for those seeking treatment. Coupled with the Addiction Treatment Needs Assessment, which assesses the risk and severity of a person's addiction and then provides science-based recommendations for level of care (e.g., outpatient or residential) and additional services (e.g., medications for opioid use disorder (OUD), mental health services), Treatment Atlas® offers the information needed to navigate the complex addiction treatment system. In addition, Treatment Atlas® also includes customized dashboards for providers, states, and health insurers to use when pursuing data-driven solutions that advance the delivery of evidence-based care. In addition, through state and federal advocacy, Shatterproof supports the development of policies in three areas: payment reform for addiction treatment, addiction education for healthcare professionals, and effective use of opioid litigation funds.

Breaking Down Addiction-Related Stigmas

Shatterproof's national strategy was developed based on extensive research related to 11 previously successful social movements. This strategy identifies six priority segments for change: the general public, our healthcare system, employers, government, the criminal justice system, and media & entertainment. In 2021 and 2022, Shatterproof made significant impact in the first segment, the general public by i) partnering with the Commonwealth of Pennsylvania, The Public Good Projects and The Pennsylvania State University ("Penn State") to implement a stigma reduction program that achieved significant reductions in stigma over its first year, ii) beginning the same program in the state of Kentucky, iii) developing, implementing and publishing our nation's most comprehensive measurement of addiction stigma (Shatterproof Addiction Stigma Index), iv) partnering with the National Academy of Medicine and Dell Medical School to hold the National Addiction Summit and v) partnering with Penn State to pilot a program to reduce the stigma that healthcare professionals have toward addiction and those with this disease.

In 2022, Shatterproof expanded its work into our healthcare system when received a grant of $5.4 million over three years from Elevance Health Foundation to develop a culturally competent stigma reduction program for healthcare professionals, focusing on healthcare professionals who serve the Latinx community. This initiative seeks to enhance patient-centered care, mitigate health disparities, and will be deployed in 2024.

NOTE 1. ORGANIZATION (CONTINUED)

Breaking Down Addiction-Related Stigmas (Continued)

The Elevance grant additionally provides support to disseminate results and to scale this initiative to healthcare systems across the U.S.

Educating and Empowering Communities

Shatterproof's Just Five© digital education program (an online program) and the Learn section of its website provide highly curated content on the prevention, treatment, and recovery for addiction. Shatterproof's Ambassador and Junior programs bring together a group of volunteers who are in recovery, family members, and other passionate individuals to further Shatterproof's mission through speaking engagements, advocacy, and events. The annual Shatterproof Walks unite loved ones and communities to raise awareness, support those with addiction, and shatter the stigma of this disease.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Shatterproof and its Affiliates (collectively, the "Organization"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Contingencies

The accompanying consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Basis of Presentation

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with U.S. GAAP.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Operating Investments

Operating investments consist primarily of mutual funds invested in short-term fixed income assets, with daily liquidity. Investments are carried at fair value, with related gains and losses reported in the consolidated statement of activities as increases or decreases in net assets without donor restrictions. Purchases and sales of marketable securities are reflected on a trade-date basis. Dividend income is recorded on the ex-dividend date; interest income is recorded on the accrual basis.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Promises to Give

Accounts receivable consist primarily of amounts currently due from event sponsors. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. The discount on unconditional promises to give was approximately $28,000 as of December 31, 2022 and 2021.

The Organization determines the allowance for accounts receivable and uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable and promises to give are written off when deemed uncollectible. No allowance was recorded at December 31, 2022 and 2021.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Property and equipment include website development costs. Website development costs included in property and equipment are capitalized in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350-50.

Intangible Asset

The intangible asset consists of the Shatterproof trade name. The trade name has an indefinite life, and therefore is not amortized, but will be reviewed for impairment annually or more frequently if indicators of impairment arise.

Deferred Revenue and Refundable Advances

Program service fees received in advance and registration fees and sponsorship contributions received for events to be held in a subsequent period are recognized as deferred revenue. These fees and contributions are recorded as unrestricted revenue in the period in which the event is held. Deferred revenue balances as of December 31, 2022 and 2021, were $824,800 and $451,864, respectively. Deferred revenue balance at December 2020, was $210,000. Grant payments received in advance are recorded as refundable advances. For the years ended December 31, 2022 and 2021, refundable advances balances were $1,519,187 and $1,088,661, respectively.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets with Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. As of December 31, 2022 and 2021, there were no perpetual donor-imposed restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

The Organization reports contributions with donor restrictions as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other contributions with donor restrictions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as "Net assets released from restrictions."

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and grant payments received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, or unconditional promise to give are received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributed Services, Media Time and Space

For the years ended December 31, 2022 and 2021, contributed services consisted primarily of national and local television, and radio and newspaper reporting totaling $904,612 and $6,602,463, respectively. Contributed media covered Shatterproof events primarily to (i) raise awareness and educate the public about the disease of addiction and Shatterproof's mission; (ii) request supporters to contact their local policy makers; (iii) appeal to the audiences to engage with Shatterproof to actively support its initiatives; and (iv) to raise the funds necessary to carry out Shatterproof's mission. In addition, Shatterproof received donated legal services totaling $316,421 and $209,554 for the years ended December 31, 2022 and 2021, respectively.

Contributed services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills that would typically need to be purchased if not provided by donation. Contributed services are reported in the accompanying consolidated financial statements at the fair value of the services received reported by the donor.

In addition, Shatterproof occupies office space in Norwalk, Connecticut, which was donated by an entity related to the Organization through common management. The fair value of the donated space included as a contribution (and corresponding rent expense) in the consolidated financial statements totaled $21,305 for each of the years ended December 31, 2022 and 2021.

Contributed goods are reported as contributions in the accompanying consolidated financial statements at their estimated fair values on the date of receipt, and relate primarily to donated auction items for events.

Volunteers also provided administrative services throughout the year, and Shatterproof's officers provided services to daily operations and management without compensation. Such contributed services do not meet the criteria for recognition of contributed services contained in U.S. GAAP and, accordingly, are not reflected in the accompanying consolidated financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Shatterproof is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Affiliates derive their tax exempt status from Shatterproof, and are treated as disregarded entities for federal, state and local income tax purposes. In accordance with FASB ASC 740, *Income Taxes*, the Organization has applied the "more likely than not" threshold to the recognition and derecognition of tax positions for its 2022 and 2021 financial statements. Using that guidance, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements as of December 31, 2022 or 2021.

Functional Allocation of Expenses

The costs of programs and supporting services activities have been summarized on a functional basis in the accompanying consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Expenses directly attributable to a specific functional area are reported as expenses to those functional areas. A portion of general and administrative costs that benefit multiple functional areas has been allocated across programs and other supporting services based on management's best estimate, considering factors such as time and effort and proportion of employee time spent on programs and other supporting services to total organizational time spent.

Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing its cash, money market accounts, and certificates of deposit with high quality financial institutions. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Organization has not experienced losses in any of these accounts.

Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates. Investments are made by diversified investment managers whose performance is monitored by the Organization and the investment committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Organization and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Recently Adopted Accounting Pronouncements

In-kind Contributions - In September 2020, the FASB issued Accounting Standards Update ("ASU") No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"), which is intended to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. This ASU is effective for annual periods beginning after June 15, 2021. The Organization has determined that the applications of the amendments of ASU 2020-07 did not have a material impact on its financial statements and related disclosures.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted Accounting Pronouncements (Continued)

Leases - In February 2016, FASB issued ASU No. 2016-02, *Leases* (Topic 842) ("ASC 842"), as amended, which requires the recording of operating lease right-of-use assets and liabilities and the expanded disclosure for operating and finance lease arrangements. Leases are classified as finance or operating with classification of the expense recognition in the statement of activities. The Organization adopted ASC 842 under the modified retrospective method at January 1, 2022.

The Organization adopted the package of practical expedients available at transition that retained the lease classification under ASC 840 and initial direct costs for any leases that existed prior to adoption of the standard. Contracts entered into prior to adoption were not reassessed for lease or embedded leases. In addition, the Organization used hindsight to determine lease term and consideration for impairment. The Organization made the accounting policy elections to not recognize short-term lease on the consolidated statement of financial position and to utilize the risk-free discount rate when the rate implicit in the lease is not readily determinable.

Recently Issued but not yet Effective Accounting Pronouncements

In June 2016, FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses.* This ASU added a new impairment model (known as the current expected credit loss ("CECL") model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. The CECL model applies to most debt instruments, trade receivables, lease receivables, financial guarantee contracts, and other loan commitments. The CECL model does not have a minimum threshold for recognition of impairment losses and entities will need to measure expected credit losses on assets that have a low risk of loss. These changes become effective for the Organization on January 1, 2023. The Organization is evaluating the effect that ASU No. 2016-13 will have on its financial statements and related disclosures.

NOTE 3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the consolidated statements of financial position, comprise the following as of December 31:

Financial assets at year-end:	2022	2021
Cash	$ 3,520,765	$ 8,279,586
Accounts receivable, net	3,113,663	724,979
Promises to give due within one year	534,276	197,104
Operating investments	10,592,326	1,476,491
Total financial assets at year end	17,761,030	10,678,160
Less: net assets with donor restrictions:	(7,298,029)	(2,225,978)
Financial assets available for general expenditures in the next 12 months	$ 10,463,001	$ 8,452,182

The Organization's goal is generally to maintain financial assets to meet 180 days of cash operating expenses. As part of its liquidity plan, excess cash is invested in operating investments.

NOTE 4. FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Organization reports certain assets and liabilities at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2 – Inputs that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. The Organization has no Level 3 investments.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to its assessment of the quality, risk, or liquidity profile of the asset or liability.

At December 31, 2022 and 2021, the Organization's operating investments consist of fixed income securities and a mutual fund that is a conservative ultra-short income fund offering a strategy that seeks to deliver current income while maintaining a focus on preserving capital and liquidity.

Operating investments are classified as securities and are carried at fair value based on the quoted market prices at December 31, 2022 and 2021. Net realized and unrealized gains and losses on securities are included in changes in net assets. For purposes of determining realized gains and losses, the cost of securities sold is based on specific identification.

The following tables present investments measured at fair value on a recurring basis at December 31, 2022 and 2021:

		Fair Value Measurements at December 31, 2022		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income securities	$ 9,097,377	$ 9,097,377	$ -	$ -
Mutual Funds	1,494,949	1,494,949	-	-
	$ 10,592,326	$ 10,592,326	$ -	$ -

NOTE 4. FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

		Fair Value Measurements at December 31, 2021		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	$ 1,476,491	$ 1,476,491	$ -	$ -

Following is a description of the valuation methodologies used for assets measured at fair value:

Mutual Funds - Mutual funds are valued at the net asset value reported in the active market where the fund is traded on a daily basis.

Fixed Income Securities and U.S. government obligations - Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

The methods used to determine fair value may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, while management believes the valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Financial instruments involve, to varying degrees, elements of market risk and credit risk in excess of the amounts recorded on the consolidated statements of financial position. For the Organization, market risk represents the potential loss due to the decrease in the value of financial instruments; credit risk represents the maximum potential loss due to possible nonperformance of contract terms by obligors and counterparties.

NOTE 5. RISKS AND UNCERTAINTIES AND CONCENTRATIONS OF RISK

Financial instruments that potentially subject Shatterproof to concentrations of credit risk consist of cash and contributions receivable (including unconditional promises to give). Shatterproof has cash deposits at a financial institution in excess of the federal insurance limits; however, management does not believe there is any significant risk of loss on any uninsured amounts.

Contributions from the founder and Chief Executive Officer ("CEO") of Shatterproof accounted for 1% and 2% of total contributions for the years ended December 31, 2022 and 2021, respectively. There were no contributions receivable from the CEO as of December 31, 2022 and 2021. In addition, one and three other related-party donors accounted for approximately 4% and 20% of accounts receivable and promises to give at December 31, 2022 and 2021, respectively.

NOTE 6. ACCOUNTS RECEIVABLE AND PROMISES TO GIVE

Unconditional promises to give are estimated to be collected as follows at December 31, 2022 and 2021:

	2022	2021
Less than one year	$ 534,276	$ 197,104
One year to five years	157,480	177,480
More than five years	-	29,093
Total unconditional promises to give	691,756	403,677
Less: discount to net present value at rates ranging from 1.71% to 3.80%	(27,598)	(27,598)
Unconditional promises to give, net	$ 664,158	$ 376,079

Promises to give appear with accounts receivable in the consolidated statements of financial position as follows:

	2022	2021
Accounts receivable	$ 3,113,663	$ 724,979
Unconditional promises to give, net	664,158	376,079
Accounts receivable and promises to give, net	$ 3,777,821	$ 1,101,058

NOTE 7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2022 and 2021:

	2022	2021
Furniture and fixtures	$ 194,837	$ 194,837
Website costs	2,390,182	1,118,867
Software capitalization	37,035	37,035
	2,622,054	1,350,739
Less: accumulated depreciation and amortization	(1,320,209)	(1,275,860)
Property and equipment, net	$ 1,301,845	$ 74,879

Depreciation and amortization expense totaled $44,349 and $113,227 for the years ended December 31, 2022 and 2021, respectively.

NOTE 8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were as follows at December 31, 2022 and 2021:

	2022	2021
Subject to expenditure for specified purpose:		
Shatterproof Addiction Provider Quality System and Payor Portal	$ 3,367,590	$ 1,388,932
Stigma Initiative	2,866,281	460,967
Public policy	400,000	-
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	664,158	376,079
	$ 7,298,029	$ 2,225,978

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Expiration of time restrictions	$ 565,921	$ 576,027
Satisfaction of purpose restrictions	4,946,881	5,780,844
	$ 5,512,802	$ 6,356,871

NOTE 9. DONATED PROFESSIONAL SERVICES AND MATERIALS

The Organization received donated professional services and materials as follows during the years ended December 31, 2022 and 2021:

	Program Services	Management and General	Fundraising and Development	Total
December 31, 2022:				
Advertising	$ 904,612	$ -	$ -	$ 904,612
Legal services	31,642	284,779	-	316,421
Office space	-	10,653	10,652	21,305
	$ 936,254	$ 295,432	$ 10,652	$ 1,242,338
December 30, 2021:				
Advertising	$ 6,602,463	$ -	$ -	$ 6,602,463
Legal services	20,955	188,599	-	209,554
Office space	-	10,653	10,652	21,305
	$ 6,623,418	$ 199,252	$ 10,652	$ 6,833,322

NOTE 10. ACTIVITIES WITH JOINT COSTS

Shatterproof conducts joint activities (activities benefiting both program and support services) that include fundraising. These activities relate primarily to special events, and are to (i) raise awareness and educate the public about the disease of addiction and Shatterproof's mission; (ii) request supporters to contact their local policy makers; (iii) appeal to the audiences to engage with Shatterproof to actively support its initiatives; and (iv) raise the funds necessary to carry out Shatterproof's mission.

The cost of conducting these activities was allocated as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Education and awareness	$ 1,202,392	$ 355,343
Treatment quality measurement	29,102	13,972
Public policy	29,438	14,002
Fundraising	607,332	163,648
General and administrative	1,005	15
	$ 1,869,269	$ 546,980

NOTE 11. RETIREMENT PLAN

Shatterproof has a defined contribution retirement plan (the "Plan"), which allows eligible participants to defer contributions, on a pre-tax basis, up to statutory limits. The Organization contributes a percentage of the annual salary of participating employees. For the years ended December 31, 2022 and 2021, the matching contribution was equal to 100% of the employees' deferred contributions, provided that deferred contributions do not exceed 4% of gross wages. Total matching contributions to the Plan were $141,718 and $98,733 for the years ended December 31, 2022 and 2021, respectively.

NOTE 12. SUBSEQUENT EVENTS

Shatterproof has evaluated subsequent events through September 28, 2023, the date on which these consolidated financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements.

NOTE 13. PAYCHECK PROTECTION PROGRAM

The Paycheck Protection Program (the “PPP”), which was established as part of the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. In April 2020, the Company received loan proceeds totaling $583,255 under the PPP. The PPP loan matures two years from the date of the first disbursement and accrues interest at a fixed rate of 1%. Payments are deferred for the first six months (the “Covered Period”). On June 11, 2020, the Small Business Administration (“SBA”) revised the deferral period to be 10 months following the end of the Covered Period.

In June 2021, the Organization applied for PPP loan forgiveness with the Small Business Administration ("SBA"). On July 15, 2021, the Organization has received notice approval of the loan forgiveness from the SBA. As a result, the Organization has recorded $583,255 in the accompanying consolidated statements of activities as "Paycheck Protection Program loan forgiveness."

NOTE 13. PAYCHECK PROTECTION PROGRAM (CONTINUED)

In May 24, 2021, the Organization applied for a second round PPP loan in the amount of $647,472. The second round PPP loan is fully forgivable provided the Organization follows the forgiveness guidelines as defined by the PPP. On January 27, 2022, the Organization has received notice approval of the loan forgiveness from the SBA. As a result, the Organization has recorded $647,472 in the accompanying consolidated statements of activities as "Paycheck Protection Program loan forgiveness."

If it is determined that the Company was not eligible to receive the PPP loan or that the Company has not adequately complied with the rules, regulations, and procedures applicable to the SBA's loan program, the Company could be subject to penalties and could be required to repay the amounts previously forgiven.

U.S. GAAP does not contain authoritative accounting standards for forgivable loans provided by governmental entities. Absent authoritative accounting standards, interpretative guidance issued and commonly applied by financial statement preparers allows for the selection of accounting policies amongst acceptable alternatives. Based on the facts and circumstances, the Organization has determined it most appropriate to account for the PPP loan proceeds under the debt model. Under the debt model, the Organization recognizes the proceeds received as debt, recognizes periodic interest expense in the period in which the interest accrues at the stated interest rate and defers recognition of any potential forgiveness of the loan principal or interest until the period in which the Organization has been legally released from its obligation by the lender. The Organization deemed the debt model to be the most appropriate accounting policy for this arrangement as the underlying PPP loan is a legal form of debt and there are significant contingencies outside of the control of the Organization, mainly related to the third-party approval process for forgiveness.

NOTE 14. EMPLOYEE RETENTION TAX CREDITS

The Employee Retention Tax Credit (the “ERTC”), as it existed under the CARES Act, was not available to organizations that received a PPP loan. Provisions in the Consolidated Appropriations Act (“CAA”), which was signed into law on December 27, 2020, removed this restriction and allowed organizations that qualify for the ERTC to retroactively apply for the ERTC so long as the same wages are not used for both PPP loan forgiveness and the ERTC.

U.S. GAAP does not contain authoritative guidance related to refundable tax credits. Absent authoritative accounting standards, interpretive guidance issued and commonly applied by financial statement preparers allows for the analogy to alternative guidance. Management has determined that the ERTC is a type of government assistance (government grant). FASB ASC 958-605, *Not-for-Profit Entities: Revenue Recognition* (“ASC 958”), is utilized in accounting for government grants. Under ASC 958, grant revenue is recognized as revenue in the period received in the form of assets or decreases of liabilities (expenses) and when all conditions of the grant are met.

Management has determined that the Organization is eligible for and has met all the necessary conditions to qualify for the ERTC for both 2020 and 2021.

For the year ended December 31, 2021, the Organization has filed for the ERTC with its regular quarterly payroll tax return filing during the third quarter and received the credit in November 2021. As such, $204,054 has been recognized as "Other income" in the accompanying consolidated statement of activities.

NOTE 14. EMPLOYEE RETENTION TAX CREDITS (CONTINUED)

For the year ended December 31, 2022, the Organization has filed for the ERTC with its regular quarterly payroll tax return filing during the third quarter and received the credit in December 2022. As such, $193,832 has been recognized as "Other income" in the accompanying consolidated statement of activities.

NOTE 15. CONTINGENCIES

The Organization may be subject to legal action or claims in the ordinary course of its business. Management is not aware of any current legal matters pending which would have a material adverse impact on the consolidated financial statements of the Organization.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services				
Passed through the Commonwealth of Kentucky, Cabinet for Health and Family Services:				
Opioid STR	93.788	N/A	$ -	$ 511,862
Passed through the State of Connecticut, Department of Mental Health and Addiction Services				
COVID-19 - Block Grants for Prevention and Treatment of Substance Abuse	93.959	22MHA1098	-	45,376
COVID-19 - Block Grants for Prevention and Treatment of Substance Abuse	93.959	23MHA0001	-	185,785
			-	231,161
Passed through the Commonwealth of Pennsylvania, Department of Drug and Alcohol Programs				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	TI083069	-	425,176
Passed through the State of Oklahoma, Department of Mental Health and Substance Abuse Services:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	B08TI083471	-	268,210
Total Block Grants for Prevention and Treatment of Substance Abuse			-	924,547
Passed through Georgetown University:				
Head Start	93.600	90HC000022	-	28,609
Passed through the State of California, Department of Health Care Services				
COVID-19 - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	21-10299	-	666,820
Total Federal Awards Expended			$ -	$ 2,131,838

NOTE 1. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Shatterproof, A Nonprofit Corporation and Affiliates under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Shatterproof, A Nonprofit Corporation and Affiliates, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Shatterproof, A Nonprofit Corporation and Affiliates.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3. INDIRECT COST RATE

Shatterproof, A Nonprofit Corporation and Affiliates has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Shatterproof, A Nonprofit Corporation and Affiliates

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Shatterproof, A Nonprofit Corporation and Affiliates ("Shatterproof") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Shatterproof's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shatterproof's internal control. Accordingly, we do not express an opinion on the effectiveness of Shatterproof's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2022-001, 2022-002 and 2022-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in the accompanying schedule of findings and questioned costs as item 2022-004 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shatterproof's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002.

Shatterproof's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Shatterproof's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Shatterproof's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Shatterproof's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shatterproof's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Citrin Cooperman & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Melville, New York
September 28, 2023

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Shatterproof, A Nonprofit Corporation and Affiliates

Report on Compliance for the Major Federal Program

We have audited Shatterproof, A Nonprofit Corporation and Affiliates's ("Shatterproof") (a nonprofit organization) compliance with types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Shatterproof's major federal programs for the year ended December 31, 2022. Shatterproof's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Adverse Opinion on CFDA 93.959 Block Grants for Prevention and Treatment of Substance Abuse

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, Shatterproof did not comply, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on CFDA 93.959 Block Grants for Prevention and Treatment of Substance Abuse for the year ended December 31, 2022.

Basis for Adverse Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Shatterproof and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion on compliance for the major federal program. Our audit does not provide a legal determination of Shatterproof's compliance with the compliance requirements referred to above.

Matters Giving Rise to Adverse Opinion on CFDA 93.959 Block Grants for Prevention and Treatment of Substance Abuse

As described in the accompanying schedule of findings and questioned costs, Shatterproof did not comply with requirements regarding CFDA 93.959 Block Grants for Prevention and Treatment of Substance Abuse as described in finding numbers 2022-001, 2022-002 and 2022-04 for Allowable Costs/Cost Principles. Compliance with such requirements is necessary, in our opinion, for Shatterproof to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Shatterproof's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Shatterproof's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards,* and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Shatterproof's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance 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 Shatterproof's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Shatterproof's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Shatterproof's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal controls over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-001, 2022-002 and 2022-003 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-004 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Shatterproof's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Shatterproof's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Citrin Cooperman & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Melville, New York
September 28, 2023

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Section I: Summary of Auditor's Results

Consolidated Financial Statements:

Type of report the auditor issued on whether the audited consolidated financial statements were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?	X Yes	___ No
• Significant deficiencies identified?	X Yes	___ No
Noncompliance material to consolidated financial statements noted?	X Yes	___ No

Federal Awards:

Internal control over major program:

• Material weakness(es) identified?	X Yes	___ No
• Significant deficiencies identified?	X Yes	___ No

Type of auditor's report issued on compliance for major federal program: Adverse

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X Yes	___ No

Identification of major program:

CFDA Number	Name of Federal Program
93.959	Department of Health and Human Services Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

Auditee qualified as low-risk auditee? ___ Yes X No

Section II: Financial Statement Findings

Finding 2022-001: Time and Effort Reporting (Material Weakness)

Criteria:

The distribution of the salaries and wages to awards must be supported by personnel activity reports or timesheets. Personnel activity reports or timesheets reflecting the distribution of activity of each employee must be maintained for all staff members whose compensation is charged, in whole or in part, to government funded contracts.

The reports must reflect an after-the-fact determination of the actual activity of each employee. Each report must account for total activity for which employees are compensated and which is required in fulfillment of its obligations. The report must be signed by the individual employee, or by a responsible supervisory official having knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports. The reports must be prepared at least monthly and must coincide with one or more pay periods.

Condition:

For all selected samples, there were no personnel activity reports or timesheets to evidence the allocation of time to government contracts.

Cause:

Procedures and internal controls associated with actual time and effort charged to government contracts were not in place.

Effect:

Management did not have sufficient documentation for the allocation of time to government contracts.

Recommendation:

We recommend that management implement policies, controls and procedures to ensure that all time and effort allocations to federal programs are appropriately documented to comply with applicable cost principles.

Views of Responsible Officials:

Management is in agreement with the finding. Management has implemented additional policies, procedures and controls to document the allocation of time and effort.

Finding 2022-002: Federally Approved Indirect Cost Rate (Material Weakness)

Criteria:

Organizations must obtain a federally approved indirect cost rate if they elect not to use the de minimis 10% indirect cost rate. The indirect cost rate must be based on analysis performed over actual indirect costs incurred compared to direct costs incurred and charged to the federal program.

Condition:

Shatterproof elected not to utilized the de minimis 10% indirect cost rate. Shatterproof did not obtain federal approval of the indirect cost rate that was charged to the government contracts.

Cause:

Documentation of the calculation of the indirect cost rate was not maintained and federal approval of the indirect cost rate charged to the government contracts was not obtained.

Effect:

Management did not have sufficient documentation for the indirect cost rates charged to the government contracts.

Recommendation:

We recommend that management implement policies, controls and procedures to ensure the indirect cost rate that is charged to government contracts is calculated in accordance with the requirements of the Uniform Guidance, or utilize the 10% de minimis indirect cost rate that is allowable by the Uniform Guidance.

View of Responsible Officials:

Management is in agreement with the finding. Management is in the process of implementing additional policies, procedures and controls to ensure indirect costs do not exceed the 10% de minimis cost rate.

Finding 2022-003: Cash Requisitions (Material Weakness)

Criteria:

Funding requests for cost reimbursement contracts must be based on actual costs incurred prior to reimbursement request. For funding requests made in advance of related expenditures, requests must be in amounts that minimize the time between cash receipt and when the funds are spent. Review of funding requests must be performed by an employee with knowledge of the government contract and of the funding needs of the federal program.

Condition:

For all selected samples of funding requests for cost reimbursement contracts, there was no evidence of review and approval of the funding requests submitted.

Cause:

Procedures and internal controls associated with the preparation of funding requests were not adequately documented.

Finding 2022-003: Cash Requisitions (Material Weakness) (Continued)

Effect:

Management did not have sufficient documentation for the funding requests submitted for government contracts.

Recommendation:

We recommend that management implement policies, controls and procedures to evidence review and approval of all funding requests from government contracts to comply with applicable cash management requirements.

View of Responsible Officials:
Management is in agreement with the finding. Management is in the process of implementing additional policies, procedures and controls over the preparation, review and approval of funding requests submitted for government contracts.

Finding 2022-004: Cash Disbursements (Significant Deficiency)

Criteria:

Expenses that are charged and allocated to government contracts must be supported by invoices or other documentation evidencing the existence of the expenditure. The expenses must also be recorded in accordance with accounting principles generally accepted in the United States of America. Expense reimbursements must include evidence of review and approval by a responsible supervisory official having knowledge of the purpose of the expenditures.

Condition:

For 22 of our 60 samples, review and approval by a supervisory official for expense reimbursements was not performed. In addition, for three of our 60 samples, expenditures that were charged to the government contract were not recorded in the correct period. For four of our 60 samples, supporting documentation, such as an invoice, was not provided.

Cause:

Procedures and internal controls associated with the review and approval of expenditures, including review of supporting documentation and review of the allocation of expenditures to the appropriate period, were not adequately documented or effectively operating.

Effect:

Management did not have sufficient documentation for expenditures allocated to government contracts.

Recommendation:

We recommend that management enhance its policies, controls and procedures to ensure that there is appropriate segregation of duties over the review and approval of expenditures charged to federal programs. We recommend that management enhance its policies, controls and procedures to ensure that expenditures are recorded in the correct period and the existence of those expenditures are supported by appropriate documentation, such as an invoice.

Finding 2022-004: Cash Disbursements (Significant Deficiency) (Continued)

View of Responsible Officials:

Management is in agreement with the finding. Management will enhance the policies, procedures and controls in place over the cash disbursement process to ensure appropriate segregation of duties over approvals are in place and expenses are recorded in the correct period with supporting documentation.

Section III: Federal Awards Findings and Questioned Costs

Federal Agency:

U.S. Department of Health and Human Services

Pass-through Agency:

State of Connecticut, Department of Mental Health and Addiction Services (COVID-19)

Commonwealth of Pennsylvania, Department of Drug and Alcohol Programs

State of Oklahoma, Department of Mental health and Substance Abuse Services

Program Name (Assistance listing #):

Block Grants for Prevention and Treatment of Substance Abuse (93.959)

Finding 2022-001: Allowable Costs/Cost Principles - Time and Effort Reporting (Material Weakness)

Criteria:

The distribution of the salaries and wages to awards must be supported by personnel activity reports or timesheets. Personnel activity reports or timesheets reflecting the distribution of activity of each employee must be maintained for all staff members whose compensation is charged, in whole or in part, to government funded contracts.

The reports must reflect an after-the-fact determination of the actual activity of each employee. Each report must account for total activity for which employees are compensated and which is required in fulfillment of their obligations. The report must be signed by the individual employee, or by a responsible supervisory official having knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports. The reports must be prepared at least monthly and must coincide with one or more pay periods.

Statement of Condition:

For all selected samples, there were no personnel activity reports or timesheets to evidence the allocation of time to government contracts.

Cause:

Procedures and internal controls associated with actual time and effort charged to government contracts were not in place.

Effect:

Management did not have sufficient documentation for the allocation of time to government contracts.

Questioned Costs:

$146,290

Identification of Repeat Finding:

No

Finding 2022-001: Allowable Costs/Cost Principles - Time and Effort Reporting (Material Weakness) (Continued)

Recommendation:

We recommend that management implement policies, controls and procedures to ensure that all time and effort allocations to federal programs are appropriately documented to comply with applicable cost principles.

Views of Responsible Officials:

Management is in agreement with the finding. Management has implemented additional policies, procedures and controls to document the allocation of time and effort.

Finding 2022-002: Allowable Costs/Cost Principles - Federally Approved Indirect Cost Rate (Material Weakness)

Criteria:

Organizations must obtain a federally approved indirect cost rate if they elect not to use the de minimis 10% indirect cost rate. The indirect cost rate must be based on analysis performed over actual indirect costs incurred compared to direct costs incurred and charged to the federal program.

Statement of Condition:

Shatterproof elected not to utilized the de minimis 10% indirect cost rate. Shatterproof did not obtain federal approval of the indirect cost rate that was charged to the government contracts.

Cause:

Documentation of the calculation of the indirect cost rate was not maintained and federal approval of the indirect cost rate charged to the government contracts was not obtained.

Effect:

Management did not have sufficient documentation for the indirect cost rates charged to the government contracts.

Questioned Costs:

$47,530

Identification of Repeat Finding:

No

Recommendation:

We recommend that management implement policies, controls and procedures to ensure the indirect cost rate that is charged to government contracts is calculated in accordance with the requirements of the Uniform Guidance, or utilize the 10% de minimis indirect cost rate that is allowable by the Uniform Guidance.

View of Responsible Officials:

Management is in agreement with the finding. Management is in the process of implementing additional policies, procedures and controls to ensure indirect costs do not exceed the 10% de minimis cost rate.

Finding 2022-003: Cash Management - Cash Requisitions (Material Weakness)

Criteria:

Funding requests for cost reimbursement contracts must be based on actual costs incurred prior to reimbursement request. For funding requests made in advance of related expenditures, requests must be in amounts that minimize the time between cash receipt and when the funds are spent. Review of funding requests must be performed by an employee with knowledge of the government contract and of the funding needs of the federal program.

Statement of Condition:

For all selected samples of funding requests for cost reimbursement contracts, there was no evidence of review and approval of the funding requests submitted.

Cause:

Procedures and internal controls associated with the preparation of funding requests were not adequately documented.

Effect:

Management did not have sufficient documentation for the funding requests submitted for government contracts.

Questioned Costs:

None

Identification of Repeat Finding:

No

Recommendation:

We recommend that management implement policies, controls and procedures to evidence review and approval of all funding requests from government contracts to comply with applicable cash management requirements.

View of Responsible Officials:
Management is in agreement with the finding. Management is in the process of implementing additional policies, procedures and controls over the preparation, review and approval of funding requests submitted for government contracts.

Finding 2022-004: Cash Disbursements (Significant Deficiency)

Criteria:

Expenses that are charged and allocated to government contracts must be supported by invoices or other documentation evidencing the existence of the expenditure. The expenses must also be recorded in accordance with accounting principles generally accepted in the United States of America. Expense reimbursements must include evidence of review and approval by a responsible supervisory official having knowledge of the purpose of the expenditures.

Statement of Condition:

For 22 of our 60 samples, review and approval by a supervisory official for expense reimbursements was not performed. In addition, for three of our 60 samples, expenditures that were charged to the government contract were not recorded in the correct period. For four of our 60 samples, supporting documentation, such as an invoice, was not provided.

Cause:

Procedures and internal controls associated with the review and approval of expenditures, including review of supporting documentation and review of the allocation of expenditures to the appropriate period, were not adequately documented or effectively operating.

Effect:

Management did not have sufficient documentation for expenditures allocated to government contracts.

Questioned Costs:

None

Identification of Repeat Finding:

No

Recommendation:

We recommend that management enhance its policies, controls and procedures to ensure that there is appropriate segregation of duties over the review and approval of expenditures charged to federal programs. We recommend that management enhance its policies, controls and procedures to ensure that expenditures are recorded in the correct period and the existence of those expenditures are supported by appropriate documentation, such as an invoice.

View of Responsible Officials:

Management is in agreement with the finding. Management will enhance the policies, procedures and controls in place over the cash disbursement process to ensure appropriate segregation of duties over approvals are in place and expenses are recorded in the correct period with supporting documentation.