SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

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

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, 2019 and 2018, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shatterproof, A Nonprofit Corporation and Affiliates as of December 31, 2019 and 2018, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited Shatterproof, A Nonprofit Corporation's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 16, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Citrin Cooperman & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Melville, New York
May 4, 2020

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 and 2018

	2019	2018
Assets:		
Cash	$ 4,321,145	$ 2,402,063
Operating investments	1,548,394	794,766
Accounts receivable and promises to give, net	810,266	1,117,791
Prepaid expenses and other current assets	150,120	222,523
Property and equipment, net	209,130	372,322
Intangible assets	258,386	258,386
Other assets	101,220	68,558
TOTAL ASSETS	$ 7,398,661	$ 5,236,409
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	$ 352,495	$ 174,238
Deferred revenue	1,134,584	901,975
Total liabilities	1,487,079	1,076,213
Net Assets:		
Without donor restrictions	3,312,285	2,416,954
With donor restrictions	2,599,297	1,743,242
Total net assets	5,911,582	4,160,196
TOTAL LIABILITIES AND NET ASSETS	$ 7,398,661	$ 5,236,409

See notes to consolidated financial statements.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019
(with summarized comparative totals for the year ended December 31, 2018)

		Without donor Restrictions	With donor Restrictions	Total 2019	Total 2018
Public support and revenue:					
Contributions		$ 2,688,484	$ 3,482,875	$ 6,171,359	$ 3,690,406
Contributed services, media time and space		12,680,808	-	12,680,808	18,600,316
Event contributions, sponsorship and fees	4,365,007		-	-	-
Less: direct benefit to donors and sponsors	(295,359)		-	-	-
Net revenues from special events		4,069,648	-	4,069,648	4,259,295
Other income		56,196	-	56,196	17,649
Net assets released from restrictions		2,626,820	(2,626,820)	-	-
Total public support and revenue		22,121,956	856,055	22,978,011	26,567,666
Expenses:					
Program services expense:					
Education and awareness		13,008,593	-	13,008,593	18,849,246
Treatment task force		2,387,051	-	2,387,051	625,481
Public policy		1,198,562	-	1,198,562	837,724
Total program service expenses		16,594,206	-	16,594,206	20,312,451
Supporting service expense:					
Fundraising		3,859,838	-	3,859,838	4,935,722
General and administrative		772,581	-	772,581	748,725
Total supporting services expenses		4,632,419	-	4,632,419	5,684,447
Total expenses		21,226,625	-	21,226,625	25,996,898
Change in net assets		895,331	856,055	1,751,386	570,768
Net assets - beginning		2,416,954	1,743,242	4,160,196	3,589,428
NET ASSETS - ENDING		$ 3,312,285	$ 2,599,297	$ 5,911,582	$ 4,160,196

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(with comparative financial information for the year ended December 31, 2018)

	Program Services				Support Services				
	Education and Awareness	Treatment Task Force	Public Policy	Total Program Expenses	Fundraising	General and Administrative	Special Event Direct Costs	2019 Total	2018 Summarized Total
Advertising and donated media	$ 10,668,196	$ -	$ 36,700	$ 10,704,896	$ 1,881,926	$ -	$ -	$ 12,586,822	$ 19,134,133
Salaries and employee benefits	1,250,621	578,307	507,476	2,336,404	1,050,774	267,850	-	3,655,028	2,952,785
Consulting and outside services	80,556	1,466,811	363,423	1,910,790	43,588	-	-	1,954,378	671,453
Event costs	336,297	28,825	115,302	480,424	480,424	-	-	960,848	1,538,460
Legal and accounting fees	34,911	34,911	17,455	87,277	34,911	311,169	-	433,357	263,880
Conferences, meetings and travel	113,289	174,165	42,857	330,311	91,293	3,517	-	425,121	392,347
Technology and communications	161,611	34,126	73,998	269,735	53,341	15,144	-	338,220	483,824
Depreciation and amortization	162,966	30,626	27,738	221,330	53,159	2,888	-	277,377	317,976
Occupancy expenses	62,030	35,592	8,360	105,982	18,848	49,540	-	174,370	188,613
Program expense	120,588	-	154	120,742	-	31,791	-	152,533	36,981
Bank and credit card fees	-	-	-	-	142,515	1,695	-	144,210	168,849
Office expenses	-	-	-	-	-	58,111	-	58,111	78,224
Printing and postage	14,115	1,412	2,823	18,350	5,646	4,235	-	28,231	27,910
Supplies	3,413	2,276	2,276	7,965	3,413	11,378	-	22,756	20,011
Insurance	-	-	-	-	-	19,360	-	19,360	12,857
Bad debt (recovery) expense	-	-	-	-	-	(4,097)	-	(4,097)	59,950
	13,008,593	2,387,051	1,198,562	16,594,206	3,859,838	772,581	-	21,226,625	26,348,253
Special event expenses reported directly	-	-	-	-	-	-	-	-	(351,355)
TOTAL EXPENSES REPORTED BY FUNCTION	$ 13,008,593	$ 2,387,051	$ 1,198,562	$ 16,594,206	$ 3,859,838	$ 772,581	$ -	$ 21,226,625	$ 25,996,898

See notes to consolidated financial statements.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	$ 1,751,386	$ 570,768
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	277,377	317,976
Change in discount to present value promises to give	(11,900)	(3,900)
Net depreciation (appreciation) on operating investments	(109,128)	7,024
Bad debt expense (recovery)	(25,500)	59,950
Donated securities	(828,029)	(144,492)
Changes in operating assets and liabilities:		
Contributions and pledges receivable	344,925	(51,756)
Deferred revenue	232,609	794,000
Prepaid expenses and other current assets	39,734	38,807
Other assets	-	(9,532)
Accounts payable and accrued expenses	178,264	(114,406)
Net cash provided by operating activities	1,849,738	1,464,439
Cash flows from investing activities:		
Purchases of operating investments	(819,193)	(922,399)
Proceeds from sales of operating investments	1,002,721	740,558
Purchases of property and equipment	(114,184)	(123,588)
Net cash provided by (used in) investing activities	69,344	(305,429)
Net change in cash	1,919,082	1,159,010
Cash - beginning	2,402,063	1,243,053
CASH - ENDING	$ 4,321,145	$ 2,402,063

See notes to consolidated financial statements.

NOTE 1. ORGANIZATION

Shatterproof, A Nonprofit Corporation, ("Shatterproof") is a national nonprofit organization dedicated to ending the devastation that addiction causes families. Shatterproof is accomplishing its mission by educating, empowering and equipping parents, families, educators, health care providers, legislators, and others to address addiction head on. Shatterproof's primary sources of revenue and support are contributions from the public, corporations and foundations.

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. Activity of the Affiliates was limited to formation for the years ended December 31, 2019 and 2018. Shatterproof fulfills its mission by focusing its efforts in three primary service areas:

Education and Awareness

Public Education

Anti-stigma education at events such as Shatterproof's national Rise Up Against Addiction 5K Run/Walk Series.

Shatterproof Family Program: Provides education on substance use disorder informed by the latest evidence-based research. It also helps families understand the many types of treatment resources to find suited to meet their needs.

Transforming Addiction Treatment

Quality Measurement System

Developing a transparent quality measurement system for addiction treatment programs that gives consumers the knowledge they need to find effective, evidence-based treatment and drive improvements in the quality of care. This project will drive change by (1) empowering patients to select high-quality, effective addiction treatment and align market demand by equipping payers with information related to the use of quality treatment practices, (2) increasing the number of providers utilizing evidenced based treatment practices by measuring compliance with a standard of care, (3) enabling payers to make data-informed decisions about their provider networks and payment models and (4) empowering state regulators to make informed decisions on deployment of resources to addiction treatment programs, including resources made available during COVID-19 response.

Payer Reform

Shatterproof's payer-based strategies use a tactical approach to ensure addiction treatment is paid for by public and private health insurance, including offering all three FDA-approved medications for addiction.

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative Financial Information

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, 2018, 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.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

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.

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 $31,000 and $43,000 as of December 31, 2019 and 2018, respectively.

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. At December 31, 2019 and 2018, the allowance was $- and $58,000, respectively.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (the "FASB") Accounting Standards Codification ("ASC") 350-50.

Intangible Assets

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

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 revenues in the period in which the event is held.

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, 2019 and 2018, 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.

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Services, Media Time and Space

For the year ended December 31, 2019, contributed services consisted primarily of national and local television, and radio and newspaper reporting totaling $12,317,755 (2018: $18,452,614). 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 $349,105 (2018: $134,159).

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.

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 $13,948 and $13,543 for the years ended December 31, 2019 and 2018, respectively.

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.

Income Taxes

Shatterproof is exempt from federal income taxes under Section 501(c)(3) of the IRC. 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 2019 and 2018 financial statements. Using that guidance, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements as of December 31, 2019 or 2018.

Functional Allocation of Expenses

The costs of programs and supporting services activities have been summarized on a functional basis in the accompanying consolidated statements of activities. The consolidated statements 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing 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 organizations.

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

The Organization has adopted Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended as management believes the standard improves the usefulness and understandability of the Organization's financial reporting.

Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Contributions

The Organization has adopted ASU No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"), which provides guidance for determining whether a transaction should be accounted for as a contribution or an exchange transaction, and whether a contribution is conditional or unconditional. This ASU is effective for years beginning after December 15, 2018. The Organization's adoption of this standard resulted in no significant change to the consolidated financial statements.

Statement of Cash Flows

The Organization has adopted ASU No. 2016-15, *Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), which provides guidance on several cash flow classification issues. This new guidance is effective for years beginning after December 15, 2018, with early adoption permitted. The Organization's adoption of this standard resulted in no significant change to the presentation of its statements of cash flows.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued but not yet Effective Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). This update requires all leases with terms greater than 12 months to be recognized on the statement of financial position through a right-of-use asset and a lease liability and the disclosure of key information pertaining to leasing arrangements. FASB also issued ASU No. 2018-10, *Codification Improvements to Topic 842* and ASU No. 2018-11, *Leases*: *Targeted Improvements* in July 2018. These updates provide narrow amendments to clarify how to apply certain aspects of the new leases standard and options regarding transition. This option will not require prior periods to be restated at the adoption date. ASU 2016-02, as amended, is effective for fiscal years beginning after December 15, 2019, and the Organization is currently evaluating the effect on its consolidated 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 balance sheet date, comprise the following as of December 31, 2019:

Financial assets at year-end:	
Cash	$ 4,321,145
Accounts receivable, net	202,925
Promises to give due within one year	251,865
Operating investments	1,548,394
Total financial assets at year end	6,324,329
Less: net assets with donor restrictions:	(2,599,297)
Financial assets available for general expenditures in the next 12 months	$ 3,725,032

The Organization's goal is generally to maintain financial assets to meet 180 days of 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 it can access at the measurement date.

NOTE 4. FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

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, 2019 and 2018, the Organization's operating investments consist of 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.

Also included in operating investments are donated securities that were sold but not settled as of December 31, 2019 and 2018. Operating investments are classified as securities and are carried at fair value based on the quoted market prices at December 31, 2019 and 2018. Net realized and unrealized gains and losses on securities are included in changes in net assets. For purpose of determining realized gains and losses, the cost of securities sold is based on specific identification.

Its investment assets is classified within Level 1 because they comprise open-end mutual funds with readily determinable fair values based on daily redemption values.

The following tables present investments measured at fair value on a recurring basis at December 31, 2019 and 2018:

		Fair Value Measurements at December 31, 2019		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs) (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	$ 1,475,208	$ 1,475,208	$ -	$ -
Common Stocks	73,186	73,186	-	-
	$ 1,548,394	$ 1,548,394	$ -	$ -

		Fair Value Measurements at December 31, 2018		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs) (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	$ 700,331	$ 700,331	$ -	$ -
Common Stocks	94,435	94,435	-	-
	$ 794,766	$ 794,766	$ -	$ -

NOTE 4. FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

During the years ended December 31, 2019 and 2018, there were no transfers between levels of the fair value hierarchy. 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.

Common Stocks - Common stocks are valued at the closing price reported in the active market in which the respective investments trade.

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 statement 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. 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 less than 2% and 1% of total contributions for the years ended December 31, 2019 and 2018, respectively. There were no contributions receivable from the CEO as of December 31, 2019. As of December 31, 2018, accounts receivable from the CEO totaled $31,500. In addition, three other related party donors accounted for approximately 55% and 43% of accounts receivable and promises to give at December 31, 2019 and 2018, respectively.

NOTE 6. ACCOUNTS RECEIVABLE AND PROMISES TO GIVE

Unconditional promises to give are estimated to be collected as follows at December 31, 2019 and 2018:

	2019	2018
Less than one year	$ 251,865	$ 363,620
One year to five years	289,980	391,230
More than five years	96,348	129,218
Total unconditional promises to give	638,193	884,068
Less: discount to net present value at rates ranging from 1.71% to 3.04%	(30,852)	(42,752)
Unconditional promises to give, net	$ 607,341	$ 841,316

NOTE 6. ACCOUNTS RECEIVABLE AND PROMISES TO GIVE (CONTINUED)

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

	2019	2018
Accounts receivable, net	$ 202,925	$ 276,475
Unconditional promises to give, net	607,341	841,316
Accounts receivable and promises to give, net	$ 810,266	$ 1,117,791

NOTE 7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2019 and 2018:

	2019	2018
Furniture and fixtures	$ 167,171	$ 129,223
Website costs	1,024,017	947,781
Software capitalization	37,035	37,035
	1,228,223	1,114,039
Less: accumulated depreciation and amortization	(1,019,093)	(741,717)
Property and equipment, net	$ 209,130	$ 372,322

Depreciation and amortization expense totaled $277,377 and $317,976 for the years ended December 31, 2019 and 2018, respectively.

NOTE 8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Subject to expenditure for specified purpose:		
Shatterproof Addiction Provider Quality System and Payor Portal	$ 1,661,280	$ 901,926
Stigma Initiative	265,676	-
Public policy	65,000	-
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	607,341	841,316
	$ 2,599,297	$ 1,743,242

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, 2019 and 2018:

	2019	2018
Expiration of time restrictions	$ 2,626,820	$ 300,099

NOTE 9. DONATED PROFESSIONAL SERVICES AND MATERIALS

The Organization received donated professional services and materials as follows during the years ended December 31, 2019 and 2018:

	Program Services	Management and General	Fundraising and Development	Total
December 31, 2019:				
Advertising	$ 10,470,092	$ -	$ 1,847,663	$ 12,317,755
Legal services	34,911	314,194	-	349,105
Office space	-	6,974	6,974	13,948
	$ 10,505,003	$ 321,168	$ 1,854,637	$ 12,680,808
December 31, 2018:				
Advertising	$ 15,684,722	$ -	$ 2,767,892	$ 18,452,614
Legal services	13,416	120,743	-	134,159
Office space	-	6,772	6,772	13,544
	$ 15,698,138	$ 127,515	$ 2,774,664	$ 18,600,317

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, 2019 and 2018:

	2019	2018
Education and awareness	$ 10,806,388	$ 16,088,305
Treatment task force	28,825	34,593
Public policy	115,302	138,371
Fundraising	2,328,087	3,375,949
General and administrative	-	2,500
	$ 13,278,602	$ 19,639,718

NOTE 11. LEASE COMMITMENTS

The Organization entered into annual agreements to rent office space. Rent expense incurred under these lease agreements amounted to $153,409 and $146,956 for the years ended December 31, 2019 and 2018, respectively.

Future minimum rental payment required under these operating leases is $317,086 for the year ending December 31, 2020.

NOTE 12. 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, 2019, 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 $78,300 and $66,392 for the years ended December 31, 2019 and 2018, respectively.

NOTE 13. SUBSEQUENT EVENTS

Shatterproof has evaluated subsequent events through May 4, 2020, the date on which these consolidated financial statements were available to be issued. Except as noted in the paragraphs below, there were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact support and revenue. Other financial impacts could occur though such potential impact is unknown at this time. No adjustments or provisions were made in these financial statements related to COVID-19.

On April 13, 2020, the Organization received loan proceeds of approximately $583,000 under the Paycheck Protection Program (“PPP”). The PPP, which was established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times certain average monthly payroll expenses of the qualifying business. The loan and accrued interest, or a portion thereof, may be forgiven after eight weeks so long as the borrower uses the loan proceeds for eligible purposes including payroll, benefits, rent, mortgage interest and utilities, and maintains its payroll levels. Not more than 25% of the amount forgiven can be attributable to non-payroll costs.

The PPP loan matures two years from the date of first disbursement of proceeds to the Organization (the “PPP Loan Date”) and accrues interest at a fixed rate of 1%. Payments are deferred for the first six months and payable in eighteen (18) equal consecutive monthly installments of principal and interest commencing on the seven-month anniversary of the PPP Loan Date.

The Organization currently intends to use the proceeds for purposes consistent with the PPP, however, there can be no assurances that the Organization will ultimately meet the conditions for forgiveness of the loan or that it will not take actions that could cause the Organization to be ineligible for forgiveness of the loan, in whole or in part.