

**SHATTERPROOF, A NONPROFIT CORPORATION
AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2023
(with summarized comparative information
for the year ended December 31, 2022)**

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
FOR THE YEAR ENDED DECEMBER 31, 2023
(with summarized comparative information
for the year ended December 31, 2022)

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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 statement of financial position as of December 31, 2023, and the related consolidated statements of activities, functional expenses and cash flows for the year 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, 2023, 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 audit 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 audit. 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 2022 Summarized Comparative Information

We have previously audited Shatterproof, A Nonprofit Corporation and Affiliates' 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 28, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

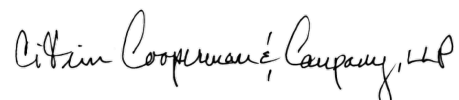
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Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 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 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 27, 2024, 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.



Philadelphia, Pennsylvania
September 27, 2024

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2023
(with summarized comparative information as of December 31, 2022)

	2023	2022
Assets:		
Cash	\$ 1,798,492	\$ 3,520,765
Operating investments	14,365,724	10,592,326
Accounts receivable and promises to give, net	3,776,425	3,777,821
Prepaid expenses and other current assets	156,370	383,700
Property and equipment, net	1,585,151	1,301,845
Intangible assets	258,386	258,386
TOTAL ASSETS	\$ 21,940,548	\$ 19,834,843
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,349,992	\$ 1,054,039
Deferred revenue	297,800	824,800
Refundable advances	2,921,996	1,519,187
Total liabilities	4,569,788	3,398,026
Commitments and contingencies (Note 15)		
Net Assets:		
Without donor restrictions	12,753,099	9,138,788
With donor restrictions	4,617,661	7,298,029
Total net assets	17,370,760	16,436,817
TOTAL LIABILITIES AND NET ASSETS	\$ 21,940,548	\$ 19,834,843

See accompanying notes to consolidated financial statements.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023
(with summarized comparative information for the year ended December 31, 2022)

	<u>Without donor Restrictions</u>	<u>With donor Restrictions</u>	<u>Total</u>	
			<u>2023</u>	<u>2022</u>
Public support and revenue:				
Contributions	\$ 6,480,700	\$ 12,868,332	\$ 19,349,032	\$ 20,513,152
Contributed services, media time and space	2,699,530	-	2,699,530	1,242,338
Event contributions, sponsorship and fees	\$3,192,272	-	-	-
Less: direct benefit to donors and sponsors	<u>(142,645)</u>	-	-	-
Net revenues from special events	3,049,627	-	3,049,627	1,619,102
Investment income	647,993	-	647,993	115,058
Net assets released from restrictions	<u>15,548,700</u>	<u>(15,548,700)</u>	-	-
Total public support and revenue	<u>28,426,550</u>	<u>(2,680,368)</u>	<u>25,746,182</u>	<u>23,489,650</u>
Expenses:				
Program services expenses:				
Education and awareness	11,122,070	-	11,122,070	6,566,440
Treatment quality measurement	6,366,099	-	6,366,099	3,714,811
Public policy	<u>2,248,502</u>	-	<u>2,248,502</u>	<u>1,961,396</u>
Total program services expenses	<u>19,736,671</u>	-	<u>19,736,671</u>	<u>12,242,647</u>
Supporting services expenses:				
Fundraising	2,318,936	-	2,318,936	2,634,873
General and administrative	<u>3,241,315</u>	-	<u>3,241,315</u>	<u>1,776,319</u>
Total supporting services expenses	<u>5,560,251</u>	-	<u>5,560,251</u>	<u>4,411,192</u>
Total expenses	<u>25,296,922</u>	-	<u>25,296,922</u>	<u>16,653,839</u>
Change in net assets before other income	<u>3,129,628</u>	<u>(2,680,368)</u>	<u>449,260</u>	<u>6,835,811</u>
Other income:				
Employee Retention Credit income	484,683	-	484,683	193,832
Paycheck Protection Program loan forgiveness	-	-	-	<u>647,472</u>
Total other income	<u>484,683</u>	-	<u>484,683</u>	<u>841,304</u>
Change in net assets	3,614,311	(2,680,368)	933,943	7,677,115
Net assets - beginning	<u>9,138,788</u>	<u>7,298,029</u>	<u>16,436,817</u>	<u>8,759,702</u>
NET ASSETS - ENDING	<u>\$12,753,099</u>	<u>\$ 4,617,661</u>	<u>\$ 17,370,760</u>	<u>\$ 16,436,817</u>

See accompanying notes to consolidated financial statements.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023
(with summarized comparative information for the year ended December 31, 2022)

	Program Services				Supporting Services		Cost of direct benefit to donors and sponsors	2023 Total	2022 Summarized Total
	Education and Awareness	Treatment Quality Measurement	Public Policy	Total Program Expenses	Fundraising	General and Administrative			
Advertising and donated media	\$ 2,970,534	\$ 2,044,655	\$ 119,821	\$ 5,135,010	\$ 182,706	\$ -	\$ -	\$ 5,317,716	\$ 2,090,373
Salaries and employee benefits	4,481,439	2,660,586	779,552	7,921,577	1,268,211	1,340,921	-	10,530,709	8,409,622
Consulting and outside services	1,165,629	583,349	808,883	2,557,861	25,645	-	-	2,583,506	920,772
Event costs	724,008	-	-	724,008	389,851	-	142,645	1,256,504	1,323,752
Legal and accounting fees	120,761	362,282	30,190	513,233	-	623,181	-	1,136,414	477,982
Conferences, meetings and travel	188,202	160,665	68,046	416,913	91,515	6,179	-	514,607	475,094
Technology and communications	418,226	107,652	168,290	694,168	159,871	36,765	-	890,804	797,032
Depreciation and amortization	238,702	36,723	36,723	312,148	55,086	-	-	367,234	44,349
Occupancy expenses	36,866	13,045	5,267	55,178	7,580	13,046	-	75,804	28,128
Program expense	767,730	393,896	228,210	1,389,836	65,040	59,564	-	1,514,440	1,258,438
Bank and credit card fees	-	-	-	-	63,892	-	-	63,892	110,461
Office expenses	-	-	-	-	6,756	805,674	-	812,430	698,263
Printing and postage	2,742	274	548	3,564	1,097	24,480	-	29,141	24,631
Supplies	7,231	2,972	2,972	13,175	1,686	14,863	-	29,724	40,810
Insurance	-	-	-	-	-	88,642	-	88,642	24,445
Bad debt expense	-	-	-	-	-	228,000	-	228,000	72,064
	11,122,070	6,366,099	2,248,502	19,736,671	2,318,936	3,241,315	142,645	25,439,567	16,796,216
Less: direct benefit to donors and sponsors	-	-	-	-	-	-	142,645	142,645	142,377
TOTAL EXPENSES	\$ 11,122,070	\$ 6,366,099	\$ 2,248,502	\$ 19,736,671	\$ 2,318,936	\$ 3,241,315	\$ -	\$ 25,296,922	\$ 16,653,839

See accompanying notes to consolidated financial statements.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
(with summarized comparative information for the year ended December 31, 2022)

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 933,943	\$ 7,677,115
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	367,234	44,349
Paycheck Protection Program loan forgiveness	-	(647,472)
Change in discount to present value promises to give	(25,149)	-
Net appreciation on operating investments	(170,358)	(316,504)
Provision for doubtful accounts	228,000	72,064
Donated securities	(377,118)	(769,808)
Changes in operating assets and liabilities:		
Accounts receivable and promises to give	(201,455)	(2,748,827)
Deferred revenue	(527,000)	372,936
Refundable advances	1,402,809	430,526
Prepaid expenses and other current assets	227,330	(149,243)
Accounts payable and accrued expenses	295,953	576,881
Net cash provided by operating activities	2,154,189	4,542,017
Cash flows from investing activities:		
Purchases of operating investments	(107,723,884)	(47,694,475)
Proceeds from sales of operating investments	104,497,962	39,664,952
Purchases of property and equipment	(650,540)	(1,271,315)
Net cash used in investing activities	(3,876,462)	(9,300,838)
Net decrease in cash	(1,722,273)	(4,758,821)
Cash - beginning of year	3,520,765	8,279,586
CASH - ENDING OF YEAR	\$ 1,798,492	\$ 3,520,765

See accompanying notes to consolidated financial statements.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023
(with summarized comparative information for the year ended December 31, 2022)

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, 2023 and 2022. 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 integrated care and addiction treatment, addiction education for healthcare professionals, and effective use of opioid litigation funds. It also advocates for the expansion of Atlas.

Breaking Down Addiction-Related Stigmas

Shatterproof's National Movement to End Addiction Stigma was informed by evidence-based research related to successful social movements for other issue areas. This strategy identified six priority segments for change: communities, healthcare system, employers, government, the carceral system, and media & entertainment.

In 2020, Shatterproof designed and began implementation of an evidence-informed public health communications campaign to engage the first system, communities. Through 2023, this intervention has proven effective and is active in PA, KY, CA, and GA.

The intervention is tailored to local context using data from the Shatterproof Addiction Stigma Index (SASI). The SASI assesses population-level addiction stigma across a representative sample providing a robust snapshot for campaign strategy development, but is also used to understand intervention efficacy and at the national level, to raise awareness and hold our nation accountable to progress.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023
(with summarized comparative information for the year ended December 31, 2022)

NOTE 1. ORGANIZATION (CONTINUED)

Breaking Down Addiction-Related Stigmas (Continued)

In 2022, the National Stigma Initiative began work in the second system, healthcare, with the generous \$5.4 million, multi-year grant from Elevance Health Foundation. With this funding the team is designing an educational curriculum aimed to increase knowledge and confidence when working with individuals with substance use disorder (SUD) and reduce SUD stigma, with a particular focus on health equity.

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.

Summarized Comparative 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, 2022, 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, which requires Shatterproof to report information regarding its financial position and activities according to the following net asset classifications:

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. The Organization reports contributions with donor restrictions 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 statement of activities as net assets released from restriction.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023
(with summarized comparative information for the year ended December 31, 2022)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 investments 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 grantors who have been invoiced for contracted amounts. 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 \$2,000 and \$28,000 as of December 31, 2023 and 2022, 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. The allowance for uncollectible amounts was \$228,000 and \$0 at December 31, 2023 and 2022, respectively.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Shatterproof capitalizes all assets over \$2,500. Depreciation and amortization are computed using the straight-line method over three years, the estimated useful lives of the assets. Shatterproof reviews its assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. No impairment losses were recognized by Shatterproof for the years ended December 31, 2023 and 2022.

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.

Refundable Advances

Grant payments received in advance of Shatterproof fulfilling required conditions of the grant are recorded as refundable advances. For the years ended December 31, 2023 and 2022, refundable advances totaled \$2,921,996 and \$1,519,187, respectively.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023
(with summarized comparative information for the year ended December 31, 2022)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 revenue without donor restriction in the period in which the event is held. Deferred revenue balances as of December 31, 2023, 2022, and 2021, were \$297,800, \$824,800, and \$451,864, respectively.

Revenue and Revenue Recognition

Revenue is recognized when earned. 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.

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 statement of activities as "Net assets released from restrictions."

Special events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. The Organization recognizes special events revenue equal to the fair value of the direct benefits to donors when the special event takes place. The contribution element of special event revenue is recognized immediately, unless there is a right of return if the special event does not take place.

Contributed Services, Media Time and Space

For the years ended December 31, 2023 and 2022, contributed services consisted primarily of national and local television, and radio and newspaper reporting totaling \$2,074,422 and \$904,612, 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 \$603,803 and \$316,421 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022.

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.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023
(with summarized comparative information for the year ended December 31, 2022)

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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes*, the Organization has applied the "more likely than not" threshold to the recognition and derecognition of tax positions for its 2023 and 2022 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, 2023 or 2022.

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.

Advertising

Advertising costs are expensed as incurred and amounted to \$5,317,716 and \$2,090,373 for the years ended December 31, 2023 and 2022, respectively.

Reclassifications

Certain amounts in the 2022 consolidated financial statements have been reclassified to conform to the current year's presentation. These reclassification adjustments had no effect on the Organization's previously reported change in net assets.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023
(with summarized comparative information for the year ended December 31, 2022)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted Accounting Pronouncement

In June 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments – Credit Losses (Topic 326) ("ASC 326")*, along with subsequently issued related ASUs, requires financial assets (or groups of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected, among other provisions. ASC 326 eliminates the probable initial threshold for recognition of credit losses for financial assets recorded at amortized cost, which could result in earlier recognition of credit losses for financial assets recorded at amortized cost, which . It utilizes a lifetime expected credit loss measurement model for the recognition of credit losses at the time the financial asset is originated or acquired.

The Organization adopted ASC 326 using the modified retrospective method at the beginning of the year or January 1, 2023 and it did not have a material impact on the consolidated financial statements.

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:	<u>2023</u>	<u>2022</u>
Cash	\$ 1,798,492	\$ 3,520,765
Accounts receivable, net	3,644,118	3,113,663
Promises to give due within one year	42,870	534,276
Operating investments	<u>14,365,724</u>	<u>10,592,326</u>
Total financial assets at year end	19,851,204	17,761,030
Less: net assets with donor restrictions	<u>(4,617,661)</u>	<u>(7,298,029)</u>
Financial assets available for general expenditures in the next 12 months	<u>\$ 15,233,543</u>	<u>\$ 10,463,001</u>

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.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(with summarized comparative information for the year ended December 31, 2022)

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.

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.

The following tables present investments measured at fair value by asset category and their level within the fair value hierarchy as of December 31, 2023 and 2022:

	Fair Value Measurements at December 31, 2023			
	Total	Level 1	Level 2	Level 3
U.S. government obligations	\$ 14,365,724	\$ -	\$ 14,365,724	\$ -

	Fair Value Measurements at December 31, 2022			
	Total	Level 1	Level 2	Level 3
Fixed income securities	\$ 9,097,377	\$ -	\$ 9,097,377	\$ -
Mutual Funds	1,494,949	1,494,949	-	-
	\$ 10,592,326	\$ 1,494,949	\$ 9,097,377	\$ -

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.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(with summarized comparative information for the year ended December 31, 2022)

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 of Shatterproof accounted for 31% of "event contributions, sponsorship and fees" for the year ended December 31, 2023. Contributions from one grantor represented 26% of "contributions" for the year ended December 31, 2023. Contributions from one donor represented 24% of "contributions" for the year ended December 31, 2022.

Receivables from one grantor represented 30% and 24% of accounts receivable and pledges receivable at December 31, 2023 and 2022, respectively.

NOTE 6. ACCOUNTS RECEIVABLE AND PROMISES TO GIVE

Unconditional promises to give are estimated to be collected as follows at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Less than one year	\$ 42,870	\$ 534,276
One year to five years	<u>91,886</u>	<u>157,480</u>
Total unconditional promises to give	134,756	691,756
Less: discount to net present value at rates ranging from 1.71% to 2.75%	<u>(2,449)</u>	<u>(27,598)</u>
Unconditional promises to give, net	<u>\$ 132,307</u>	<u>\$ 664,158</u>

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

	<u>2023</u>	<u>2022</u>
Accounts receivable, net	\$ 3,644,118	\$ 3,113,663
Unconditional promises to give, net	<u>132,307</u>	<u>664,158</u>
Accounts receivable and promises to give, net	<u>\$ 3,776,425</u>	<u>\$ 3,777,821</u>

NOTE 7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Computers and equipment	\$ 194,837	\$ 194,837
Website costs	2,470,243	2,390,182
Software capitalization	37,035	37,035
Data warehouse	<u>570,479</u>	<u>-</u>
	3,272,594	2,622,054
Less: accumulated depreciation and amortization	<u>(1,687,443)</u>	<u>(1,320,209)</u>
Property and equipment, net	<u>\$ 1,585,151</u>	<u>\$ 1,301,845</u>

Depreciation and amortization expense totaled \$367,234 and \$44,349 for the years ended December 31, 2023 and 2022, respectively.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were as follows at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Shatterproof Addiction Provider Quality System and Payor Portal	\$ 4,310,503	\$ 3,367,590
Stigma Initiative	-	2,866,281
Public Policy	-	400,000
Health Equity	200,000	-
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	<u>107,158</u>	<u>664,158</u>
	<u>\$ 4,617,661</u>	<u>\$ 7,298,029</u>

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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Expiration of time restrictions	\$ 557,000	\$ 565,921
Satisfaction of purpose restrictions:		
Shatterproof Addiction Provider Rating System and Payor Portal	6,366,099	3,351,692
Stigma Initiative	7,825,601	796,167
Public Policy	<u>800,000</u>	<u>799,022</u>
	<u>\$ 15,548,700</u>	<u>\$ 5,512,802</u>

NOTE 9. DONATED PROFESSIONAL SERVICES AND MATERIALS

The Organization received donated professional services and materials as follows during the years ended December 31, 2023 and 2022:

	Program Services	Management and General	Fundraising and Development	Total
<u>December 31, 2023:</u>				
Advertising	\$ 2,074,422	\$ -	\$ -	\$ 2,074,422
Legal services	513,233	90,570	-	603,803
Office space	<u>-</u>	<u>10,653</u>	<u>10,652</u>	<u>21,305</u>
	<u>\$ 2,587,655</u>	<u>\$ 101,223</u>	<u>\$ 10,652</u>	<u>\$ 2,699,530</u>
<u>December 31, 2022:</u>				
Advertising	\$ 904,612	\$ -	\$ -	\$ 904,612
Legal services	31,642	284,779	-	316,421
Office space	<u>-</u>	<u>10,653</u>	<u>10,652</u>	<u>21,305</u>
	<u>\$ 936,254</u>	<u>\$ 295,432</u>	<u>\$ 10,652</u>	<u>\$ 1,242,338</u>

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9. DONATED PROFESSIONAL SERVICES AND MATERIALS (CONTINUED)

All donated professional services and materials are included in "Contributed services, media time, and space" in the consolidated statement of activities. Contributed advertising expense is included in "Advertising and donated media" in the consolidated statement of functional expenses and is recognized at fair value based on current rates for similar advertising services. Contributed legal service expense is included in "Legal and accounting fees" in the consolidated statement of functional expenses and is recognized at fair value based on current rates for similar legal service services. Contributed office space is included in "Occupancy expenses" in the consolidated statement of functional expenses and is recognized at fair value based on rental rates for similar office spaces.

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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Education and awareness	\$ 1,191,355	\$ 1,202,392
Treatment quality measurement	22,614	29,102
Public policy	22,624	29,438
Fundraising	581,892	607,332
General and administrative	<u>28</u>	<u>1,005</u>
	<u>\$ 1,818,513</u>	<u>\$ 1,869,269</u>

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, 2023 and 2022, 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 \$194,851 and \$141,718 for the years ended December 31, 2023 and 2022, respectively.

NOTE 12. SUBSEQUENT EVENTS

Shatterproof has evaluated subsequent events through September 27, 2024, 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.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023
(with summarized comparative information for the year ended December 31, 2022)

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 Organization 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 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 statement of activities as "Paycheck Protection Program loan forgiveness."

If it is determined that the Organization was not eligible to receive the PPP loan or that the Organization has not adequately complied with the rules, regulations, and procedures applicable to the SBA's loan program, the Organization 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 taxpayers that received a PPP loan. A provision in the Consolidated Appropriations Act, 2021, which was signed into law on December 27, 2020, removed this restriction and allowed businesses that qualify for ERTC to retroactively apply for the ERTC as long as the same wages are not used for both PPP loan forgiveness and the ERTC. Management has determined it is probable that the Organization meets all the conditions to qualify for the ERTC.

For both 2022 and 2021, the Organization submitted amended quarterly payroll tax returns. In relation to these filings, the Organization has received ERTC credits and recorded \$484,683 and \$193,832 of income for the years ended December 31, 2023 and 2022, respectively, as "Employee retention credit income." However, there can be no assurances that the Organization will ultimately meet the conditions of the ERTC or realize the amount of the credits claimed, in whole or in part.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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.

The Organization receives a portion of its funding from governmental agencies. The ultimate determination of amounts received under these programs are generally based upon allowable costs reported to and audited by the governmental agencies. Until such audits have been completed, if any, and final settlement reached, there exists a contingency to refund any amounts received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

SUPPLEMENTARY INFORMATION

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

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>U.S. Department of Health and Human Services</u>				
Passed through the Commonwealth of Kentucky, Cabinet for Health and Family Services:				
Opioid STR	93.788	N/A	\$ -	\$ 364,943
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	-	54,624
COVID-19 - Block Grants for Prevention and Treatment of Substance Abuse	93.959	23MHA0001	-	195,958
Block Grants for Prevention and Treatment of Substance Abuse	93.959	24MHA1009	-	76,632
			-	327,214
Passed through the Commonwealth of Pennsylvania, Department of Drug and Alcohol Programs:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	TI083069	-	376,182
Passed through the State of Louisiana, Department of Mental Health and Substance Abuse Services:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	-	180,528
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	-	31,790
Block Grants for Prevention and Treatment of Substance Abuse	93.959	B08TI083962 & B08TI084602	-	235,860
			-	267,650
Total Block Grants for Prevention and Treatment of Substance Abuse			-	1,151,574
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	-	4,578,463
Total U.S. Department of Human Services			-	6,094,980
<u>Executive Office of the President</u>				
Passed through the University of Mississippi:				
Congressional Directives	95.010	N/A	-	130,281
Total Federal Awards Expended			\$ -	\$ 6,225,261

**SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

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, 2023. 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 to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**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, 2023, 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 27, 2024.

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 2023-001 and 2023-002 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 2023-003 to be a significant deficiency.

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Report on Compliance and Other Matters

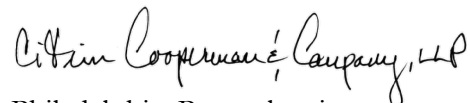
As part of obtaining reasonable assurance about whether Shatterproof's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2023-001.

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.



Philadelphia, Pennsylvania
September 27, 2024

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 Each Major Federal Program

Adverse Opinions

We have audited Shatterproof, A Nonprofit Corporation and Affiliates' ("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, 2023. Shatterproof's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Adverse Opinions on 93.959 Block Grants for Prevention and Treatment of Substance Abuse and 93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinions 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 93.959 Block Grants for Prevention and Treatment of Substance Abuse and 93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance for the year ended December 31, 2023.

Basis for Adverse Opinions

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 each major federal program. Our audit does not provide a legal determination of Shatterproof's compliance with the compliance requirements referred to above.

Basis for Adverse Opinions (Continued)

Matters Giving Rise to Adverse Opinions on 93.959 Block Grants for Prevention and Treatment of Substance Abuse and 93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance

As described in the accompanying schedule of findings and questioned costs, Shatterproof did not comply with requirements regarding 93.959 Block Grants for Prevention and Treatment of Substance Abuse and 93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance as described in finding numbers 2023-004 and 2023-005 for Allowable Costs/Cost Principles. Compliance with such requirements is necessary, in our opinion, for Shatterproof to comply with the requirements applicable to those programs.

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.

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Auditor's Responsibilities for the Audit of Compliance (Continued)

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.

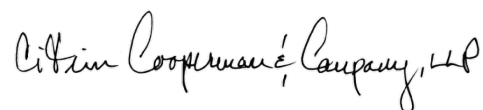
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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 2023-004, 2023-005, 2023-006 and 2023-007 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-008 and 2023-009 to be significant deficiencies.

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.



Philadelphia, Pennsylvania

September 27, 2024

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**SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2023**

Section II: Financial Statement Findings

Finding 2023-001: 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.

**SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2023**

Finding 2023-002: 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 one cost reimbursement contract, funding requests were made without actual costs incurred prior to the reimbursement request. For all selected sampled contracts under the advance payment method, 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.

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 2023-003: Cash Disbursements (Significant Deficiency)

Criteria:

Expenses that are charged and allocated to government contracts must include evidence of review and approval by a responsible supervisory official having knowledge of the purpose of the expenditures.

Condition:

For 77 of our 120 samples, review and approval by a supervisory official for expense reimbursements was not performed.

Cause:

Procedures and internal controls associated with the review and approval of expenditures were not adequately documented.

**SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2023**

Finding 2023-003: Cash Disbursements (Significant Deficiency) (Continued)

Effect:

Management did not have sufficient documentation of approval 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.

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.

**SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2023**

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 Louisiana, Department of Mental Health and Substance Abuse Services

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 2023-004: 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:

\$107,080

**SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2023**

Finding 2023-004: Allowable Costs/Cost Principles - Time and Effort Reporting (Material Weakness) (Continued)

Perspective Information:

The sampling was a statistically valid sample and the finding applied to all selected samples and represents a systemic issue.

Identification of Repeat Finding:

This finding is a repeat of Finding 2022-001.

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.

Federal Agency:

U.S. Department of Health and Human Services

Pass-through Agency:

State of California, Department of Health Care Services (COVID-19)

Program Name (Assistance listing #):

Substance Abuse and Mental Health Services Projects of Regional and National Significance (93.243)

Finding 2023-005: 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.

**SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2023**

Finding 2023-005: Allowable Costs/Cost Principles - Time and Effort Reporting (Material Weakness) (Continued)

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:

\$120,484

Perspective Information:

The sampling was a statistically valid sample and the finding applied to all selected samples and represents a systemic issue.

Identification of Repeat Finding:

No

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.

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 Louisiana, Department of Mental Health and Substance Abuse Services

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)

**SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2023**

Finding 2023-006: 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 sampled contracts under the advance payment method, 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 contract.

Questioned Costs:

None

Perspective Information:

The sampling was a statistically valid sample and represents a systemic issue.

Identification of Repeat Finding:

This finding is a repeat of Finding 2022-003.

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.

Views 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.

Federal Agency:

U.S. Department of Health and Human Services

Pass-through Agency:

State of California, Department of Health Care Services (COVID-19)

Program Name (Assistance listing #):

Substance Abuse and Mental Health Services Projects of Regional and National Significance (93.243)

**SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2023**

Finding 2023-007: 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 one out of our seven sample selections, the funding request was made without actual costs incurred prior to the reimbursement request.

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 contract.

Questioned Costs:

None

Perspective Information:

The sampling was a statistically valid sample and represents a systemic issue.

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.

Views 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.

Federal Agency:

U.S. Department of Health and Human Services

**SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2023**

Finding 2023-007: Cash Requisitions (Material Weakness)

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 Louisiana, Department of Mental Health and Substance Abuse Services

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 2023-008: Cash Disbursements (Significant Deficiency)

Criteria:

Expenses that are charged and allocated to government contracts must include evidence of review and approval by a responsible supervisory official having knowledge of the purpose of the expenditures.

Statement of Condition:

For 38 of our 60 samples, review and approval by a supervisory official for expense reimbursements was not performed.

Cause:

Procedures and internal controls associated with the review and approval of expenditures were not adequately documented.

Effect:

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

Questioned Costs:

None

Perspective Information:

The sampling was a statistically valid sample and represents a systemic issue.

Identification of Repeat Finding:

This finding is a repeat of Finding 2022-004.

Recommendation:

We recommend that management implement policies, controls and procedures to ensure that there is appropriate segregation of duties over the review and approval of expenditures charged to federal programs.

Views 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.

**SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2023**

Finding 2023-008: Cash Disbursements (Significant Deficiency)

Federal Agency:

U.S. Department of Health and Human Services

Pass-through Agency:

State of California, Department of Health Care Services (COVID-19)

Program Name (Assistance listing #):

Substance Abuse and Mental Health Services Projects of Regional and National Significance (93.243)

Finding 2023-009: Cash Disbursements (Significant Deficiency)

Criteria:

Expenses that are charged and allocated to government contracts must include evidence of review and approval by a responsible supervisory official having knowledge of the purpose of the expenditures.

Statement of Condition:

For 39 of our 60 samples, review and approval by a supervisory official for expense reimbursements was not performed.

Cause:

Procedures and internal controls associated with the review and approval of expenditures were not adequately documented.

Effect:

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

Questioned Costs:

None

Perspective Information:

The sampling was a statistically valid sample and represents a systemic issue.

Identification of Repeat Finding:

No

Recommendation:

We recommend that management implement policies, controls and procedures to ensure that there is appropriate segregation of duties over the review and approval of expenditures charged to federal programs.

Views 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.

SHATTERPROOF, A NONPROFIT CORPORATION AND AFFILIATES
SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS,
QUESTIONED COSTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2023

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding No. 2022-001: Time and Effort Reporting

Condition: The finding was a material weakness stating that there were no personnel activity reports or timesheets to evidence the allocation of time to government contracts.

Recommendation: The auditor recommended 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.

Current Status: The discussion for Finding 2023-001 also applies to this Finding.

Finding No. 2022-002: Federally Approved Indirect Cost Rate

Condition: The finding was a material weakness stating that Shatterproof did not obtain federal approval of the indirect cost rate that was charged to the government contracts.

Recommendation: The auditor recommended 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.

Current Status: Shatterproof utilized the 10% de minimis indirect cost rate in 2023. No similar findings were noted in the 2023 audit.

Finding No. 2022-003: Cash Requisitions

Condition: The finding was a material weakness stating that for all selected samples of funding requests for cost reimbursement contracts, there was no evidence of review and approval of the funding requests submitted.

Recommendation: The auditor recommended 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.

Current Status: The discussion for Finding 2023-002 also applies to this Finding.

Finding No. 2022-004: Cash Disbursements

Condition: The finding was a significant deficiency, stating that for 22 of 60 samples, review and approval was not approved, for 3 of 60 samples, expenditures were not recorded to the correct period, and for 4 of 60 samples, supporting documentation was not provided.

Recommendation: The auditor recommended 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. The auditor also recommended 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.

Current Status: The discussion for Finding 2023-003 also applies to this Finding.