

Drug Policy Action

Financial Statements

May 31, 2019



Independent Auditors' Report

Board of Directors Drug Policy Action

We have audited the accompanying financial statements of Drug Policy Action, which comprise the statement of financial position as of May 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Drug Policy Action as of May 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended May 31, 2019 Drug Policy Action adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Drug Policy Action's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 11, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

November 14, 2019

Drug Policy Action

Statement of Financial Position
May 31, 2019
(with comparative amounts at May 31, 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 8,844,800	\$ 12,151,626
Investments	6,661,332	5,958,669
Prepaid expenses	-	11,140
Grants receivable, net	<u>7,753,096</u>	<u>10,098,495</u>
	<u>\$ 23,259,228</u>	<u>\$ 28,219,930</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 17,472</u>	<u>\$ 22,755</u>
Net Assets		
Without donor restrictions	15,388,660	18,098,680
With donor restrictions	<u>7,853,096</u>	<u>10,098,495</u>
Total Net Assets	<u>23,241,756</u>	<u>28,197,175</u>
	<u>\$ 23,259,228</u>	<u>\$ 28,219,930</u>

See notes to financial statements

Drug Policy Action

Statement of Activities
Year Ended May 31, 2019
(with summarized totals for the year ended May 31, 2018)

	2019			2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT, REVENUE AND INVESTMENT RETURN				
Major contributions	\$ -	\$ 1,450,000	\$ 1,450,000	\$ 250,170
Other contributions	71,449	-	71,449	1,340
Investment return	247,805	-	247,805	10,144
Interest income on note	-	-	-	213,167
Present value discount adjustment	-	254,601	254,601	391,204
Net assets released from restriction	<u>3,950,000</u>	<u>(3,950,000)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Investment Return	<u>4,269,254</u>	<u>(2,245,399)</u>	<u>2,023,855</u>	<u>866,025</u>
EXPENSES				
Program Services				
Public Policy and Legal Affairs	6,736,880	-	6,736,880	269,123
Support Services				
Management and General	240,083	-	240,083	172,831
Fundraising	<u>2,311</u>	<u>-</u>	<u>2,311</u>	<u>-</u>
Total Expenses	<u>6,979,274</u>	<u>-</u>	<u>6,979,274</u>	<u>441,954</u>
Change Before Loan Forgiveness	(2,710,020)	(2,245,399)	(4,955,419)	424,071
Loan forgiveness	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,613,167</u>
Change in Net Assets	(2,710,020)	(2,245,399)	(4,955,419)	(12,189,096)
NET ASSETS				
Beginning of year	<u>18,098,680</u>	<u>10,098,495</u>	<u>28,197,175</u>	<u>40,386,271</u>
End of year	<u>\$ 15,388,660</u>	<u>\$ 7,853,096</u>	<u>\$ 23,241,756</u>	<u>\$ 28,197,175</u>

See notes to financial statements

Drug Policy Action

Statement of Functional Expenses Year Ended May 31, 2019

	<u>Program Services</u>	<u>Support Services</u>		<u>Total</u>
	<u>Public Policy and Legal Affairs</u>	<u>Management and General</u>	<u>Fundraising</u>	
Grant, general	\$ 6,500,000	\$ -	\$ -	\$ 6,500,000
Campaign donations	16,500	-	-	16,500
Consulting	11,880	-	-	11,880
Ballot and other initiatives	208,500	-	-	208,500
Administrative expenses	-	196,013	-	196,013
Insurance	-	3,720	-	3,720
Meeting and travel expense	-	-	944	944
Professional fees	-	24,650	-	24,650
Miscellaneous	-	15,700	1,367	17,067
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Total	\$ 6,736,880	\$ 240,083	\$ 2,311	\$ 6,979,274
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Drug Policy Action

Statement of Cash Flows Year Ended May 31, 2019

(with comparative amounts for the year ended May 31, 2018)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,955,419)	\$ (12,189,096)
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized and realized (gain) loss on investments	(100,797)	87,411
Forgiveness of loan	-	12,613,167
Discount to present value	(254,601)	(391,204)
Changes in operating assets and liabilities		
Prepaid expenses	11,140	(3,720)
Grants receivable	2,600,000	3,950,000
Due from Drug Policy Alliance (interest receivable)	-	(213,167)
Accounts payable and accrued expenses	<u>(5,283)</u>	<u>(3,296)</u>
Net Cash from Operating Activities	<u>(2,704,960)</u>	<u>3,850,095</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(3,851,476)	(1,575,825)
Proceeds from sale of investments	3,249,610	1,491,000
Issuance of note receivable	<u>-</u>	<u>(5,400,000)</u>
Net Cash from Investing Activities	<u>(601,866)</u>	<u>(5,484,825)</u>
Net Change in Cash and Cash Equivalents	(3,306,826)	(1,634,730)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>12,151,626</u>	<u>13,786,356</u>
End of year	<u>\$ 8,844,800</u>	<u>\$ 12,151,626</u>

See notes to financial statements

Drug Policy Action

Notes to Financial Statements
May 31, 2019

1. Nature of Organization

Drug Policy Action is a non-profit organization organized and operated exclusively for the purpose of promoting social welfare within the meaning of section 501(c)(4) of the Internal Revenue Code of 1986, including, specifically to advocate for reform of federal, state, local and foreign laws on drug policy, educating Americans at the grassroots level about drug policy and involving them in efforts to ensure that government policies on these issues effectively advance the public interest.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Change in Accounting Principle

On June 1, 2018, Drug Policy Action adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires Drug Policy Action to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires Drug Policy Action to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements.

Cash and Cash Equivalents

For financial statement purposes, Drug Policy Action considers all highly liquid instruments with maturities of three months or less at the time of purchase to be cash equivalents.

Fair Value Measurements

Drug Policy Action follows US GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Drug Policy Action

Notes to Financial Statements
May 31, 2019

2. Summary of Significant Accounting Policies (continued)

Investments and Investment Income Recognition

Investments are stated at fair value. Purchases and sales of securities are recorded on a settlement-date basis. Interest and dividend income is recorded when earned. Realized and unrealized gains and losses are included in the determination of the change in net assets in the statement of activities.

Grants Receivable

Management periodically evaluates receivable balances to determine whether an allowance for doubtful accounts should be established to provide for estimated uncollectible amounts.

Grants and Contributions

Grants and contributions are recorded when an unconditional promise to give is made by the donor. Grants and contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions.

Revenue Recognition

Ballot and other initiatives income is recognized as revenue when Drug Policy Action has fulfilled its obligation under the terms of the agreement.

Net Asset Presentation

The financial statements report amounts separately by class of net assets based on the presence or absence of donor restrictions. Net assets without donor restriction amounts are those currently available at the discretion of Drug Policy Action for use in its programs and operations. Net assets with donor restriction amounts are those which are subject to donor-imposed restrictions that will be met either by actions of Drug Policy Action or the passage of time, and amounts that are subject to donor-imposed restrictions requiring that they be maintained permanently by Drug Policy Action.

Drug Policy Action

Notes to Financial Statements
May 31, 2019

2. Summary of Significant Accounting Policies (continued)

Net Asset Presentation (continued)

Revenue and support are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions

Functional Allocations of Expenses

The financial statements report certain categories of expenses that are attributable to one or more programs or operations and governance of Drug Policy Action. These expenses include program services, grants, legal, insurance, and associated administrative expenses; and are allocated based on time and cost of studies of efforts made on behalf of each program.

Accounting for Uncertainty in Income Taxes

Drug Policy Action recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that Drug Policy Action had no uncertain tax positions that would require financial statement recognition or disclosure. Drug Policy Action is no longer subject to examination by the applicable taxing jurisdictions for the periods prior to 2016.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is November 14, 2019.

Prior Year Summarized Comparative Information

Information as of and for the year ended May 31, 2018 is presented for comparative purposes only. Certain activity by net asset classification is not included in these financial statements. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with Drug Policy Action's financial statements as of and for the year ended May 31, 2018, from which the summarized comparative information was derived.

Drug Policy Action

Notes to Financial Statements
May 31, 2019

3. Concentration of Credit Risk

Drug Policy Action's financial instruments that are potentially exposed to concentration of credit risk consist primarily of cash and cash equivalents and investments. Drug Policy Action maintains its cash with a financial institution which at times, may be in excess of the Federal Deposit Insurance Corporation's insurance limit. Investments are managed by professional investment management firms and are monitored by the Board of Directors and an investment advisor engaged by Drug Policy Action.

As of May 31, 2019 and 2018, one funding source accounted for approximately 89% and 100% of grants receivable. In addition, during the fiscal years ended May 31, 2019 and 2018, one funding source accounted for 67% and 23% of total revenue and support.

4. Investments

The following are major categories of investments as of May 31:

<u>Description</u>	<u>2019</u>	<u>2018</u>
Mutual Funds, at Fair Value		
Short-term bond index fund	\$ 2,105,674	\$ 2,013,091
Short-term grade fund	3,062,734	2,429,667
Stock market index fund	<u>4,792</u>	<u>31,162</u>
	5,173,200	4,473,920
CDs at cost, plus accrued interest	<u>1,488,132</u>	<u>1,484,749</u>
Total	<u>\$ 6,661,332</u>	<u>\$ 5,958,669</u>

As of and for the years ended May 31, 2019 and 2018 all of Drug Policy Action's investments bought, sold, and held measured at fair value were valued using Level 1 inputs under the fair value hierarchy.

The composition of investment return as reported in the statement of activities for the years ended May 31, consisted of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 147,008	\$ 97,555
Unrealized and realized gain (loss)	<u>100,797</u>	<u>(87,411)</u>
Total Investment Return	<u>\$ 247,805</u>	<u>\$ 10,144</u>

Drug Policy Action

Notes to Financial Statements
May 31, 2019

5. Liquidity and Availability of Financial Assets

Drug Policy Action's financial assets and resources available to meet cash needs for general expenditures within one year of the date of the statement of financial position were as follows at May 31, 2019:

Financial Assets:	
Cash and cash equivalents	\$ 8,844,800
Investments	6,661,332
Grant receivable	<u>7,753,096</u>
Total Financial Assets	23,259,228
Less: Contractual or donor imposed restriction amounts	
Grants receivable - future years	3,803,096
Donor imposed restrictions	<u>100,000</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 19,356,132</u>

As part of Drug Policy Action's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Drug Policy Action invests cash in excess of daily requirements in its investment portfolio. Drug Policy Action anticipates that the 2019 expenditures will continue to be covered by contributions and unrestricted fund balance.

6. Grants Receivable

Grants receivable are due within one to five years. Payments expected to be received after May 31, 2020 are discounted to their present value using an interest rate ranging from 2.58% to 4.03%. At May 31, 2019 and 2018, management has deemed all amounts outstanding to be collectible. Grants receivable at May 31, are summarized as follows:

	<u>2019</u>	<u>2018</u>
Receivable within one year	\$ 3,950,000	\$ 3,500,000
Receivable within two-five years	3,950,000	7,000,000
Discount to present value	<u>(146,904)</u>	<u>(401,505)</u>
Total	<u>\$ 7,753,096</u>	<u>\$ 10,098,495</u>

7. Note Receivable-Related Party

On June 21, 2018, Drug Policy Action forgave the loan due from the Drug Policy Alliance in the amount of \$12,400,000. On February 11, 2019, Drug Policy Action forgave the accrued interest due on the loan from Alliance in the amount of \$213,167. The uncollectible amount of \$12,613,167 has been written off as of May 31, 2018.

Drug Policy Action

Notes to Financial Statements
May 31, 2019

8. Net Assets with Donor Restriction

As of May 31, 2019 and 2018, Drug Policy Action's net assets with donor restrictions consisted of \$7,853,096 and \$10,098,495 of time restricted grants. Net assets released from restriction in fiscal 2019 and 2018 due to time restriction expiration were \$3,950,000 each year.

9. Related Party Transactions

As per an administrative service agreement between Drug Policy Action and the Alliance, Drug Policy Action reimburses the Alliance for all administrative, personnel and related expenses, and use of facilities. During the years ended May 31, 2019 and 2018, Drug Policy Action reimbursed the Alliance \$196,013 and \$146,605 for expenses paid by the Alliance. During the year ended May 31, 2019 Drug Policy Action made a grant of \$6,500,000 to Drug Policy Alliance.

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