

Drug Policy Action

Financial Statements

May 31, 2022

Independent Auditors' Report

Board of Directors Drug Policy Action

Opinion

We have audited the accompanying financial statements of Drug Policy Action, which comprise the statement of financial position as of May 31, 2022 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the results of its operations and its 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Drug Policy Action 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 these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 will always detect a material misstatement when it exists.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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 substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Drug Policy Action's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Drug Policy Action's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited Drug Policy Action's May 31, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 1, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

December 2, 2022

Drug Policy Action

Statement of Financial Position
May 31, 2022
(with comparative amounts at May 31, 2021)

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 2,323,520	\$ 4,904,046
Investments	8,102,865	5,568,115
Prepaid expenses and other assets	207	-
Grants receivable	<u>10,000,000</u>	<u>50,000</u>
	<u>\$ 20,426,592</u>	<u>\$ 10,522,161</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 6,500	\$ 7,541
Due to Drug Policy Alliance	173,638	105,536
Grant payable	<u>2,361,322</u>	<u>-</u>
Total Liabilities	<u>2,541,460</u>	<u>113,077</u>
Net Assets		
Without donor restrictions	12,151,434	9,716,508
With donor restrictions	<u>5,733,698</u>	<u>692,576</u>
Total Net Assets	<u>17,885,132</u>	<u>10,409,084</u>
	<u>\$ 20,426,592</u>	<u>\$ 10,522,161</u>

See notes to financial statements

Drug Policy Action

Statement of Activities Year Ended May 31, 2022 (with summarized totals for the year ended May 31, 2021)

	2022			2021 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT, REVENUE AND INVESTMENT RETURN				
Contributions	\$ 6,035,966	\$ 5,300,000	\$ 11,335,966	\$ 2,955,475
Other income	96	-	96	162
Investment return	(465,250)	-	(465,250)	129,918
Net assets released from restriction	258,878	(258,878)	-	-
Total Support, Revenue and Investment Return	<u>5,829,690</u>	<u>5,041,122</u>	<u>10,870,812</u>	<u>3,085,555</u>
EXPENSES				
Program Services				
Public policy and legal affairs	3,317,001	-	3,317,001	6,131,760
Support Services				
Management and general	64,727	-	64,727	31,622
Fundraising	13,036	-	13,036	440
Total Expenses	<u>3,394,764</u>	<u>-</u>	<u>3,394,764</u>	<u>6,163,822</u>
Change in Net Assets	2,434,926	5,041,122	7,476,048	(3,078,267)
NET ASSETS				
Beginning of year	<u>9,716,508</u>	<u>692,576</u>	<u>10,409,084</u>	<u>13,487,351</u>
End of year	<u>\$ 12,151,434</u>	<u>\$ 5,733,698</u>	<u>\$ 17,885,132</u>	<u>\$ 10,409,084</u>

See notes to financial statements

Drug Policy Action

Statement of Functional Expenses
Year Ended May 31, 2022
(with summarized totals for the year ended May 31, 2021)

	2022			2021	
	Program Services	Support Services		Total	Total
	Public Policy and Legal Affairs	Management and General	Fundraising		
Grant, general	\$ 2,361,322	\$ -	\$ -	\$ 2,361,322	\$ 2,735,000
Campaign donations	185,000	-	-	185,000	-
Consulting	543,240	22,406	-	565,646	178,513
Ballot and other initiatives	199,400	-	-	199,400	3,052,649
Administrative expenses	19,982	35,084	13,036	68,102	119,053
Advertising	42	-	-	42	56,905
Insurance	-	3,513	-	3,513	3,720
Meeting and travel expense	-	-	-	-	440
Professional fees	-	-	-	-	775
State registrations	8,015	-	-	8,015	14,445
Miscellaneous	-	3,724	-	3,724	2,322
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 3,317,001</u>	<u>\$ 64,727</u>	<u>\$ 13,036</u>	<u>\$ 3,394,764</u>	<u>\$ 6,163,822</u>

See notes to financial statements

Drug Policy Action

Statement of Cash Flows Year Ended May 31, 2022

(with comparative amounts for the year ended May 31, 2021)

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,476,048	\$ (3,078,267)
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized and realized loss (gain) on investments	574,138	(31,147)
Changes in operating assets and liabilities		
Grants receivable	(9,950,000)	4,300,000
Due from Drug Policy Alliance	-	18,805
Accounts payable and accrued expenses	(1,041)	(24,446)
Due to Drug Policy Alliance	68,102	105,536
Prepaid expenses and other assets	(207)	-
Other payables	-	(500,000)
Grant payable	<u>2,361,322</u>	<u>-</u>
Net Cash from Operating Activities	528,362	790,481
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	<u>(3,108,888)</u>	<u>(98,770)</u>
Net Change in Cash and Cash Equivalents	(2,580,526)	691,711
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>4,904,046</u>	<u>4,212,335</u>
End of year	<u>\$ 2,323,520</u>	<u>\$ 4,904,046</u>

See notes to financial statements

Drug Policy Action

Notes to Financial Statements
May 31, 2022

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. The most significant estimates affecting the financial statements are the valuation of investments, the estimation of allowance for uncollectible receivables and the functional allocation of expenses.

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.

Investments and Investment Income Recognition

Investments are stated at fair value. Purchases and sales of securities are recorded on a settlement-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized gains and losses on the sale of investments are computed on the specific identification basis. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Drug Policy Action

Notes to Financial Statements
May 31, 2022

2. Summary of Significant Accounting Policies (continued)

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.

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.

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.

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.

Drug Policy Action

Notes to Financial Statements
May 31, 2022

2. Summary of Significant Accounting Policies (continued)

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 years prior to 2019.

Advertising Costs

Advertising costs are expenses as incurred.

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 December 2, 2022.

Prior Year Summarized Comparative Information

Information as of and for the year ended May 31, 2021 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, 2021, from which the summarized comparative information was derived.

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, receivables 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.

For the years ended May 31, 2022 and 2021, one funding source accounted for 100% of grants receivable. In addition, during the fiscal years ended May 31, 2022 and 2021, one funding source accounted for 92% and 17% of total revenue and support.

Drug Policy Action

Notes to Financial Statements
May 31, 2022

4. Investments

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

Description	2022	2021
Mutual Funds, at Fair Value		
Short-term bond index fund	\$ 2,870,855	\$ 2,245,711
Short-term grade fund	3,874,310	3,314,722
Stock market index fund	1,357,700	7,682
	\$ 8,102,865	\$ 5,568,115

As of and for the years ended May 31, 2022 and 2021, 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:

	2022	2021
Interest and dividends	\$ 108,888	\$ 98,771
Unrealized and realized(loss) gain	(574,138)	31,147
	\$ (465,250)	\$ 129,918

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:

	2022	2021
Financial Assets:		
Cash and cash equivalents	\$ 2,323,520	\$ 4,904,046
Investments	8,102,865	5,568,115
Grant receivable	10,000,000	50,000
Total Financial Assets	20,426,385	10,522,161
Less: Contractual or donor imposed restriction amounts		
Donor imposed restrictions	5,733,698	692,576
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	\$ 14,692,687	\$ 9,829,585

Drug Policy Action

Notes to Financial Statements
May 31, 2022

5. Liquidity and Availability of Financial Assets *(continued)*

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 fiscal 2023 expenditures will continue to be covered by contributions and net assets without donor restrictions.

6. Grants Receivable

All grant receivables are due within one year as of May 31, 2022 and 2021. At May 31, 2022 and 2021, management has deemed all amounts outstanding to be collectible.

7. Net Assets With Donor Restrictions

Net assets with donor restrictions at May 31, 2022 and 2021 are restricted for the following purposes:

	<u>2022</u>	<u>2021</u>
Purpose Restricted		
Oregon Decriminalization Ballot Initiative	\$ 668,801	\$ 627,679
Pell Grant Project	<u>64,897</u>	<u>64,897</u>
Total Purpose Restricted	733,698	692,576
Time restricted	<u>5,000,000</u>	-
	<u>\$ 5,733,698</u>	<u>\$ 692,576</u>

Net assets released from restrictions in fiscal year 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Oregon Decriminalization Ballot Initiative	\$ 258,878	\$ 2,977,452
Time restricted	<u>-</u>	<u>3,950,000</u>
	<u>\$ 258,878</u>	<u>\$ 6,927,452</u>

8. Related Party Transactions

As per an administrative service agreement between Drug Policy Action and Drug Policy Alliance ("DPA"), Drug Policy Action reimburses DPA for all administrative, personnel and related expenses, and use of facilities. During the years ended May 31, 2022 and 2021, Drug Policy Action reimbursed DPA \$68,102 and \$119,053 for expenses paid by DPA. During the years ended May 31, 2022 and 2021 Drug Policy Action made grants totaling \$2,361,322 and \$2,700,000 to DPA.

Drug Policy Action

Notes to Financial Statements
May 31, 2022

9. Risk and Uncertainties

Given the uncertainty around the extent and timing of the potential future spread or mitigation of the Coronavirus and around the imposition or relaxation of protective measures, management cannot reasonably estimate the impact to future results of operations, cash flows, or financial condition.

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