

Drug Policy Alliance

Financial Statements

May 31, 2018

Independent Auditors' Report

Board of Directors Drug Policy Alliance

We have audited the accompanying financial statements of Drug Policy Alliance ("DPA"), which comprise the statement of financial position as of May 31, 2018, 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 Alliance as of May 31, 2018, 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

Report on Summarized Comparative Information

We have previously audited Drug Policy Alliance's May 31, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 2, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

February 11, 2019

Drug Policy Alliance

Statement of Financial Position
May 31, 2018
(with comparative amounts at May 31, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 1,154,736	\$ 1,590,930
Investments	721,986	722,237
Grants receivable, net	3,379,288	3,400,957
Prepaid expenses and other assets	99,540	142,008
Deposits	109,205	98,946
Property, equipment and leasehold improvements, net	<u>5,159,659</u>	<u>5,379,080</u>
	<u>\$ 10,624,414</u>	<u>\$ 11,334,158</u>
LIABILITIES AND NET ASSETS (DEFICIENCY)		
Liabilities		
Accounts payable and accrued expenses	\$ 225,682	\$ 562,640
Interest payable	213,167	-
Accrued compensated absences	322,907	349,028
Note payable	12,400,000	7,000,000
Mortgage payable	<u>2,627,349</u>	<u>2,713,213</u>
Total Liabilities	<u>15,789,105</u>	<u>10,624,881</u>
Net Assets (deficiency)		
Unrestricted	(9,946,280)	(3,727,855)
Temporarily restricted	<u>4,781,589</u>	<u>4,437,132</u>
Total Net Assets (deficiency)	<u>(5,164,691)</u>	<u>709,277</u>
	<u>\$ 10,624,414</u>	<u>\$ 11,334,158</u>

See notes to financial statements

Drug Policy Alliance

Statement of Activities
Year Ended May 31, 2018
(with summarized totals for the year ended May 31, 2017)

	2018			2017 Total
	Unrestricted	Temporarily Restricted	Total	
SUPPORT AND REVENUE				
Grants and contributions	\$ 5,384,679	\$ 2,790,533	\$ 8,175,212	\$ 11,468,423
Registrations and conference income	42,506	-	42,506	6,205
Current member contributions	1,210,010	-	1,210,010	951,468
New member contributions	47,075	-	47,075	64,644
Drug Policy Action administration	146,605	-	146,605	182,089
Publications and videos	15,801	-	15,801	15,109
Investment income	5,074	-	5,074	1,962
Other income	20,482	-	20,482	58,747
Present value discount adjustment	-	74,831	74,831	88,638
Net assets released from restrictions	<u>2,520,907</u>	<u>(2,520,907)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>9,393,139</u>	<u>344,457</u>	<u>9,737,596</u>	<u>12,837,285</u>
EXPENSES				
Program services	10,918,366	-	10,918,366	9,923,084
Management and general	2,324,393	-	2,324,393	2,623,435
Fundraising	<u>1,797,582</u>	<u>-</u>	<u>1,797,582</u>	<u>1,543,963</u>
Total Expenses	<u>15,040,341</u>	<u>-</u>	<u>15,040,341</u>	<u>14,090,482</u>
Change Before Depreciation and Amortization, Interest Expense and Rescinded Grant	(5,647,202)	344,457	(5,302,745)	(1,253,197)
Depreciation and amortization	219,421	-	219,421	219,994
Interest expense	351,802	-	351,802	302,022
Rescinded grant	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,000</u>
Change in Net Assets (Deficiency)	<u>(6,218,425)</u>	<u>344,457</u>	<u>(5,873,968)</u>	<u>(1,900,213)</u>
NET ASSETS (DEFICIENCY)				
Beginning of year	<u>(3,727,855)</u>	<u>4,437,132</u>	<u>709,277</u>	<u>2,609,490</u>
End of year	<u>\$ (9,946,280)</u>	<u>\$ 4,781,589</u>	<u>\$ (5,164,691)</u>	<u>\$ 709,277</u>

See notes to financial statements

Drug Policy Alliance

Statement of Functional Expenses Year Ended May 31, 2018 (with summarized totals for the year ended May 31, 2017)

	2018			2017	
	Program Services	Management and General	Fundraising	Total	Total
Grants	\$ 981,790	\$ -	\$ -	\$ 981,790	\$ 1,082,200
Salaries	4,271,737	1,305,358	617,179	6,194,274	6,020,808
Payroll taxes and employee benefits	1,108,797	346,858	144,169	1,599,824	1,626,415
Management fees	18,195	35,057	225	53,477	59,447
Legal fees	7,943	27,904	-	35,847	30,188
Auditing and tax services	-	40,903	-	40,903	39,661
Lobbying fees	399,415	-	-	399,415	390,617
Fundraising fees	-	-	270,196	270,196	265,902
Program fees	902,567	6,936	72,085	981,588	1,142,432
Advertising and marketing fees	69,790	-	104,672	174,462	250,192
Office expenses	225,454	41,693	16,468	283,615	346,101
Printing expenses	76,247	157	136,877	213,281	153,097
Postage and bulk mail	30,455	2,701	253,542	286,698	144,456
Information technology	135,416	43,300	54,423	233,139	248,103
Occupancy and related expenses	774,447	152,868	39,683	966,998	745,601
Staff and other travel	858,311	130,370	21,698	1,010,379	746,948
Conference, meetings and seminars	895,858	33,820	20,271	949,949	283,585
Insurance	8,923	68,388	-	77,311	81,583
Lists	-	-	13,061	13,061	69,921
Books, subscriptions and memberships	126,729	5,436	2,944	135,109	147,813
Bank and merchant service charges	366	28,528	28,486	57,380	57,105
Sundry	25,926	16,866	1,603	44,395	57,102
Board expenses	-	15,750	-	15,750	6,019
Bad debt	-	21,500	-	21,500	95,186
Total Expenses Before Depreciation and Amortization and Interest Expense	10,918,366	2,324,393	1,797,582	15,040,341	14,090,482
Depreciation and amortization	-	219,421	-	219,421	219,994
Interest expense	-	351,802	-	351,802	302,022
Total Expenses	<u>\$ 10,918,366</u>	<u>\$ 2,895,616</u>	<u>\$ 1,797,582</u>	<u>\$ 15,611,564</u>	<u>\$ 14,612,498</u>

See notes to financial statements

Drug Policy Alliance

Statement of Cash Flows Year Ended May 31, 2018 (with comparative amounts for the year ended May 31, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (5,873,968)	\$ (1,900,213)
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized loss on investments	12,583	15,741
Depreciation and amortization	219,421	219,994
Bad debt expense	21,500	95,186
Present value discount	(74,831)	(88,638)
Donated stock	(240,118)	(976,017)
Net changes in operating assets and liabilities		
Grants receivable	75,000	1,009,750
Prepaid expenses and other assets	42,468	(9,845)
Deposits	(10,259)	7,875
Accounts payable and accrued expenses	(336,958)	(68,628)
Interest payable	213,167	-
Accrued compensated absences	(26,121)	(17,095)
Net Cash from Operating Activities	(5,978,116)	(1,711,890)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, equipment and leasehold improvements	-	(82,080)
Purchase of investments	(14,574)	(13,257)
Proceeds from sale of investments	242,360	962,318
Net Cash from Investing Activities	227,786	866,981
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	5,400,000	500,000
Repayment of note payable	-	(500,000)
Payments of mortgage	(85,864)	(81,563)
Net Cash from Financing Activities	5,314,136	(81,563)
Net Change in Cash and Cash Equivalents	(436,194)	(926,472)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,590,930	2,517,402
End of year	\$ 1,154,736	\$ 1,590,930
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 138,635	\$ 302,022

See notes to financial statements

Drug Policy Alliance

Notes to Financial Statements
May 31, 2018

1. Nature of Organization

Drug Policy Alliance (“DPA”) is a nonprofit organization created on July 1, 2000, as a merger of The Lindesmith Center and the Drug Policy Foundation. DPA is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. DPA’s mission is to promote alternatives to the war on drugs based on science, compassion, health and human rights. DPA’s major program service activities consist of:

Grants

DPA has initiated grant programs for various projects.

Communication

DPA promotes a broader understanding of drug policy reform values through various forms of public education:

Public speaking and community outreach: The executive director and other staff regularly address diverse audiences around the country, expanding public awareness and building coalitions for reform.

Media relations: DPA’s communications team works with journalists to develop positive media coverage of drug policy reform and to bring greater public attention to the harms of the war on drugs.

Internet: DPA’s web site (www.drugpolicy.org) provides in-depth information about drugs and drug-related issues, updates about breaking events in drug policy reform, and opportunities for viewers to participate in online activism campaigns.

Publications: DPA publishes a range of materials to educate readers about drug policy reform issues and DPA’s programs. Publications include reports and brochures and books, including *Marijuana Myths Marijuana Facts*; guides on addiction care issues and drug education; the newsletter; and the annual report.

Conferences

DPA hosts an international conference every second year, bringing together policymakers, public health workers, medical and legal professionals and hundreds of other people affected by the war on drugs. DPA also hosts regional and topical conferences.

Health and Harm Reduction

DPA educates the public, the media and lawmakers about alternatives to punitive drug policies, notably harm reduction approaches including syringe deregulation and overdose prevention.

Drug Policy Alliance

Notes to Financial Statements
May 31, 2018

1. Nature of Organization (*continued*)

Public Policy and Legal Affairs

To promote alternative drug laws and policies at the local and national level, DPA educates lawmakers through:

State-based Reform Effort: DPA works to reform state and local drug policies by working with state legislators; building new coalitions for drug policy reform; and drafting model legislation based on organizational priorities. DPA is most actively engaged in those states in which it has offices (California, New Jersey, New Mexico and New York) although DPA is also active in many other states as opportunities arise.

Federal Reform Effort: The Washington, D.C. based office monitors federal drug policy legislation; educates lawmakers, constituents and other interest groups about drug policy reform; and builds coalitions to promote reform legislation and block drug war initiatives.

DPA's Office of Legal Affairs establishes, promotes and carries out a legal agenda to advance drug policy reform and promote alternative policies through:

Legal Analysis and Litigation: DPA plays a direct role in many drug policy-related court cases which have the potential either to set legal precedent or to affect large numbers of people.

Policy Formulation and Legislative Drafting: DPA's legal team supports state-based and federal policy advocacy by drafting proposals for specific laws and initiatives. DPA also develops "model legislation" to promote among legislatures in many states.

Legal Recruiting and Training: DPA seeks out and trains legal talent for drug policy reform movement.

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.

Drug Policy Alliance

Notes to Financial Statements
May 31, 2018

2. Summary of Significant Accounting Policies (*continued*)

Net Asset Presentation

The financial statements report amounts separately by class of net assets based on the presence or absence of donor restrictions. Unrestricted amounts are those currently available at the discretion of DPA for use in its programs and operations. Temporarily restricted amounts are those which are subject to donor-imposed restrictions that will be met either by actions of DPA or the passage of time. Permanently restricted amounts are subject to donor-imposed restrictions requiring that they be maintained permanently by DPA.

Revenue and support are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (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.

Cash and Cash Equivalents

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

Fair Value Measurements

DPA 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 Valuation and Income Recognition

Investments are stated at fair value. Purchases and sales of securities are recorded on a trade-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.

Grants and Accounts Receivable

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

Drug Policy Alliance

Notes to Financial Statements
May 31, 2018

2. Summary of Significant Accounting Policies (*continued*)

Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements are recorded at cost. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets (3 to 15 years) or with respect to leasehold improvements, the remaining lease term, whichever is shorter. Property and equipment with a cost of \$3,000 or higher is capitalized. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation/amortization, and any gain or loss is reflected in the statement of activities.

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to the fair value. There were no asset impairments for the years ended May 31, 2018 and 2017.

Revenue Recognition

Grants and contributions are recorded when an unconditional promise to give is made by the donor. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. Sales of publications and videos are reported as earned revenue when DPA has fulfilled its obligation under the terms of the sale. Registration and conference income is recognized when the event occurs.

Functional Allocations of Expense

The costs of providing for the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Joint Cost Allocation

During fiscal years 2018 and 2017, DPA incurred joint costs of \$820,707 and \$536,704 for informational materials and activities that included fund-raising appeals. DPA allocated \$660,230 and \$436,350 of these costs to fundraising expense and \$160,477 and \$100,354 of these costs to program services.

Compensated Absences

Employees of DPA are entitled to compensated absences, depending on length of service and other factors. DPA's policy is to recognize the costs of compensated absences when earned.

Advertising Costs

Advertising costs are expenses as incurred.

Drug Policy Alliance

Notes to Financial Statements
May 31, 2018

2. Summary of Significant Accounting Policies (*continued*)

Accounting for Uncertainty in Income Taxes

DPA recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that DPA had no uncertain tax positions that would require financial statement recognition or disclosure. DPA is no longer subject to examinations by the applicable taxing jurisdictions for the periods prior to 2015.

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 February 11, 2019.

Prior Year Summarized Comparative Information

Information as of and for the year ended May 31, 2017 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 DPA's financial statements as of and for the year ended May 31, 2017, from which the summarized comparative information was derived.

3. Concentrations of Credit Risk

DPA's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and grants receivable. DPA places its cash with 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 DPA. DPA performs ongoing collectability evaluation and writes off uncollectible amounts as they become known.

4. Investments

As of May 31, 2018 and 2017 all of DPA's investments are valued using Level 1 inputs under the fair value hierarchy. Investments consist of the following at May 31:

	<u>2018</u>	<u>2017</u>
Mutual Funds		
Short-term bond index fund	\$ 355,858	\$ 357,126
Short-term grade fund	<u>366,128</u>	<u>365,111</u>
	<u>\$ 721,986</u>	<u>\$ 722,237</u>

Drug Policy Alliance

Notes to Financial Statements May 31, 2018

4. Investments *(continued)*

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

	2018	2017
Interest and dividends	\$ 17,657	\$ 17,703
Net realized and unrealized loss on investment	<u>(12,583)</u>	<u>(15,741)</u>
Total Investment Income	<u>\$ 5,074</u>	<u>\$ 1,962</u>

5. Grants Receivable

Grants receivable from various foundations and individuals are due within one to ten years. Payments to be received after May 31, 2019 are discounted to their present value using interest rates ranging from 2.7% to 4.3%. The discount rate is based on the Federal Reserve's statistical release survey of terms of business lending at the time of contribution. At May 31, 2018 and 2017, one contribution receivable represented 85% of DPA's total grants receivable at year end. Grants receivable as of May 31, are summarized as follows:

	2018	2017
Receivable within one year	\$ 532,935	\$ 629,435
Receivable within two to ten years	3,000,000	3,000,000
Discount to present value	<u>(153,647)</u>	<u>(228,478)</u>
Total	<u>\$ 3,379,288</u>	<u>\$ 3,400,957</u>

Management expects all receivables to be collected, accordingly no allowance has been provided for.

6. Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements as of May 31, consist of the following:

	2018	2017
Office condominium	\$ 4,340,092	\$ 4,340,092
Leasehold improvements	975,602	975,602
Furniture and equipment	1,002,258	1,002,258
Books and periodicals	<u>49,910</u>	<u>49,910</u>
	6,367,862	6,367,862
Less accumulated depreciation and amortization	<u>1,208,203</u>	<u>988,782</u>
	<u>\$ 5,159,659</u>	<u>\$ 5,379,080</u>

Drug Policy Alliance

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7. Mortgage Payable

DPA entered into a mortgage loan agreement on June 28, 2011 in connection with the purchase of their new office space. The loan matures on June 28, 2026. Payments of principal and interest are due monthly and bear interest at 5.15% per annum. Future principal payments for years ending May 31, are as follows:

2019	\$ 90,392
2020	95,159
2021	100,177
2022	105,460
2023	111,021
Thereafter	<u>2,125,140</u>
	<u>\$ 2,627,349</u>

8. Note Payable-Related Party

During 2015, DPA entered into a revolving note payable with Drug Policy Action to borrow up to \$5,000,000. During 2016, the amount DPA can borrow was increased to \$10,000,000. During 2017, the amount DPA can borrow was increased to \$15,000,000. Interest on outstanding borrowings under the agreement is fixed at 2% per annum. As of May 31, 2018 and 2017, the outstanding balance is \$12,400,000 and \$7,000,000. The note has no maturity and is payable on demand. Interest expense in the amount of \$213,167 and \$160,000 for the years ended May 31, 2018 and 2017.

On June 21, 2018, Drug Policy Action forgave the loan due from DPA in the amount of \$12,400,000. On February 11, 2019, Drug Policy Action forgave the accrued interest due on the loan from DPA in the amount of \$213,167.

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9. Temporarily Restricted Net Assets

Temporarily restricted net assets at May 31, 2018 and 2017 are restricted for the following purposes:

	2018	2017
Purpose Restricted		
Southern California	\$ 99,601	\$ 205,000
New York Project	-	17,635
Ending the Criminalization of Drug Use & Possession	230,110	
New Mexico Office	47,650	-
Criminal Justice Reform	362,969	154,871
Asset Forfeiture Program	63,071	114,920
Harm Reduction	94,280	100,000
Office of Academic Engagement	389,618	213,308
Vital Project Fund	115,002	130,000
Scholarships	-	100,441
Total Purpose Restricted	1,402,301	1,036,175
Time restricted	3,379,288	3,400,957
	\$ 4,781,589	\$ 4,437,132

Net assets released from restrictions in fiscal 2018 and 2017 are as follows:

	2018	2017
Criminal Justice Reform	\$ 41,901	\$ 437,083
Reform Conference	164,000	-
New Mexico Office	67,350	-
New York Project	175,835	10,091
Ending the Criminalization of Drug Use & Possession	441,700	
New Jersey Office	279,000	-
Audience Development	42,523	-
Harm Reduction	80,720	-
Southern California	105,399	70,000
Asset Forfeiture Program	51,849	256,851
Communications	-	3,000
General operations	-	720,000
Nightlife and Festivals	-	75,000
New Jersey Syringe Access Initiative	-	45,800
Office of Academic Engagement	333,691	15,792
Vital Project Fund	14,998	-
Scholarships	100,441	
Time restricted	621,500	885,000
	\$ 2,520,907	\$ 2,518,617

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10. Retirement Plans

DPA provides retirement benefits through a 403(b) defined contribution plan (the “plan”) for its employees. Effective June 1, 2010, DPA uses a tiered match based on annual salaries. DPA's contributions to the plan were \$349,587 and \$347,706 for the years ended May 31, 2018 and 2017. DPA also provides a non-qualified retirement plan, (The Executive 457(b) Retirement Plan of Drug Policy Alliance), for highly compensated employees who do not receive full 403(b) employer match from DPA. DPA's contribution to the 457(b) plan was \$8,625 and \$12,117 for the years ended May 31, 2018 and 2017.

11. Related Party Transactions

As per an administrative service agreement between DPA and Drug Policy Action, Drug Policy Action reimburses DPA for all administrative, personnel and related expenses, and use of facilities. During the years ended May 31, 2018 and 2017, DPA received from Drug Policy Action \$146,605 and \$182,089 for expenses paid by DPA.

12. Lease Commitments

DPA leases its offices under various operating leases expiring through 2021. Rent expense for various offices was \$632,467 and \$472,932 for the years ended May 31, 2018 and 2017. Future minimum lease obligations are payable as follows at May 31, 2018:

2019	\$ 447,940
2020	453,932
2021	<u>178,999</u>
	<u>\$ 1,080,871</u>

13. Contingent Liabilities

DPA has been named as a party in a legal proceeding brought against it. DPA's management has reviewed this matter with legal counsel and in management's opinion, this action is defensible and management does not expect the ultimate resolution of this action to have a material adverse effect on DPA's financial position.

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