

Drug Policy Alliance

Financial Statements

May 31, 2019

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, 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 Alliance 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 Alliance 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 Alliance's May 31, 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

February 27, 2020

Drug Policy Alliance

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

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 94,894	\$ 1,154,736
Investments	383,181	721,986
Accounts receivable	17,472	-
Grants receivable, net	3,629,846	3,379,288
Prepaid expenses and other assets	86,172	99,540
Deposits	111,700	109,205
Property, equipment and leasehold improvements, net	4,947,801	5,159,659
Total Assets	\$ 9,271,066	\$ 10,624,414
 LIABILITIES AND NET ASSETS (DEFICIENCY)		
Liabilities		
Accounts payable and accrued expenses	\$ 146,437	\$ 225,682
Interest payable	-	213,167
Accrued compensated absences	295,294	322,907
Note payable	-	12,400,000
Mortgage payable	2,536,988	2,627,349
Total Liabilities	2,978,719	15,789,105
 Net Assets (Deficiency)		
Without donor restrictions	2,157,911	(9,946,280)
With donor restrictions	4,134,436	4,781,589
Total Net Assets (Deficiency)	6,292,347	(5,164,691)
	\$ 9,271,066	\$ 10,624,414

See notes to financial statements

Drug Policy Alliance

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				
Grants and contributions	\$ 9,723,004	\$ 2,532,890	\$ 12,255,894	\$ 8,175,212
Registrations and conference income	6,195	-	6,195	42,506
Current member contributions	672,113	-	672,113	1,210,010
New member contributions	44,750	-	44,750	47,075
Drug Policy Action administration	196,013	-	196,013	146,605
Publications and videos	12,287	-	12,287	15,801
Investment return	35,402	-	35,402	5,074
Other income	9,278	-	9,278	20,482
Present value discount adjustment	-	17,754	17,754	74,831
Net assets released from restrictions	<u>3,266,200</u>	<u>(3,266,200)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Investment Return	<u>13,965,242</u>	<u>(715,556)</u>	<u>13,249,686</u>	<u>9,737,596</u>
Program services	9,786,179	-	9,786,179	10,918,366
Management and general	2,813,723	-	2,813,723	2,895,616
Fundraising	<u>1,805,913</u>	<u>-</u>	<u>1,805,913</u>	<u>1,797,582</u>
Total Expenses	<u>14,405,815</u>	<u>-</u>	<u>14,405,815</u>	<u>15,611,564</u>
Change Before Forgiveness of Loan and Rescinded Grant	(440,573)	(715,556)	(1,156,129)	(5,873,968)
Forgiveness of loan	(12,613,167)	-	(12,613,167)	-
Rescinded grant	<u>68,403</u>	<u>(68,403)</u>	<u>-</u>	<u>-</u>
Change in Net Assets (Deficiency)	12,104,191	(647,153)	11,457,038	(5,873,968)
NET ASSETS (DEFICIENCY)				
Beginning of year	<u>(9,946,280)</u>	<u>4,781,589</u>	<u>(5,164,691)</u>	<u>709,277</u>
End of year	<u>\$ 2,157,911</u>	<u>\$ 4,134,436</u>	<u>\$ 6,292,347</u>	<u>\$ (5,164,691)</u>

See notes to financial statements

Drug Policy Alliance

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

	2019			2018	
	Program Services	Management and General	Fundraising	Total	Total
Grants	\$ 1,099,450	\$ -	\$ -	\$ 1,099,450	\$ 981,790
Salaries	4,258,015	1,136,109	709,733	6,103,857	6,194,274
Payroll taxes and employee benefits	1,079,070	312,774	172,025	1,563,869	1,599,824
Management fees	51,170	42,744	-	93,914	53,477
Legal fees	17,000	242,728	-	259,728	35,847
Auditing and tax services	-	44,188	-	44,188	40,903
Lobbying fees	377,824	-	-	377,824	399,415
Fundraising fees	-	-	248,754	248,754	270,196
Program fees	674,829	6,957	13,914	695,700	981,588
Advertising and marketing fees	21,448	-	121,541	142,989	174,462
Office expenses	265,487	59,385	24,453	349,325	283,615
Printing expenses	42,578	537	146,021	189,136	213,281
Postage and bulk mail	22,303	2,514	195,514	220,331	286,698
Information technology	206,927	48,933	17,866	273,726	233,139
Occupancy and related expenses	736,747	128,931	55,256	920,934	966,998
Staff and other travel	567,822	143,976	26,729	738,527	1,010,379
Conference, meetings and seminars	205,239	87,275	12,707	305,221	949,949
Insurance	3,295	95,496	-	98,791	77,311
Lists	-	-	27,414	27,414	13,061
Books, subscriptions and memberships	130,823	4,084	4,663	139,570	135,109
Bank and merchant service charges	250	43,615	27,994	71,859	57,380
Sundry	25,902	39,335	1,329	66,566	44,395
Board expenses	-	21,099	-	21,099	15,750
Bad debt	-	-	-	-	21,500
Total Expenses Before Depreciation and Amortization and Interest Expense	<u>9,786,179</u>	<u>2,460,680</u>	<u>1,805,913</u>	<u>14,052,772</u>	<u>15,040,341</u>
Depreciation and amortization	-	219,818	-	219,818	219,421
Interest expense	-	133,225	-	133,225	351,802
Total Expenses	<u>\$ 9,786,179</u>	<u>\$ 2,813,723</u>	<u>\$ 1,805,913</u>	<u>\$ 14,405,815</u>	<u>\$ 15,611,564</u>

See notes to financial statements

Drug Policy Alliance

Statement of Cash Flows Year Ended May 31, 2019 (with comparative amounts for the year ended May 31, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 11,457,038	\$ (5,873,968)
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized (gain) loss on investments	(11,382)	12,583
Forgiveness of loan	(12,400,000)	-
Forgiveness of interest	(213,167)	-
Depreciation and amortization	219,818	219,421
Bad debt expense	-	21,500
Present value discount	(17,754)	(74,831)
Donated stock	(59,735)	(240,118)
Net changes in operating assets and liabilities		
Accounts receivable	(17,472)	-
Grants receivable	(232,804)	75,000
Prepaid expenses and other assets	13,368	42,468
Deposits	(2,495)	(10,259)
Accounts payable and accrued expenses	(79,245)	(336,958)
Interest payable	-	213,167
Accrued compensated absences	(27,613)	(26,121)
Net Cash from Operating Activities	(1,371,443)	(5,978,116)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, equipment and leasehold improvements	(7,960)	-
Purchase of investments	(17,272)	(14,574)
Proceeds from sale of investments	427,194	242,360
Net Cash from Investing Activities	401,962	227,786
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	-	5,400,000
Payments of mortgage	(90,361)	(85,864)
Net Cash from Financing Activities	(90,361)	5,314,136
Net Change in Cash and Cash Equivalents	(1,059,842)	(436,194)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,154,736	1,590,930
End of year	\$ 94,894	\$ 1,154,736
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 133,225	\$ 138,635

See notes to financial statements

Drug Policy Alliance

Notes to Financial Statements
May 31, 2019

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, 2019

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, 2019

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

Change in Accounting Principle

On June 1, 2018, DPA adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires DPA 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 DPA 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.

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 restrictions are those currently available at the discretion of DPA for use in its programs and operations. Net assets with donor restrictions are those which are subject to donor-imposed restrictions that will be met either by actions of DPA or the passage of time and amounts that are subject to donor-imposed restrictions requiring that they be maintained permanently by DPA.

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.

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.

Drug Policy Alliance

Notes to Financial Statements
May 31, 2019

2. Summary of Significant Accounting Policies (continued)

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.

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, 2019 and 2018.

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 net assets with donor restrictions. 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 financial statements report certain categories of expenses that are attributable to one or more programs or operations and governance of DPA. These expenses include program services, grants, salaries, 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 Alliance

Notes to Financial Statements
May 31, 2019

2. Summary of Significant Accounting Policies (continued)

Joint Cost Allocation

During fiscal years 2019 and 2018, DPA incurred joint costs of \$771,973 and \$820,707 for informational materials and activities that included fund-raising appeals. DPA allocated \$589,292 and \$660,230 of these costs to fundraising expense and \$182,681 and \$160,477 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.

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 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 February 27, 2020.

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 DPA's financial statements as of and for the year ended May 31, 2018, from which the summarized comparative information was derived.

Reclassifications

Certain reclassification have been made to the 2018 financial statement presentation to correspond to the current year format. Changes in net assets are unchanged due to these reclassifications.

Drug Policy Alliance

Notes to Financial Statements
May 31, 2019

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.

At May 31, 2019 and 2018, one funding source accounting for approximately 64% and 85% of grants receivable. In addition, during the fiscal year ended May 31, 2019, one funding source accounted for approximately 52% of grants and contributions.

4. Investments

As of May 31, 2019 and 2018 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>2019</u>	<u>2018</u>
Mutual Funds		
Short-term bond index fund	\$ -	\$ 355,858
Short-term grade fund	383,181	366,128
	<u>\$ 383,181</u>	<u>\$ 721,986</u>

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	\$ 24,020	\$ 17,657
Net realized and unrealized gain (loss) on investment	<u>11,382</u>	<u>(12,583)</u>
Total Investment Return	<u>\$ 35,402</u>	<u>\$ 5,074</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, 2020 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.

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Notes to Financial Statements
May 31, 2019

5. Grants Receivable *(continued)*

Grants receivable as of May 31, are summarized as follows:

	2019	2018
Receivable within one year	\$ 1,365,739	\$ 532,935
Receivable within two to four years	2,400,000	3,000,000
Discount to present value	(135,893)	(153,647)
Total	\$ 3,629,846	\$ 3,379,288

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:

	2019	2018
Office condominium	\$ 4,340,092	\$ 4,340,092
Leasehold improvements	975,602	975,602
Furniture and equipment	1,010,218	1,002,258
Books and periodicals	49,910	49,910
	6,375,822	6,367,862
Less accumulated depreciation and amortization	1,428,021	1,208,203
	\$ 4,947,801	\$ 5,159,659

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 with interest at 5.15% per annum. Future principal payments for years ending May 31, are as follows:

2020	\$ 95,159
2021	100,177
2022	105,460
2023	111,021
2024	116,875
Thereafter	2,008,296
	\$ 2,536,988

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Notes to Financial Statements May 31, 2019

8. Note Payable-Related Party

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.

9. Net Assets with Donor Restriction

Net assets with donor restrictions at May 31, 2019 and 2018 are restricted for the following purposes:

	2019	2018
Purpose Restricted		
Criminal Justice Reform	\$ -	\$ 362,969
Reform Conference	100,400	-
New Mexico Office	-	47,650
New York Project	100,000	-
Ending the Criminalization of Drug Use & Possession	140,940	230,110
Audience Development	15,250	-
Harm Reduction	125,000	94,280
Southern California	23,000	99,601
Asset Forfeiture Program	-	63,071
Office of Academic Engagement	-	389,618
Vital Project Fund	-	115,002
Total Purpose Restricted	504,590	1,402,301
Time restricted	3,629,846	3,379,288
	\$ 4,134,436	\$ 4,781,589

Net assets released from restrictions in fiscal 2019 and 2018 are as follows:

	2019	2018
Criminal Justice Reform	\$ 362,969	\$ 41,901
Reform Conference	-	164,000
New Mexico Office	151,400	67,350
New York Project	18,000	175,835
Ending the Criminalization of Drug Use & Possession	89,170	441,700
New Jersey Office	-	279,000
Audience Development	9,686	42,523
Harm Reduction	94,280	80,720
Southern California	76,601	105,399
Asset Forfeiture Program	63,071	51,849
Communications	3,000	-
New Jersey Project	175,000	-
Office of Academic Engagement	389,618	333,691
Office of Legal Affairs	10,000	-
Vital Project Fund	115,002	14,998
Scholarships	-	100,441
Time restricted	1,708,403	621,500
	\$ 3,266,200	\$ 2,520,907

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Notes to Financial Statements
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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 \$362,521 and \$349,587 for the years ended May 31, 2019 and 2018. 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 \$11,750 and \$8,625 for the years ended May 31, 2019 and 2018.

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, 2019 and 2018, DPA received from Drug Policy Action \$196,013 and \$146,605 for expenses paid by DPA. During the year ended May 31, 2019 Drug Policy Action made a grant of \$6,500,000 to DPA.

12. Lease Commitments

DPA leases its offices under various operating leases expiring through 2021. Rent expense for various offices was \$726,527 and \$632,467 for the years ended May 31, 2019 and 2018. Future minimum lease obligations are payable as follows at May 31, 2019:

2020	\$ 453,932
2021	178,999
	<u>\$ 632,931</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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Notes to Financial Statements
May 31, 2019

14. Liquidity and Availability of Financial Assets

DPA'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	\$ 94,894
Investments	383,181
Accounts receivable	17,472
Grants receivable, net	<u>3,629,846</u>
Total Financial Assets	4,125,393

Less: Contractual or donor imposed restriction amounts

Grants receivable- two to four years	2,264,107
Donor imposed restrictions	<u>504,590</u>

Financial Assets Available to Meet General Expenditures
Over the Next Twelve Months

\$ 1,356,696

As part of DPA'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, DPA invests cash in excess of daily requirements in its investment portfolio. DPA anticipates that the 2020 expenditures will continue to be covered by contributions.

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