

Drug Policy Alliance

Financial Statements

May 31, 2017

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, 2017, 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, 2017, 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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 16, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

April 2, 2018

Drug Policy Alliance

Statement of Financial Position
May 31, 2017
(with comparative amounts at May 31, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,590,930	\$ 2,517,402
Investments	722,237	711,022
Grants receivable, net	3,400,957	4,322,069
Accounts receivable	-	95,186
Prepaid expenses and other assets	142,008	132,163
Deposits	98,946	106,821
Property, equipment and leasehold improvements, net	<u>5,379,080</u>	<u>5,516,994</u>
	<u>\$ 11,334,158</u>	<u>\$ 13,401,657</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 562,640	\$ 631,268
Accrued compensated absences	349,028	366,123
Note payable	7,000,000	7,000,000
Mortgage payable	<u>2,713,213</u>	<u>2,794,776</u>
Total Liabilities	<u>10,624,881</u>	<u>10,792,167</u>
Net Assets		
Unrestricted (deficiency)	(3,727,855)	(3,242,104)
Temporarily restricted	<u>4,437,132</u>	<u>5,851,594</u>
Total Net Assets	<u>709,277</u>	<u>2,609,490</u>
	<u>\$ 11,334,158</u>	<u>\$ 13,401,657</u>

See notes to financial statements

Drug Policy Alliance

Statement of Activities
Year Ended May 31, 2017
(with summarized totals for the year ended May 31, 2016)

	2017			2016 Total
	Unrestricted	Temporarily Restricted	Total	
SUPPORT AND REVENUE				
Grants and contributions	\$ 10,327,906	\$ 1,140,517	\$ 11,468,423	\$ 8,483,087
Registrations and conference income	6,205	-	6,205	450,800
Current member contributions	951,468	-	951,468	968,184
New member contributions	64,644	-	64,644	79,955
Drug Policy Action administration	182,089	-	182,089	122,022
Publications and videos	15,109	-	15,109	14,000
Investment income	1,962	-	1,962	15,217
Other income	58,747	-	58,747	47,801
Present value discount adjustment	-	88,638	88,638	248,578
Net assets released from restrictions	<u>2,518,617</u>	<u>(2,518,617)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>14,126,747</u>	<u>(1,289,462)</u>	<u>12,837,285</u>	<u>10,429,644</u>
EXPENSES				
Program services	9,923,084	-	9,923,084	9,799,537
Management and general	2,623,435	-	2,623,435	2,014,232
Fundraising	<u>1,543,963</u>	<u>-</u>	<u>1,543,963</u>	<u>1,387,786</u>
Total Expenses	<u>14,090,482</u>	<u>-</u>	<u>14,090,482</u>	<u>13,201,555</u>
Change in Net Assets Before Depreciation and Amortization, Interest Expense and Rescinded Grant	36,265	(1,289,462)	(1,253,197)	(2,771,911)
Depreciation and amortization	219,994	-	219,994	214,103
Interest expense	302,022	-	302,022	264,441
Rescinded grant	<u>-</u>	<u>125,000</u>	<u>125,000</u>	<u>-</u>
Change in Net Assets (Deficiency)	(485,751)	(1,414,462)	(1,900,213)	(3,250,455)
NET ASSETS (DEFICIENCY)				
Beginning of year	<u>(3,242,104)</u>	<u>5,851,594</u>	<u>2,609,490</u>	<u>5,859,945</u>
End of year	<u>\$ (3,727,855)</u>	<u>\$ 4,437,132</u>	<u>\$ 709,277</u>	<u>\$ 2,609,490</u>

See notes to financial statements

Drug Policy Alliance

Statement of Functional Expenses Year Ended May 31, 2017 (with summarized totals for the year ended May 31, 2016)

	2017			2016	
	Program Services	Management and General	Fundraising	Total	Total
Grants	\$ 1,082,200	\$ -	\$ -	\$ 1,082,200	\$ 1,088,732
Salaries	4,206,403	1,324,209	490,196	6,020,808	5,531,347
Payroll taxes and employee benefits	1,150,665	382,886	92,864	1,626,415	1,408,330
Management fees	28,408	31,039	-	59,447	9,330
Legal fees	12,353	17,835	-	30,188	34,035
Auditing and tax services	-	39,661	-	39,661	44,391
Lobbying fees	390,617	-	-	390,617	395,585
Fundraising fees	61,800	-	204,102	265,902	291,050
Program fees	940,460	126,794	75,178	1,142,432	964,101
Advertising and marketing fees	98,738	-	151,454	250,192	94,401
Office expenses	275,689	56,134	14,278	346,101	424,910
Printing expenses	60,406	388	92,303	153,097	254,385
Postage and bulk mail	29,809	2,861	111,786	144,456	128,169
Information technology	116,985	42,953	88,165	248,103	224,210
Occupancy and related expenses	604,830	113,991	26,780	745,601	681,026
Staff and other travel	505,744	216,267	24,937	746,948	569,721
Conference, meetings and seminars	169,066	50,181	64,338	283,585	795,112
Insurance	7,639	73,944	-	81,583	77,562
Lists	-	-	69,921	69,921	6,131
Books, subscriptions and memberships	138,125	3,403	6,285	147,813	88,516
Bank and merchant service charges	190	26,139	30,776	57,105	45,828
Sundry	42,957	13,545	600	57,102	38,938
Board expenses	-	6,019	-	6,019	5,745
Bad debt expense	-	95,186	-	95,186	-
Total Expenses Before Depreciation and Amortization and Interest Expense	9,923,084	2,623,435	1,543,963	14,090,482	13,201,555
Depreciation and amortization	21,916	198,078	-	219,994	214,103
Interest expense	116,890	128,287	56,845	302,022	264,441
Total Expenses	\$ 10,061,890	\$ 2,949,800	\$ 1,600,808	\$ 14,612,498	\$ 13,680,099

See notes to financial statements

Drug Policy Alliance

Statement of Cash Flows Year Ended May 31, 2017

(with comparative amounts for the year ended May 31, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,900,213)	\$ (3,250,455)
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized loss on investments	15,741	758
Depreciation and amortization	219,994	214,103
Bad debt expense	95,186	
Present value discount	(88,638)	(248,578)
Donated stock	(976,017)	(67,599)
Net changes in operating assets and liabilities		
Grants receivable	1,009,750	862,790
Accounts receivable	-	(51,081)
Prepaid expenses and other assets	(9,845)	(36,026)
Deposits	7,875	(17,399)
Accounts payable and accrued expenses	(68,628)	(62,195)
Due to Drug Policy Action	-	(150,000)
Accrued compensated absences	(17,095)	14,468
Net Cash from Operating Activities	(1,711,890)	(2,791,214)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, equipment and leasehold improvements	(82,080)	(87,968)
Purchase of investments	(13,257)	(12,630)
Proceeds from sale of investments	962,318	67,441
Net Cash from Investing Activities	866,981	(33,157)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	500,000	4,000,000
Repayment of note payable	(500,000)	-
Payments of mortgage	(81,563)	(77,478)
Net Cash from Financing Activities	(81,563)	3,922,522
Net Change in Cash and Cash Equivalents	(926,472)	1,098,151
CASH AND CASH EQUIVALENTS		
Beginning of year	2,517,402	1,419,251
End of year	\$ 1,590,930	\$ 2,517,402
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 302,022	\$ 264,441

See notes to financial statements

Drug Policy Alliance

Notes to Financial Statements
May 31, 2017

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 a grants program 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, 2017

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, 2017

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, 2017

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

Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements are recorded at cost. Depreciation 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, 2017 and 2016.

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 2017 and 2016, DPA incurred joint costs of \$372,566 and \$454,784 for informational materials and activities that included fund-raising appeals. DPA allocated \$436,351 and \$372,566 of these costs to fundraising expense and \$100,354 and \$82,218 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.

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 2014.

Drug Policy Alliance

Notes to Financial Statements
May 31, 2017

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

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 April 2, 2018.

Prior Year Summarized Comparative Information

Information as of and for the year ended May 31, 2016 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, 2016, 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, 2017 and 2016 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>2017</u>	<u>2016</u>
Mutual Funds		
Short-term bond index fund	\$ 357,126	\$ 353,307
Short-term grade fund	365,111	357,715
	<u>\$ 722,237</u>	<u>\$ 711,022</u>

Drug Policy Alliance

Notes to Financial Statements May 31, 2017

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:

	2017	2016
Interest and dividends	\$ 17,703	\$ 15,975
Net realized and unrealized loss on investment	(15,741)	(758)
Total Investment Income	\$ 1,962	\$ 15,217

5. Grants Receivable

Grants receivable from various foundations and individuals are due within one to ten years. Payments to be received after May 31, 2018 are discounted to their present value using an interest rate 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 May 31, 2017 and 2016, one contribution receivable represented 99% of DPA's total grants receivable at year end. Grants receivable as of May 31, are summarized as follows:

	2017	2016
Receivable within one year	\$ 629,435	\$ 1,039,185
Receivable within two to ten years	3,000,000	3,600,000
Discount to present value	(228,478)	(317,116)
Total	\$ 3,400,957	\$ 4,322,069

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:

	2017	2016
Office condominium	\$ 4,340,092	\$ 4,340,092
Leasehold improvements	975,602	939,465
Furniture and equipment	1,002,259	956,316
Books and periodicals	49,910	49,910
	6,367,863	6,285,783
Less accumulated depreciation and amortization	988,783	768,789
	\$ 5,379,080	\$ 5,516,994

Drug Policy Alliance

Notes to Financial Statements
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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:

2018	\$	85,864
2019		90,392
2020		95,159
2021		100,177
2022		105,460
Thereafter		<u>2,236,161</u>
		<u>\$ 2,713,213</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, 2017 and 2016, the outstanding balance is \$7,000,000. The note has no maturity and is payable on demand. Interest expense in the amount of \$160,000 and \$118,333 for the years ended May 31, 2017 and 2016.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at May 31, 2017 and 2016 are restricted for the following purposes:

	2017	2016
Purpose Restricted		
Southern California	\$ 205,000	\$ -
New York Project	17,635	-
Criminal Justice Reform	154,871	391,954
Asset Forfeiture Program	114,920	371,771
New Jersey Syringe Access Initiative	-	45,800
Harm Reduction	100,000	-
Office of Academic Engagement	213,308	-
General operations	-	720,000
Vital Project Fund	130,000	-
Scholarships	<u>100,441</u>	<u>-</u>
Total Purpose Restricted	1,036,175	1,529,525
Time restricted	<u>3,400,957</u>	<u>4,322,069</u>
	<u>\$ 4,437,132</u>	<u>\$ 5,851,594</u>

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Notes to Financial Statements
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9. Temporarily Restricted Net Assets *(continued)*

Net assets released from restrictions in fiscal 2017 and 2016 are as follows:

	2017	2016
Youth Policy	\$ -	\$ 100,000
Criminal Justice Reform	437,083	8,046
DPA Conference	-	15,000
New Mexico Office	-	8,750
New York Project	10,091	52,496
New Jersey Office	-	303,000
Southern California	70,000	50,000
Asset Forfeiture Program	256,851	128,229
Communications	3,000	-
General operations	720,000	72,917
Nightlife and Festivals	75,000	-
New Jersey Syringe Access Initiative	45,800	-
Office of Academic Engagement	15,792	-
Time restricted	885,000	1,749,354
	\$ 2,518,617	\$ 2,487,792

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 \$347,706 and \$318,747 for the years ended May 31, 2017 and 2016. 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 \$12,117 and \$11,658 for the years ended May 31, 2017 and 2016.

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, 2017 and 2016, DPA received from Drug Policy Action \$182,089 and \$122,022 for expenses paid by DPA.

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Notes to Financial Statements
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12. Lease Commitments

DPA leases its offices under various operating leases expiring up to 2021. Rent expense for various offices was \$472,932 and \$512,217 for the years ended May 31, 2017 and 2016. Future minimum lease obligations are payable as follows at May 31, 2017:

2018	\$	408,625
2019		419,140
2020		429,932
2021		<u>178,999</u>
	\$	<u>1,436,696</u>

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