

Drug Policy Alliance

Financial Statements

May 31, 2023

Independent Auditors' Report

Board of Directors
Drug Policy Alliance

Opinion

We have audited the accompanying financial statements of the Drug Policy Alliance, which comprise the statement of financial position as of May 31, 2023, 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 Alliance as of May 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles general 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 the Drug Policy Alliance 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.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, the Drug Policy Alliance adopted the Financial Accounting Standards Board ("FASB") Topic 842, *Leases*, using the effective date method with June 1, 2022, as the date of initial adoption. Our opinion is not modified with respect to this matter.

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 the Drug Policy Alliance'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. 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 the Drug Policy Alliance'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 the Drug Policy Alliance'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 Alliance's May 31, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 2, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

November 8, 2023

Drug Policy Alliance

Statement of Financial Position
May 31, 2023
(with comparative amounts at May 31, 2022)

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 8,666,130	\$ 8,861,944
Investments	414,809	395,931
Accounts receivable	19,078	-
Grants receivable, net	5,810,000	5,963,575
Prepaid expenses and other assets	210,977	54,481
Due from Drug Policy Action	118,351	173,638
Deposits	42,523	42,523
Right of use asset - operating lease, net	907,967	-
Right of use asset - finance lease, net	14,015	-
Property, equipment and leasehold improvements, net	<u>4,370,136</u>	<u>4,384,874</u>
	<u>\$ 20,573,986</u>	<u>\$ 19,876,966</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,235,820	\$ 1,479,021
Accrued compensated absences	316,874	287,684
Deferred revenue	59,590	-
Mortgage payable	2,126,140	2,236,570
Lease liability, operating lease	919,648	-
Lease liability, finance lease	<u>14,201</u>	<u>-</u>
Total Liabilities	<u>4,672,273</u>	<u>4,003,275</u>
Net Assets		
Without donor restrictions	15,477,568	11,979,887
With donor restrictions	<u>424,145</u>	<u>3,893,804</u>
Total Net Assets	<u>15,901,713</u>	<u>15,873,691</u>
	<u>\$ 20,573,986</u>	<u>\$ 19,876,966</u>

See notes to financial statements

Drug Policy Alliance

Statement of Activities Year Ended May 31, 2023 (with summarized totals for the year ended May 31, 2022)

	2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT, REVENUE AND INVESTMENT RETURN				
Grants and contributions, net	\$ 9,855,208	\$ 580,000	\$ 10,435,208	\$ 9,985,288
Drug Policy Action administration	118,351	-	118,351	68,102
Publications and videos	-	-	-	24,461
In-kind contributions	-	-	-	63,776
Investment return (loss)	27,971	-	27,971	(19,461)
Other income	187,147	-	187,147	105,777
Net assets released from restrictions	4,049,659	(4,049,659)	-	-
Total Support, Revenue and Investment Return	<u>14,238,336</u>	<u>(3,469,659)</u>	<u>10,768,677</u>	<u>10,227,943</u>
EXPENSES				
Program services	8,701,125	-	8,701,125	8,815,380
Management and general	595,228	-	595,228	841,162
Fundraising	1,444,302	-	1,444,302	1,689,697
Total Expenses	<u>10,740,655</u>	<u>-</u>	<u>10,740,655</u>	<u>11,346,239</u>
Change Before Other Income	<u>3,497,681</u>	<u>(3,469,659)</u>	<u>28,022</u>	<u>(1,118,296)</u>
OTHER INCOME				
PPP loan forgiveness	-	-	-	2,207,400
Government grants	-	-	-	264,239
Total Other Income	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,471,639</u>
Change in Net Assets	3,497,681	(3,469,659)	28,022	1,353,343
NET ASSETS				
Beginning of year	<u>11,979,887</u>	<u>3,893,804</u>	<u>15,873,691</u>	<u>14,520,348</u>
End of year	<u>\$ 15,477,568</u>	<u>\$ 424,145</u>	<u>\$ 15,901,713</u>	<u>\$ 15,873,691</u>

See notes to financial statements

Drug Policy Alliance

Statement of Functional Expenses Year Ended May 31, 2023 (with summarized totals for the year ended May 31, 2022)

	2023			Total	2022 Total
	Program Services	Management and General	Fundraising		
Grants	\$ 314,000	\$ -	\$ -	\$ 314,000	\$ 800,000
Salaries	3,805,528	247,365	579,903	4,632,796	4,596,444
Payroll taxes and employee benefits	1,060,891	68,959	161,663	1,291,513	1,032,022
Management fees	142,899	10,543	10,106	163,548	277,321
Website redesign	-	-	-	-	221,000
Legal fees (includes contributed services of \$0 and \$63,776 in 2023 and 2022)	59,628	77,621	-	137,249	292,914
Auditing and tax services	-	56,478	-	56,478	51,993
Lobbying fees	501,127	-	-	501,127	351,254
Fundraising fees	-	-	352,145	352,145	381,913
Program fees	695,483	-	-	695,483	1,124,835
Advertising and marketing fees	1,173	-	96,576	97,749	150,809
Office expenses	238,538	15,296	35,858	289,692	206,787
Printing expenses	128,262	8,337	19,545	156,144	279,977
Postage and bulk mail	121,654	7,908	18,538	148,100	142,110
Information technology	102,764	6,631	15,546	124,941	192,828
Occupancy and related expenses	336,402	6,758	15,844	359,004	336,523
Staff and other travel	234,412	15,485	31,146	281,043	39,893
Conference, meetings, and seminars	162,975	8,315	6,738	178,028	103,907
Insurance	82,764	5,380	12,612	100,756	117,682
Lists	-	-	35,764	35,764	28,325
Books, subscriptions, and memberships	55,428	4,529	2,039	61,996	126,963
Bank and merchant service charges	43,334	2,731	6,401	52,466	49,109
Sundry	-	-	-	-	1,539
Other contributions	91,907	-	-	91,907	19,393
Loss on disposal of property and equipment	-	-	-	-	1,790
Board expenses	-	17,901	-	17,901	7,752
Penalties	-	12,334	-	12,334	-
Other expenses	12,671	5,021	2,540	20,232	26,665
Bad debt	-	-	-	-	50,000
Ballot initiatives	238,000	-	-	238,000	-
Total Expenses Before Depreciation and Amortization and Interest Expense	8,429,840	577,592	1,402,964	10,410,396	11,011,748
Depreciation and amortization	178,109	11,579	27,139	216,827	216,362
Interest expense	93,176	6,057	14,199	113,432	118,129
Total Expenses	\$ 8,701,125	\$ 595,228	\$ 1,444,302	\$ 10,740,655	\$ 11,346,239

See notes to financial statements

Drug Policy Alliance

Statement of Cash Flows Year Ended May 31, 2023

(with comparative amounts for the year ended May 31, 2022)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 28,022	\$ 1,353,343
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized (gain) loss on investments	(7,881)	26,593
Amortization of right of use asset - operating lease	202,085	-
Amortization of right of use asset - finance lease	28,029	-
Depreciation and amortization	216,827	216,362
Loss on disposal of property and equipment	-	1,790
Bad debt expense	-	50,000
Present value discount	(247)	(69,960)
Forgiveness of PPP loan	-	(2,207,400)
Net changes in operating assets and liabilities		
Accounts receivable	(19,078)	-
Grants receivable	153,822	2,936,708
Prepaid expenses and other assets	(156,496)	2,914
Deposits	-	46,271
Due from Drug Policy Action	55,287	(68,102)
Accounts payable and accrued expenses	(243,201)	927,873
Deferred revenue	59,590	-
Accrued compensated absences	29,190	(75,467)
Lease payable, net of amortization of imputed interest	(190,404)	-
Net Cash from Operating Activities	155,545	3,140,925
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, equipment and leasehold improvements	(202,089)	(180,385)
Purchase of investments	(10,997)	(6,817)
Net Cash from Investing Activities	(213,086)	(187,202)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of mortgage	(110,430)	(105,046)
Payments on finance lease obligation	(27,843)	-
Net Cash from Financing Activities	(138,273)	(105,046)
Net Change in Cash and Cash Equivalents	(195,814)	2,848,677
CASH AND CASH EQUIVALENTS		
Beginning of year	8,861,944	6,013,267
End of year	\$ 8,666,130	\$ 8,861,944
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 112,714	\$ 118,129

See notes to financial statements

Drug Policy Alliance

Notes to Financial Statements
May 31, 2023

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, 2023

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

Drug Policy Alliance

Notes to Financial Statements
May 31, 2023

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

Change in Accounting Policies

DPA adopted Financial Accounting Standards Board (“FASB”) Topic 842, Leases, using the effective date method with June 1, 2022, as the date of initial adoption, with certain practical expedients available. DPA elected the available practical expedients to account for its existing operating leases under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, on June 1, 2022, DPA recognized a lease liability of \$1,110,052 that represents the present value of the remaining operating lease payments discounted based on the federal treasury yields at the time of the lease inception. DPA also recognized a right-of-use (“ROU”) asset of \$1,110,052.

The standard had an impact on the DPA’s statement of financial position but did not have an impact on its statements of activities or cash flows. The most significant impact was the recognition of ROU asset and lease liability for operating lease.

As of June 1, 2021, DPA adopted the provisions of FASB Accounting Standards Update 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958). ASU 2020-07 brings more transparency and consistency to the presentation and disclosure of gifts in-kind. The standard does not change the accounting for gifts-in-kind, however, provides matters related to presentation and disclosure.

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.

Drug Policy Alliance

Notes to Financial Statements

May 31, 2023

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

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 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.

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. Property, equipment and leasehold improvements in excess of \$3,000 are 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. Depreciation and amortization is provided over the estimated useful lives on the straight-line basis, and is recognized as a nonoperating expense. The estimated useful lives are as follows:

Buildings	40 years
Leasehold improvements	10 - 15 years
Furniture and equipment	5 - 10 years

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, 2023 and 2022.

Drug Policy Alliance

Notes to Financial Statements

May 31, 2023

2. Summary of Significant Accounting Policies (continued)

Leases

As of June 1, 2022, DPA leases its facilities and determines if an arrangement is a lease at inception. Their operating lease is included in right-of-use operating lease asset and lease liability for operating lease on the accompanying statement of financial position.

ROU asset represents the right to use an underlying asset for the lease term and lease liability represents the obligation to make lease payments arising from the lease. Operating lease ROU asset and liability are recognized at the lease commencement date based on the present value of lease payments over the lease term. The lease does not provide an implicit borrowing rate. DPA uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that DPA will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. DPA's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

DPA leases its copier under a financing lease agreement, through November 2023. DPA uses the risk-free interest rate to determine the present value of the lease payments when no rate is stated in the lease. The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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.

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.

Drug Policy Alliance

Notes to Financial Statements
May 31, 2023

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

Advertising Costs

Advertising costs are expenses as incurred.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

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 years prior to 2020.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is November 8, 2023.

Prior Year Summarized Comparative Information

Information as of and for the year ended May 31, 2022, 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, 2022, from which the summarized comparative information was derived.

3. Concentrations of Credit Risk

Financial instruments that potentially subject DPA to a concentration of credit and market risk consists principally of cash and cash equivalents on deposit with financial institutions, investments held at financial institutions and grant receivables. Deposits held at financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC") are insured up to \$250,000. Investment holdings at financial institutions insured by the Securities Investor Protection Corporation ("SIPC") are insured up to \$500,000 (\$250,000 for cash holdings). At times cash balances may exceed the FDIC and the SIPC limit. As of May 31, 2023 and 2022, DPA's uninsured cash and cash equivalents balances on deposit totaled approximately \$8,416,130 and \$8,611,944. As of May 31, 2023 and 2022, DPA's investment holdings are fully insured.

The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment, investment advisor, investment manager or group of investments represents a significant concentration of credit risk.

Drug Policy Alliance

Notes to Financial Statements
May 31, 2023

3. Concentrations of Credit Risk (*continued*)

At May 31, 2023 and 2022, one funding source accounted for approximately 90% and 39% of grants receivable. In addition, during the fiscal years ended May 31, 2023 and 2022, one funding source accounted for approximately 50% and 24% of grants and contributions. DPA performs ongoing collectability evaluation and writes off uncollectible amounts as they become known.

4. Investments

At May 30, 2023 and 2022, all of DPA's investments are mutual funds that are valued using Level 1 inputs under the fair value hierarchy. Investments were \$414,809 and \$395,931 at May 31, 2023 and 2022.

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

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 20,090	\$ 7,132
Net realized and unrealized gain (loss) on investment	<u>7,881</u>	<u>(26,593)</u>
	<u>\$ 27,971</u>	<u>\$ (19,461)</u>

5. Grants Receivable

Grants receivable from various foundations and individuals are due within one to two years. Payments to be received after May 31, 2024, are discounted to their present value using an interest rate of 2.53%. The discount rate is based on the Federal Reserve's statistical release survey of terms of business lending at the time of contribution. As of May 31, 2023, 100% of grant receivables are expected to be collected by May 31, 2024, and are not discounted. Management expects all receivables to be collected, accordingly no allowance has been provided for.

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

	<u>2023</u>	<u>2022</u>
Receivable within one year	\$ 5,810,000	\$ 5,953,822
Receivable within two years	-	10,000
Discount to present value	-	(247)
	<u>\$ 5,810,000</u>	<u>\$ 5,963,575</u>

Drug Policy Alliance

Notes to Financial Statements May 31, 2023

6. Property, Equipment and Leasehold Improvements

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

	<u>2023</u>	<u>2022</u>
Office condominium	\$ 4,340,092	\$ 4,340,092
Leasehold improvements	1,257,468	1,055,379
Furniture and equipment	409,218	995,670
Books and periodicals	-	49,910
	<u>6,006,778</u>	<u>6,441,051</u>
Accumulated depreciation and amortization	<u>(1,636,642)</u>	<u>(2,056,177)</u>
	<u>\$ 4,370,136</u>	<u>\$ 4,384,874</u>

During the year ended May 31, 2023 and 2022, DPA wrote off \$636,362 and \$27,368 in assets due to the closure of four offices as well as assets being fully depreciated. As of May 31, 2023 and 2022, DPA had recognized a loss on disposal of \$0 and \$1,790, respectively.

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 and is collateralized by substantially all assets of DPA. Future principal payments for years ending May 31, are as follows:

2024	\$ 116,875
2025	123,038
2026	129,527
2027	<u>1,756,700</u>
	<u>\$ 2,126,140</u>

8. Paycheck Protection Program Loan

On February 6, 2021, and April 17, 2020, DPA received loan proceeds in the amounts of \$1,103,700 and \$1,103,700, under the Paycheck Protection Program ("PPP Loan"). The PPP Loan, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business in 2019. The loan and accrued interest is forgivable after eight or twenty four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period.

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Notes to Financial Statements
May 31, 2023

8. Paycheck Protection Program Loan (*continued*)

On August 24, 2021, and January 24, 2022, the SBA fully approved the forgiveness of the April 17, 2020, and February 6, 2021, loans in the aggregate amount of \$2,207,400 under the Paycheck Protection Program ("PPP Loan").

9. Government Grant Income

DPA qualified for the Employee Retention Credit ("ERC") during the fiscal year 2022. The ERC is a fully refundable tax credit for employers who pay qualified wages and qualified health plan expenses to their employees. In 2022, the total amount of the ERC credit was \$331,507. DPA received and recognized \$264,239 of ERC reported as government grants on the statement of activities. \$67,268 of the ERC credit was offset against payroll taxes.

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 \$318,656 and \$294,770 for the years ended May 31, 2023 and 2022.

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 \$5,248 and \$5,833 for the years ended May 31, 2023 and 2022.

11. Rental Income

DPA entered into a lease agreement with 1620 EYE L.L.C on August 1, 2016, to occupy one floor of the building. The lease is for an 11-year period ending on July 31, 2027. DPA is not currently using the space, and therefore, subleases the floor to The International Institute on Race, Equality and Human Rights. The term of the sublease is from May 1, 2021, through July 31, 2027.

Future minimum lease amounts to be received as of May 31, 2023 are:

2024	\$	157,108
2025		163,392
2026		185,994
2027		193,433
Thereafter		33,417
	\$	<u>733,344</u>

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Notes to Financial Statements May 31, 2023

12. Net Assets With Donor Restrictions

Net assets with donor restrictions at May 31, 2023 and 2022 are restricted for the following purposes:

	2023	2022
Purpose Restricted		
Strategic Planning Project	\$ -	\$ 50,000
Ending the Criminalization of Drug Use and Possession	226,551	226,551
New York Project	-	15,000
Institutional Strengthening	187,594	-
Total Purpose Restricted	414,145	291,551
Time restricted	10,000	3,602,253
	\$ 424,145	\$ 3,893,804

Net assets released from restrictions in fiscal 2023 and 2022 are as follows:

	2023	2022
New York Project	\$ 40,000	\$ 100,000
Ending the Criminalization of Drug Use and Possession	-	190,320
Southern California	-	12,500
Policy	-	258,216
Institutional Strengthening	267,406	-
Strategic Planning Project	50,000	-
DC Decriminalization	100,000	-
Time restricted	3,592,253	10,085,530
	\$ 4,049,659	\$ 10,646,566

13. 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 as of May 31:

	2023	2022
Financial Assets:		
Cash and cash equivalents	\$ 8,666,130	\$ 8,861,944
Investments	414,809	395,931
Accounts receivable	19,078	-
Due from Drug Policy Action	118,351	173,638
Grants receivable, net	5,810,000	5,963,575
Total Financial Assets	15,028,368	15,395,088
Less: Contractual or donor imposed restriction amounts		
Grants receivable - two years	-	(9,753)
Donor imposed restrictions	(414,145)	(291,551)
	(414,145)	(301,304)
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	\$ 14,614,223	\$ 15,093,784

Drug Policy Alliance

Notes to Financial Statements
May 31, 2023

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

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 2024 expenditures will continue to be covered by contributions.

14. 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, 2023 and 2022, DPA charged Drug Policy Action \$118,351 and \$68,102 for expenses paid by DPA. During the years ended May 31, 2023 and 2022 Drug Policy Action made grants totaling \$5,250,000 and \$2,361,322 to DPA.

15. Joint Cost Allocation

During fiscal years 2023 and 2022, DPA incurred joint costs of \$1,158,618 and \$1,114,271 for informational materials and activities that included fundraising appeals. DPA allocated \$702,940 and \$677,531 of these costs to fundraising expense and \$455,678 and \$436,743 of these costs to program services.

16. Lease Commitments

Operating Lease

During the years ended May 31, 2023 and 2022, DPA had only one active operating lease expiring in 2028. Rent expense was \$232,089 and \$214,775 for the years ended May 31, 2023 and 2022.

At May 31, 2023, DPA has an operating lease liability of \$919,648. The average interest rate used in calculating the lease liability was approximately 2.94%. For the year ended May 31, 2023, supplemental cash flow information for cash paid for amounts included in the measurement of lease liabilities from the operating lease included in operating cash flows amounted to \$190,404.

Future minimum lease obligations are payable as follows at May 31, 2023:

Total future minimum lease payment	\$ 976,850
Less imputed interest	<u>(57,202)</u>
Total Lease Liability	<u>\$ 919,648</u>
Right of use - operating lease asset	\$ 1,110,052
Less accumulated amortization	<u>(202,085)</u>
	<u>\$ 907,967</u>

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Notes to Financial Statements
May 31, 2023

16. Lease Commitments *(continued)*

Finance Lease

Prior to the year ended May 31, 2023, DPA entered into a finance lease agreement for a copier expiring in 2023. Amortization expense was \$28,029 for the year ended May 31, 2023.

At May 31, 2023, DPA has a financing lease liability of \$14,201. The average interest rate used in calculating the lease liability was approximately 2.66%. For the year ended May 31, 2023, supplemental cash flow information for cash paid for amounts included in the measurement of lease liabilities from the financing lease included in financing cash flows amounted to \$27,843.

Total future minimum lease payment	\$ 14,280
Less imputed interest	<u>(79)</u>
Total Lease Liability	<u>\$ 14,201</u>

Right of use - finance lease asset	\$ 42,044
Less accumulated amortization	<u>(28,029)</u>
	<u>\$ 14,015</u>

The minimum future rental payments for DPA under the lease agreements through fiscal year 2028 are as follows:

	Operating	Finance	Total
2024	\$ 225,458	\$ 14,280	\$ 239,738
2025	231,095	-	231,095
2026	236,872	-	236,872
2027	242,794	-	242,794
2028	40,631	-	40,631
Less: present value discount	<u>(57,202)</u>	<u>(79)</u>	<u>(57,281)</u>
	<u>\$ 919,648</u>	<u>\$ 14,201</u>	<u>\$ 933,849</u>

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