

# **Drug Policy Action**

Financial Statements

May 31, 2016

## Independent Auditors' Report

### Board of Directors Drug Policy Action

We have audited the accompanying financial statements of Drug Policy Action, which comprise the statement of financial position as of May 31, 2016, and the related statements of activities 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 Action as of May 31, 2016, 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 Action's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 4, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*PKF O'Connor Davies, LLP*

March 16, 2017

## Drug Policy Action

Statement of Financial Position  
May 31, 2016  
(with comparative amounts at May 31, 2015)

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 13,639,857	\$ 12,227,485
Investments	2,923,522	2,883,421
Due from Drug Policy Alliance	-	150,000
Note receivable	7,000,000	3,000,000
Grants receivable, net	<u>19,195,656</u>	<u>23,949,582</u>
	<u>\$ 42,759,035</u>	<u>\$ 42,210,488</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 9,156</u>	<u>\$ 54,801</u>
Net Assets		
Unrestricted	23,554,223	18,206,105
Temporarily restricted	<u>19,195,656</u>	<u>23,949,582</u>
Total Net Assets	<u>42,749,879</u>	<u>42,155,687</u>
	<u>\$ 42,759,035</u>	<u>\$ 42,210,488</u>

See notes to financial statements

## Drug Policy Action

### Statement of Activities Year Ended May 31, 2016 (with summarized totals for the year ended May 31, 2015)

	2016			2015 Total
	Unrestricted	Temporarily Restricted	Total	
<b>SUPPORT AND REVENUE</b>				
Major contributions	\$ 1,300,000	\$ -	\$ 1,300,000	\$ 2,679,310
Other contributions	918	-	918	1,695
Investment income	56,562	-	56,562	57,831
Interest income on note	118,333	-	118,333	60,000
Miscellaneous income	60,067	-	60,067	1,000
Present value discount adjustment	-	1,896,074	1,896,074	2,098
Net assets released from restriction	6,500,000	(6,500,000)	-	-
Total Support and Revenue	<u>8,035,880</u>	<u>(4,603,926)</u>	<u>3,431,954</u>	<u>2,801,934</u>
<b>EXPENSES</b>				
Program Services				
Public Policy and Legal Affairs				
Consulting	500,570	-	500,570	81,492
Ballot and other initiatives	1,970,000	-	1,970,000	2,846,236
Grant general	-	-	-	10,000
Political reporting retainer	8,760	-	8,760	7,500
Miscellaneous	37,864	-	37,864	7,572
Advertising and marketing	5,517	-	5,517	118,915
Excise tax	690	-	690	963
Total Program Services	<u>2,523,401</u>	<u>-</u>	<u>2,523,401</u>	<u>3,072,678</u>
Management and General				
Administrative expenses	115,920	-	115,920	137,608
Professional fees	26,302	-	26,302	25,160
Miscellaneous	16,038	-	16,038	8,639
Total Management and General	<u>158,260</u>	<u>-</u>	<u>158,260</u>	<u>171,407</u>
Fundraising	6,101	-	6,101	8,303
Total Expenses	<u>2,687,762</u>	<u>-</u>	<u>2,687,762</u>	<u>3,252,388</u>
Change in net assets before the rescinded grant	5,348,118	(4,603,926)	744,192	(450,454)
Rescinded grant	-	(150,000)	(150,000)	-
Change in Net Assets	5,348,118	(4,753,926)	594,192	(450,454)
<b>NET ASSETS</b>				
Beginning of year	18,206,105	23,949,582	42,155,687	42,606,141
End of year	<u>\$ 23,554,223</u>	<u>\$ 19,195,656</u>	<u>\$ 42,749,879</u>	<u>\$ 42,155,687</u>

See notes to financial statements

## Drug Policy Action

### Statement of Cash Flows Year Ended May 31, 2016

(with comparative amounts for the year ended May 31, 2015)

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 594,192	\$ (450,454)
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized loss (gain) on investments	11,417	(7,377)
Discount to present value	(1,896,074)	(2,098)
Changes in operating assets and liabilities		
Grants receivable	6,650,000	6,450,000
Due from Drug Policy Alliance	150,000	(150,000)
Accounts payable and accrued expenses	<u>(45,645)</u>	<u>23,162</u>
Net Cash from Operating Activities	<u>5,463,890</u>	<u>5,863,233</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(223,574)	(1,347,716)
Proceeds from sale of investments	172,056	-
Redemption of certificates of deposit	-	600,000
Issuance of note receivable	(4,000,000)	(4,000,000)
Repayment from note receivable	<u>-</u>	<u>1,000,000</u>
Net Cash from Investing Activities	<u>(4,051,518)</u>	<u>(3,747,716)</u>
Net Change in Cash and Cash Equivalents	1,412,372	2,115,517
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>12,227,485</u>	<u>10,111,968</u>
End of year	<u>\$ 13,639,857</u>	<u>\$ 12,227,485</u>

See notes to financial statements

## **Drug Policy Action**

Notes to Financial Statements  
May 31, 2016

### **1. Nature of Organization**

Drug Policy Action is a non-profit organization organized and operated exclusively for the purpose of promoting social welfare within the meaning of section 501(c)(4) of the Internal Revenue Code of 1986, including, specifically to advocate for reform of federal, state, local and foreign laws on drug policy, educating Americans at the grassroots level about drug policy and involving them in efforts to ensure that government policies on these issues effectively advance the public interest.

### **2. Summary of Significant Accounting Policies**

#### ***Basis of Presentation and Use of Estimates***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

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

#### ***Fair Value Measurements***

Drug Policy Action follows US GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

#### ***Investments and Investment Income Recognition***

Investments are stated at fair value. Purchases and sales of securities are recorded on a settlement-date basis. Interest and dividend income is recorded when earned. Realized and unrealized gains and losses are included in the determination of the change in net assets in the statements of activities.

## **Drug Policy Action**

Notes to Financial Statements  
May 31, 2016

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

#### ***Grants Receivable***

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

#### ***Grants and Contributions***

Grants and contributions are recorded when an unconditional promise to give is made by the donor. Grants and contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily restricted or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

#### ***Net Asset Presentation***

The financial statements report amounts separately by class of net assets based on the presence or absence of donor restrictions. Unrestricted amounts are those currently available at the discretion of Drug Policy Action 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 Drug Policy Action or the passage of time. Permanently restricted amounts are subject to donor-imposed restrictions requiring that they be maintained permanently by Drug Policy Action.

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.

#### ***Functional Allocations of Expenses***

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

## Drug Policy Action

Notes to Financial Statements  
May 31, 2016

### 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 March 16, 2017.

#### ***Prior Year Summarized Comparative Information***

Information as of and for the year ended May 31, 2015 is presented for comparative purposes only. Certain activity by net asset classification is not included in this report. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with Drug Policy Action's financial statements as of and for the year ended May 31, 2015, from which the summarized comparative information was derived.

### 3. Concentration of Credit Risk

Drug Policy Action's financial instruments that are potentially exposed to concentration of credit risk consist primarily of cash and cash equivalents and investments. Drug Policy Action maintains its cash with a financial institution which at times, may be in excess of the Federal Deposit Insurance Corporation's insurance limit. Investments are managed by professional investment management firms and are monitored by the Board of Directors and an investment advisor engaged by Drug Policy Action.

### 4. Investments

As of May 31, all of Drug Policy Action's investments are valued using Level 1 inputs under the fair value hierarchy. Investments consist of the following at May 31:

	<u>2016</u>	<u>2015</u>
Mutual Funds		
Short-term bond index fund	\$ 1,998,663	\$ 1,972,109
Short-term grade fund	901,853	714,613
Stock market index fund	<u>23,006</u>	<u>196,699</u>
	<u>\$ 2,923,522</u>	<u>\$ 2,883,421</u>



## Drug Policy Action

Notes to Financial Statements  
May 31, 2016

### 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:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 67,979	\$ 50,454
Unrealized (loss) gain	<u>(11,417)</u>	<u>7,377</u>
Total Investment Income	<u>\$ 56,562</u>	<u>\$ 57,831</u>

### 5. Grants Receivable

Grants receivable are due within one to five years. Payments expected to be received after May 31, 2017 are discounted to their present value using an interest rate of 4.03%. At May 31, 2016 and 2015, management has deemed all amounts outstanding to be collectible. Grants receivable at May 31, are summarized as follows:

	<u>2016</u>	<u>2015</u>
Receivable within one year	\$ 6,500,000	\$ 6,650,000
Receivable within two-five years	14,000,000	20,500,000
Discount to present value	<u>(1,304,344)</u>	<u>(3,200,418)</u>
Total	<u>\$ 19,195,656</u>	<u>\$ 23,949,582</u>

### 6. Note Receivable

During 2015, Drug Policy Action entered into a revolving note receivable with Drug Policy Alliance to lend the Alliance up to \$5,000,000. During 2016, the amount the Alliance can borrow was increased to \$10,000,000. Interest on outstanding borrowings under the agreement is fixed at 2% per annum. As of May 31, 2016 and 2015, outstanding balances were \$7,000,000 and \$3,000,000. The note has no maturity and is payable on demand.

### 7. Temporarily Restricted Net Assets

As of May 31, 2016 and 2015, Drug Policy Action's temporarily restricted net assets consisted of \$19,195,656 and \$23,949,582 of time restricted grants. Net assets released from restriction in fiscal 2016 and 2015 due to time restriction expiration were \$6,500,000 and \$6,650,000.

## **Drug Policy Action**

Notes to Financial Statements  
May 31, 2016

### **8. Related Party Transactions**

As per an administrative service agreement between Drug Policy Action and Alliance, Drug Policy Action reimburses Alliance for all administrative, personnel and related expenses, and use of facilities. During the years ended May 31, 2016 and 2015, Drug Policy Action reimbursed Alliance approximately \$122,000 and \$146,000 for expenses paid by Alliance. Drug Policy Action entered into a revolving note receivable with Drug Policy Alliance to lend the Alliance up to \$10,000,000. Interest income on outstanding borrowings under this agreement was \$118,333 and \$60,000 for the years ended May 31, 2016 and 2015.

### **9. Net Assets Reclassification**

In 2016, Drug Policy Action reviewed their net asset presentation and reclassified certain time restricted net assets. Accordingly, unrestricted net assets of \$5,079,001 at May 31, 2015 were reclassified to temporarily restricted net assets.

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