

MULTIDISCIPLINARY ASSOCIATION FOR PSYCHEDELIC STUDIES, INC.

Audited Financial Statements

May 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Multidisciplinary Association for Psychedelic Studies, Inc.

We have audited the accompanying financial statements of Multidisciplinary Association for Psychedelic Studies, Inc. (a nonprofit organization), which comprise the statements of financial position as of May 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors consider 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 Multidisciplinary Association for Psychedelic Studies, Inc. as of May 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BOITANO, SARGENT & LILLY, LLP

San Jose, California
October 31, 2013

MULTIDISCIPLINARY ASSOCIATION FOR PSYCHEDELIC STUDIES, INC.

Statements of Financial Position

May 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Cash and cash equivalents	\$ 1,045,070	\$ 4,274,612
Investments	4,381,337	-
Promises to give	1,407,037	2,331,674
Inventory	44,660	28,130
Note receivable	7,454	11,164
Other assets	10,470	6,371
Total assets	<u><u>\$ 6,896,028</u></u>	<u><u>\$ 6,651,951</u></u>
Liabilities and net assets		
Liabilities		
Accounts payable	\$ 48,502	\$ 18,217
Accrued expenses	41,098	91,372
Total liabilities	<u>89,600</u>	<u>109,589</u>
Net Assets		
Unrestricted net assets	6,652,488	6,183,056
Temporarily restricted net assets	153,940	359,306
Total net assets	<u>6,806,428</u>	<u>6,542,362</u>
Total liabilities and net assets	<u><u>\$ 6,896,028</u></u>	<u><u>\$ 6,651,951</u></u>

The accompanying notes are an integral part of these financial statements.

MULTIDISCIPLINARY ASSOCIATION FOR PSYCHEDELIC STUDIES, INC.

Statements of Activities

For the Years Ended May 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Unrestricted net assets		
Revenue		
Contributions	\$ 1,166,543	\$ 499,792
Bequest	26,353	5,606,613
Events and activities	541,804	248,563
Fiscal sponsorship income	23,546	-
Merchandise sales, net	51,629	48,676
In-kind contributions	60,441	66,368
Investment income, net	246,558	36,011
Net assets released from restrictions	496,564	643,276
Total revenue	<u>2,613,438</u>	<u>7,149,299</u>
Expenses		
Program services	1,585,629	1,342,631
Management and general	381,336	433,349
Fund raising	177,041	223,293
Total expenses	<u>2,144,006</u>	<u>1,999,273</u>
Increase in unrestricted net assets	<u>469,432</u>	<u>5,150,026</u>
Temporarily restricted net assets		
Contributions	291,198	565,296
Net assets released from restrictions	<u>(496,564)</u>	<u>(643,276)</u>
Decrease in temporarily restricted net assets	<u>(205,366)</u>	<u>(77,980)</u>
Change in net assets	264,066	5,072,046
Net assets, beginning of year	6,542,362	1,139,421
Prior period adjustment	<u>-</u>	<u>330,895</u>
Net assets, end of year	<u>\$ 6,806,428</u>	<u>\$ 6,542,362</u>

The accompanying notes are an integral part of these financial statements.

MULTIDISCIPLINARY ASSOCIATION FOR PSYCHEDELIC STUDIES, INC.

Statement of Functional Expenses

For the Year Ended May 31, 2013

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total Expenses</u>
Salaries and related expenses				
Salaries and wages	\$ 374,325	\$ 176,534	\$ 108,773	\$ 659,632
Payroll taxes	32,018	14,649	8,527	55,194
Employee benefits	47,067	45,237	17,604	109,908
Total salaries and related expenses	<u>453,410</u>	<u>236,420</u>	<u>134,904</u>	<u>824,734</u>
Services and supplies				
Clinical research	567,372	-	-	567,372
Event expense	394,188	-	3,844	398,032
Education and outreach	18,799	146	1,625	20,570
IT expenses	4,343	29,893	9,349	43,585
Insurance	-	3,161	-	3,161
Other expenses	29,416	13,140	71	42,627
Occupancy	22,496	10,609	6,537	39,642
Postage and delivery	4,703	13,154	839	18,696
Fiscal sponsor - education	5,715	-	-	5,715
Staff development	5,861	4,627	1,790	12,278
Professional expenses	42,497	59,871	-	102,368
Marketing expenses	18,512	1,116	7,667	27,295
Conferences, conventions, and meetings	8,104	2,653	7,782	18,539
Telephone	10,213	6,546	2,633	19,392
Total services and supplies	<u>1,132,219</u>	<u>144,916</u>	<u>42,137</u>	<u>1,319,272</u>
Total expenses	<u>\$ 1,585,629</u>	<u>\$ 381,336</u>	<u>\$ 177,041</u>	<u>\$ 2,144,006</u>

The accompanying notes are an integral part of these financial statements.

MULTIDISCIPLINARY ASSOCIATION FOR PSYCHEDELIC STUDIES, INC.

Statement of Functional Expenses

For the Year Ended May 31, 2012

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total Expenses</u>
Salaries and related expenses				
Salaries and wages	\$ 255,910	\$ 210,147	\$ 105,056	\$ 571,113
Payroll taxes	22,902	17,654	8,484	49,040
Employee benefits	50,470	66,222	8,849	125,541
Total salaries and related expenses	<u>329,282</u>	<u>294,023</u>	<u>122,389</u>	<u>745,694</u>
Services and supplies				
Clinical research	544,291	610	56	544,957
Event expense	331,412	-	74,020	405,432
Depreciation	-	799	-	799
IT expenses	2,685	33,798	25	36,508
Insurance	-	5,738	-	5,738
Other expenses	11,330	16,269	3,697	31,296
Occupancy	19,746	15,244	7,311	42,301
Postage and delivery	12,231	231	2,686	15,148
Staff development	9,737	3,479	8,582	21,798
Professional expenses	435	39,645	-	40,080
Marketing expenses	24,535	632	651	25,818
Travel	5,757	16,643	1,027	23,427
Conferences, conventions, and meetings	36,810	4,705	553	42,068
Telephone	14,380	1,533	2,296	18,209
Total services and supplies	<u>1,013,349</u>	<u>139,326</u>	<u>100,904</u>	<u>1,253,579</u>
Total expenses	<u>\$ 1,342,631</u>	<u>\$ 433,349</u>	<u>\$ 223,293</u>	<u>\$ 1,999,273</u>

The accompanying notes are an integral part of these financial statements.

MULTIDISCIPLINARY ASSOCIATION FOR PSYCHEDELIC STUDIES, INC.

Statements of Cash Flows

For the Years Ended May 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ 264,066	\$ 5,072,046
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	-	799
Realized and unrealized gain on investments	(273,993)	(31,116)
(Increase) decrease in operating assets		
Promises to give	924,637	(2,331,614)
Inventory	(16,530)	(6,311)
Note receivable	3,710	113,836
Other assets	(4,099)	1,311
Increase (decrease) in operating liabilities		
Accounts payable	30,285	11,355
Accrued expenses	(50,274)	85,251
Net cash provided by operating activities	<u>877,802</u>	<u>2,915,557</u>
 Cash flows from investing activities		
Purchases of investments	(4,137,394)	-
Proceeds from sale of investments	30,050	398,792
Net cash provided (used) by investing activities	<u>(4,107,344)</u>	<u>398,792</u>
 Increase (decrease) in cash and cash equivalents	 (3,229,542)	 3,314,349
 Cash and cash equivalents, beginning of year	 <u>4,274,612</u>	 <u>960,263</u>
 Cash and cash equivalents, end of year	 <u>\$ 1,045,070</u>	 <u>\$ 4,274,612</u>

The accompanying notes are an integral part of these financial statements.

MULTIDISCIPLINARY ASSOCIATION FOR PSYCHEDELIC STUDIES, INC.

Notes to Financial Statements

May 31, 2013 and 2012

Note 1 - Nature of activities

The Multidisciplinary Association for Psychedelic Studies, Inc. (MAPS), a not-for-profit corporation, was incorporated in 1986 in response to the criminalization of MDMA (methylenedioxy methamphetamine). MAPS was incorporated to conduct research with psychedelic medicines, and to develop standards and practices for psychedelic psychotherapy. MAPS' vision is a world where psychedelic medicines are available to people for medical, therapeutic, and psychospiritual purposes. MAPS seeks to bring an end to the fear and irrationality that have surrounded psychedelics and marijuana for decades, committing instead to the systematic scientific evaluation of their risks and benefits as treatments for some of the world's most debilitating and hard-to-treat conditions.

Key Accomplishments:

- Completing the first study in the U.S. evaluating MDMA's therapeutic applications for subjects with chronic, treatment-resistant post-traumatic stress disorder (PTSD). The results were published July 2010. The findings from a long-term follow up study of the original subjects were published November 2012. Both studies' promising results were published in the *Journal of Psychopharmacology*.
- Sponsoring four additional phase 2 pilot studies of MDMA-assisted psychotherapy. These current studies are located in Charleston, South Carolina, for veterans of war with PTSD; and in Boulder, Colorado; Beer Ya'akov, Israel; and Vancouver, Canada.
- Completing the first LSD-psychotherapy study since 1972. The study explored the effectiveness of this therapy for patients suffering from anxiety associated with terminal illness.
- Hosting the second international "Psychedelic Science" conference in April 2013, with attendance of over 1,900, which presented over 100 speakers from more than 30 countries.
- Designing a study of smoked or vaporized marijuana as a treatment for symptoms of PTSD in U.S. veterans of war. At the time of this publication, MAPS is attempting to purchase the appropriate strains from the federal government.
- Waging a lawsuit against the U.S. Drug Enforcement Administration in support of Professor Lyle Craker's proposed MAPS-sponsored medical marijuana production facility at the University of Massachusetts-Amherst.
- Sponsoring Dr. Evgeny Krupitsky's pioneering research into the use of ketamine-assisted psychotherapy in the treatment of alcoholism and heroin addiction.
- Assisting Dr. Charles Grob in obtaining permission for the first human studies in the U.S. with MDMA after it was criminalized in 1985.
- Sponsoring the first study analyzing the purity and potency of street samples of "ecstasy" and marijuana.
- Funding Dr. Donald Abrams' successful efforts to obtain permission for the first study of the therapeutic use of marijuana in humans in 15 years, and to secure a \$1 million grant from the U.S. National Institute on Drug Abuse.
- Obtaining orphan-drug designation from the U.S. Food and Drug Administration (FDA) for smoked marijuana in the treatment of AIDS wasting syndrome.

MULTIDISCIPLINARY ASSOCIATION FOR PSYCHEDELIC STUDIES, INC.

Notes to Financial Statements

May 31, 2013 and 2012

Note 1 - Nature of activities (continued)

- Funding the synthesis of psilocybin for the first U.S. FDA-approved clinical trial of psilocybin in 25 years.
- Sponsoring psychedelic harm reduction programs at community events in the U.S., and festivals in Portugal, South Africa, Costa Rica, and the Black Rock Desert in Nevada

Note 2 – Summary of significant accounting policies

(a) Basis of Net Assets Presentation

MAPS is required to report information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of MAPS and/or the passage of time.

Permanently Restricted Net Assets- Net assets subject to donor-imposed stipulations which are required to be held in perpetuity. As of May 31, 2013 and 2012, MAPS had no permanently restricted net assets.

(b) Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

(c) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of 90 days or less, excluding cash received with a donor-imposed restriction that limits its use for long-term purposes.

(d) Investments

Investments in marketable securities with readily determinable fair values are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

(e) Taxes

MAPS is a non-profit organization that is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax position and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. MAPS's returns are subject to examination by federal and state taxing authorities, generally three years and four years respectively, after they are filed.

MULTIDISCIPLINARY ASSOCIATION FOR PSYCHEDELIC STUDIES, INC.

Notes to Financial Statements

May 31, 2013 and 2012

Note 2 – Summary of significant accounting policies (continued)

(f) Property and Equipment

Property and equipment are capitalized at cost or fair value at the date of donation. It is MAPS's policy to capitalize expenditures in excess of \$1,000. Lesser amounts are generally expensed. Depreciation is provided over the estimated useful life of the asset ranging from five to thirty-nine years and is computed on the straight-line method.

(g) Long-lived Assets

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset and long-lived assets to be disposed of by sale are reported at the lower of carrying amount or fair value less costs to sell.

(h) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates include fair value of investments and the determination of functional expense allocations.

Note 3 – Promises to give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the same year. All other restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Management has determined outstanding promises to give are fully collectible and no allowance has been provided.

Note 4 – Inventory

Inventory is stated at the lower of cost (determined on the first-in, first out basis) or market. Inventory consists of books, DVD's, clothing, and other promotional items available for sale.

Note 5 – Note receivable

MAPS has a note receivable from an unrelated organization. As of May 31, 2013 and 2012, the unpaid balance was \$7,454 and \$11,164, respectively. The note is unsecured and carries a 3% interest rate. The note was due April 30, 2013. Management has elected to extend the term of the note for an additional year and believes that the note is fully collectible; therefore, no allowance has been provided.

MULTIDISCIPLINARY ASSOCIATION FOR PSYCHEDELIC STUDIES, INC.

Notes to Financial Statements

May 31, 2013 and 2012

Note 6 – Investments

During the year ended May 31, 2013, MAPS established the Curing PTSD Fund (the Fund), a donor-advised fund managed by The San Francisco Foundation. MAPS is the sole designated beneficiary of the Fund and is able to withdraw from the Fund without any restrictions. The balance of the Fund is presented as investments on the statements of the financial position. The following schedule summarizes activities related to the Fund:

Balance as May 31, 2012	\$	-
Investments purchased		4,137,394
Interest and dividend		17,699
Realized/unrealized gains		273,993
Investment expenses		<u>(47,749)</u>
Balance as May 31, 2013	\$	<u>4,381,337</u>

Note 7 – Fair value measurements

MAPS financial assets and liabilities are carried at fair value and have been classified into a three-tier hierarchy based on Financial Accounting Standards for Fair Value Measurements. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

Level 1 – Quoted prices in active markets for identical investments.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and the fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests.

The following table presents MAPS's fair value hierarchy for financial assets measured at fair value on a recurring basis:

	<u>Fair value measurement at reporting date using:</u>		
May 31, 2013	<u>Fair value</u>	<u>Level 1</u>	<u>Level 3</u>
Money market funds	\$ 876,267	\$ 876,267	\$ -
U.S. equity funds	876,267	876,267	-
International equity funds	630,913	630,913	-
Alternative investments	1,296,876	-	1,296,876
Fixed income funds	<u>701,014</u>	<u>701,014</u>	-
Total Investments	\$ <u>4,381,337</u>	\$ <u>3,084,461</u>	\$ <u>1,296,876</u>

The table below summarizes the activities for investment classified as Level 3 measured at fair value on a recurring basis for the year ended May 31, 2013:

Balance as May 31, 2012	\$	-
Investments purchased		1,224,669
Investment income, net		<u>72,207</u>
Balance as May 31, 2013	\$	<u>1,296,876</u>

MULTIDISCIPLINARY ASSOCIATION FOR PSYCHEDELIC STUDIES, INC.

Notes to Financial Statements

May 31, 2013 and 2012

Note 8 – Property and equipment

Property and equipment consists of the following at May 31:

	<u>Life</u>	<u>2013</u>	<u>2012</u>
Equipment	5 to 7 years	\$ 66,275	\$ 66,275
Accumulated depreciation		<u>(66,275)</u>	<u>(66,275)</u>
Property and equipment, net		<u>\$ -</u>	<u>\$ -</u>

Note 9 – Accrued expenses

Accrued expenses primarily include accrued payroll expenses, education benefits and retirement plan contributions.

Note 10 – Other assets

Other assets primarily consist of security deposits and miscellaneous receivables.

Note 11 – Temporarily restricted net assets

As of May 31, 2013 and 2012, temporarily restricted net assets designated for special research projects and events were \$153,940 and \$359,306, respectively.

Note 12 – Operating lease commitments

On May 1, 2013, MAPS entered into a one-year lease for the premises located at 1215 Mission St., Santa Cruz, California at a lease rate of \$3,100 per month. The future minimum rents as of May 31, 2013 were \$34,100.

Note 13 – Retirement plan

MAPS has a SEP-IRA plan covering all eligible employees. Depending on the years of employment, MAPS can contribute up to 10% of an eligible employee's annual compensation to the plan. Employee contributions are not required under this plan. For the years ended May 31, 2013 and 2012, MAPS contributed \$29,867 and \$35,885 to the plan, respectively. The amount was included in the accrued expenses on the statements of financial position.

Note 14 – Concentration

For the years ended May 31, 2013 and 2012, MAPS' maintains cash balances in several banks. Accounts at each institution are insured by the FDIC up to a current maximum of \$250,000. During the year, MAPS may maintain cash balances in excess of FDIC limits. MAPS has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk in these accounts.

MULTIDISCIPLINARY ASSOCIATION FOR PSYCHEDELIC STUDIES, INC.

Notes to Financial Statements

May 31, 2013 and 2012

Note 14 – Concentration (continued)

MAPS has concentrations of risk as a result of contributions from major donors. Contributions received from the top three donors, as a percentage of total contributions for the years ended May 31, 2013 and 2012, were 47% and 87%, respectively. Promises to give from a single donor's bequest account for 99% and 100% of total promises to give at May 31, 2013 and 2012, respectively.

Note 15 – Prior period adjustment

During the year ended May 31, 2012, management determined that the value of real estate held for investment at the beginning of the year was understated by \$317,676. The real estate was sold during the year for \$400,000 and MAPS realized a gain of \$31,116. In addition, the beginning cash and cash equivalents balance was understated by \$13,219. The cash was held by an unrelated entity on behalf of MAPS. As a result, unrestricted net assets at May 31, 2011 were understated by \$330,895. Management does not anticipate any income tax liability resulting from these adjustments.

Note 16 – Evaluation of subsequent events

MAPS has evaluated events subsequent to May 31, 2013, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through October 31, 2013, the date the financial statements were available to be issued.

MAPS received a bequest in excess of \$1 million after May 31, 2013. As of the report issuance date, the actual bequest amount and timing of the distribution were not yet determined. The bequest was not recognized on the financial statements.