

Foundation for Opioid Response Efforts

Financial Statements

March 31, 2020 and 2019

Independent Auditors' Report

To the Board of Directors Foundation for Opioid Response Efforts

We have audited the accompanying financial statements of the Foundation for Opioid Response Efforts, which comprise the statements of financial position as of March 31, 2020 and 2019 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 audit 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 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 the Foundation for Opioid Response Efforts as of March 31, 2020 and 2019 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.

PKF O'Connor Davies, LLP

February 24, 2021

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Foundation for Opioid Response Efforts

Statements of Financial Position

	March 31,	
	2020	2019
ASSETS		
Cash	\$ 173,314	\$ 865,579
Investments	89,634,232	100,101,951
Prepaid expenses	39,041	18,883
Prepaid excise tax	82	-
Security deposit	28,636	28,636
Website development, net	18,333	13,750
Total Assets	\$ 89,893,638	\$ 101,028,799
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable, net	\$ 6,263,282	\$ -
Due to related party	-	580,242
Accounts payable and accrued expenses	137,490	127,190
Federal excise tax payable	-	11,116
Deferred federal excise tax liability	-	884
Total Liabilities	6,400,772	719,432
Net assets without donor restrictions	83,492,866	100,309,367
	\$ 89,893,638	\$ 101,028,799

See notes to financial statements

Foundation for Opioid Response Efforts

Statements of Activities

	Year Ended March 31, 2020	Year Ended March 31, 2019		
	Without Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Total
INVESTMENT RETURN AND SUPPORT				
Investment Return				
Dividends and interest	\$ 1,948,817	\$ 1,047,732	\$ -	\$ 1,047,732
Realized gain on investments	1,365,934	-	-	-
Unrealized gain/(loss) on investments	<u>(9,422,624)</u>	<u>44,219</u>	<u>-</u>	<u>44,219</u>
	(6,107,873)	1,091,951	-	1,091,951
Less direct investment expenses	<u>336,011</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment Return	<u>(6,443,884)</u>	<u>1,091,951</u>	<u>-</u>	<u>1,091,951</u>
Contributed services	-	32,955	-	32,955
Net assets released from restrictions	<u>-</u>	<u>100,000,000</u>	<u>(100,000,000)</u>	<u>-</u>
Total Investment Return and Support	<u>(6,443,884)</u>	<u>101,124,906</u>	<u>(100,000,000)</u>	<u>1,124,906</u>
EXPENSES				
Programs	9,652,997	232,288	-	232,288
Operations and governance	558,421	533,198	-	533,198
Investment oversight	133,281	38,053	-	38,053
Federal excise tax	28,802	11,116	-	11,116
Deferred federal excise tax expense (benefit)	<u>(884)</u>	<u>884</u>	<u>-</u>	<u>884</u>
Total Expenses	<u>10,372,617</u>	<u>815,539</u>	<u>-</u>	<u>815,539</u>
Change in Net Assets	(16,816,501)	100,309,367	(100,000,000)	309,367
NET ASSETS				
Beginning of year	<u>100,309,367</u>	<u>-</u>	<u>100,000,000</u>	<u>100,000,000</u>
End of year	<u>\$ 83,492,866</u>	<u>\$ 100,309,367</u>	<u>\$ -</u>	<u>\$ 100,309,367</u>

See notes to financial statements

Foundation for Opioid Response Efforts

Statement of Functional Expenses For the Year Ended March 31, 2020

	Programs	Operations and Governance	Investment Oversight	Total
Grants	\$ 8,579,578	\$ -	\$ -	\$ 8,579,578
Salaries and benefits	474,018	302,607	106,424	883,049
Occupancy	68,637	43,817	15,410	127,864
Consulting and other professional fees	268,771	8,413	-	277,184
Legal fees	49,694	22,963	-	72,657
Auditing and accounting fees	-	50,000	-	50,000
Insurance	-	34,163	-	34,163
Dues and subscriptions	-	3,475	-	3,475
Travel and meeting	110,911	46,778	-	157,689
Office expenses	32,103	20,494	7,207	59,804
Bank charges	-	4,488	-	4,488
Honorariums	50,400	-	-	50,400
Information technology	18,885	12,056	4,240	35,181
Amortization	-	9,167	-	9,167
Total	<u>\$ 9,652,997</u>	<u>\$ 558,421</u>	<u>\$ 133,281</u>	<u>\$ 10,344,699</u>

See notes to financial statements

Foundation for Opioid Response Efforts

Statement of Functional Expenses For the Year Ended March 31, 2019

	Programs	Operations and Governance	Investment Oversight	Total
Salaries and benefits	\$ 120,661	\$ 106,712	\$ 31,675	\$ 259,048
Occupancy	15,171	13,417	3,983	32,571
Consulting and other professional fees	75,049	277,389	-	352,438
Legal fees	-	49,005	-	49,005
Auditing and accounting fees	-	46,500	-	46,500
Insurance	-	18,883	-	18,883
Dues and subscriptions	-	793	-	793
Travel and meeting	12,285	12,284	-	24,569
Office expenses	9,122	8,069	2,395	19,586
Bank charges	-	146	-	146
Total	\$ 232,288	\$ 533,198	\$ 38,053	\$ 803,539

See notes to financial statements

Foundation for Opioid Response Efforts

Statement of Cash Flows

	Year Ended March 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (16,816,501)	\$ 309,367
Adjustments to reconcile change in net assets to net cash from operating activities		
Amortization	9,167	-
Unrealized (gain) loss on investments	9,422,624	(44,219)
Realized gain on investments	(1,365,934)	-
Deferred federal excise tax	(884)	884
Discount to present value	(42,226)	-
Change in operating assets and liabilities		
Contributions receivable	-	100,000,000
Prepaid expenses	(20,158)	(18,883)
Prepaid excise tax	(82)	-
Security deposit	-	(28,636)
Grants payable	6,305,508	-
Due to related party	(580,242)	580,242
Accounts payable and accrued expenses	10,300	127,190
Prepaid excise tax	(11,116)	11,116
Net Cash from Operating Activities	<u>(3,089,544)</u>	<u>100,937,061</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of website costs	(13,750)	(13,750)
Purchase of investments	(160,886,552)	(7,695,580)
Proceeds from sale of investments	95,832,407	-
Change in money market	<u>67,465,174</u>	<u>(92,362,152)</u>
Net Cash from Investing Activities	<u>2,397,279</u>	<u>(100,071,482)</u>
Net Change in Cash and Cash Equivalents	<u>(692,265)</u>	<u>865,579</u>
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>865,579</u>	<u>-</u>
End of year	<u>\$ 173,314</u>	<u>\$ 865,579</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Federal excise and other taxes paid	\$ 25,000	\$ -

See notes to financial statements

Foundation for Opioid Response Efforts

Notes to Financial Statements

March 31, 2020 and 2019

1. Organization

Foundation for Opioid Response Efforts (“FORE”) (formerly known as Orchid Solutions Foundation) is a private not-for-profit organization formed on March 27, 2018 with the specific and primary purpose to engage in charitable and educational activities.

On March 30, 2018, McKesson Corporation (“McKesson”) pledged to give a \$100M gift to FORE for the specific purpose of addressing the opioid epidemic, which was received in fiscal year 2019.

Effective June 12, 2018, FORE changed its name from Orchid Solutions Foundation to Foundation for Opioid Response Efforts to better reflect its mission.

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 (“U.S. 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 revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Change in Accounting Principle

Effective April 2019, FORE adopted new U.S. GAAP revenue recognition guidance which provided a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new revenue recognition guidance does not apply to how contributions and pledges are recognized, as they are specifically scoped out of the new guidance. The core principle of the new guidance is that an entity should recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those promised goods or services to customers. The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. In addition, this guidance requires new or expanded disclosures related to judgments made by entities when following this framework. Adoption of the ASU had no impact on FORE’s financial statements.

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (“ASU 2018-08”). ASU 2018-08 provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions or as non-exchange transactions. ASU 2018-08 is effective for resource providers for fiscal years beginning after December 15, 2019. Adoption of the ASU had an immaterial impact on FORE’s financial statements.

Foundation for Opioid Response Efforts

Notes to Financial Statements
March 31, 2020 and 2019

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

Cash and Cash Equivalents

Cash and cash equivalents represent short-term investments with maturities of three months or less, at time of purchase except for those short-term investments managed by FORE's investment managers as part of their long-term investment strategies.

Fair Value Measurements

FORE follows U.S. 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.

Pursuant to U.S. GAAP guidance, alternative investments, where fair value is measured using a Net Asset Value ("NAV") (or its equivalent) are not categorized within the fair value hierarchy.

Investments Valuation and Income Recognition

Investments are carried at fair value. The fair value of alternative investments has been estimated using the NAV as reported by the management of the respective alternative investment fund. 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 and unrealized gains and losses are included in the determination of the change in net assets.

Securities are subject to various investment risks that can determine their value, such as market, economic, industry, company, credit, liquidity and inflation risks. Due to the levels and types of risk associated with certain securities and the uncertainties related to changes in the value of those securities, it is possible that changes in market or other conditions in the near term or other risk factors could materially affect the value of the investments reported in the financial statements.

Investments Risks and Uncertainties

Alternative investments consist of non-traditional, not readily marketable investments, some of which may be structured as offshore limited partnerships, venture capital funds, hedge funds, private equity funds and common trust funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale.

Foundation for Opioid Response Efforts

Notes to Financial Statements
March 31, 2020 and 2019

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

Investments Risks and Uncertainties (continued)

Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

Because of the inherent uncertainty of valuations, the estimated fair values of alternative investments may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

Investment Expenses

Investment expenses on the statements of activities consist of foreign taxes and fees paid directly to FORE's investment advisors and custodians.

Website Development

Website development is carried at cost. Amortization is recorded using the straight-line method over the estimated useful life of the asset, which is 3 years. Physical assets acquired with costs that exceed \$10,000 and having a period of benefit in excess of one year are capitalized.

Website development costs consist of all costs incurred to develop the website. As of March 31, 2020 it has been fully developed and being amortized.

Presentation of Net Assets

Net assets are categorized as without donor restrictions and with donor restrictions.

Without donor restrictions - Resources that are fully available at the discretion of management and the Board of Directors (the Board), for use in activities within FORE's mission.

With donor restrictions - Funds that FORE may use in accordance with donor's restrictions for specific purposes or upon the passage of time or require FORE to maintain them in perpetuity.

All of FORE's net assets were without donor restriction as March 31, 2020 and 2019.

Contributions

Contributions are recorded when received and as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the contribution or that have time restrictions. When the restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Foundation for Opioid Response Efforts

Notes to Financial Statements
March 31, 2020 and 2019

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

Contributed Services

Contributed services are recognized at fair value when received if such services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. McKesson provided FORE with professional and administrative services in year one of startup phase. The fair value of the contributed services is shown on the 2019 statement of activities.

Functional Allocation of Expenses

The costs of providing various programs and related supporting services have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among programs and supporting services. The allocation of cost to FORE's activities is based on the percentage of time spent by employees on the various activities. Cost is calculated by applying the percentage of an employee's time spent on an activity to compensation, benefits and certain operating expenses.

Grant Expenditures

Grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the term of the conditions.

Accounting for Uncertainty in Income Taxes

FORE recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that FORE had no uncertain tax positions that would require financial statement recognition or disclosure. Tax years since inception remain open to examination.

Reclassification

Certain reclassifications have been made to the 2019 financial statement presentation to correspond to the current year format.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is February 24, 2021.

Foundation for Opioid Response Efforts

Notes to Financial Statements
March 31, 2020 and 2019

3. Federal Excise Tax

FORE is a private foundation as defined in Section 509(a) of the Internal Revenue Code. FORE is subject to a Federal excise tax of 2% on its net investment income, as defined, for tax purposes. However, the excise tax is reduced to 1% if certain conditions are met. FORE has qualified for the 1% rate for both 2020 and 2019. At March 31, 2020, there was undistributed income totaling approximately \$3,218,900 that they anticipate to distribute by March 31, 2021. Deferred taxes principally arise from differences between the cost and fair value of investments where aggregate fair value exceeds cost and are calculated using a using a 1.39% rate.

4. Concentration of Credit Risk

Financial instruments that potentially subject FORE to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation (“FDIC”) limit, and investments in its investment portfolio.

FORE does not believe that a significant risk of loss due to the failure of a financial institution presently exists. The investment portfolio is diversified by type of investments and industry concentrations with the intention that no individual investment, investment advisor, investment manager or group of investments should represent a significant concentration of credit risk.

5. Fair Value Measurements

The following are the classes and major categories of investments measured at fair value on a recurring basis, grouped by the fair value hierarchy, as of March 31, 2020 and 2019:

	2020		
	Level 1	Investments Valued using NAV (*)	Total
Exchange traded funds	\$ 37,728,900	\$ -	\$ 37,728,900
Equities			
EAFE equity	11,367,343	-	11,367,343
U.S. mid cap equity	5,953,570	-	5,953,570
Mutual funds	2,065,244	-	2,065,244
Hedge Funds			
Global long/short	-	257,410	257,410
Real estate	-	2,507,175	2,507,175
Private real estate	-	916,581	916,581
Venture capital	-	316,562	316,562
Private equity funds	-	3,624,466	3,624,466
Total Investments at Fair Value	<u>\$ 57,115,057</u>	<u>\$ 7,622,194</u>	64,737,251
Temporary cash investments, at cost			24,896,981
			<u>\$ 89,634,232</u>

Foundation for Opioid Response Efforts

Notes to Financial Statements
March 31, 2020 and 2019

5. Fair Value Measurements *(continued)*

	2019		
	Level 1	Investments Valued using NAV (*)	Total
Exchange traded funds	\$ 7,729,796	\$ -	\$ 7,729,796
Private equity funds	-	10,000	10,000
Total Investments at Fair Value	\$ 7,729,796	\$ 10,000	7,739,796
Temporary cash investments, at cost			92,362,155
			\$ 100,101,951

(*) As discussed in Note 2, investments that are measured using the practical expedient are not classified within the fair value hierarchy.

Information regarding alternative investments measured at fair value using NAV (or its equivalent) a practical expedient at March 31, 2020, together with a summary of certain provisions affecting their liquidity, is as follows:

	Fair Value	Unfunded Commitments	Frequency	Redemption Notice Period
Hedge Funds				
Global long/short (see "a" below)	\$ 257,410	\$ 738,000	Monthly	60 days
Real estate (see "b" below)	2,507,175	-	Quarterly	95 days
Private real estate (see "c" below)	916,581	1,139,943	**	**
Venture capital (see "d" below)	316,562	1,142,546	**	**
Private equity funds (see "e" below)	3,624,466	11,874,785	**	**
	\$ 7,622,194	\$ 14,895,274		

** These investments are illiquid.

- a. This category includes investments with the objective of achieving capital appreciation by investing primarily in long or short positions of publicly-traded and private companies across sectors globally.
- b. This category includes investments that engage in the business of acquiring, owning, holding for investment and investing in or engaging in activities related to investments in real estate assets. The investments are private, perpetual life, open-end, commingled investment funds.
- c. This category includes an investment exclusively in value-added multifamily real estate assets located throughout the U.S. and may opportunistically invest in a limited number of multifamily development assets. The fund seeks to invest in selective high opportunity sectors of the U.S. real estate market, with a focus on acquiring value-add assets that can be improved through intensive asset management and targeted capital investment. The fund strategy emphasizes the creation of substantial incremental value and operating profits at the asset level. Distributions are received through the liquidation of the underlying assets of the funds.

Foundation for Opioid Response Efforts

Notes to Financial Statements
March 31, 2020 and 2019

5. Fair Value Measurements *(continued)*

- d. This category includes investments focused on investing in venture partnerships that invest in privately-held technology, media, telecommunication, life science and biotechnology companies. Distributions are received through the liquidation of the underlying assets of the funds.
- e. This category includes private equity investments. These are long-term investments that cannot be redeemed at the discretion of FORE. Instead, distributions are received through the liquidation of the underlying assets of the funds.

6. Liquidity and Availability of Financial Assets

FORE'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 for March 31, 2020 and 2019:

	2020	2019
Financial Assets:		
Cash and cash equivalents	\$ 173,314	\$ 865,579
Investments	<u>89,634,232</u>	<u>100,101,951</u>
Total Financial Assets	89,807,546	100,967,530
Less: Contractual or donor imposed restrictions		
Illiquid investments	<u>4,857,609</u>	<u>10,000</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 84,949,937</u>	<u>\$ 100,957,530</u>

As part of FORE's liquidity management strategy, FORE structures its financial assets to be available as its grant payments and expenses come due. The withdrawals are adjusted based on grants and direct charitable expenditures to be disbursed and other factors affecting available cash such as capital calls on investments, investment income and capital distributions, general operating expenses, program costs and other factors affecting available cash.

7. Website Development

Website development consisted of the following at March 31:

	2020	2019
Website development	\$ 27,500	\$ 13,750
Less accumulated amortization	<u>9,167</u>	<u>-</u>
	<u>\$ 18,333</u>	<u>\$ 13,750</u>

Amortization expense amounted to \$9,167 for the year ended March 31, 2020.

Foundation for Opioid Response Efforts

Notes to Financial Statements
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8. Employee Benefit Plans

During July 2019, FORE established a 401(k) Plan for the benefit of all of its future full-time employees that have been employed for a minimum of six months. FORE contributes 3% of a staff members' salary in accordance with the IRS limitations. FORE contributed \$18,469 to the 401(k) Plan for the year ended March 31, 2020.

9. Grants Payable

FORE has entered into grant commitments with certain organizations. Grants payable in more than one year are discounted to their present value at the time the grants are made using an interest rate of 1.35%. Payments to these organizations at March 31, 2020 are to be disbursed as follows:

2021	\$ 3,284,324
2022	2,870,240
2023	<u>150,944</u>
Total Grants	6,305,508
Less discount to present value	<u>42,226</u>
Net Grants Payable	<u>\$ 6,263,282</u>

During 2020, FORE approved conditional grants totaling \$1,379,887.

10. Commitments

FORE leases office space on 110 West 40th in New York, NY. This lease expires in December of 2021.

As of March 31, 2020, the future minimum rental payments for the leased space is as follows:

2021	\$ 112,975
2022	<u>86,770</u>
	<u>\$ 199,745</u>

Rent expense for the years ended March 31, 2020 and 2019 was \$125,032 and \$32,208, respectively.

11. COVID-19

The COVID-19 pandemic has resulted in substantial volatility in the global financial markets. Because of the response to changing market conditions, the amount of losses, if any, cannot be determined at this time.

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