



PARTNERSHIP TO END ADDICTION

Financial Statements

December 31, 2019

(with comparative financial information as of December 31, 2018)

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

To the Board of Directors
Partnership to End Addiction:

We have audited the accompanying financial statements of Partnership to End Addiction (formerly named The National Center on Addiction and Substance Abuse), which comprise the balance sheet as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 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 organization'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 organization'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 Partnership to End Addiction as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1 to the financial statements, effective January 1, 2019, Partnership For a Drug-Free America merged with Partnership to End Addiction, with Partnership to End Addiction as the surviving corporation.



Report on Summarized Comparative Information

We have previously audited the Partnership to End Addiction's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 27, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

September 29, 2020

PARTNERSHIP TO END ADDICTION

Balance Sheet

December 31, 2019

(with comparative financial information as of December 31, 2018)

Assets	2019	2018
Cash and cash equivalents	\$ 1,718,723	799,360
Grants and contributions receivable, net (note 4)	2,222,923	2,788,176
Prepaid expenses	1,809,532	346,571
Investments (note 3)	36,992,623	31,800,381
Other assets	1,712,833	—
Property and equipment, net (notes 5 and 6)	7,580,618	7,813,388
Total assets	<u>\$ 52,037,252</u>	<u>43,547,876</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,950,689	1,530,213
Deferred revenue	707,348	278,196
Total liabilities	<u>2,658,037</u>	<u>1,808,409</u>
Net assets:		
Without donor restrictions:		
Available for operations	8,448,196	4,581,521
Amounts designated for (note 2):		
The Joseph A. Califano, Jr. Institute for Applied Policy	12,193,197	10,659,630
Program Concentration Fund	22,671,875	21,545,991
Total without donor restrictions	43,313,268	36,787,142
With donor restrictions (note 8)	6,065,947	4,952,325
Total net assets	<u>49,379,215</u>	<u>41,739,467</u>
Total liabilities and net assets	<u>\$ 52,037,252</u>	<u>43,547,876</u>

See accompanying notes to financial statements.

PARTNERSHIP TO END ADDICTION

Statement of Activities

Year ended December 31, 2019

(with summarized financial information for the year ended December 31, 2018)

	2019			2018
	Without donor restrictions	With donor restrictions	Total	Total
Revenues:				
Grants and contributions	\$ 2,429,964	6,691,772	9,121,736	4,807,361
Net investment return (loss)	5,005,914	—	5,005,914	(2,291,401)
Donated services	90,341,942	—	90,341,942	50,909
Special events	2,030,843	—	2,030,843	2,181,425
Less direct benefits to donors	(341,636)	—	(341,636)	(344,956)
Net special events revenues	1,689,207	—	1,689,207	1,836,469
Rental income (note 5)	196,435	—	196,435	392,869
Miscellaneous revenue	8,947	—	8,947	1,691
Net assets released from donor restrictions	5,914,185	(5,914,185)	—	—
Total revenues	105,586,594	777,587	106,364,181	4,797,898
Expenses and losses:				
Program operations:				
Public policy	1,110,528	—	1,110,528	904,514
Health and treatment research	4,339,819	—	4,339,819	4,319,769
Research and program development	1,647,881	—	1,647,881	992,142
Communications and outreach	94,447,412	—	94,447,412	1,153,425
Family services	2,349,492	—	2,349,492	198,058
Total program operations	103,895,132	—	103,895,132	7,567,908
Supporting services:				
Administration	3,655,439	—	3,655,439	3,113,630
Fund-raising	944,053	—	944,053	584,660
Total supporting services	4,599,492	—	4,599,492	3,698,290
Total expenses	108,494,624	—	108,494,624	11,266,198
Loss on uncollectible grants and contributions receivable	—	3,965	3,965	16,731
Loss on write-off of fixed assets	151,913	—	151,913	—
Loss on lease termination (note 10)	668,742	—	668,742	—
Total expenses and losses	109,315,279	3,965	109,319,244	11,282,929
(Deficiency) excess of operating revenues over operating expenses and losses	(3,728,685)	773,622	(2,955,063)	(6,485,031)
Nonoperating activities:				
Inherent contribution (note 1)	10,254,811	340,000	10,594,811	—
Increase (decrease) in net assets	6,526,126	1,113,622	7,639,748	(6,485,031)
Net assets at beginning of year	36,787,142	4,952,325	41,739,467	48,224,498
Net assets at end of year	\$ 43,313,268	6,065,947	49,379,215	41,739,467

See accompanying notes to financial statements.

PARTNERSHIP TO END ADDICTION

Statement of Functional Expenses

Year ended December 31, 2019

(with summarized financial information for the year ended December 31, 2018)

	Public policy	Health and treatment research	Research and program development	Communications and outreach	Family services	Total program operations	Administration	Fund-raising	Total supporting services	Total expenses	
										2019	2018
Salaries and wages	\$ 693,368	2,005,289	844,973	1,551,375	1,307,313	6,402,318	1,297,992	314,626	1,612,618	8,014,936	4,937,117
Fringe benefits	213,133	613,622	251,803	478,084	397,769	1,954,411	471,998	97,638	569,636	2,524,047	1,579,025
Total salaries and wages and fringe benefits	906,501	2,618,911	1,096,776	2,029,459	1,705,082	8,356,729	1,769,990	412,264	2,182,254	10,538,983	6,516,142
Professional services	23,578	635,264	24,545	91,386,183	205,037	92,274,607	678,111	298,814	976,925	93,251,532	2,131,076
Communications/marketing/promotional	5,295	11,535	5,098	527,341	10,838	560,107	7,721	13,610	21,331	581,438	75,601
Pass-through grants and contracts	—	325,925	286,630	—	—	612,555	—	—	—	612,555	571,151
Office expenses and supplies	—	78,214	1,056	21,061	14,596	114,927	121,525	6,467	127,992	242,919	183,921
Postage and delivery	93	251	834	192	801	2,171	1,020	(138)	882	3,053	6,755
Telephone and facsimile	256	5,587	1,612	1,454	340	9,249	61,862	830	62,692	71,941	38,723
Occupancy and related costs	107,421	310,342	129,969	240,491	202,053	990,276	260,722	48,853	309,575	1,299,851	528,182
Equipment maintenance	—	70,109	1,028	20,958	6,164	98,259	77,335	93,676	171,011	269,270	202,083
Printing and duplicating	721	1,137	700	—	1,175	3,733	10	—	10	3,743	—
Travel, meetings, and conferences	17,909	129,097	37,369	19,623	92,340	296,338	20,176	21,390	41,566	337,904	240,193
Dues, subscriptions, and publications	—	11,367	3,235	89,224	18,799	122,625	12,696	11,930	24,626	147,251	65,344
Insurance	10,296	29,842	12,498	23,125	19,429	95,190	20,169	4,698	24,867	120,057	102,324
Interest/financing	—	—	—	—	—	—	4,839	—	4,839	4,839	150,553
Recruitment	—	1,000	—	1,995	500	3,495	11,085	332	11,417	14,912	960
Depreciation and amortization	38,458	111,107	46,531	86,101	72,338	354,535	356,243	17,490	373,733	728,268	390,666
Miscellaneous	—	131	—	205	—	336	251,935	13,837	265,772	266,108	62,524
Total expenses	\$ 1,110,528	4,339,819	1,647,881	94,447,412	2,349,492	103,895,132	3,655,439	944,053	4,599,492	108,494,624	11,266,198
Direct benefits to donors										341,636	344,956
										\$ 108,836,260	11,611,154

See accompanying notes to financial statements.

PARTNERSHIP TO END ADDICTION

Statement of Cash Flows

Year ended December 31, 2019

(with summarized financial information for the year ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 7,639,748	(6,485,031)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Inherent contribution	(10,594,811)	—
Depreciation and amortization	728,268	390,666
Loss on write-off of fixed assets	151,913	—
Loss on lease termination	668,742	—
Net realized/unrealized (appreciation) depreciation in fair value of investments	(4,044,076)	3,228,432
Loss on uncollectible grants and contributions receivable	3,965	16,731
Changes in operating assets and liabilities:		
Grants and contributions receivable	1,148,573	707,632
Prepaid expenses	(1,443,588)	65,255
Accounts payable and accrued expenses	(558,454)	(131,025)
Deferred revenue	<u>429,152</u>	<u>247,898</u>
Net cash used in operating activities	<u>(5,870,568)</u>	<u>(1,959,442)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	34,704,357	25,064,484
Purchases of investments	(34,708,650)	(9,705,839)
Cash and cash equivalents assumed in acquisition	6,877,353	—
Acquisitions of property and equipment	<u>(83,129)</u>	<u>(52,240)</u>
Net cash provided by investing activities	<u>6,789,931</u>	<u>15,306,405</u>
Cash flows from financing activities:		
Repayment of bond payable	<u>—</u>	<u>(14,000,000)</u>
Net cash used in financing activities	<u>—</u>	<u>(14,000,000)</u>
Net increase (decrease) in cash and cash equivalents	919,363	(653,037)
Cash and cash equivalents at beginning of year	<u>799,360</u>	<u>1,452,397</u>
Cash and cash equivalents at end of year	\$ <u><u>1,718,723</u></u>	<u><u>799,360</u></u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ —	78,331
Donated services	90,341,942	50,909
Acquisition of assets and liabilities assumed in 2019:		
Grants and contributions receivable, net	\$ 587,285	—
Prepaid expenses	19,373	—
Investments	1,143,873	—
Other assets	1,951,425	—
Property and equipment, net	<u>325,690</u>	<u>—</u>
Assets acquired	<u>4,027,646</u>	<u>—</u>
Accounts payable and accrued expenses	<u>(310,188)</u>	<u>—</u>
Liabilities assumed	<u>(310,188)</u>	<u>—</u>
	\$ <u><u>3,717,458</u></u>	<u><u>—</u></u>

See accompanying notes to financial statements.

PARTNERSHIP TO END ADDICTION

Notes to Financial Statements

December 31, 2019

(with comparative financial information as of December 31, 2018)

(1) Organization and Tax-Exempt Status

The National Center of Addiction and Substance Abuse (CASA) and Partnership For a Drug-Free America (PDFA) entered into an Agreement and Plan of Merger (the Agreement) on December 21, 2018. The Agreement provided that PDFA would be merged into CASA with CASA as the surviving corporation effective January 1, 2019 (the Effective date). A certificate of merger was filed with the Secretary of State in New York. No consideration was exchanged. Following the Effective date, PDFA ceased to exist and CASA was the surviving corporation. CASA accounted for this business combination by applying the acquisition method, and accordingly, the inherent contribution received was valued as the excess of the fair value of the assets acquired over the fair value of the liabilities assumed. In December 2019, CASA changed its name to Partnership to End Addiction (the Partnership). The merger combines the two organizations' capacities in research, policy, media, direct-to-family resources and services, as well as communications expertise, allowing the Partnership to be the go-to organization for addressing every aspect of substance use and addiction, from prevention to recovery. The Partnership will help empower families to support loved ones, advance effective addiction care, and shape public policies to prevent and treat addiction as a public health issue. This strategic combination will help build momentum to change the way this country addresses addiction, extinguishing deep-rooted misperceptions and stigma.

Incorporated in April 1991, the Partnership is a not-for-profit organization that informs Americans of the economic and social costs of addiction and risky substance use and its impact on their lives; assesses what works in prevention, treatment, and disease management; and encourages every individual and institution to take responsibility to reduce these health problems. The Partnership strives to provide healthcare providers, policymakers, and individuals with the tools they need to succeed and to remove the stigma of addiction, replacing shame and despair with hope.

The Partnership has been classified as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3). It has been classified as an organization that is not a private foundation under Section 509(a) and has been designated as a "publicly supported" organization under Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Code.

PARTNERSHIP TO END ADDICTION

Notes to Financial Statements

December 31, 2019

(with comparative financial information as of December 31, 2018)

The estimated fair value of the assets acquired and liabilities assumed as of the Effective date is as follows:

Cash and cash equivalents	\$	6,877,353
Grants and contributions receivable, net		587,285
Prepaid expenses		19,373
Other assets		1,951,425
Investments		1,143,873
Property and equipment, net		<u>325,690</u>
Total assets acquired		<u>10,904,999</u>
Accounts payable and accrued expenses		<u>(310,188)</u>
Total liabilities assumed		<u>(310,188)</u>
Total inherent contribution received	\$	<u><u>10,594,811</u></u>

Other assets includes goodwill of \$853,000 related to acquired workforce.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) Basis of Presentation

Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Partnership and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions also include amounts designated for The Joseph A. Califano, Jr. Institute for Applied Policy and the Program Concentration Fund (the PCF). A description of each follows:

In 2010, the Partnership Board of Directors authorized a fund-raising campaign and agreed that the funds raised would be used to establish The Joseph A. Califano, Jr. Institute for Applied Policy (Califano Institute). This fund supports research to enhance awareness, among the general public and policymakers, of the facts and costs of substance abuse and addiction and catalyze the design and implementation of policies and programs for prevention and treatment of substance abuse and addiction as a medical condition. Its efforts aim to embed a fuller understanding into policy systems and practical programs at the national, state, and local levels. The fund provides funding annually to undertake various research not funded by other sources. For 2020, \$72,113 has been budgeted for various unfunded policy work.

PARTNERSHIP TO END ADDICTION

Notes to Financial Statements

December 31, 2019

(with comparative financial information as of December 31, 2018)

The net assets of the PCF are designated by the Partnership to be used for the research and understanding of substance abuse, often before projects are ready for specific program funding. The PCF underwrites the research and program development capacity to accomplish this. The asset allocation target objectives for the investment portfolio are achieved by using a combination of diversified low-cost mutual funds and multi-strategy funds. The PCF fund has no restriction to use and may be used for operating purposes, when needed.

Net assets with donor restricted – Net assets subject to donor-imposed stipulations that will be met by either actions of the Partnership and/or the passage of time.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets 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 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.

(c) Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The hierarchy gives the highest priority to unadjusted quoted or published prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted or published prices (unadjusted) in active markets for identical assets or liabilities that the Partnership has the ability to access at the measurement date.
- Level 2 inputs include quoted or published prices for similar assets or liabilities; quoted or published prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the assets or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

(d) Cash and Cash Equivalents

Cash and cash equivalents include all short-term liquid investments with original maturities of three months or less, except for those short-term investments held by the Partnership's investment managers as part of a long-term investment strategy.

PARTNERSHIP TO END ADDICTION

Notes to Financial Statements

December 31, 2019

(with comparative financial information as of December 31, 2018)

(e) *Investments*

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying balance sheet, as determined by quoted or published market prices.

Investments in funds that do not have readily determinable fair values (alternative investments) are measured at estimated fair value using net asset value per share or its equivalent as a practical expedient as reported by the fund managers. The estimated fair values may differ significantly from values that would have been used had a ready market for these securities existed. These values are reviewed and evaluated by management.

Realized and unrealized gains and losses are recognized as changes in net assets in the period in which they occur, and interest and dividends are recognized as revenue in the period earned.

(f) *Property and Equipment and Intangible Assets*

Property and equipment are recorded at cost. Furniture and equipment are depreciated on a straight-line basis over their estimated useful lives of 3 to 10 years. The condominium interest and improvements are depreciated on a straight-line basis over their estimated useful lives of 40 years. Intangible assets, which relate primarily to website design, are being amortized over their estimated lives of 3 to 4 years.

(g) *Donated Services*

The value of donated services is based on information obtained from the providers and is reported as both revenues and expenses in the accompanying statement of activities. A number of broadcast and print media, advertising agencies, and production, distribution, and monitoring service companies have made contributions to the Partnership in the form of pro bono advertising time and space, talent, production, and related services. The Partnership is dependent on these contributions to continue its current programs. The Partnership's policy for recognizing contributed advertising, including media time and space, is to recognize the contributed asset if it is determined that the contributions are for the benefit of the Partnership, help the Partnership communicate its message, and that the Partnership has significant influence over the creative product.

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, which are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The value of these contributions is required to be reflected in the accompanying statement of activities at fair value. Fair value of the contributed services, media time, and space has been determined by using unobservable inputs, such as the number of spots aired, net impressions, and rate per spot.

PARTNERSHIP TO END ADDICTION

Notes to Financial Statements

December 31, 2019

(with comparative financial information as of December 31, 2018)

(h) Grants and Contributions

Grants and contributions, including unconditional promises to give, are reported as revenues in the period received except those grants and contributions that are conditional. Conditional grants and contributions are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Grants and contributions receivable are reported at their discounted net present value. An allowance for amounts estimated to be uncollectible, if any, is provided based upon management judgment, including such factors as prior collection history and type of grants and contributions.

(i) Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs such as insurance, legal fees, depreciation and amortization, and occupancy costs have been allocated among the programs and supporting services benefited. The allocation is primarily based on personnel hours charged to divisions.

(j) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Significant estimates made in the preparation of the financial statements include the fair value of alternative investments, net realizable value of grants and contributions receivable, the fair value of assets acquired over liabilities assumed as part of the acquisition, depreciation of property and equipment, and allocation of expenses. Actual results could differ from those estimates.

(k) Prior Year Summarized Comparative Financial Information and Reclassifications

The financial statements include certain prior year summarized comparative information in total but not by net asset class or function in the accompanying statement of activities and the statement of functional expenses, respectively. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Partnership's financial statements as of and for the year ended December 31, 2018, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to the current year presentation.

PARTNERSHIP TO END ADDICTION

Notes to Financial Statements

December 31, 2019

(with comparative financial information as of December 31, 2018)

(I) *New Accounting Pronouncement*

In June 2018, the Financial Accounting Standards Board issued Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08 or the ASU). The amendments in this update assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Partnership adopted ASU 2018-08 in 2019. Prior to the adoption of ASU 2018-08, the Partnership recognized certain government grants as exchange transactions. Upon adoption of ASU 2018-08, the Partnership recognized these government grants as grants and contributions revenue with donor restrictions once the barriers had been overcome and qualifying costs incurred.

(3) Investments

The Partnership invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

The following table presents the fair value hierarchy for investments, the only financial instruments measured at fair value, as of December 31, 2019 and 2018:

	2019		2018	
	Fair value	Level 1	Fair value	Level 1
Cash and cash equivalents	\$ 1,438,764	1,438,764	1,179,698	1,179,698
Fixed-income mutual funds	5,490,903	5,490,903	3,948,733	3,948,733
Equity mutual funds:				
Domestic	15,732,117	15,732,117	9,467,230	9,467,230
International	5,660,983	5,660,983	6,491,579	6,491,579
	<u>28,322,767</u>	<u>\$ 28,322,767</u>	<u>21,087,240</u>	<u>21,087,240</u>
Investment reported at net asset value:				
Absolute return fund	4,373,777		4,202,527	
Event-driven fund	4,198,535		3,932,031	
International value fund	<u>97,544</u>		<u>2,578,583</u>	
Total investments reported at net asset value	<u>8,669,856</u>		<u>10,713,141</u>	
Total investments	<u>\$ 36,992,623</u>		<u>31,800,381</u>	

PARTNERSHIP TO END ADDICTION

Notes to Financial Statements

December 31, 2019

(with comparative financial information as of December 31, 2018)

In addition to mutual funds, the Partnership holds shares or units in alternative investment funds. These strategies involve funds whose managers have the authority to invest in various asset classes at their discretion. The investment strategies in these alternative investments are as follows:

Absolute return fund – This investment follows an absolute return approach that combines relative value and arbitrage strategies with opportunistic investments. The investment seeks capital preservation through superior risk-adjusted returns with relatively low volatility and relatively low correlation to most major market indices. The fund generally strives to hedge most systematic risks, including equity, currency, and commodity risk and to selectively take exposure to interest rate, curve, credit spread, credit default, volatility, and various idiosyncratic risks.

Event-driven fund – The fund seeks to achieve capital appreciation and engages primarily in event-driven investments to attempt to exploit situations in which announced or anticipated events create inefficiencies in the pricing of securities. The fund invests primarily in the securities of issuers experiencing financial distress, that are attempting to complete an out-of-court restructuring, are involved in a bankruptcy or similar proceeding, and/or are involved in substantial litigation or that are the subject of proposed changes in corporate structure or control, such as tender or exchange offers, mergers, unsolicited merger proposals, spin-offs, split-offs, liquidations, and recapitalizations.

International value fund – The fund seeks to achieve appreciation through investments in a broad range of securities including public equities and debt securities, direct loans, real estate debt, and other instruments.

Redemption for the absolute return fund is allowed quarterly with 90 days' notice with a maximum redemption of 25% per quarter and redemption for the event-driven fund is allowed quarterly with 60 days' notice. Redemption for the international value fund is allowed every two years on the anniversary date with 90 days' notice.

(4) Grants and Contributions

Grants and contributions receivable are scheduled to be collected as follows at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 2,222,923	2,753,788
One to five years	—	50,000
	<u>2,222,923</u>	<u>2,803,788</u>
Discount to present value of future cash flows	—	(15,612)
Grants and contributions receivable, net	<u>\$ 2,222,923</u>	<u>2,788,176</u>

During 2019 and 2018, 54% and 92%, respectively, of grants and contributions revenue were from six funding sources, respectively. At December 31, 2019 and 2018, 76% and 95% of grants and contributions receivable, net, were from three funding sources.

PARTNERSHIP TO END ADDICTION

Notes to Financial Statements

December 31, 2019

(with comparative financial information as of December 31, 2018)

(5) Property and Equipment

Property and equipment, net at December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Condominium interest and improvements	\$ 14,353,974	14,353,974
Furniture and equipment	<u>2,438,459</u>	<u>1,865,814</u>
	16,792,433	16,219,788
Accumulated depreciation and amortization	<u>(9,211,815)</u>	<u>(8,406,400)</u>
Property and equipment, net	<u>\$ 7,580,618</u>	<u>7,813,388</u>

The Partnership leased a portion of its condominium under an operating lease that expired in June 2019. Total lease income in 2019 and 2018 was \$196,435 and \$392,869, respectively.

The Partnership sold a portion of its condominium interest to a third party for \$12.5 million in April 2020.

(6) Bonds Payable

In 2000, the New York City Industrial Development Agency (the Agency) issued \$14 million in Adjustable Rate Demand Civic Facility Revenue Bonds, Series 2000 to refinance a note that was used to finance the purchase of condominium units (the Facility). On May 3, 2018, the Partnership redeemed the \$14 million in Adjustable Rate Demand Civic Facility Revenue Bonds with the Agency. During 2018, the interest rates on the bonds ranged from 1.00% to 1.85% per annum.

The trustee of the bonds held a mortgage note on the Facility secured by the property on which the Facility was built, as well as the condominium and improvements, furniture, and fixtures thereon. In conjunction with the financing, the parties thereto had agreed that the Agency would take title to all assets constructed from the proceeds of the financing. Concurrently, the Partnership entered into a lease agreement with the Agency to lease those assets. Title to these assets transferred to the Partnership when the bonds were extinguished and the lease agreement was extinguished.

(7) Retirement Plan

The Partnership has a noncontributory defined-contribution retirement plan covering substantially all employees. Contributions are based on the following formula: 8.0% of the first \$132,900 of annual salary and 13.7% of annual salary in excess of \$132,900 to a maximum of \$280,000. Total pension expense for the years ended December 31, 2019 and 2018 was \$568,186 and \$343,699, respectively.

(8) Net Assets with Donor Restrictions

Net assets with donor restrictions are available primarily for research, public policy, and family services at December 31, 2019 and 2018.

PARTNERSHIP TO END ADDICTION

Notes to Financial Statements

December 31, 2019

(with comparative financial information as of December 31, 2018)

(9) Liquidity and Availability of Resources

The Partnership's financial assets available within one year of the balance sheet date for general expenditures are as follows:

	<u>2019</u>	<u>2018</u>
Financial assets available:		
Cash and cash equivalents	\$ 1,718,723	799,360
Grants and contributions receivable	2,222,923	2,788,176
Investments	<u>36,992,623</u>	<u>31,800,381</u>
	40,934,269	35,387,917
Less amounts not available in the next year:		
Long term contribution receivable	—	(35,487)
Designated for long term:		
The Joseph A. Califano Jr. Institute of Applied Policy	(12,193,197)	(10,659,630)
Spending appropriation for following year	<u>72,113</u>	<u>112,969</u>
Financial asset available to meet cash needs for general expenditure within one year	<u>\$ 28,813,185</u>	<u>24,805,769</u>

The Partnership has \$ 28,813,185 available within one year of the balance sheet date. None of the financial assets above are subject to donor or other contractual restrictions that make them unavailable for expenditures. The grants and contributions receivable is subject to implied satisfaction of purpose restrictions but is expected to be collected within one year. The Partnership has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Partnership, invests any excess cash in various short term investments.

The amounts available for general expenditures include the PCF funds because they are available for expenditure without board action. The Califano Institute is a board designated fund that is subject to board approval for appropriation and only the applied spending rate is available for general expenditures for the next year. The board could however release the restriction and such amounts could be available.

(10) Lease Commitments

In 2019, the Partnership entered into lease agreements to rent office space in New York for a combined lease term of January 2020 through July 2036. Total payments under the agreements are approximately \$30 million. Minimum lease payments are approximately \$1.9 million per year for the next 5 years starting 8 months after the Commencement Date under the lease which is August 2020. Under the terms of the lease agreement, the Partnership provided the landlord with a security deposit of approximately \$931,000 in November 2019.

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Notes to Financial Statements

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(with comparative financial information as of December 31, 2018)

On October 27, 2009, PDFK had entered into a lease agreement to rent office space. In January 2019, PDFA notified the landlord that the Partnership had been assigned the lease under the merger agreement. On April 10, 2019, the Partnership notified the landlord of its election to exercise the option to terminate the lease, effective October 15, 2020, and paid an early termination fee of approximately \$259,000 in September 2019. As a result of the early termination of the lease, in 2019, the Partnership accrued for the remaining future minimum lease payments due in 2020 of \$409,000.

Under the terms of the original lease agreement, PDFA had provided the landlord with a security deposit in the form of an unconditional letter of credit. PDFA opened a certificate of deposit to secure the letter of credit. The certificate of deposit balance was \$195,246 as of December 31, 2019. It earns interest at the prevailing rate.

(11) Subsequent Events

In connection with the preparation of the financial statements, the Partnership evaluated events after the balance sheet date of December 31, 2019 through September 29, 2020, which was the date the financial statements were available to be issued and determined that there were no additional matters that are required to be disclosed, other than as noted below.

The spread of coronavirus (COVID-19) around the world in 2020 has caused significant volatility in the U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Partnership is unable to determine if it will have a material impact to its financial statements in the future. In April 2020, the Partnership received a \$1.1 million loan under the Paycheck Protection Program. The loan will be forgiven if certain conditions are met.