PARTNERSHIP FOR A DRUG-FREE AMERICA

(d/b/a Partnership for Drug-Free Kids)

Financial Statements and Supplemental Schedule

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Directors
Partnership for a Drug-Free America:

We have audited the accompanying financial statements of Partnership for a Drug-Free America, d/b/a Partnership for Drug-Free Kids (the Partnership), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities 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 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 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 Partnership for a Drug-Free America, d/b/a Partnership for Drug-Free Kids, as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership and the U.S. member
firm of the KPMG network of independent member firms affiliated with
KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

June 14, 2017

PARTNERSHIP FOR A DRUG-FREE AMERICA
(d/b/a Partnership for Drug-Free Kids)

Statements of Financial Position

December 31, 2016 and 2015

Assets		**2016**	**2015**
Cash and cash equivalents (notes 2 and 7)	$	960,618	1,515,498
Investments (note 3)		8,912,644	9,454,671
Contributions, grants, and contracts receivable, net		566,805	1,529,303
Prepaid expenses and other assets		69,848	73,845
Property and equipment, net (note 4)		330,909	393,980
Total assets	$	10,840,824	12,967,297
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	184,405	338,321
Deferred rent (note 7)		581,534	578,796
Total liabilities		765,939	917,117
Commitments and contingencies (notes 7 and 8)			
Net assets:			
Unrestricted		9,602,733	10,985,597
Temporarily restricted (note 6)		472,152	1,064,583
Total net assets		10,074,885	12,050,180
Total liabilities and net assets	$	10,840,824	12,967,297

See accompanying notes to financial statements.

PARTNERSHIP FOR A DRUG-FREE AMERICA
(d/b/a Partnership for Drug-Free Kids)

Statement of Activities

Year ended December 31, 2016

(with comparative totals for the year ended December 31, 2015)

		2016		2015
	Unrestricted	**Temporarily restricted**	**Total**	**Total**
Revenues, support, and other additions:				
Contributions	$ 2,262,417	263,819	2,526,236	5,055,152
Contributed services, media time, and space (note 5)	100,839,816	—	100,839,816	83,508,751
Special events	1,057,041	—	1,057,041	1,349,735
Government grants and contracts	730,721	—	730,721	471,824
Interest and dividend income	186,572	—	186,572	256,662
Net appreciation (depreciation) in fair value of investments	282,642	—	282,642	(421,272)
Net assets released from restrictions	856,250	(856,250)	—	—
Total revenues, support, and other additions	106,215,459	(592,431)	105,623,028	90,220,852
Expenses:				
Program services	5,629,000	—	5,629,000	6,023,207
Program services – contributed services, media time, and space (note 5)	100,839,816	—	100,839,816	83,508,751
Management and general	480,528	—	480,528	577,136
Fundraising – special events	154,953	—	154,953	178,458
Fundraising – other	494,026	—	494,026	462,522
Total expenses	107,598,323	—	107,598,323	90,750,074
Decrease in net assets	(1,382,864)	(592,431)	(1,975,295)	(529,222)
Net assets at beginning of year	10,985,597	1,064,583	12,050,180	12,579,402
Net assets at end of year	$ 9,602,733	472,152	10,074,885	12,050,180

See accompanying notes to financial statements.

PARTNERSHIP FOR A DRUG-FREE AMERICA
(d/b/a Partnership for Drug-Free Kids)

Statement of Activities

Year ended December 31, 2015

		2015		
		Unrestricted	**Temporarily restricted**	**Total**
Revenues, support, and other additions:				
Contributions	$	4,025,570	1,029,582	5,055,152
Contributed services, media time, and space (note 5)		83,508,751	—	83,508,751
Special events		1,349,735	—	1,349,735
Government grants and contracts		471,824	—	471,824
Interest and dividend income		256,662	—	256,662
Net depreciation in fair value of investments		(421,272)	—	(421,272)
Net assets released from restrictions		1,211,385	(1,211,385)	—
Total revenues, support, and other additions		90,402,655	(181,803)	90,220,852
Expenses:				
Program services		6,023,207	—	6,023,207
Program services – contributed services, media time, and space (note 5)		83,508,751	—	83,508,751
Management and general		577,136	—	577,136
Fundraising – special events		178,458	—	178,458
Fundraising – other		462,522	—	462,522
Total expenses		90,750,074	—	90,750,074
Decrease in net assets		(347,419)	(181,803)	(529,222)
Net assets at beginning of year		11,333,016	1,246,386	12,579,402
Net assets at end of year	$	10,985,597	1,064,583	12,050,180

See accompanying notes to financial statements.

PARTNERSHIP FOR A DRUG-FREE AMERICA
(d/b/a Partnership for Drug-Free Kids)

Statements of Cash Flows

Years ended December 31, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Decrease in net assets	$	(1,975,295)	(529,222)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:			
Depreciation and amortization expense		68,865	70,190
Net (appreciation) depreciation in fair value of investments		(282,642)	421,272
Changes in operating assets and liabilities:			
Decrease (increase) in contributions, grant, and contracts receivable		962,498	(1,143,816)
Decrease (increase) in prepaid expenses and other assets		3,997	(4,468)
Decrease in accounts payable and accrued expenses		(153,916)	(62,836)
Increase in deferred rent		2,738	42,594
Net cash used in operating activities		(1,373,755)	(1,206,286)
Cash flows from investing activities:			
Purchases of investments		(1,929,401)	(1,112,987)
Proceeds from sales of investments		2,754,070	1,634,631
Purchases of property and equipment		(5,794)	(19,071)
Net cash provided by investing activities		818,875	502,573
Net decrease in cash and cash equivalents		(554,880)	(703,713)
Cash and cash equivalents at beginning of year		1,515,498	2,219,211
Cash and cash equivalents at end of year	$	960,618	1,515,498

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

The Partnership for a Drug-Free America (the Partnership) was established in 1987 with the mission to reduce substance abuse among adolescents by supporting families and engaging with teens. On April 10, 2014, The Partnership received approval from the State of New York to change its "doing business as" name to Partnership for Drug-Free Kids.

Partnership for Drug-Free Kids empowers families with information, support and guidance to get the help their loved one needs and deserves. Through the website, drugfree.org, and through its toll-free helpline (1-855-DRUGFREE), the Partnership provides families with direct support and guidance to help them address teen substance use. The Partnership builds healthy communities, advocating for greater understanding and more effective programs to treat the disease of addiction. As a national nonprofit, the Partnership depends on donations from individuals, corporations, foundations and the public sector and is thankful to the advertising and media industries for their ongoing in-kind donations of talent and in-kind media (note 5).

The Partnership is an organization described under Section 501(c)(3) of the Internal Revenue Code (the Code) and has been classified as exempt from federal income taxes under Section 509(a) of the Code. Accordingly, it is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. The Partnership recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. No provision for income taxes was required for 2016 and 2015 as there were no activities that were not related to its exempt purpose.

Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Partnership as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Temporarily restricted net assets – net assets subject to donor-imposed stipulations that will be met by either actions of the Partnership and/or the passage of time
- Unrestricted net assets – net assets not subject to any donor-imposed stipulations

Revenues are reported as increases in unrestricted net assets unless restricted by the donor. Contributions with donor-imposed restrictions that are met in the same year are reported as unrestricted revenues. 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. When a donor's restriction is accomplished by satisfying the restricted purpose or time restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

(b) Contributions, Grants and Special Events

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional. Contributions to be received after one year are discounted at a risk-adjusted rate. Contributions of securities are recorded at estimated fair value at the date of the gift.

The Partnership receives grants and contributions from a number of sources including the federal government, private foundations, and other donors. Grants are evaluated as to whether they qualify as exchange transactions or contributions as defined by U.S. GAAP. Grants that are treated as exchange transactions are reported as unrestricted revenue when expenses are incurred in accordance with the terms of the agreement. At December 31, 2016 and 2015, the majority of contributions, grants, and contract receivables are expected to be collected within two years.

The gross proceeds from the Partnership's annual gala and other special events in 2016 and 2015 were $1,057,041 and $1,349,735, and the related costs incurred were $154,953 and $178,458, respectively. These amounts are reflected as special events revenue and expense, respectively, in the accompanying statement of activities.

(c) Cash Equivalents

The Partnership classifies as cash equivalents funds that are in short-term, highly liquid investments that are readily convertible to known amounts of cash.

(d) Property and Equipment

Furniture and fixtures and computer equipment and network are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives as follows:

Furniture and fixtures	10 years
Computer equipment and network	3 years
Leasehold improvements	15 years

Leasehold improvements are recorded at cost and are amortized on a straight-line basis over the shorter of the remaining life of the lease or the estimated useful life.

(e) Functional Expenses

The costs of providing program services, management and general, and fundraising activities of the Partnership have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services, management and general, and fundraising activities benefited.

(f) 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. Actual results could differ from those estimates.

(g) Fair Value Hierarchy

Fair value is defined as the exchange price that would be received for 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 three levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted 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: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial instrument, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial instrument. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial instrument. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

The Partnership's investment in a hedge fund is recorded at net asset value as estimated and reported by the fund. This investment is not categorized within the fair value hierarchy.

(h) Subsequent Events

The Partnership evaluated events subsequent to December 31, 2016 and through June 14, 2017, the date on which the financial statements were approved for issuance and determined that no additional matters required disclosure.

(2) Concentration of Credit Risk

At December 31, 2016 and 2015, the Partnership’s cash and cash equivalents were held by a single financial institution. The bank balance was $1,419,657 and $1,546,627 at December 31, 2016 and 2015, respectively, of which $250,000 was insured by the Federal Deposit Insurance Corporation.

(3) Investments and Fair Value Measurements

All investments, including marketable securities and the hedge fund, are reported in the financial statements at fair value, based upon quoted market prices (Level 1) or net asset value provided by the Partnership's external investment manager and reviewed by management for reasonableness. The following table presents the Partnership's fair value of investments as of December 31, 2016 and 2015:

		2016	2015
Level 1:			
Fixed-income mutual funds	$	2,751,593	3,335,833
Domestic corporate stocks		2,674,470	2,837,740
International equity mutual funds		1,791,817	1,613,621
Subtotal		7,217,880	7,787,194
Investments reported at net asset value:			
Hedge fund		1,694,764	1,667,477
Total investments	$	8,912,644	9,454,671

At December 31, 2016 and 2015, there were no Level 2 or 3 investments.

The Partnership is invested in a diversified hedge fund and may request redemptions of all or a portion of its shares as of each calendar quarter end. Redemptions require 100 days prior written notice.

(4) Property and Equipment

Property and equipment at December 31, 2016 and 2015 consist of the following:

		2016	2015
Furniture and fixtures	$	374,151	374,151
Computer equipment and network		108,067	121,846
Leasehold improvements		330,734	330,734
		812,952	826,731
Less accumulated depreciation		(482,043)	(432,751)
	$	330,909	393,980

Depreciation expense of $68,865 and $70,190 was recorded in 2016 and 2015, respectively.

(Continued)

(5) Contributed Services, Media Time, and Space

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.

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following as of December 31:

		2016	2015
Website design	$	—	87,500
Other program related services		36,736	440,000
Restricted by time		435,416	537,083
Total temporarily restricted net assets	$	472,152	1,064,583

(7) Lease Commitments

On October 27, 2009, the Partnership entered into a lease agreement to rent 12,200 square feet of office space at 352 Park Avenue South, New York, NY 10010. The date of occupancy was April 16, 2010. The lease runs through October 16, 2025. Minimum rent payments under the operating lease are recognized on a straight-line basis over the term of the lease including any periods of free rent. In connection with the lease, the Partnership was not required to pay rent for the first six months. The difference between the straight-line rent expense and the actual rent payments has been recognized as deferred rent in the accompanying statement of financial position and is being amortized over the life of the lease. Rent expense amounted to $530,760 and $523,150 for the years ended December 31, 2016 and 2015, respectively.

Minimum annual lease payments approximate the following:

		Amount
Year:		
2017	$	485,849
2018		496,781
2019		507,959
2020		524,471
2021		555,588
Thereafter		2,221,440
Total	$	4,792,088

Under the terms of the lease agreement at 352 Park Avenue South, the Partnership provided the landlord with a security deposit in the form of an unconditional letter of credit with an expiration date of May 31, 2025.

The Partnership opened a certificate of deposit to secure the letter of credit. The certificate of deposit balance was $195,226 and $263,475 as of December 31, 2016 and 2015, respectively. It earns interest at the prevailing rate and is included in cash and cash equivalents in the accompanying statement of financial position.

(8) Defined-Contribution Retirement Plan

The Partnership provides a defined-contribution 403(b) retirement plan to its eligible employees. The Partnership's 403(b) expense is calculated as a 100% match of the individual participant's contribution up to 4% of the respective participant's salary. Employees are vested in the plan at 20% per year over five years of employment. The Partnership's 403(b) retirement plan expense was $69,844 and $106,752 for the years ended December 31, 2016 and 2015, respectively. During 2016 and 2015, the Partnership utilized forfeiture funds toward a portion of the plan's matching contribution expense.

Schedule 1

PARTNERSHIP FOR A DRUG-FREE AMERICA
(d/b/a Partnership for Drug-Free Kids)

Schedules of Functional Expenses

Years ended December 31, 2016 and 2015

	2016				2015			
	Program services	**Management and general**	**Fundraising**	**Total**	**Program services**	**Management and general**	**Fundraising**	**Total**
Salaries	$ 2,594,897	224,682	276,322	3,095,901	2,932,091	294,575	249,987	3,476,653
Payroll taxes and employee benefits	441,074	35,280	40,842	517,196	544,251	48,689	40,587	633,527
Professional, consulting, and research fees	795,581	73,518	19,394	888,493	663,406	75,999	58,756	798,161
Supplies	25,584	2,827	2,880	31,291	25,891	2,173	2,673	30,737
Telephone	28,215	1,639	1,639	31,493	31,832	1,816	1,816	35,464
Distribution, postage, and shipping	121,447	488	4,089	126,024	114,461	1,026	3,543	119,030
Occupancy	483,812	58,863	58,863	601,538	486,416	59,368	59,368	605,152
Travel, meetings, and conferences	131,794	—	4,059	135,853	207,265	1,542	6,864	215,671
Direct agency/media production costs	607,599	—	—	607,599	572,174	—	—	572,174
Contributed services, media time, and space	100,839,816	—	—	100,839,816	83,508,751	—	—	83,508,751
Interactive/information technology	204,453	14,038	55,949	274,440	246,107	15,851	14,877	276,835
Printing, publications, and audio/video duplications	2,798	—	86	2,884	10,971	—	—	10,971
Special events	—	—	154,953	154,953	—	—	178,458	178,458
Equipment rental	10,966	1,371	1,371	13,708	11,754	1,469	1,469	14,692
Depreciation	55,092	6,887	6,886	68,865	56,152	7,019	7,019	70,190
Other	125,688	60,935	21,646	208,269	120,436	67,609	15,563	203,608
	$ 106,468,816	480,528	648,979	107,598,323	89,531,958	577,136	640,980	90,750,074

See accompanying independent auditors' report.