KPMG

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

Financial Statements and Supplemental Schedule

December 31, 2017 and 2016

(With Independent Auditors’ Report Thereon)

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

Independent Auditors' Report

To 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, 2017 and 2016, 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, 2017 and 2016, 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.

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 12, 2018

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

Statements of Financial Position

December 31, 2017 and 2016

Assets		2017	2016
Cash and cash equivalents (notes 2 and 7)	$	914,429	960,618
Investments (note 3)		9,467,778	8,912,644
Contributions, grants, and contracts receivable, net		1,349,481	566,805
Prepaid expenses and other assets		60,929	69,848
Property and equipment, net (note 4)		294,140	330,909
Total assets	$	12,086,757	10,840,824
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	607,892	184,405
Deferred rent (note 7)		573,581	581,534
Total liabilities		1,181,473	765,939
Commitments and contingencies (notes 7 and 8)			
Net assets:			
Unrestricted		9,779,888	9,602,733
Temporarily restricted (note 6)		1,125,396	472,152
Total net assets		10,905,284	10,074,885
Total liabilities and net assets	$	12,086,757	10,840,824

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, 2017
(with summarized comparative totals for the year ended December 31, 2016)

	2017			2016
	Unrestricted	**Temporarily restricted**	**Total**	**Total**
Revenue, support, and other additions:				
Contributions	$ 4,386,678	1,125,396	5,512,074	2,526,236
Contributed services, media time, and space (note 5)	91,047,695	—	91,047,695	100,839,816
Special events	1,239,473	—	1,239,473	1,057,041
Government grants	660,099	—	660,099	730,721
Interest and dividend income	175,455	—	175,455	186,572
Net appreciation in fair value of investments	887,460	—	887,460	282,642
Net assets released from restrictions	472,152	(472,152)	—	—
Total revenue, support, and other additions	98,869,012	653,244	99,522,256	105,623,028
Expenses:				
Program services	6,167,335	—	6,167,335	5,629,000
Program services – contributed services, media time, and space (note 5)	91,047,695	—	91,047,695	100,839,816
Management and general	624,261	—	624,261	480,528
Fundraising – special events	160,118	—	160,118	154,953
Fundraising – other	692,448	—	692,448	494,026
Total expenses	98,691,857	—	98,691,857	107,598,323
Increase (decrease) in net assets	177,155	653,244	830,399	(1,975,295)
Net assets at beginning of year	9,602,733	472,152	10,074,885	12,050,180
Net assets at end of year	$ 9,779,888	1,125,396	10,905,284	10,074,885

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

	Unrestricted	Temporarily restricted	Total
Revenue, support, and other additions:			
Contributions	$ 2,262,417	263,819	2,526,236
Contributed services, media time, and space (note 5)	100,839,816	—	100,839,816
Special events	1,057,041	—	1,057,041
Government grants and contracts	730,721	—	730,721
Interest and dividend income	186,572	—	186,572
Net appreciation in fair value of investments	282,642	—	282,642
Net assets released from restrictions	856,250	(856,250)	—
Total revenue, support, and other additions	106,215,459	(592,431)	105,623,028
Expenses:			
Program services	5,629,000	—	5,629,000
Program services – contributed services, media time, and space (note 5)	100,839,816	—	100,839,816
Management and general	480,528	—	480,528
Fundraising – special events	154,953	—	154,953
Fundraising – other	494,026	—	494,026
Total expenses	107,598,323	—	107,598,323
Decrease in net assets	(1,382,864)	(592,431)	(1,975,295)
Net assets at beginning of year	10,985,597	1,064,583	12,050,180
Net assets at end of year	$ 9,602,733	472,152	10,074,885

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, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Increase (decrease) in net assets	$	830,399	(1,975,295)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:			
Depreciation and amortization expense		73,281	68,865
Net appreciation in fair value of investments		(887,460)	(282,642)
Changes in operating assets and liabilities:			
(Increase) decrease in contributions, grant, and contracts receivable		(782,676)	962,498
Decrease in prepaid expenses and other assets		8,919	3,997
Increase (decrease) in accounts payable and accrued expenses		423,487	(153,916)
(Decrease) increase in deferred rent		(7,953)	2,738
Net cash used in operating activities		(342,003)	(1,373,755)
Cash flows from investing activities:			
Purchases of investments		(701,825)	(1,929,401)
Proceeds from sales of investments		1,034,151	2,754,070
Purchases of property and equipment		(36,512)	(5,794)
Net cash provided by investing activities		295,814	818,875
Net decrease in cash and cash equivalents		(46,189)	(554,880)
Cash and cash equivalents at beginning of year		960,618	1,515,498
Cash and cash equivalents at end of year	$	914,429	960,618

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.

The Partnership is committed to helping families struggling with their son’s or daughter’s substance use. They empower families with information, support and guidance to get the help their loved one needs and deserves. They build healthy communities, advocating for greater understanding and more effective programs to treat the disease of addiction. Through its website, drugfree.org, the Partnership offers resources, guides and tools that include evidence-based approaches to help change the family dynamic and the way families support a loved one with addiction. They provide compassionate, one-on-one support for families through calls and chats via a Parent Helpline (855-DRUGFREE). 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 contributed services and media time (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 2017 and 2016 as there were no activities that were not related to its exempt purpose.

H.R. 1, originally known as the Tax Cuts and Jobs Act (the Act), was signed into law on December 22, 2017. The Act contains various provisions affecting not-for-profit entities. Management's preliminary assessment is that there is no impact on the financial statements as of December 31, 2017 but continues to assess the overall impact of the Act and its impact on the financial statements going forward.

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 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, 2017 and 2016, the majority of contributions, grants, and contract receivables are expected to be collected within one year.

For the year ended December 31, 2017, a contribution received from a single donor represents 36% of contributions revenue in the accompanying statement of activities.

The gross proceeds from the Partnership's annual gala and other special events in 2017 and 2016 were $1,239,473 and $1,057,041, and the related costs incurred were $160,118 and $154,953, 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, 2017 and through June 12, 2018, the date on which the financial statements were approved for issuance and determined that no additional matters required disclosure.

(Continued)

(2) Concentration of Credit Risk

At December 31, 2017 and 2016, the Partnership's cash and cash equivalents were held by a single financial institution. The bank balance was $1,151,476 and $1,419,657 at December 31, 2017 and 2016, respectively, of which $250,000 was insured by the Federal Deposit Insurance Corporation.

(3) Investments and Fair Value Measurement

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, 2017 and 2016:

		2017	2016
Investments reported at fair value:			
Fixed-income mutual funds	$	3,197,585	2,751,593
Domestic corporate stocks		2,678,737	2,674,470
International equity mutual funds		2,141,162	1,791,817
Subtotal		8,017,484	7,217,880
Investments reported at net asset value:			
Hedge fund		1,450,294	1,694,764
Total investments	$	9,467,778	8,912,644

At December 31, 2017 and 2016, 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.

(Continued)

(4) Property and Equipment

Property and equipment at December 31, 2017 and 2016 consist of the following:

		2017	2016
Furniture and fixtures	$	374,151	374,151
Computer equipment and network		138,891	108,067
Leasehold improvements		330,734	330,734
		843,776	812,952
Less accumulated depreciation		(549,636)	(482,043)
	$	294,140	330,909

Depreciation expense of $73,281 and $68,865 was recorded in 2017 and 2016, respectively.

(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:

		2017	2016
Other program related services	$	942,063	36,736
Restricted by time		183,333	435,416
Total temporarily restricted net assets	$	1,125,396	472,152

(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 $544,705 and $530,760 for the years ended December 31, 2017 and 2016, respectively.

Minimum annual lease payments approximate the following:

		Amount
Year:		
2018	$	496,781
2019		507,959
2020		524,471
2021		555,588
2022		568,089
Thereafter		1,653,351
Total	$	4,306,239

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 $195,246 and $195,226 as of December 31, 2017 and 2016, 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. During 2017, the Board of Directors approved an amendment to the retirement plan to make the contribution discretionary rather than fixed. For 2017, the Partnership's 403(b) expense is calculated as a 100% match of the individual participant's contribution up to 2% of the respective participant's salary. Previously the Partnership matched 100% 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 $38,256 and $69,844 for the years ended December 31, 2017 and 2016, respectively. During 2017 and 2016, 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, 2017 and 2016

	2017				2016			
	Program services	Management and general	Fundraising	Total	Program services	Management and general	Fundraising	Total
Salaries	$ 2,612,116	339,128	360,686	3,311,930	2,594,897	224,682	276,322	3,095,901
Payroll taxes and employee benefits	477,631	61,103	46,966	585,700	441,074	35,280	40,842	517,196
Professional, consulting, and research fees	1,027,290	69,975	85,760	1,183,025	795,581	73,518	19,394	888,493
Supplies	16,076	1,683	2,541	20,300	25,584	2,827	2,880	31,291
Telephone	25,455	1,400	1,400	28,255	28,215	1,639	1,639	31,493
Distribution, postage, and shipping	118,261	321	5,188	123,770	121,447	488	4,089	126,024
Occupancy	509,460	62,121	62,121	633,702	483,812	58,863	58,863	601,538
Travel, meetings, and conferences	133,339	1,037	4,546	138,922	131,794	—	4,059	135,853
Direct agency/media production costs	864,309	—	1,990	866,299	607,599	—	—	607,599
Contributed services, media time, and space	91,047,695	—	—	91,047,695	100,839,816	—	—	100,839,816
Interactive/information technology	179,062	19,654	90,656	289,372	204,453	14,038	55,949	274,440
Printing, publications, and audio/video duplications	4,302	—	—	4,302	2,798	—	86	2,884
Special events	—	—	160,118	160,118	—	—	154,953	154,953
Equipment rental	8,306	1,038	1,038	10,382	10,966	1,371	1,371	13,708
Depreciation	58,625	7,328	7,328	73,281	55,092	6,887	6,886	68,865
Other	133,103	59,473	22,228	214,804	125,688	60,935	21,646	208,269
	$ 97,215,030	624,261	852,566	98,691,857	106,468,816	480,528	648,979	107,598,323

See accompanying independent auditors’ report.