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

Financial Statements

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

Board of Directors
Center on Addiction:

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, 2018 and 2017, 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 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, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As disclosed in note 1 to the financial statements, the Partnership merged with the Center on Addiction (the Center), effective January 1, 2019. Following the effective date of the merger, the Partnership ceased to exist and the Center is the surviving corporation. All property owned by the Partnership shall be vested in the Center and all liabilities and contracts will vest to the Center. The Center will control the combined businesses and operations. No consideration was exchanged.

As discussed in note 1(h) to the financial statements, the Partnership adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended December 31, 2018 on a retrospective basis. Our opinion is not modified with respect to this matter.

KPMG LLP

June 25, 2019

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

Statements of Financial Position

December 31, 2018 and 2017

Assets		**2018**	**2017**
Cash and cash equivalents (notes 2 and 7)	$	6,877,353	914,429
Investments (note 3)		1,143,873	9,467,778
Contributions, grants, and contracts receivable, net		587,285	1,349,481
Prepaid expenses and other assets		19,973	60,929
Property and equipment, net (note 4)		325,690	294,140
Total assets	$	8,954,174	12,086,757
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	310,188	607,892
Deferred rent (note 7)		559,696	573,581
Total liabilities		869,884	1,181,473
Commitments and contingencies (notes 7 and 8)			
Net assets:			
Without donor restrictions		7,744,290	9,779,888
With donor restrictions (note 6)		340,000	1,125,396
Total net assets		8,084,290	10,905,284
Total liabilities and net assets	$	8,954,174	12,086,757

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, 2018
(with summarized comparative totals for the year ended December 31, 2017)

	2018			2017
	Without donor restrictions	**With donor restrictions**	**Total**	**Total**
Revenue, support, and other additions:				
Contributions	$ 2,874,433	—	2,874,433	5,512,074
Contributed services, media time, and space (note 5)	83,785,456	—	83,785,456	91,047,695
Special events	1,467,162	—	1,467,162	1,239,473
Government grants	899,286	—	899,286	660,099
Interest and dividend income	247,349	—	247,349	175,455
Net (depreciation) appreciation in fair value of investments	(631,462)	—	(631,462)	887,460
Net assets released from restrictions	785,396	(785,396)	—	—
Total revenue, support, and other additions	89,427,620	(785,396)	88,642,224	99,522,256
Expenses:				
Program services	5,942,760	—	5,942,760	6,167,335
Program services – contributed services, media time, and space (note 5)	83,785,456	—	83,785,456	91,047,695
Management and general	792,874	—	792,874	624,261
Fundraising – special events	206,137	—	206,137	160,118
Fundraising – other	735,991	—	735,991	692,448
Total expenses	91,463,218	—	91,463,218	98,691,857
(Decrease) increase in net assets	(2,035,598)	(785,396)	(2,820,994)	830,399
Net assets at beginning of year	9,779,888	1,125,396	10,905,284	10,074,885
Net assets at end of year	$ 7,744,290	340,000	8,084,290	10,905,284

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

	Without donor restrictions	With donor restrictions	Total
Revenue, support, and other additions:			
Contributions	$ 4,386,678	1,125,396	5,512,074
Contributed services, media time, and space (note 5)	91,047,695	—	91,047,695
Special events	1,239,473	—	1,239,473
Government grants	660,099	—	660,099
Interest and dividend income	175,455	—	175,455
Net appreciation in fair value of investments	887,460	—	887,460
Net assets released from restrictions	472,152	(472,152)	—
Total revenue, support, and other additions	98,869,012	653,244	99,522,256
Expenses:			
Program services	6,167,335	—	6,167,335
Program services – contributed services, media time, and space (note 5)	91,047,695	—	91,047,695
Management and general	624,261	—	624,261
Fundraising – special events	160,118	—	160,118
Fundraising – other	692,448	—	692,448
Total expenses	98,691,857	—	98,691,857
Increase in net assets	177,155	653,244	830,399
Net assets at beginning of year	9,602,733	472,152	10,074,885
Net assets at end of year	$ 9,779,888	1,125,396	10,905,284

See accompanying notes to financial statements.

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

Statements of Functional Expenses

Years ended December 31, 2018 and 2017

	2018				2017			
	Program services	**Management and general**	**Fundraising**	**Total**	**Program services**	**Management and general**	**Fundraising**	**Total**
Salaries	$ 2,349,246	487,303	334,458	3,171,007	2,612,116	339,128	360,686	3,311,930
Payroll taxes and employee benefits	415,586	73,411	47,755	536,752	477,631	61,103	46,966	585,700
Professional, consulting, and research fees	1,567,215	73,625	136,295	1,777,135	1,027,290	69,975	85,760	1,183,025
Supplies	19,474	1,981	5,133	26,588	16,076	1,683	2,541	20,300
Telephone	38,094	3,591	5,893	47,578	25,455	1,400	1,400	28,255
Distribution, postage, and shipping	98,608	229	6,365	105,202	118,261	321	5,188	123,770
Occupancy	539,812	65,760	65,760	671,332	509,460	62,121	62,121	633,702
Travel, meetings, and conferences	164,247	—	14,828	179,075	133,339	1,037	4,546	138,922
Direct agency/media production costs	248,008	—	2,228	250,236	864,309	—	1,990	866,299
Contributed services, media time, and space	83,785,456	—	—	83,785,456	91,047,695	—	—	91,047,695
Interactive/information technology	290,238	15,080	74,834	380,152	179,062	19,654	90,656	289,372
Printing, publications, and audio/video duplications	7,139	—	1,152	8,291	4,302	—	—	4,302
Special events	—	—	206,137	206,137	—	—	160,118	160,118
Equipment rental	7,750	969	969	9,688	8,306	1,038	1,038	10,382
Depreciation and amortization	70,247	8,781	8,781	87,809	58,625	7,328	7,328	73,281
Other	127,096	62,144	31,540	220,780	133,103	59,473	22,228	214,804
	$ 89,728,216	792,874	942,128	91,463,218	97,215,030	624,261	852,566	98,691,857

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, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (2,820,994)	830,399
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Depreciation and amortization expense	87,809	73,281
Net (depreciation) appreciation in fair value of investments	631,462	(887,460)
Changes in operating assets and liabilities:		
Contributions, grants, and contracts receivable	762,196	(782,676)
Prepaid expenses and other assets	40,956	8,919
Accounts payable and accrued expenses	(297,704)	423,487
Deferred rent	(13,885)	(7,953)
Net cash used in operating activities	(1,610,160)	(342,003)
Cash flows from investing activities:		
Purchases of investments	(656,111)	(701,825)
Proceeds from sales of investments	8,348,554	1,034,151
Purchases of property and equipment	(119,359)	(36,512)
Net cash provided by investing activities	7,573,084	295,814
Net increase (decrease) in cash and cash equivalents	5,962,924	(46,189)
Cash and cash equivalents at beginning of year	914,429	960,618
Cash and cash equivalents at end of year	$ 6,877,353	914,429

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. 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 parents and caregivers support a loved one with addiction. They provide compassionate, one-on-one support for families through 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 2018 and 2017 as there were no activities that were not related to its exempt purpose.

Effective January 1, 2019, the Partnership merged with the Center on Addiction (the Center). Following the effective date of the merger, the Partnership ceased to exist and the Center is the surviving corporation. All property owned by the Partnership shall be vested in the Center and all liabilities and contracts will vest to the Center. The Center will control the combined businesses and operations. No consideration was exchanged.

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:

- Net assets with donor restriction – net assets subject to donor-imposed stipulations that will be met by either actions of the Partnership and/or the passage of time
- Net assets without donor restriction – net assets not subject to any donor-imposed stipulations

Revenues are reported as increases in net assets without donor restrictions unless restricted by the donor. Contributions with donor-imposed restrictions that are met in the same year are reported as

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revenues without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets are reported as increases or decreases in net assets without donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 revenue without donor restrictions when expenses are incurred in accordance with the terms of the agreement. At December 31, 2018 and 2017, the majority of contributions, grants, and contract receivables are expected to be collected within one year.

For the years ended December 31, 2018 and 2017, a contribution received from a single donor represented 26% and 36% of contributions revenue, respectively.

The gross proceeds from the Partnership's annual gala and other special events in 2018 and 2017 were $1,467,162 and $1,239,473, and the related costs incurred were $206,137 and $160,118, respectively. These amounts are reflected as special events revenue and expense in the accompanying statements 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 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 of 15 years.

(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 statements of activities. Accordingly, certain costs have been allocated among the program services, management and general, and fundraising activities benefited using ratio-based cost allocation methods, such as full-time employee equivalents.

(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) Recently Adopted Accounting Standards

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). ASU No. 2016-14 changes how not-for-profit entities report net asset classes and expenses in their

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financial statements. It requires expenses to be reported by both their natural and functional classification in one location. The Partnership adopted ASU 2016-14 in 2018, and applied the changes retrospectively. $9,779,888 of previously reported unrestricted net assets are now presented as net assets without donor restrictions and $1,125,396 of previously reported temporarily restricted net assets are now presented as net assets with donor restrictions.

(i) Subsequent Events

The Partnership evaluated events subsequent to December 31, 2018 and through June 25, 2019, the date on which the financial statements were approved for issuance and determined that no additional matters required disclosure, other than the merger with the Center, liquidation of the hedge fund investment (note 3), and the termination of its building lease (note 7).

(2) Concentration of Credit Risk

At December 31, 2018 and 2017, the Partnership's cash and cash equivalents were held by three financial institutions and one financial institution, respectively. The bank balance was $6,979,776 and $1,151,476 at December 31, 2018 and 2017, 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, 2018 and 2017:

		2018	2017
Investments reported at fair value:			
Fixed-income mutual funds	$	—	3,197,585
Domestic corporate stocks		—	2,678,737
International equity mutual funds		—	2,141,162
Subtotal		—	8,017,484
Investments reported at net asset value:			
Hedge fund		1,143,873	1,450,294
Total investments	$	1,143,873	9,467,778

At December 31, 2018 and 2017, 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. In connection with the merger with the Center, the Partnership liquidated the hedge fund investment in May 2019.

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(4) Property and Equipment

Property and equipment at December 31, 2018 and 2017 consist of the following:

		2018	2017
Furniture and fixtures	$	375,623	374,151
Computer equipment and network		198,348	138,891
Leasehold improvements		340,617	330,734
		914,588	843,776
Less accumulated depreciation and amortization		(588,898)	(549,636)
	$	325,690	294,140

Depreciation and amortization expense of $87,809 and $73,281 was recorded in 2018 and 2017, 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 statements 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) Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following as of December 31:

		2018	2017
Other program related services	$	340,000	942,063
Restricted by time		—	183,333
Total net assets with donor restrictions	$	340,000	1,125,396

(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 originally ran through October 16, 2025. Minimum rent payments under the operating lease were 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 statements of financial position and is being amortized over the life of the lease. Rent expense amounted to $560,872 and $544,705 for the years ended December 31, 2018 and 2017, respectively.

In January 2019, the Partnership notified the landlord that the Center has been assigned the lease under the merger agreement, as discussed in note 1, as the Center will be the surviving corporation. On April 10, 2019, the Center, as successor-in-interest to the Partnership, notified the landlord that they have elected to exercise its option to terminate the lease, effective October 15, 2020. In connection with the lease agreement, the Center will be required to pay an early termination fee. The amount of the termination fee has not yet been quantified by the landlord. Management does not believe that the termination fee will be material to the financial position of the Center, net of the recovery of the deferred rent credit.

Minimum remaining annual lease payments approximate the following:

		Amount
Year:		
2019	$	508,000
2020		409,000
Total	$	917,000

Under the terms of the original 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. The Partnership opened a certificate of deposit to secure the letter of credit. The certificate of deposit balance was $195,285 and $195,246 as of December 31, 2018 and 2017, respectively. It earns interest at the prevailing rate and is included in cash and cash equivalents in the accompanying statements of financial position.

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(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 2018, 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 $39,504 and $38,256 for the years ended December 31, 2018 and 2017, respectively. During 2018 and 2017, the Partnership utilized forfeiture funds toward a portion of the plan's matching contribution expense. The Partnership's 403(b) retirement plan was terminated, effective December 31, 2018.