



PARTNERSHIP FOR A DRUG-FREE AMERICA

Financial Statements
and Supplemental Schedule

December 31, 2008

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 402
301 Carnegie Center
Princeton, NJ 08540-6227

Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Partnership for a Drug-Free America (the Partnership) as of December 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Partnership's 2007 financial statements and, in our report dated June 18, 2008, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

July 1, 2009

PARTNERSHIP FOR A DRUG-FREE AMERICA

Statement of Financial Position

December 31, 2008

(with comparative financial information
at December 31, 2007)

Assets	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 1,808,180	1,668,849
Investments (note 2)	9,277,800	15,851,054
Contributions, grant, and contracts receivable, net (note 3)	4,716,997	5,518,093
Prepaid expenses and other assets	26,885	33,852
Property and equipment:		
Furniture and fixtures	370,130	367,757
Computer equipment	261,417	235,185
Leasehold improvements	410,399	407,160
	<u>1,041,946</u>	<u>1,010,102</u>
Less accumulated depreciation and amortization	<u>(908,953)</u>	<u>(820,182)</u>
Property and equipment, net	<u>132,993</u>	<u>189,920</u>
Total assets	<u>\$ 15,962,855</u>	<u>23,261,768</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 662,180	542,006
Net assets:		
Unrestricted	10,918,229	16,234,465
Temporarily restricted	4,382,446	6,485,297
Total net assets	<u>15,300,675</u>	<u>22,719,762</u>
Total liabilities and net assets	<u>\$ 15,962,855</u>	<u>23,261,768</u>

See accompanying notes to financial statements.

PARTNERSHIP FOR A DRUG-FREE AMERICA

Statement of Activities

Year ended December 31, 2008
(with summarized financial information
for the year ended December 31, 2007)

	2008			2007
	Unrestricted	Temporarily restricted	Total	Total
Revenues, support, and other additions:				
Contributions	\$ 3,775,335	1,220,130	4,995,465	5,392,697
Special event	1,905,780	—	1,905,780	2,180,715
Robert Wood Johnson Foundation contributions (note 3)	—	—	—	500,834
Federal grant and State contracts	347,125	226,478	573,603	3,610,603
Interest and dividend income	572,599	—	572,599	636,440
Net (depreciation) appreciation of investments	(4,914,222)	—	(4,914,222)	340,870
Net assets released from time restrictions	3,549,459	(3,549,459)	—	—
Total revenues, support, and other additions	5,236,076	(2,102,851)	3,133,225	12,662,159
Expenses:				
Program services	8,322,757	—	8,322,757	9,247,422
Management and general	817,254	—	817,254	907,322
Fundraising	906,072	—	906,072	953,256
Special event	337,971	—	337,971	384,317
Total expenses	10,384,054	—	10,384,054	11,492,317
(Decrease) increase in net assets before other changes	(5,147,978)	(2,102,851)	(7,250,829)	1,169,842
Other changes in net assets (note 7):				
Transfer to affiliate	(168,258)	—	(168,258)	—
(Decrease) increase in net assets	(5,316,236)	(2,102,851)	(7,419,087)	1,169,842
Net assets at beginning of year	16,234,465	6,485,297	22,719,762	21,549,920
Net assets at end of year	\$ 10,918,229	4,382,446	15,300,675	22,719,762

See accompanying notes to financial statements.

PARTNERSHIP FOR A DRUG-FREE AMERICA

Statement of Cash Flows

Year ended December 31, 2008
(with comparative financial information
for the year ended December 31, 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (7,419,087)	1,169,842
Adjustments to reconcile (decrease) increase in net assets to cash flows used in operating activities:		
Depreciation and amortization expense	88,771	89,396
Transfer of fixed assets to affiliate	1,108	—
Net depreciation (appreciation) of investments	4,914,222	(340,870)
Gifts of marketable securities	(11,000)	(485,697)
Decrease (increase) in contributions, grant, and contracts receivable	801,096	(1,160,669)
Decrease (increase) in prepaid expenses and other assets	6,967	(6,190)
Increase (decrease) in accounts payable and accrued expenses	120,174	(70,921)
Cash flows used in operating activities	<u>(1,497,749)</u>	<u>(805,109)</u>
Cash flows from investing activities:		
Purchases of marketable securities	(9,644,484)	(2,764,104)
Proceeds from sales of marketable securities	11,314,516	4,517,748
Purchases of property and equipment	<u>(32,952)</u>	<u>(16,497)</u>
Cash flows provided by investing activities	<u>1,637,080</u>	<u>1,737,147</u>
Net increase in cash and cash equivalents	139,331	932,038
Cash and cash equivalents at beginning of year	<u>1,668,849</u>	<u>736,811</u>
Cash and cash equivalents at end of year	\$ <u><u>1,808,180</u></u>	\$ <u><u>1,668,849</u></u>
Noncash transaction:		
Transfer of fixed assets to affiliate	\$ 1,108	—

See accompanying notes to financial statements.

PARTNERSHIP FOR A DRUG-FREE AMERICA

Notes to Financial Statements

December 31, 2008

(with comparative financial information
for December 31, 2007)

(1) Organization and Summary of Significant Accounting Policies

Organization

The Partnership for a Drug-Free America (the Partnership) was organized in 1987 and its mission is to reduce illicit drug use in America. To achieve its mission, the Partnership brings together the unique capabilities of the traditional and online marketing, advertising, and communications industries, and applies their expertise in the development of research-based, effective web resources and media campaigns. The Partnership's primary strategic focus is to motivate and equip parents to prevent or get help for adolescent drug and alcohol abuse and addiction. The Partnership relies on the media to donate time and space and on advertising agencies to volunteer their resources for advertising campaigns (see note 4).

The Partnership has joined with the Office of National Drug Control Policy in a historic public-private partnership to dramatically increase anti-drug messages targeting children ages 9 to 17 and their parents. The United States Congress appropriated \$60 million from October 2007 to September 2008 and \$70 million from October 2008 to September 2009 to run Partnership and other prevention messages in the media. The Partnership is a nonpaid advisor, and will not receive any of these funds. As part of the paid media campaign, the media will also be requested to match the paid public service advertising by contributing donated media time and space.

The Partnership is an organization described under Section 501(c)(3) of the Internal Revenue Code and has been classified as exempt from Federal income taxes under Section 509(a) of the Code.

Summary of Significant Accounting Policies

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 either by 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 use of the related asset is limited by donor-imposed restrictions. 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. Expiration of temporary restrictions on net assets are reported as net assets released from time restrictions.

PARTNERSHIP FOR A DRUG-FREE AMERICA

Notes to Financial Statements

December 31, 2008

(with comparative financial information
for December 31, 2007)

Contributions and Special Event

Contributions, including unconditional promises to give, grants, and contracts are recognized 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 an appropriate discount rate. Contributions of securities are recorded at estimated fair value at the date of the gift.

In December 2008, the Partnership held its sixth annual gala. The gross proceeds in 2008 and 2007 were \$1,905,780 and \$2,180,715, respectively, and the related costs incurred were \$337,971 and \$384,317, respectively. These amounts are reflected as special event revenue and expense, respectively, in the accompanying financial statements.

Cash Equivalents

The Partnership classifies as cash equivalents, funds which are in short-term, highly liquid investments and are readily convertible to known amounts of cash. These investments mature in thirty days or less and thus bear an insignificant risk of change in value because of interest rate changes.

Property and Equipment

Property and equipment, consisting of furniture and fixtures and computer equipment, 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	3 years

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

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.

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.

PARTNERSHIP FOR A DRUG-FREE AMERICA

Notes to Financial Statements

December 31, 2008
(with comparative financial information
for December 31, 2007)

Prior Year Summarized Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. 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 for the year ended December 31, 2007, from which the summarized information was derived.

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. Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quotes 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 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, and corporate-debt securities.
- 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. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, 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 asset. 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 asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

PARTNERSHIP FOR A DRUG-FREE AMERICA

Notes to Financial Statements

December 31, 2008

(with comparative financial information
for December 31, 2007)

Recently Adopted Accounting Standards

Effective January 1, 2008, the Partnership adopted SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This pronouncement does not require any new fair value measurements. The effect of the adoption did not have a material effect on the changes in net assets or financial position of the Partnership. In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which defers the effective date of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are not disclosed at fair value in the financial statements on a recurring basis. The FSP did not defer the recognition and disclosure requirements for financial or nonfinancial assets and liabilities that are measured at least annually. In February 2008, the Partnership adopted FSP No. FAS 157-2. In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active*. FSP No. FAS 157-3 was effective upon issuance, and applies to periods for which financial statements have not been issued. The FSP's guidance clarifies various application issues with respect to the objective of a fair value measurement, distressed transactions, relevance of observable data, and the use of management's assumptions.

Effective January 1, 2008, the Partnership adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits all entities to choose to elect, at specified election dates, to measure eligible financial instruments, as defined in SFAS No. 159, at fair value. Changes in unrealized gains and losses on items for which the fair value option has been elected are reported in income at each subsequent reporting date and upfront costs and fees related to those items will be reported in income as incurred and not deferred. At adoption, for those financial assets and financial liabilities which management has elected to carry at fair value, an entity will report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of unrestricted net assets. The Partnership's management did not elect to measure any additional eligible financial assets or financial liabilities at fair value and as a result, adoption of this SFAS did not have an effect on the results of operations or financial position of the Partnership.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. FIN 48 addresses the accounting for uncertainties in income taxes recognized in an organization's financial statements and prescribes a threshold of more-likely-than-not for recognition and de-recognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, classification, interest and penalties, and disclosures. There was no significant impact on the Partnership's financial statements as a result of the adoption of FIN 48.

PARTNERSHIP FOR A DRUG-FREE AMERICA

Notes to Financial Statements

December 31, 2008
(with comparative financial information
for December 31, 2007)

(2) Investments and Fair Value Measurements

All investments, including marketable securities and hedge funds, are reported in the financial statements at fair value, based upon quoted market prices and values provided by the Partnership's external investment managers and reviewed by management for reasonableness. The fair values of investments are as follows:

	<u>2008</u>	<u>2007</u>
Fixed income mutual funds	\$ 2,141,394	10,400,883
Corporate stocks	3,106,614	3,595,118
International equity mutual funds	2,972,277	1,855,053
Hedge fund	<u>1,057,515</u>	<u>—</u>
	<u>\$ 9,277,800</u>	<u>15,851,054</u>

The following table presents the Partnership's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2008:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Investments:				
Fixed income mutual funds	\$ 2,141,394	2,141,394	—	—
Corporate stocks	3,106,614	3,106,614	—	—
International equity mutual funds	2,972,277	2,972,277	—	—
Hedge fund	<u>1,057,515</u>	<u>—</u>	<u>—</u>	<u>1,057,515</u>
Total	<u>\$ 9,277,800</u>	<u>8,220,285</u>	<u>—</u>	<u>1,057,515</u>

The following table presents a reconciliation for all Level 3 assets measured at fair value for the period January 1, 2008 to December 31, 2008.

	<u>Level 3 assets</u>
Financial assets:	
Beginning balance January 1, 2008	\$ —
Unrealized losses	(207,485)
Purchases	<u>1,265,000</u>
Ending balance December 31, 2008	<u>\$ 1,057,515</u>

PARTNERSHIP FOR A DRUG-FREE AMERICA

Notes to Financial Statements

December 31, 2008

(with comparative financial information
for December 31, 2007)

(3) The Robert Wood Johnson Foundation Contribution

The Partnership received a pledge in the amount of \$5,000,000 from the Robert Wood Johnson Foundation in December 2006, with two components: a \$2,500,000 unconditional grant over the period of December 1, 2006 to November 30, 2007; and a \$2,500,000 challenge grant conditioned upon raising gifts, grants, and pledges from new donors between September 1, 2006 and October 31, 2007. As of December 31, 2007 all conditions for earning the challenge grant have been met.

(4) Contributed Services, Media Time, and Space

A substantial number of broadcast and print media, advertising agencies, and production, distribution and monitoring service companies have made significant 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 contributed services to continue its current programs, but does not control the placement of pro bono messages in the media. The value of these contributed services is not reflected in the accompanying financial statements because such value is not easily measurable and it is not cost beneficial to attain such value.

(5) Lease Commitment

The Partnership rents office facilities under the renewal of an operating lease that expires on December 31, 2009, which provides for a minimum annual payment of \$566,040 plus additional rent. Rent expense amounted to \$722,288 and \$737,843 for the years ended December 31, 2008 and 2007, respectively.

(6) Defined Contribution Retirement Plan

The Partnership provides a defined contribution 403(b) retirement plan with Internal Revenue Code, Section 401(k) features to its eligible employees. The Partnership's 403(b) expense is calculated as 100% of the individual participant's contribution up to 4% of the respective participant's salary. The Partnership's 403(b) retirement plan expense was \$145,709 and \$137,955 for the years ended December 31, 2008 and 2007, respectively.

(7) Arizona Chapter

The Partnership's board decided to discontinue the chapter model of operations and effective January 1, 2008, the Arizona Chapter became a separate legal entity and tax-exempt organization under the name "Partnership for a Drug-Free America, Arizona Affiliate." To complete the transaction, the Partnership for a Drug-Free America transferred cash and fixed assets in the amount of \$168,258 to the Partnership for a Drug-Free America, Arizona Affiliate.

PARTNERSHIP FOR A DRUG-FREE AMERICA

Schedule of Functional Expenses

Year ended December 31, 2008

(with comparative totals for the

year ended December 31, 2007)

	2008				2007 Total
	Program services	Management and general	Fundraising and special event	Total	
Salaries	\$ 3,667,215	485,345	451,149	4,603,709	4,766,055
Payroll taxes and employee benefits	637,296	60,659	77,230	775,185	817,176
Professional, consulting, and research fees	2,047,142	56,529	297,744	2,401,415	2,868,853
Supplies	47,627	4,350	11,513	63,490	55,741
Telephone	69,020	4,183	5,243	78,446	96,661
Distribution, postage, and shipping	240,852	2,753	8,717	252,322	234,769
Occupancy	609,141	76,145	76,128	761,414	774,671
Travel, meetings, and conferences	434,740	799	12,983	448,522	595,628
Agency/media production costs	127,042	114	29	127,185	287,718
Interactive/information technology	215,165	18,430	16,996	250,591	236,624
Printing, publications, and audio/video duplications	28,492	2	175	28,669	165,446
Special events	---	---	255,918	255,918	308,054
Equipment rental	24,866	3,105	3,105	31,076	34,840
Depreciation	71,017	8,877	8,877	88,771	89,396
Other	103,142	95,963	18,236	217,341	160,685
	<u>\$ 8,322,757</u>	<u>817,254</u>	<u>1,244,043</u>	<u>10,384,054</u>	<u>11,492,317</u>