



PARTNERSHIP FOR A DRUG-FREE AMERICA

Financial Statements
and Supplemental Schedule

December 31, 2009

(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, 2009, 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 2008 financial statements and, in our report dated July 1, 2009, 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, 2009, 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 6, 2010

PARTNERSHIP FOR A DRUG-FREE AMERICA

Statement of Financial Position

December 31, 2009

(with comparative financial information
at December 31, 2008)

Assets	2009	2008
Cash and cash equivalents	\$ 994,353	1,808,180
Investments (note 2)	11,190,490	9,277,800
Contributions, grant, and contracts receivable, net	3,595,870	4,716,997
Prepaid expenses and other assets	139,850	26,885
Property and equipment:		
Furniture and fixtures	370,130	370,130
Computer equipment	265,337	261,417
Leasehold improvements	410,399	410,399
	<u>1,045,866</u>	<u>1,041,946</u>
Less accumulated depreciation and amortization	(992,593)	(908,953)
Property and equipment, net	<u>53,273</u>	<u>132,993</u>
Total assets	<u>\$ 15,973,836</u>	<u>15,962,855</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 420,990	662,180
Net assets:		
Unrestricted	12,436,036	10,918,229
Temporarily restricted	3,116,810	4,382,446
Total net assets	<u>15,552,846</u>	<u>15,300,675</u>
Total liabilities and net assets	<u>\$ 15,973,836</u>	<u>15,962,855</u>

See accompanying notes to financial statements.

PARTNERSHIP FOR A DRUG-FREE AMERICA

Statement of Activities

Year ended December 31, 2009
(with summarized financial information
for the year ended December 31, 2008)

	2009			2008 Total
	Unrestricted	Temporarily restricted	Total	
Revenues, support, and other additions:				
Contributions	\$ 2,445,029	375,993	2,821,022	4,995,465
Special event	2,004,514	—	2,004,514	1,905,780
Federal grant and State contracts	166,431	1,356,767	1,523,198	573,603
Interest and dividend income	238,304	—	238,304	572,599
Net appreciation (depreciation) of investments	1,951,599	—	1,951,599	(4,914,222)
Net assets released from time restrictions	2,998,396	(2,998,396)	—	—
Total revenues, support, and other additions	<u>9,804,273</u>	<u>(1,265,636)</u>	<u>8,538,637</u>	<u>3,133,225</u>
Expenses:				
Program services	6,590,341	—	6,590,341	8,322,757
Management and general	662,569	—	662,569	817,254
Fundraising	745,307	—	745,307	906,072
Special event	288,249	—	288,249	337,971
Total expenses	<u>8,286,466</u>	<u>—</u>	<u>8,286,466</u>	<u>10,384,054</u>
Increase (decrease) in net assets before other changes	1,517,807	(1,265,636)	252,171	(7,250,829)
Other changes in net assets (note 7):				
Transfer to affiliate	—	—	—	(168,258)
Increase (decrease) in net assets	1,517,807	(1,265,636)	252,171	(7,419,087)
Net assets at beginning of year	<u>10,918,229</u>	<u>4,382,446</u>	<u>15,300,675</u>	<u>22,719,762</u>
Net assets at end of year	\$ <u><u>12,436,036</u></u>	<u><u>3,116,810</u></u>	<u><u>15,552,846</u></u>	<u><u>15,300,675</u></u>

See accompanying notes to financial statements.

PARTNERSHIP FOR A DRUG-FREE AMERICA

Statement of Cash Flows

Year ended December 31, 2009
(with comparative financial information
for the year ended December 31, 2008)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 252,171	(7,419,087)
Adjustments to reconcile increase (decrease) in net assets to cash flows used in operating activities:		
Depreciation and amortization expense	83,640	88,771
Transfer of fixed assets to affiliate	—	1,108
Net (appreciation) depreciation of investments	(1,951,599)	4,914,222
Gifts of marketable securities	(27,524)	(11,000)
Decrease in contributions, grant, and contracts receivable	1,121,127	801,096
(Increase) decrease in prepaid expenses and other assets	(112,965)	6,967
(Decrease) increase in accounts payable and accrued expenses	(241,190)	120,174
Cash flows used in operating activities	<u>(876,340)</u>	<u>(1,497,749)</u>
Cash flows from investing activities:		
Purchases of marketable securities	(3,167,625)	(9,644,484)
Proceeds from sales of marketable securities	3,234,058	11,314,516
Purchases of property and equipment	<u>(3,920)</u>	<u>(32,952)</u>
Cash flows provided by investing activities	<u>62,513</u>	<u>1,637,080</u>
Net (decrease) increase in cash and cash equivalents	(813,827)	139,331
Cash and cash equivalents at beginning of year	<u>1,808,180</u>	<u>1,668,849</u>
Cash and cash equivalents at end of year	\$ <u><u>994,353</u></u>	\$ <u><u>1,808,180</u></u>
Noncash transaction:		
Transfer of fixed assets to affiliate	\$ —	1,108

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2009
(with comparative financial information
for December 31, 2008)

(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 help parents prevent, intervene in and get help for their children's drug and alcohol use. To achieve its mission, the Partnership works with parents and with leading researchers in the substance abuse field, applying its unique expertise in traditional and online communications to develop effective web resources and educational 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 3).

The Partnership works with the Office of National Drug Control Policy in the National Youth Anti-Drug Media Campaign (NYADMC), a historic public-private partnership to dramatically increase the visibility of anti-drug messages targeting teens ages 12 to 17. The United States Congress appropriated \$70 million from October 2008 to September 2009 and \$45 million from October 2009 to September 2010 to run Partnership and other prevention messages in the media. As part of the paid media campaign, the media are required to match the paid public service advertising by contributing donated media time and space. From 1998 until mid-2009, the Partnership received no compensation for its participation in the NYADMC. Beginning in 2009, the Partnership has been reimbursed for travel and staff time dedicated to the NYADMC.

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

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law. Expiration of temporary restrictions on net assets are reported as net assets released from time restrictions.

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 2009, the Partnership held its sixth annual gala. The gross proceeds in 2009 and 2008 were \$2,004,514 and \$1,905,780, respectively, and the related costs incurred were \$288,249 and \$337,971, 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.

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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, 2008, 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. 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; 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 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 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.

Recently Adopted Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued ASC No. 105-10 (formerly referred to as SFAS No. 168), *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (ASC 105-10). The Codification brings together and organizes all Generally Accepted Accounting Principles (GAAP) previously in Levels A through D of the GAAP Hierarchy and designates GAAP into two levels, authoritative and nonauthoritative. As of December 31, 2009, the Partnership adopted ASC 105-10.

In September 2009, the Partnership adopted Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, with respect to investments within its scope (principally hedge funds and

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private equity – collectively alternative investments). This guidance amends Accounting Standards Codification (ASC) No. 820-10 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. In addition, classification of these investments within the fair value hierarchy is based on the Partnership's ability to timely redeem its interest rather than on valuation inputs.

Effective December 31, 2009, the Partnership adopted ASC No. 855-10 (formerly referred to as SFAS No. 165), *Subsequent Events* (ASC 855-10). ASC 855-10 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The Partnership evaluated events subsequent to December 31, 2009 through July 6, 2010, the date on which the financial statements were approved for issuance. The adoption of ASC 855-10 had no impact on the Partnership's financial statements.

(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 or values provided by the Partnership's external investment managers and reviewed by management for reasonableness. The fair values of investments are as follows:

	2009	2008
Fixed income mutual funds	\$ 4,243,293	2,141,394
Corporate stocks	2,757,691	3,106,614
International equity mutual funds	2,983,576	2,972,277
Hedge fund	1,205,930	1,057,515
	\$ 11,190,490	9,277,800

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, 2009:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Fixed income mutual funds	\$ 4,243,293	4,243,293	—	—
Corporate stocks	2,757,691	2,757,691	—	—
International equity mutual funds	2,983,576	2,983,576	—	—
Hedge fund	1,205,930	—	—	1,205,930
Total	\$ 11,190,490	9,984,560	—	1,205,930

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The following table presents a reconciliation for all Level 3 assets measured at fair value for the period January 1, 2009 to December 31, 2009.

	<u>Level 3 assets</u>	
Financial assets:		
Beginning balance January 1, 2009	\$	1,057,515
Unrealized gains		<u>148,415</u>
Ending balance December 31, 2009	\$	<u><u>1,205,930</u></u>

The Partnership's hedge fund is a fund of 21 diversified hedge funds. The Partnership may request to liquidate all or a portion of its hedge fund balance during the year. However, each individual fund has its own liquidation or lock up requirements, varying between 12 and 36 months.

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>1,057,515</u>
Total	\$ <u><u>9,277,800</u></u>	<u><u>8,220,285</u></u>	<u><u>—</u></u>	<u><u>1,057,515</u></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><u>1,057,515</u></u>

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(with comparative financial information
for December 31, 2008)

(3) 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.

(4) Lease Commitments

The Partnership rents office facilities under the renewal of an operating lease that expired on December 31, 2009 which was extended through April 16, 2010, that provides for a minimum annual payment of \$566,040 plus additional rent. Rent expense amounted to \$675,226 and \$722,288 for the years ended December 31, 2009 and 2008, respectively.

On October 27, 2009, the Partnership entered into a lease agreement to rent 12,200 square feet of new office space at 352 Park Avenue South, New York, NY 10010. The date of occupancy was on April 16, 2010. The lease runs for 15½ years through October 16, 2025. Minimum annual lease payments approximate the following:

<u>Year</u>	<u>Amount</u>
2010	\$ 81,333
2011	392,230
2012	401,055
2013	410,079
2014	419,306
Thereafter	<u>5,703,611</u>
Total	<u>\$ 7,407,614</u>

Under the terms of the new 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 in the amount of \$325,333. The letter of credit was issued by JPMorgan Chase Bank on October 28, 2009. The letter of credit shall be automatically extended without amendment.

The Partnership opened a certificate of deposit in the amount of \$325,333 to secure the letter of credit. The certificate of deposit earns interest at the prevailing rate and is included in cash and cash equivalents as of December 31, 2009.

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for December 31, 2008)

(5) 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 \$128,249 and \$145,709 for the years ended December 31, 2009 and 2008, respectively.

(6) 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.

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Schedule of Functional Expenses

Year ended December 31, 2009
(with comparative totals for the
year ended December 31, 2008)

	2009			Total	2008 Total
	Program services	Management and general	Fundraising and special event		
Salaries	\$ 3,141,846	378,562	427,165	3,947,573	4,603,709
Payroll taxes and employee benefits	556,422	50,487	74,522	681,431	775,185
Professional, consulting, and research fees	1,380,654	65,528	161,705	1,607,887	2,401,415
Supplies	36,815	2,349	9,590	48,754	63,490
Telephone	59,210	4,031	4,764	68,005	78,446
Distribution, postage, and shipping	205,468	1,606	3,997	211,071	252,322
Occupancy	568,945	71,118	71,118	711,181	761,414
Travel, meetings, and conferences	256,405	90	14,566	271,061	448,522
Agency/media production costs	6,856	—	—	6,856	127,185
Interactive/information technology	165,867	8,287	28,524	202,678	250,591
Printing, publications, and audio/video duplications	38,442	2	3,073	41,517	28,669
Special events	—	—	209,822	209,822	255,918
Equipment rental	23,497	2,937	2,937	29,371	31,076
Depreciation	66,976	8,332	8,332	83,640	88,771
Other	82,938	69,240	13,441	165,619	217,341
	<u>\$ 6,590,341</u>	<u>662,569</u>	<u>1,033,556</u>	<u>8,286,466</u>	<u>10,384,054</u>