KPMG

PARTNERSHIP FOR A DRUG-FREE AMERICA
(d/b/a THE PARTNERSHIP AT DRUGFREE.ORG)

Financial Statements
and Supplemental Schedule

December 31, 2010

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154

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, d/b/a The Partnership at Drugfree.org (the Partnership) as of December 31, 2010, 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 2009 financial statements, and in our report dated July 6, 2010, 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, d/b/a The Partnership at Drugfree.org, as of December 31, 2010, 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

June 24, 2011

PARTNERSHIP FOR A DRUG-FREE AMERICA
(d/b/a THE PARTNERSHIP AT DRUGFREE.ORG)

Statement of Financial Position

December 31, 2010
(with comparative financial information
at December 31, 2009)

Assets		**2010**	**2009**
Cash and cash equivalents (note 4)	$	1,574,266	994,353
Investments (note 2)		10,907,005	11,190,490
Contributions, grant, and contracts receivable, net		3,227,262	3,595,870
Prepaid expenses and other assets		40,902	139,850
Property and equipment (note 5):			
Furniture and fixtures		360,640	370,130
Computer equipment		282,595	265,337
Leasehold improvements		330,734	410,399
		973,969	1,045,866
Less accumulated depreciation and amortization		(298,914)	(992,593)
Property and equipment, net		675,055	53,273
Total assets	$	16,424,490	15,973,836
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	418,803	420,990
Deferred rent (note 4)		256,662	—
Total liabilities		675,465	420,990
Commitments and contingencies (note 4)			
Net assets:			
Unrestricted		11,615,242	12,436,036
Temporarily restricted		4,133,783	3,116,810
Total net assets		15,749,025	15,552,846
Total liabilities and net assets	$	16,424,490	15,973,836

See accompanying notes to financial statements.

PARTNERSHIP FOR A DRUG-FREE AMERICA
(d/b/a THE PARTNERSHIP AT DRUGFREE.ORG)

Statement of Activities

Year ended December 31, 2010
(with summarized financial information
for the year ended December 31, 2009)

	2010 Unrestricted	2010 Temporarily restricted	2010 Total	2009 Total
Revenues, support, and other additions:				
Contributions	$ 2,017,797	1,731,225	3,749,022	2,821,022
Special event	2,194,671	—	2,194,671	2,004,514
Federal grant and state contracts	88,357	1,653,947	1,742,304	1,523,198
Interest and dividend income	272,473	—	272,473	238,304
Net appreciation of investments	733,490	—	733,490	1,951,599
Net assets released from time restrictions	2,368,199	(2,368,199)	—	—
Total revenues, support, and other additions	7,674,987	1,016,973	8,691,960	8,538,637
Expenses:				
Program services	6,800,289	—	6,800,289	6,590,341
Management and general	652,077	—	652,077	662,569
Fund-raising	726,782	—	726,782	745,307
Special event	286,555	—	286,555	288,249
Total expenses	8,465,703	—	8,465,703	8,286,466
Increase (decrease) in net assets before other changes	(790,716)	1,016,973	226,257	252,171
Other changes:				
Loss on disposal of fixed assets (note 5)	(30,078)	—	(30,078)	—
Increase (decrease) in net assets	(820,794)	1,016,973	196,179	252,171
Net assets at beginning of year	12,436,036	3,116,810	15,552,846	15,300,675
Net assets at end of year	$ 11,615,242	4,133,783	15,749,025	15,552,846

See accompanying notes to financial statements.

PARTNERSHIP FOR A DRUG-FREE AMERICA
(d/b/a THE PARTNERSHIP AT DRUGFREE.ORG)

Statement of Cash Flows

Year ended December 31, 2010
(with comparative financial information
for the year ended December 31, 2009)

		2010	2009
Cash flows from operating activities:			
Increase in net assets	$	196,179	252,171
Adjustments to reconcile increase in net assets to cash flows provided by (used in) operating activities:			
Depreciation and amortization expense		52,291	83,640
Loss on disposal of fixed assets		30,078	—
Net appreciation of investments		(733,490)	(1,951,599)
Gifts of marketable securities		(25,894)	(27,524)
Decrease in contributions, grant, and contracts receivable		368,608	1,121,127
Decrease (increase) in prepaid expenses and other assets		98,948	(112,965)
Decrease in accounts payable and accrued expenses		(2,187)	(241,190)
Increase in deferred rent		256,662	—
Cash flows provided by (used in) operating activities		241,195	(876,340)
Cash flows from investing activities:			
Purchases of marketable securities		(2,485,377)	(3,167,625)
Proceeds from sales of marketable securities		3,528,246	3,234,058
Purchases of property and equipment		(704,151)	(3,920)
Cash flows provided by investing activities		338,718	62,513
Net increase (decrease) in cash and cash equivalents		579,913	(813,827)
Cash and cash equivalents at beginning of year		994,353	1,808,180
Cash and cash equivalents at end of year	$	1,574,266	994,353

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 organized in 1987. In 2010, The Partnership began doing business as The Partnership at Drugfree.org, and evolved its mission to help parents prevent, intervene in, and find treatment for drug and alcohol use by their children. 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 intervene in and find treatment for drugs and alcohol use by their children. The Partnership relies on the media to donate time and space and on advertising agencies to volunteer their resources for advertising campaigns (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 U.S. Congress appropriated $45 million from October 2009 to September 2010 and $35 million from October 2010 to September 2011 to run the 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.

On March 4, 2011, the Partnership at Drugfree.org entered into an agreement with Boston University School of Public Health "Boston University", both non-profit organizations, to develop a long-term collaborative relationship regarding alcohol and substance abuse. Under this agreement, the Partnership will assume responsibility for the "Join Together" Web site that supports drug and alcohol screening programs and publishes news and content that assists communities and individuals to advance effective alcohol and drug abuse policies, prevention and treatment programs. Boston University assigned a permanent, exclusive right to the Partnership for the "Join Together" name and Web site. The Partnership may not transfer or dispose of the name or Web site for a period of three years without written consent. No monies have been transferred between either party as a result of this agreement. The Partnership re-launched the "Join Together" online services on April 4, 2011.

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 2010 and 2009 as there were no activities that were not related to its exempt purpose.

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.

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 a risk-adjusted rate. Contributions of securities are recorded at estimated fair value at the date of the gift. At December 31, 2010, the majority of contributions, grants and contract receivables are expected to be collected within two years.

In December 2010, the Partnership held its seventh annual gala. The gross proceeds in 2010 and 2009 were $2,194,671 and $2,004,514, respectively, and the related costs incurred were $286,555 and $288,249, respectively. These amounts are reflected as special event revenue and expense, respectively, in the accompanying statement of activities.

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Cash Equivalents

The Partnership classifies as cash equivalents, funds that 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 fund-raising 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.

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, 2009, from which the summarized information was derived.

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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; and
- 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.

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 private equity – collectively, alternative investments). This guidance 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.

Subsequent Event

The Partnership evaluated events subsequent to December 31, 2010 through June 24, 2011, the date on which the financial statements were available to be issued, and determined that there are no other items to disclose.

(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 net asset values provided by the Partnership's external

(Continued)

investment managers and reviewed by management for reasonableness. The fair values of investments are as follows:

	2010	2009
Fixed income mutual funds	$ 4,261,841	4,243,293
Domestic corporate stocks	2,904,989	2,757,691
International equity mutual funds	2,463,082	2,983,576
Hedge fund	1,277,093	1,205,930
	$ 10,907,005	11,190,490

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, 2010:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Fixed income mutual funds	$ 4,261,841	4,261,841	—	—
Domestic corporate stocks	2,904,989	2,904,989	—	—
International equity mutual funds	2,463,082	2,463,082	—	—
Hedge fund	1,277,093	—	—	1,277,093
Total	$ 10,907,005	9,629,912	—	1,277,093

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	—	—
Domestic 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

(Continued)

The following table presents a reconciliation for all Level 3 assets measured at fair value for the period January 1, 2010 to December 31, 2010 and January 1, 2009 to December 31, 2009:

		2010	2009
Financial assets:			
Beginning balance January 1,	$	1,205,930	1,057,515
Unrealized gains		71,163	148,415
Ending balance December 31,	$	1,277,093	1,205,930

The Partnership's hedge fund is a fund of 22 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.

(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 rented office facilities under an operating lease that expired on December 31, 2009, and was extended through April 16, 2010 at which time the Partnership moved to new offices. It provided for a minimum annual payment of $566,040 plus additional rent.

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 April 16, 2010. The lease runs through October 16, 2025. Minimum rent payments under operating leases 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 expense has been recognized as deferred rent in the accompanying statement of financial position and will be amortized over the life of the lease. Rent expense amounted to $611,186 and $675,226 for the years ended December 31, 2010 and 2009, respectively.

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Minimum annual lease payments approximate the following:

Year		Amount
2011	$	392,230
2012		401,055
2013		410,079
2014		419,306
2015		436,365
Thereafter		5,267,246
Total	$	7,326,281

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, 2010.

(5) Loss on Disposal

During the move to new offices at 352 Park Avenue South, the Partnership disposed of furniture and fixtures that were not usable in the new space. The book value of these fixed assets was $365,649, with accumulative depreciation of $335,571. Accordingly, a net loss on disposal of fixed assets of $30,078 was recognized in 2010.

(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 $128,926 and $128,249 for the years ended December 31, 2010 and 2009, respectively.

PARTNERSHIP FOR A DRUG-FREE AMERICA
(d/b/a THE PARTNERSHIP AT DRUGFREE.ORG)

Schedule of Functional Expenses

Year ended December 31, 2010
(with comparative totals for the
year ended December 31, 2009)

	2010				2009
	Program services	**Management and general**	**Fund-raising and special event**	**Total**	**Total**
Salaries	$ 3,281,159	348,430	413,480	4,043,069	3,947,573
Payroll taxes and employee benefits	571,407	48,420	80,983	700,810	681,431
Professional, consulting, and research fees	1,399,953	65,576	143,661	1,609,190	1,607,887
Supplies	53,782	4,586	8,109	66,477	48,754
Telephone	48,652	2,661	3,532	54,845	68,005
Distribution, postage, and shipping	201,762	1,372	4,980	208,114	211,071
Occupancy	560,354	70,034	70,034	700,422	711,181
Travel, meetings, and conferences	309,551	1,380	14,438	325,369	271,061
Agency/media production costs	21,223	—	—	21,223	6,856
Interactive/information technology	128,580	7,371	31,903	167,854	202,678
Printing, publications, and audio/video duplications	41,341	94	7,705	49,140	41,517
Special events	22,130	—	209,937	232,067	209,822
Equipment rental	29,432	3,679	3,679	36,790	29,371
Depreciation	41,833	5,229	5,229	52,291	83,640
Other	89,130	93,245	15,667	198,042	165,619
	$ 6,800,289	652,077	1,013,337	8,465,703	8,286,466