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

Financial Statements
and Supplemental Schedule

December 31, 2014
(with summarized comparative financial information
as of and for the year ended December 31, 2013)

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

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

We have audited the accompanying financial statements of Partnership for a Drug-Free America, d/b/a Partnership for Drug-Free Kids (the Partnership), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and cash flows for the year 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 audit. 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 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 organization'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 organization'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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the Partnership's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 10, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the 2014 financial statements as a whole. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the 2014 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2014 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2014 financial statements or to the 2014 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2014 financial statements as a whole.

KPMG LLP

June 15, 2015

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

Statement of Financial Position

December 31, 2014
(with comparative financial information at December 31, 2013)

Assets		**2014**	**2013**
Cash and cash equivalents (note 5)	$	2,219,211	1,804,704
Investments (note 2)		10,397,587	10,642,134
Contributions, grants, and contracts receivable, net		385,487	1,063,786
Prepaid expenses and other assets		69,377	76,294
Property and equipment:			
Furniture and fixtures		374,151	374,151
Computer equipment		122,371	120,230
Leasehold improvements		330,734	330,734
		827,256	825,115
Accumulated depreciation and amortization		(382,157)	(301,187)
Property and equipment, net		445,099	523,928
Total assets	$	13,516,761	14,110,846
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	401,157	239,285
Deferred rent (note 5)		536,202	477,610
Total liabilities		937,359	716,895
Commitments and contingencies (note 5)			
Net assets:			
Unrestricted		11,333,016	12,721,735
Temporarily restricted (note 4)		1,246,386	672,216
Total net assets		12,579,402	13,393,951
Total liabilities and net assets	$	13,516,761	14,110,846

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, 2014
(with comparative totals for the year ended December 31, 2013)

	2014			2013
	Unrestricted	**Temporarily restricted**	**Total**	**2013 Total**
Revenues, support, and other additions:				
Contributions	$ 4,341,731	1,137,500	5,479,231	3,440,035
Contributed services, media time, and space (note 3)	88,407,675	—	88,407,675	76,526,004
Special events	1,110,433	—	1,110,433	1,966,825
Government grants and contracts	483,671	—	483,671	2,048,346
Interest and dividend income	273,419	—	273,419	235,462
Net appreciation in fair value of investments	124,688	—	124,688	918,742
Net assets released from restrictions	563,330	(563,330)	—	—
Total revenues, support, and other additions	95,304,947	574,170	95,879,117	85,135,414
Expenses:				
Program services	6,680,530	—	6,680,530	7,699,075
Program services – contributed services, media time, and space (note 3)	88,407,675	—	88,407,675	76,526,004
Management and general	704,693	—	704,693	630,843
Fund-raising – special events	168,862	—	168,862	184,388
Fund-raising – other	731,906	—	731,906	692,005
Total expenses	96,693,666	—	96,693,666	85,732,315
(Decrease) increase in net assets	(1,388,719)	574,170	(814,549)	(596,901)
Net assets at beginning of year	12,721,735	672,216	13,393,951	13,990,852
Net assets at end of year	$ 11,333,016	1,246,386	12,579,402	13,393,951

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended December 31, 2014
(with comparative financial information for the year ended December 31, 2013)

		2014	2013
Cash flows from operating activities:			
Decrease in net assets	$	(814,549)	(596,901)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization expense		80,970	93,563
Net appreciation in fair value of investments		(124,688)	(918,742)
Gifts of marketable securities		(15,712)	(20,184)
Decrease in contributions, grant, and contracts receivable		678,299	799,705
Decrease in prepaid expenses and other assets		6,917	55,431
Increase (decrease) in accounts payable and accrued expenses		161,872	(207,746)
Increase in deferred rent		58,592	67,820
Net cash provided by (used in) operating activities		31,701	(727,054)
Cash flows from investing activities:			
Purchases of investments		(2,833,779)	(2,603,406)
Proceeds from sales of investments		3,218,726	3,390,938
Purchases of property and equipment		(2,141)	(13,726)
Net cash provided by investing activities		382,806	773,806
Net increase in cash and cash equivalents		414,507	46,752
Cash and cash equivalents at beginning of year		1,804,704	1,757,952
Cash and cash equivalents at end of year	$	2,219,211	1,804,704

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. From 2010 until April 2014, the Partnership was doing business as The Partnership at Drugfree.org. 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, and has evolved its mission to reduce substance abuse among adolescents by supporting families and engaging with teens. The nonprofit develops public education campaigns that drive awareness of teen substance abuse, and lead teen-targeted efforts that inspire young people to make positive decisions to stay healthy and avoid drugs and alcohol. On its website, drugfree.org, and through its toll-free helpline (1-855-DRUGFREE), the Partnership provides families with direct support and guidance to help them address teen substance abuse. Finally, the organization builds healthy communities, advocating for funding for youth prevention programs and greater access to adolescent treatment. The Partnership relies on the media to donate time and space and on advertising agencies to volunteer their resources for advertising campaigns (note 3).

On September 17, 2012, the Partnership entered into a contract with the Office of National Drug Control Policy to take over responsibility for the national teen advertising campaign called "Above the Influence." The contract covers creative services for traditional and social media in the amount of $2,492,969. Work under this contract was completed on March 16, 2014.

On March 14, 2013, the Partnership entered into an agreement with The Meth Project Foundation (the Foundation) to assume responsibility for their public education programs, advertising campaigns, and prevention tools for a period of no less than two years. In addition, the Partnership assumed responsibility for the Foundation's family of Web sites, including MethProject.org for no less than three years. All of these programs are part of the Partnership's comprehensive national efforts to reduce substance abuse among teens. Incorporating these programs into the Partnership's efforts will leverage a long-term commitment against methamphetamine use. The Meth Project Foundation provided a cash grant in the amount of $395,000 payable over two years.

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 2014 and 2013 as there were no activities that were not related to its exempt purpose.

Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Partnership as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Temporarily restricted net assets – net assets subject to donor-imposed stipulations that will be met 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 is reported as net assets released from restrictions.

(b) Contributions and Special Events

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, 2014 and 2013, the majority of contributions, grants, and contract receivables are expected to be collected within two years.

The gross proceeds from the Partnership’s annual gala and other special events in 2014 and 2013 were $1,110,433, and $1,966,825 and the related costs incurred were $168,862, and $184,388, respectively. These amounts are reflected as special events revenue and expense, respectively, in the accompanying statement of activities.

(c) Cash Equivalents

The Partnership classifies as cash equivalents funds that are in short-term, highly liquid investments that are readily convertible to known amounts of cash.

(d) Property and Equipment

Furniture and fixtures and computer equipment 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.

(e) 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 fund-raising activities benefited.

(f) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(g) 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, 2013, from which the summarized information was derived.

(h) 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.

(Continued)

- 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 follows 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). 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.

The carrying amount of the Partnership's contributions, grants, and contracts receivable, and accounts payable and accrued expenses approximates fair value. The estimated fair values involve unobservable inputs considered to be Level 3 in the fair value hierarchy. The fair value and hierarchy of the Partnership's investments are disclosed in note 2.

(i) Subsequent Events

The Partnership evaluated events subsequent to December 31, 2014 and through June 15, 2015, the date on which the financial statements were approved for issuance and determined that no additional matters required disclosure.

(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 investment managers and reviewed by management for reasonableness. The fair values of investments at December 31 are as follows:

	2014	2013
Fixed-income mutual funds	$ 3,716,529	3,600,814
Domestic corporate stocks	3,229,236	3,353,936
International equity mutual funds	1,789,026	2,079,842
Hedge fund	1,662,796	1,607,542
	$ 10,397,587	10,642,134

The following table presents the Partnership's fair value hierarchy for investments, the only financial instruments measured at fair value on a recurring basis, as of December 31, 2014:

	Fair value	Level 1	Level 3
Fixed-income mutual funds	$ 3,716,529	3,716,529	—
Domestic corporate stocks	3,229,236	3,229,236	—
International equity mutual funds	1,789,026	1,789,026	—
Hedge fund	1,662,796	—	1,662,796
Total	$ 10,397,587	8,734,791	1,662,796

The following table presents the Partnership's fair value hierarchy for investments, the only financial instruments measured at fair value on a recurring basis, as of December 31, 2013:

	Fair value	Level 1	Level 3
Fixed-income mutual funds	$ 3,600,814	3,600,814	—
Domestic corporate stocks	3,353,936	3,353,936	—
International equity mutual funds	2,079,842	2,079,842	—
Hedge fund	1,607,542	—	1,607,542
Total	$ 10,642,134	9,034,592	1,607,542

At December 31, 2014 and 2013, there were no Level 2 investments.

The following table presents a reconciliation for all Level 3 assets measured at fair value for the years ended December 31:

		2014	2013
Investments – hedge fund:			
Beginning balance	$	1,607,542	1,142,927
Purchases		—	300,000
Unrealized gains		55,254	164,615
Ending balance	$	1,662,796	1,607,542

The Partnership's hedge fund consists of 26 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 lockup requirements, varying between 12 and 36 months.

(3) 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 reviewed its policy for recognizing contributed services, media time, and space and has 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. Therefore, the value of these contributions is required to be reflected in the accompanying statement of activities at fair value. Fair value of the contributed services, media time and space has been determined by using unobservable inputs, such as the number of spots aired, net impressions, and rate per spot, which are considered to be Level 3 in the fair value hierarchy.

(4) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following as of December 31:

		2014	2013
Website design	$	587,500	—
Other program related services		600,000	491,074
Restricted by time		58,886	181,142
Total temporarily restricted net assets	$	1,246,386	672,216

(Continued)

(5) Lease Commitments

On October 27, 2009, the Partnership entered into a lease agreement to rent 12,200 square feet of office space at 352 Park Avenue South, New York, NY 10010. The date of occupancy was April 16, 2010. The lease runs through October 16, 2025. Minimum rent payments under 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 payments has been recognized as deferred rent in the accompanying statement of financial position and is being amortized over the life of the lease. Rent expense amounted to $504,937 and $494,674 for the years ended December 31, 2014 and 2013, respectively.

Minimum annual lease payments approximate the following:

		Amount
Year:		
2015	$	436,365
2016		475,158
2017		485,849
2018		496,781
2019		507,959
Thereafter		3,301,499
Total	$	5,703,611

Under the terms of the lease agreement at 352 Park Avenue South, the Partnership provided the landlord with a security deposit in the form of an unconditional letter of credit in the amount of $260,267. The letter of credit was issued by JPMorgan Chase Bank on October 28, 2009. The letter of credit shall be automatically extended annually through May 31, 2025.

The Partnership opened a certificate of deposit to secure the letter of credit. During 2013, the letter of credit and certificate of deposit were reduced by $65,067 as per the lease agreement. The certificate of deposit balances was $263,449 and $263,396 as of December 31, 2014 and 2013, respectively. It earns interest at the prevailing rate and is included in cash and cash equivalents in the accompanying statement of financial position.

(6) Defined-Contribution Retirement Plan

The Partnership provides a defined-contribution 403(b) retirement plan with the Code, Section 401(k) features to its eligible employees. The Partnership’s 403(b) expense is calculated as a 100% match of the individual participant’s contribution up to 4% of the respective participant’s salary. The Partnership’s 403(b) retirement plan expense was $123,581 and $123,177 for the years ended December 31, 2014 and 2013, respectively. During 2014 and 2013, the Partnership utilized forfeiture funds toward a portion of the plan’s matching contribution expense.

Schedule 1

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

Schedule of Functional Expenses

Year ended December 31, 2014
(with comparative totals for the year ended December 31, 2013)

	2014				
	Program services	**Management and general**	**Fund-raising including special events**	**Total**	**2013 Total**
Salaries	$ 3,334,980	417,262	500,049	4,252,291	4,614,573
Payroll taxes and employee benefits	588,333	58,789	73,633	720,755	740,314
Professional, consulting, and research fees	1,066,029	75,188	26,428	1,167,645	1,746,963
Supplies	36,839	3,799	4,573	45,211	41,456
Telephone	31,617	1,894	1,894	35,405	38,440
Distribution, postage, and shipping	169,005	419	3,822	173,246	152,884
Occupancy	472,652	57,999	57,999	588,650	569,895
Travel, meetings, and conferences	192,530	—	8,071	200,601	249,277
Direct agency/media production costs	371,003	—	—	371,003	296,881
Contributed services, media time, and space	88,407,675	—	—	88,407,675	76,526,004
Interactive/information technology	196,669	16,584	14,629	227,882	215,282
Printing, publications, and audio/video duplications	3,553	81	188	3,822	12,969
Special events	—	—	168,862	168,862	184,388
Equipment rental	15,847	1,981	1,981	19,809	25,117
Depreciation	64,776	8,097	8,097	80,970	93,563
Other	136,697	62,600	30,542	229,839	224,309
	$ 95,088,205	704,693	900,768	96,693,666	85,732,315

See accompanying independent auditors’ report.