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

Financial Statements
and Supplemental Schedule

December 31, 2015
(with summarized comparative financial information
as of and for the year ended December 31, 2014)

(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, 2015, 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, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 15, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 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 2015 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 2015 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 2015 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2015 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2015 financial statements or to the 2015 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 2015 financial statements as a whole.

KPMG LLP

June 8, 2016

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

Statement of Financial Position

December 31, 2015
(with comparative financial information at December 31, 2014)

Assets		**2015**	**2014**
Cash and cash equivalents (notes 2 and 7)	$	1,515,498	2,219,211
Investments (note 3)		9,454,671	10,397,587
Contributions, grants, and contracts receivable, net		1,529,303	385,487
Prepaid expenses and other assets		73,845	69,377
Property and equipment, net (note 4)		393,980	445,099
Total assets	$	12,967,297	13,516,761
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	338,321	401,157
Deferred rent (note 7)		578,796	536,202
Total liabilities		917,117	937,359
Commitments and contingencies (note 7)			
Net assets:			
Unrestricted		10,985,597	11,333,016
Temporarily restricted (note 6)		1,064,583	1,246,386
Total net assets		12,050,180	12,579,402
Total liabilities and net assets	$	12,967,297	13,516,761

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, 2015
(with comparative totals for the year ended December 31, 2014)

	2015			
	Unrestricted	**Temporarily restricted**	**Total**	**2014 Total**
Revenues, support, and other additions:				
Contributions	$ 4,025,570	1,029,582	5,055,152	5,479,231
Contributed services, media time, and space (note 5)	83,508,751	—	83,508,751	88,407,675
Special events	1,349,735	—	1,349,735	1,110,433
Government grants and contracts	471,824	—	471,824	483,671
Interest and dividend income	256,662	—	256,662	273,419
Net (depreciation) appreciation in fair value of investments	(421,272)	—	(421,272)	124,688
Net assets released from restrictions	1,211,385	(1,211,385)	—	—
Total revenues, support, and other additions	90,402,655	(181,803)	90,220,852	95,879,117
Expenses:				
Program services	6,023,207	—	6,023,207	6,680,530
Program services – contributed services, media time, and space (note 5)	83,508,751	—	83,508,751	88,407,675
Management and general	577,136	—	577,136	704,693
Fundraising – special events	178,458	—	178,458	168,862
Fundraising – other	462,522	—	462,522	731,906
Total expenses	90,750,074	—	90,750,074	96,693,666
Decrease in net assets	(347,419)	(181,803)	(529,222)	(814,549)
Net assets at beginning of year	11,333,016	1,246,386	12,579,402	13,393,951
Net assets at end of year	$ 10,985,597	1,064,583	12,050,180	12,579,402

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, 2015
(with comparative financial information for the year ended December 31, 2014)

	2015	2014
Cash flows from operating activities:		
Decrease in net assets	$ (529,222)	(814,549)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	70,190	80,970
Net depreciation (appreciation) in fair value of investments	421,272	(124,688)
Gifts of marketable securities	—	(15,712)
(Increase) decrease in contributions, grant, and contracts receivable	(1,143,816)	678,299
(Increase) decrease in prepaid expenses and other assets	(4,468)	6,917
(Decrease) increase in accounts payable and accrued expenses	(62,836)	161,872
Increase in deferred rent	42,594	58,592
Net cash (used in) provided by operating activities	(1,206,286)	31,701
Cash flows from investing activities:		
Purchases of investments	(1,112,987)	(2,833,779)
Proceeds from sales of investments	1,634,631	3,218,726
Purchases of property and equipment	(19,071)	(2,141)
Net cash provided by investing activities	502,573	382,806
Net (decrease) increase in cash and cash equivalents	(703,713)	414,507
Cash and cash equivalents at beginning of year	2,219,211	1,804,704
Cash and cash equivalents at end of year	$ 1,515,498	2,219,211

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

The Partnership for a Drug-Free America (the Partnership) was established in 1987 with the mission to reduce substance abuse among adolescents by supporting families and engaging with teens. From 2010 until 2014, the Partnership did 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.

The Partnership develops public education campaigns that drive awareness of teen substance abuse, and leads 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 Partnership helps build healthy communities and advocates for greater access to treatment and increased funding for prevention programs. The Partnership relies on the generous support of the media for donated time and space, and on the advertising industry for pro-bono services to create and produce advertising campaigns (note 5).

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.

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 2015 and 2014 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 by either 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, 2015 and 2014, 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 2015 and 2014 were $1,349,735 and $1,110,433, and the related costs incurred were $178,458 and $168,862, 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 and network are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives as follows:

Furniture and fixtures	10 years
Computer equipment and network	3 years

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

(e) Functional Expenses

The costs of providing program services, management and general, and fundraising activities of the Partnership have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services, management and general, and fundraising 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, 2014, 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
- 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

(Continued)

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 2015, the Partnership adopted the provisions of Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The Partnership applied provisions of the update retrospectively to 2014.

The carrying amounts of the Partnership's contributions, grants, and contracts receivable, and accounts payable and accrued expenses approximate 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 3.

(i) Subsequent Events

The Partnership evaluated events subsequent to December 31, 2015 and through June 8, 2016, the date on which the financial statements were approved for issuance and determined that no additional matters required disclosure.

(2) Concentration of Credit Risk

At December 31, 2015 and 2014, the Partnership's cash and cash equivalents were held by a single financial institution. The bank balance was $1,546,627 and $2,223,528 at December 31, 2015 and 2014, respectively, of which $250,000 was insured by the Federal Deposit Insurance Corporation.

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(3) Investments and Fair Value Measurements

All investments, including marketable securities and the hedge fund, are reported in the financial statements at fair value, based upon quoted market prices (Level 1) or net asset value provided by the Partnership's external investment manager and reviewed by management for reasonableness. The following table presents the Partnership's fair value of investments as of December 31, 2015 and 2014:

		2015	2014
Level 1:			
Fixed-income mutual funds	$	3,335,833	3,716,529
Domestic corporate stocks		2,837,740	3,229,236
International equity mutual funds		1,613,621	1,789,026
Subtotal		7,787,194	8,734,791
Investments reported at net asset value:			
Hedge fund		1,667,477	1,662,796
Total investments	$	9,454,671	10,397,587

At December 31, 2015 and 2014, there were no Level 2 or 3 investments.

The Partnership's hedge fund consists of 26 diversified hedge funds. The Partnership may request redemptions of all or a portion of its shares as of each calendar quarter end. Redemptions require 100 days prior written notice. However, each individual fund has its own liquidation or lockup requirements, varying between 12 and 36 months.

(4) Property and Equipment

Property and equipment at December 31, 2015 and 2014 consist of the following:

		2015	2014
Furniture and fixtures	$	374,151	374,151
Computer equipment		121,846	122,371
Leasehold improvements		330,734	330,734
		826,731	827,256
Less accumulated depreciation		(432,751)	(382,157)
	$	393,980	445,099

Depreciation expense of $70,190 and $80,970 was recorded in 2015 and 2014, respectively.

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(5) Contributed Services, Media Time, and Space

A number of broadcast and print media, advertising agencies, and production, distribution, and monitoring service companies have made contributions to the Partnership in the form of pro bono advertising time and space, talent, production, and related services. The Partnership is dependent on these contributions to continue its current programs. The Partnership 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.

(6) Temporarily Restricted Net Assets

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

		2015	2014
Website design	$	87,500	587,500
Other program related services		440,000	600,000
Restricted by time		537,083	58,886
Total temporarily restricted net assets	$	1,064,583	1,246,386

(7) Lease Commitments

On October 27, 2009, the Partnership entered into a lease agreement to rent 12,200 square feet of office space at 352 Park Avenue South, New York, NY 10010. The date of occupancy was April 16, 2010. The lease runs through October 16, 2025. Minimum rent payments under the operating lease 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 $523,150 and $504,937 for the years ended December 31, 2015 and 2014, respectively.

Minimum annual lease payments approximate the following:

		Amount
Year:		
2016	$	475,158
2017		485,849
2018		496,781
2019		507,959
2020		524,471
Thereafter		2,777,028
Total	$	5,267,246

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.

The Partnership opened a certificate of deposit to secure the letter of credit. The certificate of deposit balance was $263,475 and $263,449 as of December 31, 2015 and 2014, respectively. It earns interest at the prevailing rate and is included in cash and cash equivalents in the accompanying statement of financial position.

(8) Defined-Contribution Retirement Plan

The Partnership provides a defined-contribution 403(b) retirement plan 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 $106,752 and $123,581 for the years ended December 31, 2015 and 2014, respectively. During 2015 and 2014, 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, 2015
(with comparative totals for the year ended December 31, 2014)

	2015				
	Program services	**Management and general**	**Fundraising**	**Total**	**2014 Total**
Salaries	$ 2,932,091	294,575	249,987	3,476,653	4,252,291
Payroll taxes and employee benefits	544,251	48,689	40,587	633,527	720,755
Professional, consulting, and research fees	663,406	75,999	58,756	798,161	1,167,645
Supplies	25,891	2,173	2,673	30,737	45,211
Telephone	31,832	1,816	1,816	35,464	35,405
Distribution, postage, and shipping	114,461	1,026	3,543	119,030	173,246
Occupancy	486,416	59,368	59,368	605,152	588,650
Travel, meetings, and conferences	207,265	1,542	6,864	215,671	200,601
Direct agency/media production costs	572,174	—	—	572,174	371,003
Contributed services, media time, and space	83,508,751	—	—	83,508,751	88,407,675
Interactive/information technology	246,107	15,851	14,877	276,835	227,882
Printing, publications, and audio/video duplications	10,971	—	—	10,971	3,822
Special events	—	—	178,458	178,458	168,862
Equipment rental	11,754	1,469	1,469	14,692	19,809
Depreciation	56,152	7,019	7,019	70,190	80,970
Other	120,436	67,609	15,563	203,608	229,839
	$ 89,531,958	577,136	640,980	90,750,074	96,693,666

See accompanying independent auditors' report.