



**AMERICAN DIABETES ASSOCIATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with Independent Auditors' Report Thereon)**





KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

The Board of Directors  
American Diabetes Association:

We have audited the accompanying consolidated balance sheet of the American Diabetes Association (the Association) as of December 31, 2008, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Association's 2007 financial statements and, in our report dated June 30, 2008, we expressed an unqualified opinion on those 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 Association'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 our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the American Diabetes Association as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 11 to the consolidated financial statements, the Association adopted the provisions of FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, as of January 1, 2008.

As discussed in Note 4 to the consolidated financial statements, the Association adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as of January 1, 2008.

**KPMG LLP**

June 19, 2009

**AMERICAN DIABETES ASSOCIATION  
CONSOLIDATED BALANCE SHEETS**

**December 31, 2008**

**(with comparative information as of December 31, 2007)**

**(in thousands of dollars)**

<b>ASSETS</b>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 3,729	\$ 7,294
Investments	36,949	38,096
Accounts receivable, net	7,404	9,657
Inventory and supplies, net	3,886	3,206
Prepaid expenses and other assets	5,225	5,110
Contributions receivable, net	45,045	43,635
Fixed assets, net	7,995	9,316
Interest in perpetual trusts	<u>2,945</u>	<u>2,212</u>
Total assets	<u><u>\$ 113,178</u></u>	<u><u>\$ 118,526</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued liabilities	\$ 18,459	\$ 19,229
Line of credit	1,560	-
Research grants payable	12,208	9,678
Deferred revenues	<u>13,434</u>	<u>14,176</u>
Total liabilities	<u>45,661</u>	<u>43,083</u>
Net assets:		
Unrestricted	13,186	31,988
Temporarily restricted	47,081	36,859
Permanently restricted	<u>7,250</u>	<u>6,596</u>
Total net assets	<u>67,517</u>	<u>75,443</u>
Total liabilities and net assets	<u><u>\$ 113,178</u></u>	<u><u>\$ 118,526</u></u>

*See accompanying notes to the consolidated financial statements.*

**AMERICAN DIABETES ASSOCIATION  
CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended December 31, 2008**

**(with summarized information for the year ended December 31, 2007)**

**(in thousands of dollars)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>	<u>2007 Total</u>
Revenues:					
Contributions and grants:					
Donations	\$ 52,309	39,884	-	92,193	93,350
Special events	51,717	3,172	-	54,889	55,427
Less: Costs of direct benefits to donors	(8,224)	-	-	(8,224)	(8,182)
Bequests	16,082	11,832	654	28,568	27,465
Federated and nonfederated organizations	9,292	186	-	9,478	9,874
Total contributions and grants	<u>121,176</u>	<u>55,074</u>	<u>654</u>	<u>176,904</u>	<u>177,934</u>
Fees from exchange transactions:					
Subscriptions & other income from periodicals	26,390	-	-	26,390	27,308
Sales of materials	6,652	-	-	6,652	8,515
Program service fees	13,347	-	-	13,347	12,764
Investment (loss) income	(2,954)	38	-	(2,916)	5,634
Miscellaneous revenues	1,615	-	-	1,615	1,620
Total fees from exchange transactions	<u>45,050</u>	<u>38</u>	<u>-</u>	<u>45,088</u>	<u>55,841</u>
Net assets released from restrictions	<u>44,890</u>	<u>(44,890)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>211,116</u>	<u>10,222</u>	<u>654</u>	<u>221,992</u>	<u>233,775</u>
Expenses:					
Program activities:					
Research	54,406	-	-	54,406	54,341
Information	63,838	-	-	63,838	64,307
Advocacy and public awareness	51,917	-	-	51,917	51,536
Total program activities	<u>170,161</u>	<u>-</u>	<u>-</u>	<u>170,161</u>	<u>170,184</u>
Supporting services:					
Management and general	9,867	-	-	9,867	9,000
Fundraising	49,890	-	-	49,890	49,018
Total supporting services	<u>59,757</u>	<u>-</u>	<u>-</u>	<u>59,757</u>	<u>58,018</u>
Total expenses	<u>229,918</u>	<u>-</u>	<u>-</u>	<u>229,918</u>	<u>228,202</u>
Change in net assets	(18,802)	10,222	654	(7,926)	5,573
Net assets, beginning of year	<u>31,988</u>	<u>36,859</u>	<u>6,596</u>	<u>75,443</u>	<u>69,870</u>
Net assets, end of year	<u>\$ 13,186</u>	<u>47,081</u>	<u>7,250</u>	<u>67,517</u>	<u>75,443</u>

*See accompanying notes to the consolidated financial statements.*

**AMERICAN DIABETES ASSOCIATION  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**Year ended December 31, 2008**

**(with summarized information for the year ended December 31, 2007)**

**(in thousands of dollars)**

	Program Activities				Supporting Services			2008 Total	2007 Total
	Research	Information	Advocacy and public awareness	Total	Management and general	Fundraising	Total		
Grants	\$ 42,556	209	55	42,820	-	-	-	42,820	42,114
Employee costs	2,697	22,104	22,589	47,390	2,075	19,077	21,152	68,542	63,149
Professional fees	1,085	9,252	6,164	16,501	2,020	5,814	7,834	24,335	24,643
Supplies	56	3,016	829	3,901	74	599	673	4,574	4,533
Telecommunications	125	1,008	1,040	2,173	95	880	975	3,148	3,172
Postage and shipping	501	5,108	3,336	8,945	751	5,491	6,242	15,187	15,548
Occupancy cost	579	5,124	2,447	8,150	901	2,072	2,973	11,123	10,441
Equipment rental and maintenance	73	599	617	1,289	67	496	563	1,852	2,305
Printing and publications	2,202	10,863	7,522	20,587	1,668	10,198	11,866	32,453	35,563
Travel	118	1,090	1,397	2,605	105	970	1,075	3,680	3,693
Conferences and meetings	3,839	1,864	3,005	8,708	177	638	815	9,523	10,395
Data processing	63	685	442	1,190	207	1,097	1,304	2,494	2,475
Depreciation and amortization	40	1,239	1,039	2,318	840	840	1,680	3,998	3,748
Miscellaneous	472	1,677	1,435	3,584	887	1,718	2,605	6,189	6,423
<b>Total expenses</b>	<b>\$ 54,406</b>	<b>63,838</b>	<b>51,917</b>	<b>170,161</b>	<b>9,867</b>	<b>49,890</b>	<b>59,757</b>	<b>229,918</b>	<b>228,202</b>
Costs of direct benefits to donors								8,224	8,182
<b>Total expenses and costs of direct benefits to donors</b>								<b>\$ 238,142</b>	<b>\$ 236,384</b>

*See accompanying notes to the consolidated financial statements.*

**AMERICAN DIABETES ASSOCIATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Year ended December 31, 2008**

**(with comparative information for the year ended December 31, 2007)**

**(in thousands of dollars)**

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (7,926)	\$ 5,573
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,998	3,748
Net unrealized and realized loss (gain) on investments	6,087	(73)
Loss on disposal of assets	53	-
Provisions for doubtful receivables and obsolete inventory	2,225	2,302
Adjustments for changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	1,789	(4,816)
Increase in inventory and supplies	(780)	(133)
Increase in prepaid expenses and other assets	(115)	(1,151)
Increase in contributions receivable	(3,071)	(10,777)
(Decrease) increase in accounts payable and accrued liabilities	(424)	2,476
Increase (decrease) in research grants payable	2,530	(103)
(Decrease) increase in deferred revenues	(742)	74
Net cash provided by (used in) operating activities	3,624	(2,880)
Cash flows from investing activities:		
Purchases of investments	(39,703)	(49,273)
Sales or maturities of investments	34,030	58,028
Purchase of fixed assets	(2,730)	(2,979)
Net cash (used in) provided by investing activities	(8,403)	5,776
Cash flows from financing activities:		
Proceeds from borrowing on line of credit	48,020	16,100
Payments on line of credit	(46,460)	(25,100)
Payments on capital lease agreements	(346)	(327)
Net cash provided by (used in) financing activities	1,214	(9,327)
Net decrease in cash and cash equivalents	(3,565)	(6,431)
Cash and cash equivalents, beginning of year	7,294	13,725
Cash and cash equivalents, end of year	\$ 3,729	\$ 7,294

*See accompanying notes to the consolidated financial statements.*

**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

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**1. Consolidation and organization**

The consolidated financial statements include the American Diabetes Association, the American Diabetes Association Research Foundation, Inc., the American Diabetes Association Property Title Holding Corporation, and Shaping America's Health – Association for Weight Management and Obesity Prevention (consolidated, the Association). All significant inter-Association transactions have been eliminated.

The American Diabetes Association, the American Diabetes Association Research Foundation, Inc. and Shaping America's Health – Association for Weight Management and Obesity Prevention are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and charitable contributions to these organizations qualify for tax deductions as described in the Code. The American Diabetes Association Property Title Holding Company, Inc. is exempt from income taxes under Section 501(c)(2) of the Code. These entities (consolidated, the Association) have been classified as organizations that are not private foundations under Section 509(a) of the Code.

As of May 1, 2009, the Association discontinued the operations of Shaping America's Health Association for Weight Management and Obesity Prevention. Certain of its activities will be continued as programs of the American Diabetes Association.

**2. Program activities**

The Association is a not-for-profit voluntary health agency that works to prevent and cure diabetes and to improve the lives of all people affected by diabetes. The principal program activities of the Association are:

**Research** - The Association provides financial support to researchers who are seeking knowledge in the following areas:

- The prevention and cure of diabetes
- The prevention and cure of the complications of diabetes
- New and improved therapies for individuals affected by diabetes

**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

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***Information*** - The Association conducts programs that provide diabetes information to individuals with diabetes, their families, and their health care providers.

***Advocacy and public awareness*** - The Association acts as an advocate for people with diabetes by delivering programs with important diabetes messages to the general public and to all levels of the government.

**3. Summary of significant accounting policies**

**Basis of accounting**

The Association prepares its financial statements on an accrual basis in accordance with U.S. generally accepted accounting principles.

The net assets and revenues, gains and losses of the Association are classified for accounting and reporting purposes in three classes of net assets based on the existence or absence of donor-imposed restrictions. A description of the three classes follows:

***Permanently restricted*** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors permit the Association to use the income earned on related investments for general or specific purposes.

***Temporarily restricted*** - Net assets subject to donor-imposed stipulations that will be met either by actions of the Association and/or the passage of time.

***Unrestricted*** - Net assets that are not subject to donor-imposed stipulations.

**Cash and cash equivalents**

Cash and cash equivalents are defined as currency on hand, demand deposits with banks or financial institutions, federally insured certificates of deposit with original maturities of less than three months, money market funds of U.S. Government securities and other amounts that have the general characteristics of



**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

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demand deposits. The Association has classified any cash or money market accounts held by external investment managers as investments as these funds are not readily available for operations.

**Investments**

Investments in marketable equity securities and all debt securities are recorded at fair value, which is based on quoted market prices or dealer quotes. The real estate investment is reported at the appraised value at the time of the donation and is evaluated for impairment on an annual basis. Unrealized and realized gains and losses are reported as investment income on the consolidated statement of activities. Investments are exposed to certain risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities and the volatility in the capital markets, changes in the value of investment securities could occur in the near term, and those investment values could materially differ from the amounts reported in the accompanying financial statements.

**Fair value of financial instruments**

As of December 31, 2008 and 2007, the carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximated their fair value, based on the short-term maturities of these instruments.

Effective January 1, 2008, the Association adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, and the related FASB Staff Positions. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This pronouncement did not require any new fair value measurements and its adoption did not affect the financial position or changes in net assets of the Association.

**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

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**Inventory**

Inventory is comprised primarily of publications and is valued at the lower of cost (first-in, first-out method) or market at net realizable value.

**Fixed assets**

All fixed assets are stated at cost or fair value on the date of receipt and are depreciated on a straight-line basis over the following useful lives:

Leasehold improvements	10 years or life of lease, if shorter
Furniture, fixtures and equipment	5 years
Software	5-7 years

If donors stipulate the purpose for which the assets must be used and/or how long the assets must be held, the contributions are recorded as temporarily restricted, otherwise such donations are reported as unrestricted contributions.

**Recognition of revenues**

Contributions, including unconditional promises to give, are recognized when received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Contributions that are restricted by the donor for a specific time or purpose are reported as temporarily or permanently restricted contributions based on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the consolidated statement of activities as net assets released from restrictions. In the event a donor makes changes to the nature of a restricted gift which affects its classification among the net asset categories, such amounts are reflected as reclassifications in the consolidated statement of activities.

Unconditional promises to give are reported at their net realizable value.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The

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**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

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present value discount is calculated using a risk adjusted rate at the time of the contribution ranging from 3.0% to 5.4%.

Fees from exchange transactions are recognized as earned from reciprocal transfers of goods and services. Revenue received for a subscription plus membership is allocated between membership and subscription revenue based on the fair value of the subscription benefit. Subscription revenue and membership dues are recorded as deferred revenue upon receipt and is then recognized over the term of the subscription, which is generally one year, beginning with the mailing of the first issue to the subscriber.

**Split-interest agreements**

The Association receives certain planned gift donations that benefit not only the Association, but also the donor or another beneficiary designated by the donor. These contributions are termed split-interest agreements and are generally gifts to be received by the Association in the future. The Association benefits from the following types of split-interest agreements: perpetual trusts, charitable lead and remainder trusts, gift annuities, and a pooled income fund.

The Association's share of split-interest agreements is included in investments, contributions receivable, or interest in perpetual trusts. Assets of approximately \$10,969,000 and \$13,058,000 are reported on the balance sheet as of December 31, 2008 and 2007, respectively, and are valued at fair-value of the estimated future receipts. Where applicable, estimated future payments for gifts are discounted based on the expected term of the split-interest agreements at the time the agreements are created, ranging at rates from 3.2% to 7.6%. The rates approximate the rate of return at the time of the gift on U.S. government securities of similar duration commensurate with the risk that management associates with the ultimate collection of the gift. The discount on the contributions based on present value calculations was approximately \$293,000 and \$611,000 for the years ended December 31, 2008 and 2007, respectively. Amounts payable to beneficiaries, gift annuities payable, and pooled income fund liabilities of approximately \$1,753,000 and \$1,802,000 are reported as accrued liabilities or deferred revenues on the consolidated balance sheets as of December 31, 2008 and 2007, respectively.

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**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

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**Contributed services and materials**

Contributed services and materials are reported in the consolidated statement of activities at the fair value of the services and materials received. Contributions of services are recognized if the services received create or enhance nonfinancial assets or if the services require specialized skills and would typically need to be purchased if not provided by donation.

**Research program**

The research program of the American Diabetes Association is administered through the American Diabetes Association Research Foundation, Inc. Research grants awarded by the Association generally extend over a period of one to three years, subject to renewal on an annual basis. The liability and related expenses are recorded when the recipients are notified of their annual award amount, and the liability is recorded as research grants payable in the consolidated balance sheets.

**Concentrations of credit risk**

Financial instruments that potentially subject the Association to concentrations of credit risk consist of deposits in banks and investments, including collateralized sweep repurchase agreements, in excess of the Federal Deposit Insurance Corporation, Securities Investor Protection Corporation and other privately insured limits. As of December 31, 2008 and 2007, approximately \$2,592,000 and \$7,391,000, respectively, was held at such institutions. The Association has not experienced any credit losses on these financial instruments in past years and management does not believe significant risk exists at December 31, 2008, or December 31, 2007.

**Management estimates and uncertainties**

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 as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during

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**AMERICAN DIABETES ASSOCIATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

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the reporting period. The financial market volatility and poor economic conditions in the U.S. have impacted and will continue to impact the Association. Such conditions could have a material impact on the Association's significant accounting estimates.

**Functional allocation of expenses**

Expenses have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among program activities and supporting services.

**Comparative Financial Statements**

The consolidated statements of activities and functional expenses include certain summarized comparative information for the year ended December 31, 2007. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

**Reclassifications**

Certain prior year balances have been reclassified to conform to the current year presentation.

**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

**4. Investments and Fair Value Measurements**

Investments as of December 31, 2008 and 2007, including gift annuity investments, consist of the following (in thousands):

	<u>2008</u>	<u>2007</u>
Real estate	\$ 12,850	\$ 12,850
Fixed-income mutual funds	7,968	8,784
Corporate equities	3,973	6,359
Equity mutual funds	2,889	4,044
Certificates of deposit	6,072	4,551
Money market funds	2,914	1,127
U.S. government securities	210	297
Corporate bonds	<u>73</u>	<u>84</u>
Total investments	<u>\$ 36,949</u>	<u>\$ 38,096</u>

The investment in real estate represents a 1999 donor bequest that restricted the Association from selling the property for 25 years. A portion of the property is leased to corporations and derives monthly rental income that is reported in investment income in the consolidated statement of activities.

Investment (loss) income for the year ended December 31, 2008 and 2007 includes (in thousands):

	<u>2008</u>	<u>2007</u>
Property rental income	\$ 1,656	\$ 3,632
Net realized and unrealized (loss) gain	(6,087)	73
Interest and dividends	1,675	2,123
Investment fees	<u>(160)</u>	<u>(194)</u>
Total investment (loss) income, net	<u>\$ (2,916)</u>	<u>\$ 5,634</u>

(continued)

**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs that may be used to measure fair value:

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.

The following table presents the Association's fair value hierarchy for financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2008 (in thousands).

	Fair Value	Fair value measurement as of December 31 using:		
		Level 1	Level 2	Level 3
Financial Assets:				
Investments	24,099	24,099	-	-
Interest in perpetual trusts	2,945	-	-	2,945
Financial Liabilities:				
Split interest obligations	1,753	-	1,753	-

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**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

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The Association's interest in perpetual trusts increased by approximately \$773,000 during the year ended December 31, 2008 which is comprised of new perpetual trust interests of \$1,484,000 offset by payouts of \$85,000 and unrealized losses of \$666,000.

**5. Gift Annuities**

Assets received from donors in exchange for a gift annuity are invested in U.S. government securities, fixed-income and equity mutual funds, and money market funds, which are maintained separately from other investments of the Association. As of December 31, 2008 and 2007, the market value of gift annuity investments, using level 1 inputs, was approximately \$2,665,000 and \$3,592,000 respectively, and the fair value of gift annuity obligations, using level 2 inputs, was approximately \$1,693,000 and \$1,714,000 respectively. Reserves for gift annuities are investments held in separate accounts at a value equal to the original gift plus accrued income less beneficiary payments.

**6. Accounts receivable**

Accounts receivable are reported net of an allowance for doubtful accounts of approximately \$2,227,000 and \$2,107,000 as of December 31, 2008 and 2007, respectively. The Association's receivables consist of amounts due for program service fees, publications, advertising, land rental and other exchange transactions.



**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

**7. Contributions receivable**

Contributions receivable consist of the following as of December 31, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Within one year	\$ 35,805	\$ 33,813
In one to five years	6,650	5,186
In more than five years	<u>261</u>	<u>215</u>
Total contributions receivable	42,716	39,214
Less: allowance for doubtful accounts	(2,440)	(2,216)
Less: present value discount	<u>(387)</u>	<u>(347)</u>
Subtotal	39,889	36,651
Funds held in remainder trusts	<u>5,156</u>	<u>6,984</u>
Contributions receivable, net	<u><u>\$ 45,045</u></u>	<u><u>\$ 43,635</u></u>

**8. Fixed assets**

Fixed assets consist of the following as of December 31, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Land	\$ 67	\$ 67
Leasehold improvements	1,154	1,310
Software	14,625	15,741
Furniture, fixtures and equipment	<u>15,298</u>	<u>15,554</u>
Total fixed assets	31,144	32,672
Less: accumulated depreciation and amortization	<u>(23,149)</u>	<u>(23,356)</u>
Fixed assets, net	<u><u>\$ 7,995</u></u>	<u><u>\$ 9,316</u></u>

(continued)

**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

**9. Temporarily restricted net assets**

Net assets were temporarily restricted for the following as of December 31, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Research	\$ 2,560	\$ -
Information	4,395	5,799
Advocacy	6,932	3,467
Sponsorship for fundraising activities	3,898	1,718
Time restricted for operations	<u>29,296</u>	<u>25,875</u>
Total temporarily restricted net assets	<u>\$ 47,081</u>	<u>\$ 36,859</u>

**10. Permanently restricted net assets**

In accordance with donor stipulations, permanently restricted net assets are held (and invested) in perpetuity. The income derived from these net assets at December 31, 2008 and 2007 is to be used as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Research	\$ 1,759	\$ 1,759
Information	1,484	1,503
Advocacy and public awareness	182	182
Discretion of the Association	<u>3,825</u>	<u>3,152</u>
Total permanently restricted net assets	<u>\$ 7,250</u>	<u>\$ 6,596</u>

(continued)

**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

**11. Endowment**

In 2008, the Association adopted FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act [UPMIFA] and Enhanced Disclosures for All Endowment Funds (the FSP)*. A key component of the FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Adoption of this standard did not affect the financial position or changes in net assets of the Association.

The FSP provides guidance with respect to the accounting for donor-restricted endowment funds subject to UPMIFA, which the Commonwealth of Virginia has enacted. In addition, the FSP requires expanded disclosures for all endowment funds. Based on its interpretation of the provisions of UPMIFA and the FSP, the Association has determined that retaining its existing policies regarding net asset classification of its donor-restricted endowment funds is appropriate. The historic dollar value of donor-restricted endowment contributions is reported as permanently restricted net assets.

The Association's endowment consists of 43 individual funds established for a variety of purposes.

**Donor-Restricted Endowment Composition**

	2008	2007
Unrestricted	\$ (1,612)	\$ -
Temporarily restricted	17,904	17,904
Permanently restricted	7,250	6,596
Total funds	\$ 23,542	\$ 24,500

The Association's temporarily restricted endowment net assets as of December 31, 2008 and 2007 are comprised of two term endowments on which the investment return is expended as part of the Association's operating budget. The Association had no board designated endowment funds at December 31, 2008 and 2007.

**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

**Changes in Endowment Net Assets for the Years Ended December 31, 2008 and 2007**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2007	\$ -	17,904	5,797	23,701
Investment return:				
Investment income	3,654	27	-	3,681
Net appreciation (realized and unrealized)		76	49	125
Total investment return	3,654	103	49	3,806
Contributions	-	-	750	750
Appropriation of endowment assets for expenditure	(3,654)	(103)	-	(3,757)
Endowment net assets, December 31, 2007	-	17,904	6,596	24,500
Investment return:				
Investment income	1,704	38	-	1,742
Net depreciation (realized and unrealized)	(1,612)	-	-	(1,612)
Total investment return	92	38	-	130
Contributions	-	-	654	654
Appropriation of endowment assets for expenditure	(1,704)	(38)	-	(1,742)
Endowment net assets, December 31, 2008	<u>\$ (1,612)</u>	<u>17,904</u>	<u>7,250</u>	<u>23,542</u>

(continued)

**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

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The Association had no reclassification of net assets from unrestricted to temporarily restricted at January 1, 2008 as the result of the enactment of UPMIFA as all endowment net assets previously released from restriction had been appropriated for expenditure.

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Association to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$1,612,000 as of December 31, 2008. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions and continued appropriation for certain programs that was deemed prudent by the Association. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets. There were no such deficiencies as of December 31, 2007.

**Return Objectives and Risk Parameters**

The Association has adopted investment and spending policies for endowment assets that provides continued financial stability for the Association and a revenue stream for spending on the Association's mission. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that ensures safety through diversification while obtaining a competitive rate of return with the secondary objective to maintain liquidity. The Association expects its endowment funds over time, to provide an average rate of return of approximately 7.5% annually.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yields (interest and dividends). The Association targets a diversified asset allocation that utilizes fixed income and equity-based investments to achieve its long-term objectives within prudent risk constraints.

**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

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**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Association's investment policy includes an endowment spending rate of 4 percent of the endowment funds' market value over a rolling five-year average. This spending rate constitutes the Board's annual appropriation for spending endowment earnings. These spending assumptions are intended to allow for the significant and immediate spending of the income of the portfolio, provide a target rate of return for the Endowment Fund for the Association, and provide a sustainable spending level that will allow for support of the Association's initiatives in the cure for diabetes, while maintaining the purchasing power of the Endowment Fund's assets.

**12. Contributed services and in-kind contributions**

The Association recognizes as contribution revenue and as professional fees expense the fair value of services donated by certain volunteers in conjunction with the peer review process by the Grant Review Panel of the American Diabetes Association Research Foundation, Inc. and medical services provided in conjunction with the Association's program activities, primarily camp. Contributed public service announcements and occupancy are recorded in printing and publications and occupancy expenses, respectively. The Association recognized approximately \$2,900,000 and \$2,439,000, in donated services provided in conjunction with the Association's activities during the years ended December 31, 2008 and 2007, respectively.

Many other volunteers made significant contributions of time to the Association's program and supporting functions. The values of those contributed services do not meet the criteria for recognition and, accordingly, are not recognized as revenues and expenses in the accompanying consolidated statement of activities.

In-kind contributions of supplies are recognized as contribution revenue and supplies expense and totaled approximately \$2,223,000 and \$2,245,000 for the years ended December 31, 2008 and 2007, respectively.

**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

**13. Allocation of joint costs**

The Association conducts activities to distribute information related to diabetes and a call to action, such as understanding the risks and seeking appropriate health services, as well as an appeal for funds. The joint costs incurred through these activities for the years ended December 31, 2008 and 2007, were allocated as follows (in thousands):

	2008	2007
Advocacy and public awareness	\$ 12,813	\$ 15,775
Management and general	4,067	3,676
Fundraising	23,795	24,698
Total joint costs	\$ 40,675	\$ 44,149

**14. Pension plan**

The Association has a defined contribution pension plan (the Plan) which covers most salaried employees who have reached the age of 21 and completed one year of service. Pension expense for the years ended December 31, 2008 and 2007, was approximately \$2,238,000 and \$2,116,000, respectively.

**15. Self-insured benefits**

The Association self-insures its employee medical and dental benefits. Losses from claims identified under the incident reporting system, as well as provisions for estimated losses for incurred but not reported incidents, are accrued based on estimates that incorporate the past experience of the Association, as well as other considerations, including the nature of the claims or incidents and relevant trend factors.

Self-insured risk for employee health benefits is secured through stop loss insurance policies which protect the Association should total claims exceed a specified limit in a plan year. This limit was \$6,600,000 and \$4,900,000 in 2008 and 2007, respectively.

(continued)

**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

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The liability as of December 31, 2008 and 2007 was approximately \$886,000 and \$756,000, respectively, and is included in accounts payable and accrued liabilities in the accompanying balance sheets. Benefit expense under this plan was approximately \$5,165,000 and \$4,269,000 for the years ended December 31, 2008 and 2007, respectively. The benefit expense includes claims paid and changes to the reserve for future claims.

**16. Line of credit**

The Association has an unsecured line of credit with a bank at interest rates calculated as a factor of the London Interbank Offered Rate (LIBOR). The line of credit (\$10,000,000) was obtained for operating purposes and is subject to review and approval by the bank in August 2009. The outstanding balance on the line of credit as of December 31, 2008 was \$1,560,000. There was no outstanding balance on the line of credit at December 31, 2007. Interest and fees for the years ended December 31, 2008 and 2007, were approximately \$70,000 and \$440,000, respectively.

The line of credit is available for working capital and for financing the purchase and implementation costs of computer equipment and software. The Association is required to maintain a level of unrestricted, unencumbered marketable securities, cash and cash equivalents of not less than \$15,000,000.



**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

**17. Lease commitments**

***Operating leases***

The Association is obligated under various noncancelable operating lease agreements for office facilities expiring at various dates between January 2009 and January 2017. Many of these agreements contain cost escalations providing for increases in rental rates. The Association recognizes rent expense on a straight-line basis over the life of the lease. The Association is also obligated under noncancelable operating leases for telephone and other equipment through January 2013.

As of December 31, 2008, the future minimum lease payments under operating leases with noncancelable lease terms in excess of one year were (in thousands):

Year ending December 31,	
2009	\$ 7,517
2010	6,372
2011	5,435
2012	3,806
2013	3,167
2014 and thereafter	<u>9,394</u>
Total minimum lease payments	<u>\$ 35,691</u>

Rent expense totaled approximately \$8,196,000 and \$7,736,000 for the years ended December 31, 2008 and 2007, respectively.

***Capital leases***

The Association leases telecommunications equipment under capital lease agreements expiring on various dates through 2009. No new assets were acquired under capital lease during the years ended December 31, 2008 and 2007. Assets under capital lease were approximately \$3,723,000 and accumulated amortization on those assets was approximately \$3,437,000 and \$3,224,000 as of December 31, 2008 and 2007, respectively.

**AMERICAN DIABETES ASSOCIATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**(with comparative information as of and for the year ended December 31, 2007)**

As of December 31, 2008, the future minimum lease payments under capital leases were (in thousands):

Year ending December 31, 2009	\$	297
Less: Amount representing interest		<u>(11)</u>
Present value of lease obligation	\$	<u><u>286</u></u>

**18. Lease payments receivable**

The Association holds leases on land that was donated in 1999 through a bequest. As part of the bequest, the donor restricted the Association from selling the land for 25 years from the date of the donation. As of December 31, 2008, the future minimum lease payments due to the Association under these leases were (in thousands):

Year ended December 31,		
2009	\$	1,298
2010		1,306
2011		1,313
2012		1,337
2013		1,379
2014 and thereafter		<u>53,801</u>
Total minimum lease receipts	\$	<u><u>60,434</u></u>

The accumulated difference between the rental income recognized and the straight-line value of the leases was approximately \$5,513,000 and \$4,996,000 as of December 31, 2008 and 2007, respectively. Due to market conditions, management believes a significant risk exists that future rent revenue will not be recognized; therefore, an allowance against the deferred rent has been recorded in the amount of \$1,331,000 and \$1,357,000 as of December 31, 2008 and 2007, respectively.