



AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

FINANCIAL STATEMENTS

December 31, 2011

(with Independent Auditors' Report Thereon)



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

The Board of Directors
American Diabetes Association
Research Foundation, Inc.:

We have audited the accompanying balance sheet of the American Diabetes Association Research Foundation, Inc. (the Foundation) as of December 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2010 financial statements and, in our report dated May 31, 2011, 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 Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Diabetes Association Research Foundation, Inc. as of December 31, 2011, 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.

KPMG LLP

May 29, 2012

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

BALANCE SHEET

December 31, 2011

(with comparative information as of December 31, 2010)

| | <u>2011</u> | <u>2010</u> |
|--|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,260,171 | \$ 2,892,372 |
| Receivable from the American Diabetes Association (note 3) | 7,672,508 | 6,113,146 |
| Contributions receivable, net (note 4) | 5,010,241 | 5,461,722 |
| Interest in perpetual trust | 82,008 | 83,079 |
| | <u> </u> | <u> </u> |
| Total assets | <u>\$ 14,024,928</u> | <u>\$ 14,550,319</u> |
| LIABILITIES AND NET ASSETS | | |
| Research grants payable | \$ 8,975,876 | \$ 9,324,146 |
| Net assets: | | |
| Temporarily restricted | 4,967,044 | 5,143,094 |
| Permanently restricted | 82,008 | 83,079 |
| | <u> </u> | <u> </u> |
| Total net assets | <u>5,049,052</u> | <u>5,226,173</u> |
| | <u> </u> | <u> </u> |
| Total liabilities and net assets | <u>\$ 14,024,928</u> | <u>\$ 14,550,319</u> |

See accompanying notes to the financial statements

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

STATEMENT OF ACTIVITIES

Year ended December 31, 2011

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

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>2011 Total</u> | <u>2010 Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-----------------------|-----------------------|
| Revenues: | | | | | |
| Contributions and change in value of perpetual trusts | \$ 2,702,627 | 948,376 | (1,071) | 3,649,932 | 5,107,600 |
| Contributed professional services | 713,766 | - | - | 713,766 | 282,083 |
| Grant from the American Diabetes Association (note 3) | <u>30,486,065</u> | <u>-</u> | <u>-</u> | <u>30,486,065</u> | <u>31,320,809</u> |
| Total contributions and grants | 33,902,458 | 948,376 | (1,071) | 34,849,763 | 36,710,492 |
| Net assets released from restrictions | <u>1,124,426</u> | <u>(1,124,426)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total revenues | <u>35,026,884</u> | <u>(176,050)</u> | <u>(1,071)</u> | <u>34,849,763</u> | <u>36,710,492</u> |
| Expenses: | | | | | |
| Program activities - Research: | | | | | |
| Research grants | 33,583,268 | - | - | 33,583,268 | 33,241,775 |
| Contributed professional services | 713,766 | - | - | 713,766 | 282,083 |
| Total program activities | <u>34,297,034</u> | <u>-</u> | <u>-</u> | <u>34,297,034</u> | <u>33,523,858</u> |
| Supporting services: | | | | | |
| Management and general | 273,694 | - | - | 273,694 | 382,730 |
| Fundraising | 456,156 | - | - | 456,156 | 637,883 |
| Total supporting services | <u>729,850</u> | <u>-</u> | <u>-</u> | <u>729,850</u> | <u>1,020,613</u> |
| Total expenses | <u>35,026,884</u> | <u>-</u> | <u>-</u> | <u>35,026,884</u> | <u>34,544,471</u> |
| Change in net assets | - | (176,050) | (1,071) | (177,121) | 2,166,021 |
| Net assets, beginning of year | <u>-</u> | <u>5,143,094</u> | <u>83,079</u> | <u>5,226,173</u> | <u>3,060,152</u> |
| Net assets, end of year | <u>\$ -</u> | <u>4,967,044</u> | <u>82,008</u> | <u>5,049,052</u> | <u>5,226,173</u> |

See accompanying notes to the financial statements

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2011

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

| | Program Activities | Supporting Services | | 2011 Total | 2010 Total |
|---|-----------------------|---------------------------|----------------|-------------------|-------------------|
| | Research | Management and General | Fundraising | | |
| Research grants | \$ 33,583,268 | - | - | 33,583,268 | 33,241,775 |
| American Diabetes Association management fee | - | 273,694 | 456,156 | 729,850 | 1,020,613 |
| Contributed professional services | 713,766 | - | - | 713,766 | 282,083 |
| Total expenses | \$ 34,297,034 | 273,694 | 456,156 | 35,026,884 | 34,544,471 |

See accompanying notes to the financial statements

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

STATEMENT OF CASH FLOWS

Year ended December 31, 2011

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

| | <u>2011</u> | <u>2010</u> |
|--|----------------------------|----------------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (177,121) | \$ 2,166,021 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Decrease (increase) in interest in perpetual trust | 1,071 | (2,558) |
| Adjustments for changes in operating assets and liabilities: | | |
| Increase in receivable from the American Diabetes Association | (1,559,362) | (1,193,158) |
| Decrease in contributions receivable | 451,481 | 883,926 |
| Decrease in research grants payable | <u>(348,270)</u> | <u>(1,139,377)</u> |
| Net cash (used in) provided by operating activities | (1,632,201) | 714,854 |
| Cash and cash equivalents, beginning of year | <u>2,892,372</u> | <u>2,177,518</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 1,260,171</u></u> | <u><u>\$ 2,892,372</u></u> |

See accompanying notes to the financial statements

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(with comparative information as of and for the year ended December 31, 2010)

1. Organization

The American Diabetes Association (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. In October 1994, the Association's Board of Directors established the American Diabetes Association Research Foundation, Inc. (the Foundation), as a subsidiary of the Association. The objective of the Foundation is to fund diabetes-related research leading to:

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

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and charitable contributions to the Foundation qualify for charitable tax deductions as described in the Code. The Foundation has been classified as an organization that is not a private foundation under Section 509(a) of the Code.

The Foundation recognizes the effect of income tax positions only if those positions more likely than not would not be sustained upon examination by the Internal Revenue Service. The Foundation has analyzed the tax positions taken and has concluded that as of December 31, 2011, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

The Foundation has been and continues to be dependent on the continued financial support of the Association to operate its core programs. The Association is committed to continue such support as necessary in order for the Foundation to sustain its research activities and to continue as a going concern.

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(with comparative information as of and for the year ended December 31, 2010)

2. Summary of significant accounting policies

Basis of accounting

The Foundation 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 Foundation are classified for accounting and reporting purposes into three classes of net assets based on the existence or absence of donor-imposed restrictions. A description of the three classes follows:

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

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

Permanently Restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently. For the Foundation, this net asset class relates to an interest in a perpetual trust.

Cash and cash equivalents

Cash and cash equivalents are defined as currency on hand, demand deposits with banks or financial institutions and financial instruments with original maturities of less than three months.

Fair value of financial instruments

As of December 31, 2011 and 2010, the carrying value of cash and cash equivalents and research grants payable approximated their fair value based on the short-term maturities of these instruments.

Recognition of revenues

Contributions, including unconditional promises to give, are recognized when received. The Research Program is the sole program of the Foundation. Therefore, all contributions to the general research program are reported as unrestricted revenues unless further restricted by the donor. Generally, there is no time restriction presumed on unconditional promises to give as it is the practice of the Foundation to spend these contributions on the research program in the same

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(with comparative information as of and for the year ended December 31, 2010)

year as received. Temporarily restricted contributions recognized in 2011 are restricted for future years' research awards.

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 present value discount is calculated using a risk adjusted rate at the time of the contribution ranging from 1.25% to 4.75%.

Contributed services

Contributed services are reported in the statement of activities at the fair value of the services 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. Contributed services reported by the Foundation relate to the panel review of research grant applications and are recorded as both contributed professional services revenue and expense on the statement of activities.

Research grants

Research grants awarded by the Foundation generally extend over a period of one to three years, subject to renewal on an annual basis. The liability and related expense is recorded when the recipient is notified of the annual award amount, and the liability is recorded as research grants payable in the balance sheet.

Functional allocation of expenses

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

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 at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(with comparative information as of and for the year ended December 31, 2010)

Comparative financial statements

The statements of activities and functional expenses include certain summarized comparative information for the year ended December 31, 2010. 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 Foundation's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

3. Transactions with the American Diabetes Association

Research program

The Foundation facilitates the Association's research program. Accordingly, all contributions for research raised by the Association are granted to the Foundation. These research restricted contributions to the Association totaled \$6,733,711 and \$5,328,706 in 2011 and 2010, respectively. The Foundation also receives gifts for research directly from donors, which are reported as contributions in the statement of activities.

Grants from the American Diabetes Association and management fee

The Association provides grants to the Foundation for its research purpose as determined annually based on a formal budgeting process, which is approved by the Association's Board of Directors. The Foundation is reliant on this grant support, as well as donor support, for its continued operations.

The Foundation pays a management fee to the Association equal to twenty percent of contributions. This fee compensates the Association for staff and other administrative services provided to the Foundation.

The Association transfers assets to the Foundation based on the timing of grant payments due. As of December 31, 2011 and 2010, the Association owed the Foundation \$7,672,508 and \$6,113,146, respectively.

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(with comparative information as of and for the year ended December 31, 2010)

4. Contributions receivable

Contributions receivable as of December 31, 2011 and 2010 are expected to be received as follows:

| | <u>2011</u> | <u>2010</u> |
|---------------------------------------|---------------------|---------------------|
| Within one year | \$ 3,184,754 | \$ 3,005,154 |
| In one to five years | 2,592,460 | 3,270,121 |
| In more than five years | <u>367,788</u> | <u>484,226</u> |
| Total contributions receivable | 6,145,002 | 6,759,501 |
| Less: allowance for doubtful accounts | (1,020,000) | (1,116,000) |
| Less: present value discount | <u>(114,761)</u> | <u>(181,779)</u> |
| Contributions receivable, net | <u>\$ 5,010,241</u> | <u>\$ 5,461,722</u> |

5. Subsequent events

For the year ended December 31, 2011, the Foundation evaluated subsequent events through May 29, 2012, which is the date the financial statements were available for issuance.