



**AMERICAN DIABETES ASSOCIATION**

Consolidated Financial Statements and Consolidating Schedules

December 31, 2014

(With Independent Auditors' Report Thereon)



KPMG LLP  
1676 International Drive  
McLean, VA 22102

## Independent Auditors' Report

The Board of Directors  
American Diabetes Association:

We have audited the accompanying consolidated financial statements of the American Diabetes Association and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the American Diabetes Association and its subsidiaries as of December 31, 2014, and the changes in their net assets and their 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 American Diabetes Association and its subsidiaries' 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 27, 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 consolidated financial statements from which it has been derived.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

**KPMG LLP**

May 29, 2015

**AMERICAN DIABETES ASSOCIATION**

Consolidated Balance Sheet

December 31, 2014

(With comparative information as of December 31, 2013)

(In thousands of dollars)

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 15,510	17,549
Investments (notes 4 and 5)	48,953	38,975
Accounts receivable, net (notes 6 and 18)	10,376	9,540
Inventory and supplies, net	1,919	1,592
Prepaid expenses and other assets	4,753	5,551
Contributions receivable, net (note 7)	51,756	67,787
Fixed assets, net (note 8)	9,591	9,238
Interest in perpetual trusts (note 5)	9,999	8,126
Total assets	\$ <u>152,857</u>	<u>158,358</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities (notes 15 and 17)	\$ 9,264	14,266
Line of credit (note 16)	—	10,000
Research grants payable	8,808	12,833
Deferred revenues	15,361	13,743
Total liabilities	<u>33,433</u>	<u>50,842</u>
Net assets (note 11):		
Unrestricted	24,118	7,387
Temporarily restricted (note 9)	80,945	87,658
Permanently restricted (note 10)	14,361	12,471
Total net assets	<u>119,424</u>	<u>107,516</u>
Total liabilities and net assets	\$ <u>152,857</u>	<u>158,358</u>

See accompanying notes to consolidated financial statements.

**AMERICAN DIABETES ASSOCIATION**  
Consolidated Statement of Activities  
Year ended December 31, 2014  
(With summarized information for the year ended December 31, 2013)  
(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Revenue:					
Contributions and grants:					
Donations	\$ 35,802	28,490	—	64,292	78,167
Special events	62,301	5,139	—	67,440	67,412
Less costs of direct benefits to donors	(9,395)	—	—	(9,395)	(9,127)
Bequests	15,423	7,851	1,886	25,160	27,535
Federated and nonfederated organizations	6,217	69	—	6,286	7,520
Total contributions and grants	<u>110,348</u>	<u>41,549</u>	<u>1,886</u>	<u>153,783</u>	<u>171,507</u>
Fees from exchange transactions:					
Subscriptions and other income from periodicals	19,357	—	—	19,357	20,583
Sales of materials	4,122	—	—	4,122	4,745
Program service fees	16,800	—	—	16,800	17,117
Investment income (note 4)	2,708	270	4	2,982	4,266
Miscellaneous revenues	3,642	—	—	3,642	3,543
Total fees from exchange transactions	<u>46,629</u>	<u>270</u>	<u>4</u>	<u>46,903</u>	<u>50,254</u>
Net assets released from restrictions	48,532	(48,532)	—	—	—
Total revenue	<u>205,509</u>	<u>(6,713)</u>	<u>1,890</u>	<u>200,686</u>	<u>221,761</u>
Expenses (note 13):					
Program activities:					
Research	41,503	—	—	41,503	47,653
Information	50,990	—	—	50,990	57,939
Advocacy and public awareness	43,670	—	—	43,670	56,666
Total program activities	<u>136,163</u>	<u>—</u>	<u>—</u>	<u>136,163</u>	<u>162,258</u>
Supporting services:					
Management and general	8,701	—	—	8,701	9,540
Fundraising	43,914	—	—	43,914	49,365
Total supporting services	<u>52,615</u>	<u>—</u>	<u>—</u>	<u>52,615</u>	<u>58,905</u>
Total expenses	<u>188,778</u>	<u>—</u>	<u>—</u>	<u>188,778</u>	<u>221,163</u>
Change in net assets	16,731	(6,713)	1,890	11,908	598
Net assets, beginning of year	7,387	87,658	12,471	107,516	106,918
Net assets, end of year	<u>\$ 24,118</u>	<u>80,945</u>	<u>14,361</u>	<u>119,424</u>	<u>107,516</u>

See accompanying notes to consolidated financial statements.

**AMERICAN DIABETES ASSOCIATION**

Consolidated Statement of Functional Expenses

Year ended December 31, 2014

(With summarized information for the year ended December 31, 2013)

(In thousands of dollars)

	Program activities				Supporting services			2014 Total	2013 Total
	Research	Information	Advocacy and public awareness	Total	Management and general	Fundraising	Total		
Grants	\$ 29,261	210	66	29,537	—	—	—	29,537	35,643
Employee costs	3,475	20,626	22,519	46,620	4,955	19,111	24,066	70,686	73,152
Professional fees	1,016	5,439	4,031	10,486	1,129	3,993	5,122	15,608	19,059
Supplies	45	2,734	601	3,380	55	508	563	3,943	4,215
Telecommunications	83	610	698	1,391	144	558	702	2,093	2,448
Postage and shipping	307	3,930	2,849	7,086	106	5,139	5,245	12,331	15,681
Occupancy cost	407	4,513	2,594	7,514	558	2,149	2,707	10,221	10,202
Equipment rental and maintenance	49	403	366	818	69	290	359	1,177	1,286
Printing and publications	2,035	8,312	4,935	15,282	120	7,951	8,071	23,353	31,242
Travel	71	650	911	1,632	93	760	853	2,485	3,274
Conferences and meetings	4,131	1,327	1,520	6,978	47	183	230	7,208	8,189
Data processing	27	541	484	1,052	2	887	889	1,941	2,074
Depreciation and amortization	142	825	910	1,877	199	768	967	2,844	3,099
Miscellaneous	454	870	1,186	2,510	1,224	1,617	2,841	5,351	11,599
Total expenses	\$ 41,503	50,990	43,670	136,163	8,701	43,914	52,615	188,778	221,163
Costs of direct benefits to donors								9,395	9,127
Total expenses and costs of direct benefits to donors							\$ 198,173	230,290	

See accompanying notes to consolidated financial statements.

## AMERICAN DIABETES ASSOCIATION

### Consolidated Statement of Cash Flows

Year ended December 31, 2014

(With comparative information for the year ended December 31, 2013)

(In thousands of dollars)

	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Change in net assets	\$ 11,908	598
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,844	3,099
Net unrealized and realized loss (gain) on investments	254	(1,344)
Loss on disposal of assets	9	86
Provisions for doubtful receivables and obsolete inventory	1,064	2,546
Contributions to third-party perpetual trusts	(1,869)	(1,851)
Other contributions restricted for long-term investments	(17)	—
Adjustments for changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(982)	1,118
(Increase) decrease in inventory and supplies	(520)	61
Decrease (increase) in prepaid expenses and other assets	798	(1,564)
Decrease in contributions receivable	15,306	8,456
Decrease in accounts payable and accrued liabilities	(4,938)	(1,023)
(Decrease) increase in research grants payable	(4,025)	2,568
Increase in deferred revenues	1,618	1,158
Net cash provided by operating activities	21,450	13,908
Cash flows from investing activities:		
Purchases of investments	(47,133)	(43,549)
Sales or maturities of investments	36,897	37,093
Purchase of fixed assets	(3,206)	(4,949)
Net cash used in investing activities	(13,442)	(11,405)
Cash flows from financing activities:		
Proceeds from contributions restricted for investment in endowment	17	—
Proceeds from borrowing on line of credit	—	7,720
Payments on line of credit	(10,000)	—
Payments on capital lease agreements	(64)	(203)
Net cash (used in) provided by financing activities	(10,047)	7,517
Net (decrease) increase in cash and cash equivalents	(2,039)	10,020
Cash and cash equivalents, beginning of year	17,549	7,529
Cash and cash equivalents, end of year	\$ 15,510	17,549

See accompanying notes to consolidated financial statements.

# AMERICAN DIABETES ASSOCIATION

## Notes to Consolidated Financial Statements

December 31, 2014

(With comparative information as of and for the year ended December 31, 2013)

### (1) Consolidation and Organization

The consolidated financial statements include the American Diabetes Association, the American Diabetes Association Research Foundation, Inc., and the American Diabetes Association Property Title Holding Corporation (consolidated, the Association). All significant inter-Association transactions have been eliminated.

The American Diabetes Association and the American Diabetes Association Research Foundation, Inc. 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 Corporation is exempt from income taxes under Section 501(c)(2) of the Code. These entities have been classified as organizations that are not private foundations under Section 509(a) of the Code.

The Association 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 Association has analyzed the tax positions taken and has concluded that as of December 31, 2014, 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 consolidated financial statements.

### (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. This mission is accomplished through programs in communities throughout the country. 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

*Information* – The Association conducts programs that provide diabetes information to individuals with diabetes, their families, and their healthcare 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

#### (a) Basis of Accounting

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

# AMERICAN DIABETES ASSOCIATION

## Notes to Consolidated Financial Statements

December 31, 2014

(With comparative information as of and for the year ended December 31, 2013)

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.

**(b) *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 demand deposits. The Association has classified any cash or money market accounts held by external investment managers as investments as these funds are intended to be part of the Association's long-term investment strategy.

**(c) *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 consolidated financial statements.

**(d) *Fair Value of Financial Instruments***

As of December 31, 2014 and 2013, the carrying value of cash and cash equivalents, accounts receivable, accounts payable, and research grants payable approximated their fair value, based on the short-term maturities of these instruments. Additional fair value information is presented in note 5.

**(e) *Inventory***

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

**AMERICAN DIABETES ASSOCIATION**

Notes to Consolidated Financial Statements

December 31, 2014

(With comparative information as of and for the year ended December 31, 2013)

**(f) 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.

**(g) 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 has been fulfilled, 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 initially recorded at their fair value. These unconditional promises to give are reported at fair value based on nonrecurring measurements classified as Level 3 (note 5). 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 1.1% to 5%. The carrying value of contributions receivable approximates the fair value.

Fees from exchange transactions are recognized as earned from reciprocal transfers of goods and services. Subscription revenue is deferred upon receipt and then recognized over the term of the subscription, which is generally 12 issues, beginning with the mailing of the first issue to the subscriber.

**(h) 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

## AMERICAN DIABETES ASSOCIATION

### Notes to Consolidated Financial Statements

December 31, 2014

(With comparative information as of and for the year ended December 31, 2013)

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 \$26,458,000 and \$26,085,000 are reported on the consolidated balance sheets as of December 31, 2014 and 2013, respectively. When applicable, amounts to be received in future periods are discounted using a risk-adjusted rate based on the expected term of the split-interest agreements. The rate for 2014 was 1.9%, which was comparable to 2013.

Amounts payable to beneficiaries, gift annuities payable, and pooled income fund liabilities of approximately \$1,485,000 and \$1,523,000 are reported as accrued liabilities or deferred revenues on the consolidated balance sheets as of December 31, 2014 and 2013, respectively.

**(i) 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.

**(j) 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 five 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 sheet.

**(k) Management Estimates and Uncertainties**

The preparation of consolidated 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 the reporting period. Actual results could differ from those estimates.

**(l) 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.

**(m) Comparative Financial Statements**

The consolidated statements of activities and functional expenses include certain summarized comparative information for the year ended December 31, 2013. 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

# AMERICAN DIABETES ASSOCIATION

## Notes to Consolidated Financial Statements

December 31, 2014

(With comparative information as of and for the year ended December 31, 2013)

consolidated financial statements for the year ended December 31, 2013, from which the summarized information was derived.

### (4) Investments

Investments as of December 31, 2014 and 2013 consist of the following (in thousands):

	<u>2014</u>	<u>2013</u>
Real estate	\$ 12,818	12,818
Fixed-income bonds	11,836	7,719
U.S. government securities	9,565	3,548
Fixed-income mutual funds	4,986	5,515
Equity mutual funds	4,440	3,924
Money market funds	2,630	690
Corporate equities	2,357	3,737
Certificates of deposit	300	1,003
Other	21	21
Total investments	<u>\$ 48,953</u>	<u>38,975</u>

Investments as of December 31, 2014 and 2013 include gift annuity investments of approximately \$2,985,000 and \$2,758,000, respectively, and the fair value of gift annuity obligations under those agreements was approximately \$1,462,000 and \$1,468,000, respectively. Reserves for gift annuities are held in separate investment accounts at a value equal to the original gift plus accrued income less beneficiary payments.

The investment in real estate represents a 1998 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 income for the years ended December 31, 2014 and 2013 includes (in thousands):

	<u>2014</u>	<u>2013</u>
Property rental income, net	\$ 1,929	1,969
Net realized and unrealized (losses) gains	(254)	1,344
Interest and dividends	1,542	1,126
Investment fees	(235)	(173)
Total investment income, net	<u>\$ 2,982</u>	<u>4,266</u>

## AMERICAN DIABETES ASSOCIATION

### Notes to Consolidated Financial Statements

December 31, 2014

(With comparative information as of and for the year ended December 31, 2013)

#### (5) Fair Value Measurements

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. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value reflects the Association's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Association based on the best information available in the circumstances.

A fair value hierarchy prioritizes the inputs into valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1, 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. Split-interest obligations are measured as the present value of future cash flows expected to be paid to the donor or the donor's designee. These obligations are adjusted during the term of each annuity for payments to donors, accretion of discounts and changes in life expectancies of the donors.

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 Association's interest in perpetual trusts is carried at the fair value of the Association's share of the trust assets. Distributions from the trusts are recorded as investment income and the trust values are adjusted annually for changes in the fair value of the trust assets. Funds held in remainder trusts are measured at the present value of future distributions projected to be received over the expected remaining term of the trust, or upon the trust's expiration. Note 3(h) includes information about the discount rates used in determining the value of the assets.

## AMERICAN DIABETES ASSOCIATION

### Notes to Consolidated Financial Statements

December 31, 2014

(With comparative information as of and for the year ended December 31, 2013)

The following table presents the fair value hierarchy for the Association's financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2014 (in thousands):

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Investments:				
Fixed-income bonds	\$ 11,836	11,836	—	—
U.S. government securities	9,565	9,565	—	—
Fixed-income mutual funds	4,986	4,986	—	—
Equity mutual funds	4,440	4,440	—	—
Money market funds	2,630	2,630	—	—
Corporate equities	2,357	2,357	—	—
Certificates of deposit	300	300	—	—
Other	21	21	—	—
Interest in perpetual trusts	9,999	—	—	9,999
Funds held in remainder trusts	13,189	—	—	13,189
Financial liabilities:				
Split-interest obligations	\$ 1,485	—	1,485	—

In 2014, the increase in the Association's interest in perpetual trusts of approximately \$1,873,000 reflects a new trust of \$1,869,000, investment gains of \$323,000, and distributions of \$319,000.

In 2014, the decrease in the Association's funds held in remainder trusts of approximately \$1,732,000 reflects new trusts of \$3,575,000, investment gains of \$362,000, and distributions of \$5,669,000.

The following table presents the fair value hierarchy for the Association's financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2013 (in thousands):

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Investments:				
Fixed-income bonds	\$ 7,719	7,719	—	—
Fixed-income mutual funds	5,515	5,515	—	—
Equity mutual funds	3,924	3,924	—	—
Corporate equities	3,737	3,737	—	—
U.S. government securities	3,548	3,548	—	—
Certificates of deposit	1,003	1,003	—	—
Money market funds	690	690	—	—
Other	21	21	—	—
Interest in perpetual trusts	8,126	—	—	8,126
Funds held in remainder trusts	14,921	—	—	14,921
Financial liabilities:				
Split-interest obligations	\$ 1,523	—	1,523	—

**AMERICAN DIABETES ASSOCIATION**

Notes to Consolidated Financial Statements

December 31, 2014

(With comparative information as of and for the year ended December 31, 2013)

In 2013, the increase in the Association's interest in perpetual trusts of approximately \$2,248,000 reflects a new trust of \$1,851,000, investment gains of \$618,000, and distributions of \$221,000.

In 2013, the increase in the Association's funds held in remainder trusts of approximately \$3,568,000 reflects new trusts of \$1,746,000, investment gains of \$2,728,000, and distributions of \$906,000.

**(6) Accounts Receivable**

The Association's receivables consist of amounts due for program service fees, publications, advertising, land rental (note 18), and other exchange transactions. The receivables are reported net of an allowance for doubtful accounts of approximately \$1,402,000 and \$1,778,000 as of December 31, 2014 and 2013, respectively. Of the allowance amount, \$1,080,000 and \$1,358,000 as of December 31, 2014 and 2013, respectively, relate to the land rental.

**(7) Contributions Receivable**

Contributions receivable consist of the following amounts due as of December 31, 2014 and 2013 (in thousands):

	<b>2014</b>	<b>2013</b>
Within one year	\$ 36,882	50,382
In one to five years	4,601	6,419
In more than five years	—	1
Total contributions receivable	41,483	56,802
Less:		
Allowance for doubtful accounts	(2,813)	(3,800)
Present value discount	(103)	(136)
Subtotal	38,567	52,866
Funds held in remainder trusts	13,189	14,921
Contributions receivable, net	\$ 51,756	67,787

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Notes to Consolidated Financial Statements

December 31, 2014

(With comparative information as of and for the year ended December 31, 2013)

**(8) Fixed Assets**

Fixed assets consist of the following as of December 31, 2014 and 2013 (in thousands):

	<u>2014</u>	<u>2013</u>
Land	\$ 67	192
Leasehold improvements	1,098	1,412
Software	20,448	18,341
Furniture, fixtures, and equipment	<u>18,374</u>	<u>18,255</u>
Total fixed assets	39,987	38,200
Less accumulated depreciation and amortization	<u>(30,396)</u>	<u>(28,962)</u>
Fixed assets, net	<u>\$ 9,591</u>	<u>9,238</u>

**(9) Temporarily Restricted Net Assets**

Net assets were temporarily restricted for the following as of December 31, 2014 and 2013 (in thousands):

	<u>2014</u>	<u>2013</u>
Research	\$ 30,777	28,722
Information	5,228	4,757
Advocacy	6,092	7,723
Sponsorship for fundraising activities	4,133	4,225
Future periods (otherwise unrestricted)	<u>34,715</u>	<u>42,231</u>
Total temporarily restricted net assets	<u>\$ 80,945</u>	<u>87,658</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, 2014 and 2013 is to be used as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Research	\$ 4,088	4,106
Information	2,072	2,081
Advocacy and public awareness	194	194
Discretion of the Association	<u>8,007</u>	<u>6,090</u>
Total permanently restricted net assets	<u>\$ 14,361</u>	<u>12,471</u>

**AMERICAN DIABETES ASSOCIATION**

Notes to Consolidated Financial Statements

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(With comparative information as of and for the year ended December 31, 2013)

**(11) Endowment**

The Association's endowment consists of 45 individual donor-restricted endowment funds and donor-restricted term endowment funds established for a variety of purposes. The Association has no board-designated endowment funds.

The net assets associated with these funds are classified and reported based on the existence or absence of donor-imposed restrictions. Accordingly, the historic dollar value of donor-restricted endowment contributions is reported as permanently restricted net assets. The portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets and the term endowment funds are classified as temporarily restricted net assets until appropriated for expenditure.

At times, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the historic dollar value of the fund. No such deficiencies existed as of December 31, 2014 and 2013.

Changes in endowment net assets for the years ended December 31, 2014 and 2013 are as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2012	\$ —	18,255	4,345	22,600
Investment return:				
Investment income	1,938	212	—	2,150
Net appreciation	108	250	—	358
Contributions	—	—	—	—
Appropriation for expenditure	<u>(2,046)</u>	<u>(366)</u>	<u>—</u>	<u>(2,412)</u>
Endowment net assets, December 31, 2013	—	18,351	4,345	22,696
Investment return:				
Investment income	1,984	236	—	2,220
Net depreciation	(17)	(71)	—	(88)
Contributions	—	—	17	17
Appropriation for expenditure	<u>(1,967)</u>	<u>(337)</u>	<u>—</u>	<u>(2,304)</u>
Endowment net assets, December 31, 2014	\$ <u>—</u>	<u>18,179</u>	<u>4,362</u>	<u>22,541</u>

The Association has adopted an investment policy for endowment assets that provides continued financial stability for the Association and a revenue stream for spending on the Association's mission.

Under this policy, as approved by the board of directors, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (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. The

## AMERICAN DIABETES ASSOCIATION

### Notes to Consolidated Financial Statements

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Association expects its endowment funds, over time, to provide an average rate of return of approximately 7.5% annually.

The Association's endowment spending policy permits spending at a rate of 4% of the endowments' market value over a rolling five-year average. The long-term return of 7.5% and a spending rate of 4% are intended to maintain the purchasing power of the endowment.

#### (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 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 camps held for children with diabetes. Contributed services for occupancy are recorded in occupancy expenses. The Association recognized approximately \$2,044,000 and \$2,493,000 in donated services provided in conjunction with the Association's activities during the years ended December 31, 2014 and 2013, 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 \$2,171,000 and \$2,121,000 for the years ended December 31, 2014 and 2013, respectively.

#### (13) Allocation of Joint Costs

The Association conducts activities to distribute information related to diabetes and a call to action, such as assessing a person's risk for diabetes 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, 2014 and 2013 were allocated as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Advocacy and public awareness	\$ 10,594	13,082
Management and general	358	617
Fundraising	<u>18,338</u>	<u>22,854</u>
Total joint costs	<u>\$ 29,290</u>	<u>36,553</u>

#### (14) Pension Plan

The Association has a defined-contribution pension plan that 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, 2014 and 2013 was approximately \$2,783,000 and \$1,923,000, respectively.

## AMERICAN DIABETES ASSOCIATION

### Notes to Consolidated Financial Statements

December 31, 2014

(With comparative information as of and for the year ended December 31, 2013)

#### (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 stoploss insurance policies that protect the Association should total claims exceed a specified limit in a plan year. This limit was approximately \$10,234,000 and \$9,526,000 in 2014 and 2013, respectively.

The liability as of December 31, 2014 and 2013 was approximately \$421,000 and \$439,000, respectively, and is included in accounts payable and accrued liabilities in the consolidated balance sheets. Benefit expense under this plan was approximately \$7,448,000 and \$8,196,000 for the years ended December 31, 2014 and 2013, 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 of the London Interbank Offered Rate (LIBOR) plus 2.75% points. The line of credit of \$5,000,000 was renewed in May 2015 and is subject to review and approval by the bank in September 2015. The Association expects to renew the line of credit each year. The outstanding balance on the line of credit as of December 31, 2014 and 2013 was \$0 and \$10,000,000, respectively. Interest and fees for each of the years ended December 31, 2014 and 2013 were approximately \$53,000 and \$72,000, 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 was required to maintain a level of unrestricted, unencumbered marketable securities, cash and cash equivalents of not less than \$1,500,000 as of December 31, 2014.

#### (17) Lease Commitments

##### (a) *Operating Leases*

The Association is obligated under various noncancelable operating lease agreements for facilities expiring at various dates through July 2021. 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 September 2017.

**AMERICAN DIABETES ASSOCIATION**

Notes to Consolidated Financial Statements

December 31, 2014

(With comparative information as of and for the year ended December 31, 2013)

As of December 31, 2014, the future minimum lease payments under operating leases with noncancelable lease terms in excess of one year were (in thousands):

Year ending December 31:		
2015	\$	6,952
2016		5,913
2017		2,222
2018		1,212
2019		890
2020 and thereafter		<u>289</u>
Total minimum lease payments		\$ <u><u>17,478</u></u>

Rent expense totaled approximately \$6,804,000 and \$7,013,000 for the years ended December 31, 2014 and 2013, respectively.

**(b) Capital Leases**

The Association leases computer equipment under capital lease agreements expiring on various dates through 2014. The liability at December 31, 2014 and 2013 approximated \$0 and \$64,000, respectively, and is included in accounts payable and accrued liabilities on the consolidated balance sheet. Assets under capital lease were approximately \$1,753,000 and \$1,755,000 and accumulated amortization on those assets was approximately \$1,753,000 and \$1,691,000 as of December 31, 2014 and 2013, respectively.

**(18) Lease Payments Receivable**

The Association holds leases on land that was donated in 1998 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, 2014, the future minimum lease payments due to the Association under these leases were (in thousands):

Year ending December 31:		
2015	\$	1,438
2016		1,446
2017		1,483
2018		1,551
2019		1,634
2020 and thereafter		<u>44,820</u>
Total minimum lease payments		\$ <u><u>52,372</u></u>

## **AMERICAN DIABETES ASSOCIATION**

### **Notes to Consolidated Financial Statements**

December 31, 2014

(With comparative information as of and for the year ended December 31, 2013)

The accumulated difference between the rental income recognized and the straight-line value of the leases was approximately \$7,204,000 and \$6,987,000 as of December 31, 2014 and 2013, respectively, and is included in accounts receivable on the consolidated balance sheet. 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 \$1,080,000 and \$1,358,000 as of December 31, 2014 and 2013, respectively.

#### **(19) Subsequent Events**

For the year ended December 31, 2014, the Association has evaluated subsequent events through May 29, 2015, the date the consolidated financial statements were available to be issued, and determined that no items required disclosure.

## AMERICAN DIABETES ASSOCIATION

## Consolidating Schedule – Balance Sheet

December 31, 2014

(In thousands of dollars)

<b>Assets</b>	<b>American Diabetes Association</b>	<b>Research Foundation</b>	<b>Property Title Holding Corp</b>	<b>Intercompany Eliminations</b>	<b>Consolidated Association</b>
Cash and cash equivalents	\$ 15,317	193	—	—	15,510
Investments	48,953	—	12,818	(12,818)	48,953
Intercompany receivables	5,541	28,974	—	(34,515)	—
Accounts receivable, net	3,999	—	6,377	—	10,376
Inventory and supplies, net	1,919	—	—	—	1,919
Prepaid expenses and other assets	4,753	—	—	—	4,753
Contributions receivable, net	41,671	10,085	—	—	51,756
Fixed assets, net	9,591	—	—	—	9,591
Interest in perpetual trusts	9,912	87	—	—	9,999
Total assets	<u>\$ 141,656</u>	<u>39,339</u>	<u>19,195</u>	<u>(47,333)</u>	<u>152,857</u>
<b>Liabilities and Net Assets</b>					
Accounts payable and accrued liabilities	\$ 9,175	—	89	—	9,264
Research grants payable	—	8,808	—	—	8,808
Intercompany payables	28,974	—	5,541	(34,515)	—
Deferred revenues	14,614	—	747	—	15,361
Total liabilities	<u>52,763</u>	<u>8,808</u>	<u>6,377</u>	<u>(34,515)</u>	<u>33,433</u>
Unrestricted net assets	24,118	—	—	—	24,118
Temporarily restricted net assets	50,501	30,444	12,818	(12,818)	80,945
Permanently restricted net assets	14,274	87	—	—	14,361
Total net assets	<u>88,893</u>	<u>30,531</u>	<u>12,818</u>	<u>(12,818)</u>	<u>119,424</u>
Total liabilities and net assets	<u>\$ 141,656</u>	<u>39,339</u>	<u>19,195</u>	<u>(47,333)</u>	<u>152,857</u>

See accompanying independent auditors' report.

**AMERICAN DIABETES ASSOCIATION**  
Consolidating Schedule – Statement of Activities  
Year ended December 31, 2014  
(In thousands of dollars)

	<b>American Diabetes Association</b>	<b>Research Foundation</b>	<b>Property Title Holding Corp</b>	<b>Intercompany Eliminations</b>	<b>Consolidated Association</b>
Revenue:					
Contributions and grants:					
Donations	\$ 61,705	2,587	—	—	64,292
Special events, net	58,045	—	—	—	58,045
Bequests	21,763	3,397	—	—	25,160
Federated and nonfederated organizations	6,265	21	—	—	6,286
Total contributions and grants	<u>147,778</u>	<u>6,005</u>	<u>—</u>	<u>—</u>	<u>153,783</u>
Fees from exchange transactions:					
Subscriptions and periodicals	19,357	—	—	—	19,357
Sale of materials	4,122	—	—	—	4,122
Program service fees	16,800	—	—	—	16,800
Investment income	1,048	5	1,929	—	2,982
Miscellaneous revenues	3,642	—	—	—	3,642
Total fees from exchange transactions	<u>44,969</u>	<u>5</u>	<u>1,929</u>	<u>—</u>	<u>46,903</u>
Intercompany revenues	3,884	27,714	—	(31,598)	—
Total revenue	<u>196,631</u>	<u>33,724</u>	<u>1,929</u>	<u>(31,598)</u>	<u>200,686</u>
Expenses:					
Program activities	106,499	29,664	—	—	136,163
Management and general	8,701	—	—	—	8,701
Fundraising	43,914	—	—	—	43,914
Intercompany expenses	27,714	1,955	1,929	(31,598)	—
Total expenses	<u>186,828</u>	<u>31,619</u>	<u>1,929</u>	<u>(31,598)</u>	<u>188,778</u>
Change in net assets	9,803	2,105	—	—	11,908
Net assets, beginning of year	79,090	28,426	12,818	(12,818)	107,516
Other changes in net assets	—	—	—	—	—
Net assets, end of year	<u>\$ 88,893</u>	<u>30,531</u>	<u>12,818</u>	<u>(12,818)</u>	<u>119,424</u>

See accompanying independent auditors' report.