



AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

Financial Statements

December 31, 2012

(with comparative information as of 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 financial statements of the American Diabetes Association Research Foundation, Inc., which comprise the balance sheet as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the American Diabetes Association Research Foundation, Inc. as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Report on Summarized Comparative Information

We have previously audited the American Diabetes Association Research Foundation Inc.'s 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 29, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

May 24, 2013

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

Balance Sheet

December 31, 2012

(with comparative information as of December 31, 2011)

	Assets	2012	2011
Cash and cash equivalents		\$ 729,908	1,260,171
Receivable from the American Diabetes Association (note 3)		12,077,219	7,672,508
Contributions receivable, net (note 4)		22,263,385	5,010,241
Interest in perpetual trust		84,176	82,008
Total assets		<u>\$ 35,154,688</u>	<u>14,024,928</u>
Liabilities and Net Assets			
Research grants payable		\$ 10,265,209	8,975,876
Net assets:			
Temporarily restricted		24,805,303	4,967,044
Permanently restricted		84,176	82,008
Total net assets		<u>24,889,479</u>	<u>5,049,052</u>
Total liabilities and net assets		<u>\$ 35,154,688</u>	<u>14,024,928</u>

See accompanying notes to financial statements.

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

Statement of Activities

Year ended December 31, 2012

(with summarized information for the year ended December 31, 2011)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
Revenues:					
Donations, bequests and change in value of perpetual trusts	\$ 1,759,875	20,631,799	2,168	22,393,842	3,649,932
Contributed professional services	695,093	—	—	695,093	713,766
Grant from the American Diabetes Association (note 3)	33,202,315	—	—	33,202,315	30,486,065
Total contributions and grants	35,657,283	20,631,799	2,168	56,291,250	34,849,763
Net assets released from restrictions	793,540	(793,540)	—	—	—
Total revenues	36,450,823	19,838,259	2,168	56,291,250	34,849,763
Expenses:					
Program activities – Research:					
Research grants	34,539,329	—	—	34,539,329	33,583,268
Contributed professional services	695,093	—	—	695,093	713,766
Total program activities	35,234,422	—	—	35,234,422	34,297,034
Supporting services:					
Management and general	456,150	—	—	456,150	273,694
Fundraising	760,251	—	—	760,251	456,156
Total supporting services	1,216,401	—	—	1,216,401	729,850
Total expenses	36,450,823	—	—	36,450,823	35,026,884
Change in net assets	—	19,838,259	2,168	19,840,427	(177,121)
Net assets, beginning of year	—	4,967,044	82,008	5,049,052	5,226,173
Net assets, end of year	\$ —	24,805,303	84,176	24,889,479	5,049,052

See accompanying notes to financial statements.

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

Statement of Functional Expenses

Year ended December 31, 2012

(with summarized information for the year ended December 31, 2011)

	Program activities	Supporting services		2012 Total	2011 Total
	Research	Management and general	Fundraising		
Research grants	\$ 34,539,329	—	—	34,539,329	33,583,268
American Diabetes Association management fee	—	456,150	760,251	1,216,401	729,850
Contributed professional services	695,093	—	—	695,093	713,766
Total expenses	\$ <u>35,234,422</u>	<u>456,150</u>	<u>760,251</u>	<u>36,450,823</u>	<u>35,026,884</u>

See accompanying notes to financial statements.

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

Statement of Cash Flows

Year ended December 31, 2012

(with comparative information for the year ended December 31, 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 19,840,427	(177,121)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
(Increase) decrease in interest in perpetual trust	(2,168)	1,071
Adjustments for changes in operating assets and liabilities:		
Increase in receivable from the American Diabetes Association	(4,404,711)	(1,559,362)
(Increase) decrease in contributions receivable	(17,253,144)	451,481
Increase (decrease) in research grants payable	1,289,333	(348,270)
Net cash used in operating activities	(530,263)	(1,632,201)
Cash and cash equivalents, beginning of year	1,260,171	2,892,372
Cash and cash equivalents, end of year	\$ <u>729,908</u>	<u>1,260,171</u>

See accompanying notes to financial statements.

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

Notes to Financial Statements

December 31, 2012

(with comparative information as of and for the year ended December 31, 2011)

(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, 2012, 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.

(2) Summary of Significant Accounting Policies

(a) 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:

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.

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.

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

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

Notes to Financial Statements

December 31, 2012

(with comparative information as of and for the year ended December 31, 2011)

(b) 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.

(c) Fair Value of Financial Instruments

As of December 31, 2012 and 2011, 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.

(d) 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 year as received. Temporarily restricted contributions recognized in 2012 are more specifically restricted than the broad research mission of the Foundation.

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 1.3% to 4.8%.

(e) 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.

(f) Research Grants

Research grants awarded by the Foundation generally extend over a period of one to five 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.

(g) 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.

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

Notes to Financial Statements

December 31, 2012

(with comparative information as of and for the year ended December 31, 2011)

(h) *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.

(i) *Comparative Financial Statements*

The statements of activities and functional expenses include certain summarized comparative information for the year ended December 31, 2011. 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, 2011, from which the summarized information was derived.

(3) *Transactions with the American Diabetes Association*

(a) *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 \$3,627,664 and \$6,733,711 in 2012 and 2011, respectively. The Foundation also receives gifts for research directly from donors, which are reported as contributions in the statement of activities.

(b) *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 management fee assessed on contributions for the Pathway to Stop Diabetes research campaign is spread over five years to align with the grant award schedule.

The Association transfers assets to the Foundation based on the timing of grant payments due. As of December 31, 2012 and 2011, the Association owed the Foundation \$12,077,219 and \$7,672,508, respectively.

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

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December 31, 2012

(with comparative information as of and for the year ended December 31, 2011)

(4) Contributions Receivable

Contributions receivable as of December 31, 2012 and 2011 are expected to be received as follows:

	<u>2012</u>	<u>2011</u>
Within one year	\$ 15,948,051	3,184,754
In one to five years	6,891,200	2,592,460
In more than five years	278,069	367,788
Total contributions receivable	23,117,320	6,145,002
Less:		
Allowance for doubtful accounts	(700,000)	(1,020,000)
Present value discount	(153,935)	(114,761)
Contributions receivable, net	\$ <u>22,263,385</u>	<u>5,010,241</u>

(5) Concentration of Contributions Revenue and Contributions Receivable

Contributions revenue totaling \$20,000,000 for the year ended December 31, 2012, and \$18,750,000 of gross contributions receivable as of December 31, 2012, related to three corporate donors. Of this amount \$10,000,000 was due in the first quarter of 2013. There was no similar concentration of contributions revenue for the year ended December 31, 2011, or contributions receivable as of December 31, 2011.

(6) Subsequent Events

For the year ended December 31, 2012, the Foundation has evaluated subsequent events through May 24, 2013, the date the financial statements were available to be issued, and determined that no items required disclosure.