



**AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.**

Financial Statements

December 31, 2013

(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, 2013, 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 the 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, 2013, 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 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 24, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*KPMG LLP*

May 27, 2014

**AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.**

Balance Sheet

December 31, 2013

(with comparative information as of December 31, 2012)

| <b>Assets</b>  | <b>2013</b>          | <b>2012</b>       |
|--|----------------------|-------------------|
| Cash and cash equivalents                                  | \$ 202,235           | 729,908           |
| Receivable from the American Diabetes Association (note 3) | 30,411,032           | 12,077,219        |
| Contributions receivable, net (note 4)                     | 10,560,425           | 22,263,385        |
| Interest in perpetual trust                                | 85,646               | 84,176            |
| Total assets   | <u>\$ 41,259,338</u> | <u>35,154,688</u> |
| <b>Liabilities and Net Assets</b>                          |                      |                   |
| Research grants payable                                    | \$ 12,833,035        | 10,265,209        |
| Net assets:  |                      |                   |
| Temporarily restricted                                     | 28,340,657           | 24,805,303        |
| Permanently restricted                                     | 85,646               | 84,176            |
| Total net assets   | <u>28,426,303</u>    | <u>24,889,479</u> |
| Total liabilities and net assets                           | <u>\$ 41,259,338</u> | <u>35,154,688</u> |

See accompanying notes to financial statements.

**AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.**

Statement of Activities

Year ended December 31, 2013

(with summarized information for the year ended December 31, 2012)

|   | <u>Unrestricted</u> | <u>Temporarily<br/>restricted</u> | <u>Permanently<br/>restricted</u> | <u>2013<br/>Total</u> | <u>2012<br/>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|-----------------------|-----------------------|
| Revenue:  |                     |                                   |                                   |                       |                       |
| Donations, bequests, and change in value<br>of perpetual trusts | \$ 2,157,978        | 881,780                           | 1,470                             | 3,041,228             | 22,393,842            |
| Contributed professional services                               | 706,695             | —                                 | —                                 | 706,695               | 695,093               |
| Grant from the American<br>Diabetes Association (note 3)        | <u>32,310,310</u>   | <u>5,000,000</u>                  | <u>—</u>                          | <u>37,310,310</u>     | <u>33,202,315</u>     |
| Total contributions and grants                                  | 35,174,983          | 5,881,780                         | 1,470                             | 41,058,233            | 56,291,250            |
| Net assets released from restrictions                           | <u>2,346,426</u>    | <u>(2,346,426)</u>                | <u>—</u>                          | <u>—</u>              | <u>—</u>              |
| Total revenue   | <u>37,521,409</u>   | <u>3,535,354</u>                  | <u>1,470</u>                      | <u>41,058,233</u>     | <u>56,291,250</u>     |
| Expenses:   |                     |                                   |                                   |                       |                       |
| Program activities – Research:                                  |                     |                                   |                                   |                       |                       |
| Research grants   | 35,505,719          | —                                 | —                                 | 35,505,719            | 34,539,329            |
| Contributed professional services                               | <u>706,695</u>      | <u>—</u>                          | <u>—</u>                          | <u>706,695</u>        | <u>695,093</u>        |
| Total program activities  | <u>36,212,414</u>   | <u>—</u>                          | <u>—</u>                          | <u>36,212,414</u>     | <u>35,234,422</u>     |
| Supporting services:  |                     |                                   |                                   |                       |                       |
| Management and general  | 490,873             | —                                 | —                                 | 490,873               | 456,150               |
| Fundraising   | <u>818,122</u>      | <u>—</u>                          | <u>—</u>                          | <u>818,122</u>        | <u>760,251</u>        |
| Total supporting services                                       | <u>1,308,995</u>    | <u>—</u>                          | <u>—</u>                          | <u>1,308,995</u>      | <u>1,216,401</u>      |
| Total expenses  | <u>37,521,409</u>   | <u>—</u>                          | <u>—</u>                          | <u>37,521,409</u>     | <u>36,450,823</u>     |
| Change in net assets  | —                   | 3,535,354                         | 1,470                             | 3,536,824             | 19,840,427            |
| Net assets, beginning of year                                   | <u>—</u>            | <u>24,805,303</u>                 | <u>84,176</u>                     | <u>24,889,479</u>     | <u>5,049,052</u>      |
| Net assets, end of year   | \$ <u>—</u>         | <u>28,340,657</u>                 | <u>85,646</u>                     | <u>28,426,303</u>     | <u>24,889,479</u>     |

See accompanying notes to financial statements.

**AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.**

Statement of Functional Expenses

Year ended December 31, 2013

(with summarized information for the year ended December 31, 2012)

|   | <b>Program<br/>activities<br/>research</b> | <b>Supporting services</b>        |                    | <b>2013<br/>Total</b> | <b>2012<br/>Total</b> |
|---|--|-----------------------------------|--------------------|-----------------------|-----------------------|
|   |  | <b>Management<br/>and general</b> | <b>Fundraising</b> |                       |                       |
| Research grants                                 | \$ 35,505,719                              | —                                 | —                  | 35,505,719            | 34,539,329            |
| American Diabetes Association<br>management fee | —  | 490,873                           | 818,122            | 1,308,995             | 1,216,401             |
| Contributed professional services               | 706,695                                    | —                                 | —                  | 706,695               | 695,093               |
| <b>Total expenses</b>                           | <b>\$ 36,212,414</b>                       | <b>490,873</b>                    | <b>818,122</b>     | <b>37,521,409</b>     | <b>36,450,823</b>     |

See accompanying notes to financial statements.

**AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.**

Statement of Cash Flows

Year ended December 31, 2013

(with comparative information for the year ended December 31, 2012)

|   | <u>2013</u>       | <u>2012</u>    |
|---|-------------------|----------------|
| Cash flows from operating activities:   |                   |                |
| Change in net assets  | \$ 3,536,824      | 19,840,427     |
| Adjustments to reconcile change in net assets to net cash used in operating activities: |                   |                |
| Increase in interest in perpetual trust   | (1,470)           | (2,168)        |
| Adjustments for changes in operating assets and liabilities:                            |                   |                |
| Increase in receivable from the American Diabetes Association                           | (18,333,813)      | (4,404,711)    |
| Decrease (increase) in contributions receivable   | 11,702,960        | (17,253,144)   |
| Increase in research grants payable   | 2,567,826         | 1,289,333      |
| Net cash used in operating activities   | (527,673)         | (530,263)      |
| Cash and cash equivalents, beginning of year  | 729,908           | 1,260,171      |
| Cash and cash equivalents, end of year  | \$ <u>202,235</u> | <u>729,908</u> |

See accompanying notes to financial statements.

# AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

## Notes to Financial Statements

December 31, 2013

(with comparative information as of and for the year ended December 31, 2012)

### (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, 2013, 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, 2013

(with comparative information as of and for the year ended December 31, 2012)

**(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, 2013 and 2012, 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 2013 are more specifically restricted than the broad research mission of the Foundation.

Unconditional promises to give are reported at their net realizable value. These unconditional promises to give are Nonrecurring fair value measurements classified as Level 3. 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 4.5%.

**(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, 2013

(with comparative information as of and for the year ended December 31, 2012)

**(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, 2012. 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, 2012, 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 \$8,127,868 and \$3,627,664 in 2013 and 2012, 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, 2013 and 2012, the Association owed the Foundation \$30,411,032 and \$12,077,219, respectively.

**AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.**

Notes to Financial Statements

December 31, 2013

(with comparative information as of and for the year ended December 31, 2012)

**(4) Contributions Receivable**

Contributions receivable as of December 31, 2013 and 2012 are expected to be received as follows:

|                                 | <u>2013</u>          | <u>2012</u>       |
|---------------------------------|----------------------|-------------------|
| Within one year                 | \$ 8,444,214         | 15,948,051        |
| In one to five years            | 2,829,510            | 6,891,200         |
| In more than five years         | <u>173,418</u>       | <u>278,069</u>    |
| Total contributions receivable  | 11,447,142           | 23,117,320        |
| Less:                           |                      |                   |
| Allowance for doubtful accounts | (820,000)            | (700,000)         |
| Present value discount          | <u>(66,717)</u>      | <u>(153,935)</u>  |
| Contributions receivable, net   | <u>\$ 10,560,425</u> | <u>22,263,385</u> |

**(5) Concentration of Contributions Receivable**

Gross contributions receivable of \$5,000,000 as of December 31, 2013 related to a single corporate donor. This amount is scheduled to be paid in 2014.

**(6) Subsequent Events**

For the year ended December 31, 2013, the Association has evaluated subsequent events through May 27, 2014, the date the consolidated financial statements were available to be issued, and determined that no items required disclosure.