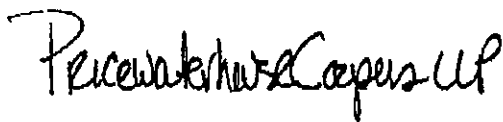


**American Diabetes Association
Research Foundation, Inc
Financial Statements
As of December 31, 2006
and Report of Independent Auditors**

Report of Independent Auditors

To the Board of Directors of the
American Diabetes Association
Research Foundation, Inc.

In our opinion, the accompanying statement of financial position and the related statements of activities, functional expenses and cash flows present fairly, in all material respects, the financial position of the American Diabetes Association Research Foundation, Inc. (the Foundation) at December 31, 2006, and the changes in its net assets and its cash flows for the eighteen month period then ended, in conformity with accounting principles generally accepted in the United States of America. 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 audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which 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 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, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.



June 30, 2007

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
as of December 31, 2006

ASSETS

Cash and cash equivalents	\$ 737,323
Receivable from the American Diabetes Association	1,202,732
Contributions receivable, net	<u>7,841,019</u>
 Total assets	 <u><u>\$ 9,781,074</u></u>

LIABILITIES AND NET ASSETS

Research grants payable	\$ 9,781,074
Unrestricted net assets	<u>-</u>
 Total liabilities and net assets	 <u><u>9,781,074</u></u>

The accompanying notes are an integral part of these financial statements.

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

STATEMENT OF ACTIVITIES

for the eighteen month period ended December 31, 2006

Revenues:	
Contributions	\$ 9,107,084
Contributed professional services	473,804
Grant from the American Diabetes Association	<u>59,921,956</u>
Total revenues	<u>69,502,844</u>
Expenses:	
Program activities - Research:	
Research grants	67,302,799
Contributed professional services	<u>473,804</u>
Total program activities - Research	<u>67,776,603</u>
Supporting services:	
Management	733,652
Fundraising	<u>992,589</u>
Total supporting services	<u>1,726,241</u>
Total expenses	<u>69,502,844</u>
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u><u>-</u></u>

The accompanying notes are an integral part of these financial statements.

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

for the eighteen month period ended December 31, 2006

	Program Activities	Supporting Services		Total
	Research	Management	Fundraising	
Research grants	\$ 67,302,799	-	-	67,302,799
American Diabetes Association management fee	-	733,652	992,589	1,726,241
Contributed professional services	473,804	-	-	473,804
Total expenses	<u>\$ 67,776,603</u>	<u>733,652</u>	<u>992,589</u>	<u>69,502,844</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

STATEMENT OF CASH FLOWS

for the eighteen month period ended December 31, 2006

Cash flows from operating activities:	
Change in net assets	\$ -
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Increase in receivable from the American Diabetes Association	(1,202,732)
Decrease in contributions receivable	210,391
Decrease in payable to American Diabetes Association	(3,237,169)
Decrease in research grants payable	<u>(3,172,371)</u>
Net cash used in operating activities	(7,401,881)
Cash and cash equivalents, beginning of year	<u>8,139,204</u>
Cash and cash equivalents, end of year	<u>\$ 737,323</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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 secure major gifts and grants 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.

2. **Summary of significant accounting policies**

Basis of accounting

The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America.

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. Cash and cash equivalents are carried at cost, which approximates fair value.

Continued

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Fair value of financial instruments

The fair values of financial instruments are estimated using available market information and other valuation methodologies in accordance with generally accepted accounting principles. The estimates presented are not necessarily indicative of the amounts that the Foundation may ultimately realize in a current market exchange. The fair value of financial instruments for which estimated fair value amounts have not been specifically presented is estimated to approximate the book value.

Net assets

The Foundation classifies resources 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. Because research constitutes the Foundation's sole activity, contributions to the Foundation restricted for general research are classified and reported as unrestricted contributions

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. The Foundation has not received any temporarily restricted donations.

Permanently Restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. The Foundation has not received any permanently restricted donations.

Recognition of revenues

Revenues consist of contributions, including pledges, which 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 on the contributions, and it is the practice of the Foundation to spend these contributions on the research program in the same financial year.

Continued

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Unconditional promises of contributions are recorded 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 is calculated based on an estimated risk free rate of return at the time of the contribution, ranging from 3.0% to 5.4%.

Contributed services

Contributed services are reported in the statements 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 contribution revenue and research professional services 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 accompanying statement of financial position.

Concentrations of credit risk

Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist of deposits in banks in excess of the Federal Deposit Insurance Corporation limits. As of December 31, 2006, approximately \$1,669,000 was held at such institutions. The Foundation has not experienced any credit losses on these financial instruments in past years.

Concentrations of credit risk with respect to contributions receivable are limited because the receivables are from numerous corporations and individuals. Management does not believe significant risk exists in connection with the Foundation's concentration of credit with respect to contributions receivable as of December 31, 2006.

Continued

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Functional allocation of expenses

The costs of providing the program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among supporting services as shown in the statement of functional expenses.

Management estimates and uncertainties

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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.

3. Transactions with the American Diabetes Association

Research program

The Foundation facilitates the funding of the research program of the American Diabetes Association. Accordingly, all contributions for research, raised by both the Association and the Foundation, and all research grants awarded are reported on the Foundation's statement of activities.

Grants from the American Diabetes Association and management fee

The Association provides grants to the Foundation for its research purpose based on annual aggregate contributions received by the Association and the Foundation.

The Research Foundation pays a management fee to the Association approximating twenty percent of contributions. This fee is used by the Association for staff and other administrative services provided to the Foundation.

Continued

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

The Association transfers assets to the Foundation based on the timing of payments due. As of December 31, 2006, the Association owed the Foundation \$1,202,732, representing the typical procedure to fund the Foundation as grants become due for payment.

4. **Contributions receivable**

Contributions receivable as of December 31, 2006 are expected to be received as follows:

	<u>2006</u>
Within one year	\$ 5,267,917
One to five years	3,041,758
Greater than five years	<u>63,164</u>
Total contributions receivable	8,372,839
Less: allowance for doubtful accounts	(351,000)
Less: present value discount	<u>(180,820)</u>
Contributions receivable, net	<u><u>\$ 7,841,019</u></u>