# AMERICAN DIABETES ASSOCIATION

## CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2011**

**(with Independent Auditors' Report Thereon)**

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

# Independent Auditors' Report

The Board of Directors
American Diabetes Association:

We have audited the accompanying consolidated balance sheet of the American Diabetes Association (the Association) as of December 31, 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Association's 2010 financial statements and, in our report dated May 31, 2011, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our 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 as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

May 29, 2012

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**AMERICAN DIABETES ASSOCIATION**
**CONSOLIDATED BALANCE SHEET**

**December 31, 2011**

**(with comparative information as of December 31, 2010)**

**(in thousands of dollars)**

| ASSETS | 2011 | 2010 |
|---|---|---|
| Cash and cash equivalents | $ 13,027 | $ 12,132 |
| Investments (notes 4 and 5) | 31,712 | 28,769 |
| Accounts receivable, net (notes 6 and 18) | 8,701 | 10,533 |
| Inventory and supplies, net | 1,511 | 1,454 |
| Prepaid expenses and other assets | 3,880 | 4,117 |
| Contributions receivable, net (note 7) | 48,040 | 48,471 |
| Fixed assets, net (note 8) | 7,747 | 8,273 |
| Interest in perpetual trusts (note 5) | 5,251 | 5,326 |
| Total assets | $ 119,869 | $ 119,075 |
| **LIABILITIES AND NET ASSETS** | | |
| Accounts payable and accrued liabilities (note 15) | $ 15,643 | $ 15,733 |
| Line of credit (note 16) | - | 6,080 |
| Research grants payable | 8,976 | 9,324 |
| Deferred revenues | 10,627 | 11,849 |
| Total liabilities | 35,246 | 42,986 |
| Net assets (note 11): | | |
| Unrestricted | 23,675 | 16,216 |
| Temporarily restricted (note 9) | 51,347 | 50,336 |
| Permanently restricted (note 10) | 9,601 | 9,537 |
| Total net assets | 84,623 | 76,089 |
| Total liabilities and net assets | $ 119,869 | $ 119,075 |

*See accompanying notes to the consolidated financial statements.*

# AMERICAN DIABETES ASSOCIATION
# CONSOLIDATED STATEMENT OF ACTIVITIES

## Year ended December 31, 2011

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

## (in thousands of dollars)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2011 Total | 2010 Total |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Contributions and grants: | | | | | |
| Donations | $ 43,092 | 30,447 | - | 73,539 | 72,797 |
| Special events | 52,941 | 3,647 | - | 56,588 | 52,722 |
| Less: Costs of direct benefits to donors | (7,900) | - | - | (7,900) | (7,220) |
| Bequests | 20,850 | 8,303 | 309 | 29,462 | 24,744 |
| Federated and nonfederated organizations | 8,129 | 37 | - | 8,166 | 8,553 |
| Total contributions and grants | 117,112 | 42,434 | 309 | 159,855 | 151,596 |
| Fees from exchange transactions: | | | | | |
| Subscriptions & other income from periodicals | 22,468 | - | - | 22,468 | 23,097 |
| Sales of materials | 5,839 | - | - | 5,839 | 8,576 |
| Program service fees | 15,715 | - | - | 15,715 | 14,385 |
| Investment income (note 4) | 1,951 | 295 | (245) | 2,001 | 3,098 |
| Miscellaneous revenues | 2,655 | - | - | 2,655 | 1,731 |
| Total fees from exchange transactions | 48,628 | 295 | (245) | 48,678 | 50,887 |
| Net assets released from restrictions | 41,718 | (41,718) | - | - | - |
| Total revenues | 207,458 | 1,011 | 64 | 208,533 | 202,483 |
| Expenses (note 13): | | | | | |
| Program activities: | | | | | |
| Research | 44,218 | - | - | 44,218 | 42,638 |
| Information | 56,086 | - | - | 56,086 | 54,956 |
| Advocacy and public awareness | 45,018 | - | - | 45,018 | 44,000 |
| Total program activities | 145,322 | - | - | 145,322 | 141,594 |
| Supporting services: | | | | | |
| Management and general | 8,403 | - | - | 8,403 | 9,777 |
| Fundraising | 46,274 | - | - | 46,274 | 43,453 |
| Total supporting services | 54,677 | - | - | 54,677 | 53,230 |
| Total expenses | 199,999 | - | - | 199,999 | 194,824 |
| Change in net assets | 7,459 | 1,011 | 64 | 8,534 | 7,659 |
| Net assets, beginning of year | 16,216 | 50,336 | 9,537 | 76,089 | 68,430 |
| Net assets, end of year | $ 23,675 | 51,347 | 9,601 | 84,623 | 76,089 |

*See accompanying notes to the consolidated financial statements.*

**AMERICAN DIABETES ASSOCIATION**
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**Year ended December 31, 2011**

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

**(in thousands of dollars)**

| | Program Activities | | | | Supporting Services | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Research | Information | Advocacy and public awareness | Total | Management and general | Fundraising | Total | 2011 Total | 2010 Total |
| Grants | $ 33,588 | 163 | 10 | 33,761 | - | - | - | 33,761 | 33,389 |
| Employee costs | 2,452 | 18,856 | 20,972 | 42,280 | 2,630 | 17,296 | 19,926 | 62,206 | 59,900 |
| Professional fees | 1,456 | 7,372 | 5,443 | 14,271 | 1,001 | 5,660 | 6,661 | 20,932 | 20,010 |
| Supplies | 59 | 2,632 | 602 | 3,293 | 74 | 442 | 516 | 3,809 | 3,812 |
| Telecommunications | 103 | 915 | 848 | 1,866 | 80 | 657 | 737 | 2,603 | 2,595 |
| Postage and shipping | 296 | 4,696 | 3,146 | 8,138 | 362 | 6,160 | 6,522 | 14,660 | 14,983 |
| Occupancy cost | 536 | 4,927 | 2,281 | 7,744 | 716 | 1,831 | 2,547 | 10,291 | 10,089 |
| Equipment rental and maintenance | 57 | 449 | 418 | 924 | 58 | 321 | 379 | 1,303 | 1,341 |
| Printing and publications | 1,932 | 10,845 | 5,640 | 18,417 | 1,255 | 9,076 | 10,331 | 28,748 | 26,330 |
| Travel | 47 | 769 | 1,010 | 1,826 | 74 | 871 | 945 | 2,771 | 2,421 |
| Conferences and meetings | 3,358 | 1,359 | 1,791 | 6,508 | 83 | 359 | 442 | 6,950 | 6,248 |
| Data processing | 43 | 461 | 503 | 1,007 | 42 | 1,121 | 1,163 | 2,170 | 2,202 |
| Depreciation and amortization | 29 | 874 | 700 | 1,603 | 962 | 350 | 1,312 | 2,915 | 3,888 |
| Miscellaneous | 262 | 1,768 | 1,654 | 3,684 | 1,066 | 2,130 | 3,196 | 6,880 | 7,616 |
| Total expenses | $ 44,218 | 56,086 | 45,018 | 145,322 | 8,403 | 46,274 | 54,677 | 199,999 | 194,824 |
| Costs of direct benefits to donors | | | | | | | | 7,900 | 7,220 |
| Total expenses and costs of direct benefits to donors | | | | | | | | $ 207,899 | $ 202,044 |

*See accompanying notes to the consolidated financial statements.*

**AMERICAN DIABETES ASSOCIATION**
**CONSOLIDATED STATEMENT OF CASH FLOWS**

**Year ended December 31, 2011**

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

**(in thousands of dollars)**

| | 2011 | 2010 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 8,534 | $ 7,659 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,915 | 3,888 |
| Net unrealized and realized loss (gain) on investments | 535 | (1,283) |
| Loss on disposal of assets | 1 | 11 |
| Provisions for doubtful receivables and obsolete inventory | 2,247 | 2,658 |
| Contributions to third party perpetual trusts | (171) | (1,138) |
| Other contributions restricted for long-term investments | (407) | (248) |
| Adjustments for changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 1,862 | (2,401) |
| (Increase) decrease in inventory and supplies | (200) | 147 |
| Decrease in prepaid expenses and other assets | 237 | 830 |
| Increase in contributions receivable | (1,463) | (6,397) |
| Increase (decrease) in accounts payable and accrued liabilities | 272 | (727) |
| Decrease in research grants payable | (348) | (1,140) |
| (Decrease) increase in deferred revenues | (1,291) | 25 |
| Net cash provided by operating activities | 12,723 | 1,884 |
| Cash flows from investing activities: | | |
| Purchases of investments | (18,876) | (16,479) |
| Sales or maturities of investments | 15,473 | 14,576 |
| Purchase of fixed assets | (2,390) | (2,402) |
| Net cash used in investing activities | (5,793) | (4,305) |
| Cash flows from financing activities: | | |
| Proceeds from contributions restricted for investment in endowment | 407 | 248 |
| Proceeds from borrowing on line of credit | - | 9,700 |
| Payments on line of credit | (6,080) | (4,940) |
| Payments on capital lease agreements | (362) | (350) |
| Net cash (used in) provided by financing activities | (6,035) | 4,658 |
| Net increase in cash and cash equivalents | 895 | 2,237 |
| Cash and cash equivalents, beginning of year | 12,132 | 9,895 |
| Cash and cash equivalents, end of year | $ 13,027 | $ 12,132 |

*See accompanying notes to the consolidated financial statements.*

## 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 Company, Inc. 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, 2011, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

## 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 health care 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

**Basis of accounting**

The Association 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 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.

**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 our long term investment strategy.

**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 financial statements.

**Fair value of financial instruments**

As of December 31, 2011 and 2010, the carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximated their fair value, based on the short-term maturities of these instruments. Additional fair value information is presented in note 5.

**Inventory**

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

**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.

**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 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%.

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 one year, beginning with the mailing of the first issue to the subscriber.

**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 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 $14,355,000 and $17,684,000 are reported on the balance sheet as of December 31, 2011 and 2010, 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 rates range from 1.3% to 7.6%.

Amounts payable to beneficiaries, gift annuities payable, and pooled income fund liabilities of approximately $1,877,000 and $1,847,000 are reported as accrued liabilities or deferred revenues on the consolidated balance sheets as of December 31, 2011 and 2010, respectively.

**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.

**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 three 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.

**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 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.

**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.

**Comparative financial statements**

The consolidated statements of activities and functional expenses include certain summarized comparative information for the year ended December 31, 2010. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

## 4. Investments

Investments as of December 31, 2011 and 2010, consist of the following (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Real estate | $ 12,850 | $ 12,850 |
| Fixed-income mutual funds | 4,965 | 6,626 |
| Certificates of deposit | 6,970 | 5,055 |
| Equity mutual funds | 2,370 | 2,428 |
| Corporate equities | 1,655 | 919 |
| Money market funds | 2,902 | 716 |
| U.S. government securities | - | 175 |
| Total investments | $ 31,712 | $ 28,769 |

Investments as of December 31, 2011 and 2010, include gift annuity investments of approximately $2,363,000 and $2,728,000, respectively, and the fair value of gift annuity obligations under those agreements was approximately $1,806,000 and $1,744,000, 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 1999 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 year ended December 31, 2011 and 2010, includes (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Property rental income, net | $ 1,865 | $ 1,172 |
| Net realized and unrealized (loss) gain | (535) | 1,283 |
| Interest and dividends | 782 | 773 |
| Investment fees | (111) | (130) |
| Total investment income, net | $ 2,001 | $ 3,098 |

## 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 prices such as quoted prices for similar assets or liabilities; quotes 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.

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, 2011 (in thousands).

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial Assets: | | | | |
| Investments: | | | | |
| Fixed income mutual funds | 4,965 | 4,965 | - | - |
| Certificates of deposit | 6,970 | 6,970 | - | - |
| Equity mutual funds | 2,370 | 2,370 | - | - |
| Corporate equities | 1,655 | 1,655 | - | - |
| Money market funds | 2,902 | 2,902 | - | - |
| U.S. government securities | - | - | - | - |
| Interest in perpetual trusts | 5,251 | - | - | 5,251 |
| Financial Liabilities: | | | | |
| Split interest obligations | 1,877 | - | 1,877 | - |

In 2011, the decrease in the Association's interest in perpetual trusts of approximately $75,000 reflects a new trust of $170,000, investment losses of $32,000, and distributions of $213,000.

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, 2010 (in thousands).

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial Assets: | | | | |
| Investments: | | | | |
| Fixed income mutual funds | 6,626 | 6,626 | - | - |
| Corporate equities | 5,055 | 5,055 | - | - |
| Equity mutual funds | 2,428 | 2,428 | - | - |
| Certificates of deposit | 919 | 919 | - | - |
| Money market funds | 716 | 716 | - | - |
| U.S. government securities | 175 | 175 | - | - |
| Interest in perpetual trusts | 5,326 | - | - | 5,326 |
| Financial Liabilities: | | | | |
| Split interest obligations | 1,847 | - | 1,847 | - |

In 2010, the increase in the Association's interest in perpetual trusts of approximately $1,601,000 reflects new trusts of $1,138,000, investment returns of $595,000, and distributions of $132,000.

## 6. Accounts receivable

Accounts receivable are reported net of an allowance for doubtful accounts of approximately $1,783,000 and $2,334,000 as of December 31, 2011 and 2010, respectively. The Association's receivables consist of amounts due for program service fees, publications, advertising, land rental and other exchange transactions.

## 7. Contributions receivable

Contributions receivable consist of the following amounts due as of December 31, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Within one year | $ 37,835 | $ 35,763 |
| In one to five years | 7,795 | 6,644 |
| In more than five years | 208 | 313 |
| Total contributions receivable | 45,838 | 42,720 |
| Less: allowance for doubtful accounts | (4,083) | (3,363) |
| Less: present value discount | (225) | (271) |
| Subtotal | 41,530 | 39,086 |
| Funds held in remainder trusts | 6,510 | 9,385 |
| Contributions receivable, net | $ 48,040 | $ 48,471 |

## 8. Fixed assets

Fixed assets consist of the following as of December 31, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Land | $ 67 | $ 67 |
| Leasehold improvements | 1,249 | 1,232 |
| Software | 14,701 | 16,983 |
| Furniture, fixtures and equipment | 15,434 | 15,526 |
| Total fixed assets | 31,451 | 33,808 |
| Less: accumulated depreciation and amortization | (23,704) | (25,535) |
| Fixed assets, net | $ 7,747 | $ 8,273 |

## 9. Temporarily restricted net assets

Net assets were temporarily restricted for the following as of December 31, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Research | $ 5,498 | $ 5,340 |
| Information | 2,484 | 2,529 |
| Advocacy | 6,102 | 4,969 |
| Sponsorship for fundraising activities | 3,330 | 3,221 |
| Time restricted for operations | 33,933 | 34,277 |
| Total temporarily restricted net assets | $ 51,347 | $ 50,336 |

## 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, 2011 and 2010, is to be used as follows (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Research | $ 3,826 | $ 3,854 |
| Information | 1,920 | 1,987 |
| Advocacy and public awareness | 193 | 193 |
| Discretion of the Association | 3,662 | 3,503 |
| Total permanently restricted net assets | $ 9,601 | $ 9,537 |

## 11. Endowment

The Association's endowment consists of 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. Such deficiencies are reported in unrestricted net assets and were $587,000 and $612,000 as of December 31, 2011 and 2010, respectively.

Changes in endowment net assets for the years ended December 31, 2011 and 2010 are as follows (in thousands):

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, December 31, 2009 | $ (1,268) | 18,243 | 3,685 | 20,660 |
| Investment return: | | | | |
| Investment income | 1,290 | 232 | - | 1,522 |
| Net appreciation | 539 | 62 | - | 601 |
| Contributions | - | - | 526 | 526 |
| Appropriation for expenditure | (1,173) | (280) | - | (1,453) |
| Endowment net assets, December 31, 2010 | (612) | 18,257 | 4,211 | 21,856 |
| Investment return: | | | | |
| Investment income | 1,964 | 175 | - | 2,139 |
| Net appreciation (depreciation) | (72) | 6 | - | (66) |
| Contributions | - | - | 139 | 139 |
| Appropriation for expenditure | (1,867) | (227) | - | (2,094) |
| Endowment net assets, December 31, 2011 | $ (587) | 18,211 | 4,350 | 21,974 |

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 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 the production of public service announcements and for occupancy are recorded in printing and publications and occupancy expenses, respectively. The Association recognized approximately $2,870,000 and $2,744,000, in donated services provided in conjunction with the Association's activities during the years ended December 31, 2011 and 2010, 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 $1,952,000 and $2,070,000 for the years ended December 31, 2011 and 2010, respectively.

## 13. Allocation of joint costs

The Association conducts activities to distribute information related to diabetes and a call to action, such as understanding the risks 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, 2011 and 2010, were allocated as follows (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Advocacy and public awareness | $ 11,859 | $ 11,025 |
| Management and general | 2,297 | 3,622 |
| Fundraising | 23,523 | 20,471 |
| Total joint costs | $ 37,679 | $ 35,118 |

## 14. Pension plan

The Association has a defined contribution pension plan which 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, 2011 and 2010, was approximately $1,279,000 and $1,186,000, respectively.

## 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 stop loss insurance policies which protect the Association should total claims exceed a specified limit in a plan year. This limit was $7,900,000 and $7,600,000 in 2011 and 2010, respectively.

The liability as of December 31, 2011 and 2010, was approximately $485,000 and $1,116,000, respectively, and is included in accounts payable and accrued liabilities in the consolidated balance sheets. Benefit expense under this plan was approximately $5,147,000 and $5,865,000 for the years ended December 31, 2011 and 2010, 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 calculated as a factor of the London Interbank Offered Rate (LIBOR). The line of credit of $10,000,000 is subject to review and approval by the bank in August 2012. The Association expects to renew the line of credit each year. The outstanding balance on the line of credit as of December 31, 2011 and 2010, was $0 and $6,080,000, respectively. Interest and fees for the years ended December 31, 2011 and 2010, were approximately $52,000 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 is required to maintain a level of unrestricted, unencumbered marketable securities, cash and cash equivalents of not less than $10,000,000.

## 17. Lease commitments

***Operating leases***

The Association is obligated under various noncancelable operating lease agreements for facilities expiring at various dates between February 2012 and December 2019. 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 2015.

As of December 31, 2011, the future minimum lease payments under operating leases with noncancelable lease terms in excess of one year were (in thousands):

| Year ending December 31, | |
|---|---|
| 2012 | $ 6,682 |
| 2013 | 5,560 |
| 2014 | 5,176 |
| 2015 | 4,292 |
| 2016 | 3,697 |
| 2017 and thereafter | 824 |
| Total minimum lease payments | $ 26,231 |

Rent expense totaled approximately $7,213,000 and $7,180,000 for the years ended December 31, 2011 and 2010, respectively.

***Capital leases***

The Association leases computer equipment under capital lease agreements expiring on various dates through 2014. The liability at December 31, 2011 and 2010, approximated $578,000 and $942,000, respectively, and is included in accounts payable and accrued liabilities on the consolidated balance sheet. Assets under capital lease were approximately $2,345,000 and $2,453,000 and accumulated amortization on those assets was approximately $1,767,000 and $1,511,000 as of December 31, 2011 and 2010, respectively.

## 18. Lease payments receivable

The Association holds leases on land that was donated in 1999 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, 2011, the future minimum lease payments due to the Association under these leases were (in thousands):

| Year ended December 31, | |
|---|---|
| 2012 | 1,337 |
| 2013 | 1,379 |
| 2014 | 1,430 |
| 2015 | 1,438 |
| 2016 | 1,446 |
| 2017 and thereafter | 49,487 |
| Total minimum lease receipts | $ 56,517 |

The accumulated difference between the rental income recognized and the straight-line value of the leases was approximately $6,411,000 and $6,078,000 as of December 31, 2011 and 2010, 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 $1,556,000 and $1,790,000 as of December 31, 2011 and 2010, respectively.

## 19. Subsequent events

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