AMERICAN DIABETES ASSOCIATION

Consolidated Financial Statements and Consolidating Schedules

December 31, 2015

(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, 2015, 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 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 entity'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 entity'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.

KPMG

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, 2015, and the results of their operations 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' 2014 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated May 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter

Our audit was conducted from 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 the 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 related to the consolidated financial statements as a whole.

KPMG LLP

McLean, VA
May 27, 2016

AMERICAN DIABETES ASSOCIATION

Consolidated Balance Sheet

December 31, 2015
(with comparative information as of December 31, 2014)

(In thousands of dollars)

Assets		**2015**	**2014**
Cash and cash equivalents	$	25,065	15,510
Investments (notes 4 and 5)		51,258	48,953
Accounts receivable, net (notes 6 and 18)		10,376	10,376
Inventory and supplies, net		2,077	1,919
Prepaid expenses and other assets		4,405	4,753
Contributions receivable, net (note 7)		47,803	51,756
Fixed assets, net (note 8)		10,173	9,591
Interest in perpetual trusts (note 5)		9,709	9,999
Total assets	$	160,866	152,857
Liabilities and Net Assets			
Accounts payable and accrued liabilities (notes 15 and 17)	$	14,696	9,264
Research grants payable		13,480	8,808
Deferred revenues		14,304	15,361
Total liabilities		42,480	33,433
Net assets (note 11):			
Unrestricted		21,169	24,118
Temporarily restricted (note 9)		83,148	80,945
Permanently restricted (note 10)		14,069	14,361
Total net assets		118,386	119,424
Total liabilities and net assets	$	160,866	152,857

See accompanying notes to consolidated financial statements.

AMERICAN DIABETES ASSOCIATION

Consolidated Statement of Activities

Year ended December 31, 2015
(with summarized information for the year ended December 31, 2014)

(In thousands of dollars)

		Unrestricted	Temporarily restricted	Permanently restricted	2015 Total	2014 Total
Revenue:						
Contributions and grants:						
Donations	$	35,100	32,208	—	67,308	64,292
Special events		53,092	3,612	—	56,704	67,440
Less costs of direct benefits to donors		(8,795)	—	—	(8,795)	(9,395)
Bequests		14,121	4,926	(2)	19,045	25,160
Federated and nonfederated organizations		5,763	132	—	5,895	6,286
Total contributions and grants		99,281	40,878	(2)	140,157	153,783
Fees from exchange transactions:						
Subscriptions and other income from periodicals		15,987	—	—	15,987	19,357
Sales of materials		3,615	—	—	3,615	4,122
Program service fees		17,185	—	—	17,185	16,800
Investment income (note 4)		1,592	91	(290)	1,393	2,982
Miscellaneous revenues		3,949	—	—	3,949	3,642
Total fees from exchange transactions		42,328	91	(290)	42,129	46,903
Net assets released from restrictions		38,766	(38,766)	—	—	—
Total revenue		180,375	2,203	(292)	182,286	200,686
Expenses (note 13):						
Program activities:						
Research		43,012	—	—	43,012	41,503
Information		47,768	—	—	47,768	50,990
Advocacy and public awareness		41,826	—	—	41,826	43,670
Total program activities		132,606	—	—	132,606	136,163
Supporting services:						
Management and general		9,566	—	—	9,566	8,701
Fundraising		41,152	—	—	41,152	43,914
Total supporting services		50,718	—	—	50,718	52,615
Total expenses		183,324	—	—	183,324	188,778
Change in net assets		(2,949)	2,203	(292)	(1,038)	11,908
Net assets, beginning of year		24,118	80,945	14,361	119,424	107,516
Net assets, end of year	$	21,169	83,148	14,069	118,386	119,424

See accompanying notes to consolidated financial statements.

AMERICAN DIABETES ASSOCIATION

Consolidated Statement of Functional Expenses

Year ended December 31, 2015
(with summarized information for the year ended December 31, 2014)

(In thousands of dollars)

	Program activities				Supporting services				
	Research	**Information**	**Advocacy and public awareness**	**Total**	**Management and general**	**Fundraising**	**Total**	**2015 Total**	**2014 Total**
Grants	$ 31,011	189	81	31,281	—	—	—	31,281	29,537
Employee costs	3,216	20,464	20,328	44,008	4,858	17,176	22,034	66,042	70,686
Professional fees	1,141	6,620	4,568	12,329	1,120	4,393	5,513	17,842	15,608
Supplies	46	2,832	685	3,563	60	493	553	4,116	3,943
Telecommunications	95	594	600	1,289	131	494	625	1,914	2,093
Postage and shipping	293	1,870	2,556	4,719	99	4,802	4,901	9,620	12,331
Occupancy cost	542	5,523	3,201	9,266	716	2,669	3,385	12,651	10,221
Equipment rental and maintenance	49	418	362	829	69	305	374	1,203	1,177
Printing and publications	1,817	5,411	4,888	12,116	147	7,901	8,048	20,164	23,353
Travel	95	768	877	1,740	118	720	838	2,578	2,485
Conferences and meetings	4,401	891	1,219	6,511	10	159	169	6,680	7,208
Data processing	64	708	403	1,175	8	806	814	1,989	1,941
Depreciation and amortization	62	545	545	1,152	1,070	465	1,535	2,687	2,844
Miscellaneous	180	935	1,513	2,628	1,160	769	1,929	4,557	5,351
Total expenses	$ 43,012	47,768	41,826	132,606	9,566	41,152	50,718	183,324	188,778
Costs of direct benefits to donors								8,795	9,395
Total expenses and costs of direct benefits to donors								$ 192,119	198,173

See accompanying notes to consolidated financial statements.

AMERICAN DIABETES ASSOCIATION

Consolidated Statement of Cash Flows

Year ended December 31, 2015
(with comparative information for the year ended December 31, 2014)

(In thousands of dollars)

		2015	2014
Cash flows from operating activities:			
Change in net assets	$	(1,038)	11,908
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		2,687	2,844
Net unrealized and realized loss on investments		1,739	254
Loss on disposal of assets		37	9
Provisions for doubtful receivables and obsolete inventory		1,096	1,064
Contributions to third-party perpetual trusts		—	(1,869)
Other contributions restricted for long-term investments		—	(17)
Adjustments for changes in operating assets and liabilities:			
Increase in accounts receivable		(185)	(982)
Increase in inventory and supplies		(332)	(520)
Decrease in prepaid expenses and other assets		348	798
Decrease in contributions receivable		3,216	15,306
Increase (decrease) in accounts payable and accrued liabilities		5,432	(4,938)
Increase (decrease) in research grants payable		4,672	(4,025)
(Decrease) increase in deferred revenues		(1,057)	1,618
Net cash provided by operating activities		16,615	21,450
Cash flows from investing activities:			
Purchases of investments		(34,693)	(47,133)
Sales or maturities of investments		30,939	36,897
Purchase of fixed assets		(3,306)	(3,206)
Net cash used in investing activities		(7,060)	(13,442)
Cash flows from financing activities:			
Proceeds from contributions restricted for investment in endowment		—	17
Payments on line of credit		—	(10,000)
Payments on capital lease agreements		—	(64)
Net cash used in financing activities		—	(10,047)
Net increase (decrease) in cash and cash equivalents		9,555	(2,039)
Cash and cash equivalents, beginning of year		15,510	17,549
Cash and cash equivalents, end of year	$	25,065	15,510

See accompanying notes to 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 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, 2015, 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.

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, 2015 and 2014, 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.

(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 in the fair value hierarchy (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 3.4%. 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 twelve 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 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 $24,304,000 and $26,458,000 are reported on the consolidated balance sheets as of December 31, 2015 and 2014, 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 2015 and 2014 was 2.2% and 1.9%, respectively.

Amounts payable to beneficiaries, gift annuities payable, and pooled income fund liabilities of approximately $1,428,000 and $1,485,000 are reported as accrued liabilities or deferred revenues on the consolidated balance sheets as of December 31, 2015 and 2014, 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, 2014. 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

(Continued)

consolidated financial statements for the year ended December 31, 2014, from which the summarized information was derived.

(4) Investments

Investments as of December 31, 2015 and 2014, consist of the following (in thousands):

		2015	2014
Real estate	$	12,818	12,818
Fixed-income bonds		12,251	11,836
U.S. government securities		11,590	9,565
Fixed-income mutual funds		4,751	4,986
Equity mutual funds		3,134	4,440
Money market funds		2,629	2,630
Corporate equities		4,054	2,357
Certificates of deposit		—	300
Other		31	21
Total investments	$	51,258	48,953

Investments as of December 31, 2015 and 2014, include gift annuity investments of approximately $2,696,000 and $2,985,000, respectively, and the fair value of gift annuity obligations under those agreements was approximately $1,428,000 and $1,462,000, 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, 2015 and 2014, includes (in thousands):

		2015	2014
Property rental income, net	$	1,671	1,929
Net realized and unrealized (losses) gains		(1,739)	(254)
Interest and dividends		1,727	1,542
Investment fees		(266)	(235)
Total investment income, net	$	1,393	2,982

(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.

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, 2015 (in thousands):

	Total	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Fixed-income bonds	$ 12,251	—	12,251	—
U.S. government securities	11,590	—	11,590	—
Fixed-income mutual funds	4,751	4,751	—	—
Equity mutual funds	3,134	3,134	—	—
Money market funds	2,629	2,629	—	—
Corporate equities	4,054	4,054	—	—
Other	31	31	—	—
Interest in perpetual trusts	9,709	—	—	9,709
Funds held in remainder trusts	11,831	—	—	11,831
Financial liabilities:				
Split-interest obligations	$ 1,428	—	1,428	—

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):

	Total	Level 1	Level 2	Level 3
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	—

Changes in perpetual trusts and funds held in remainder trusts for the years ended December 31, 2015 and 2014, are as follows (in thousands):

		Perpetual Trusts	Funds Held in Remainder Trusts
Balance, January 1, 2014	$	8,126	14,921
New trusts		1,869	3,575
Investment gains		323	362
Distributions		(319)	(5,669)
Balance, December 31, 2014		9,999	13,189
New trusts		-	57
Investment gains (losses)		78	(387)
Distributions		(368)	(1,028)
Balance, December 31, 2015	$	9,709	11,831

(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 $1,439,000 and $1,402,000 as of December 31, 2015 and 2014, respectively. Of the allowance amount, $1,054,000 and $1,080,000 as of December 31, 2015 and 2014, respectively, relate to the land rental.

(7) Contributions Receivable

Contributions receivable consist of the following amounts due as of December 31, 2015 and 2014 (in thousands):

		2015	2014
Within one year	$	30,967	36,882
In one to five years		7,150	4,601
Total contributions receivable		38,117	41,483
Less allowance for doubtful accounts		(1,963)	(2,813)
Less present value discount		(182)	(103)
Subtotal		35,972	38,567
Funds held in remainder trusts		11,831	13,189
Contributions receivable, net	$	47,803	51,756

(8) Fixed Assets

Fixed assets consist of the following as of December 31, 2015 and 2014 (in thousands):

	2015	2014
Land	$ 67	67
Leasehold improvements	1,108	1,098
Software	19,853	20,448
Furniture, fixtures, and equipment	16,454	18,374
Total fixed assets	37,482	39,987
Less accumulated depreciation and amortization	(27,309)	(30,396)
Fixed assets, net	$ 10,173	9,591

(9) Temporarily Restricted Net Assets

Net assets were temporarily restricted for the following as of December 31, 2015 and 2014 (in thousands):

	2015	2014
Research	$ 37,490	30,777
Information	5,354	5,228
Advocacy	4,767	6,092
Sponsorship for fundraising activities	3,245	4,133
Future periods (otherwise unrestricted)	32,292	34,715
Total temporarily restricted net assets	$ 83,148	80,945

(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, 2015 and 2014, is to be used as follows (in thousands):

	2015	2014
Research	$ 3,892	4,088
Information	1,999	2,072
Advocacy and public awareness	194	194
Discretion of the Association	7,984	8,007
Total permanently restricted net assets	$ 14,069	14,361

(11) Endowment

The Association's endowment consists of 46 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. A deficiency of $78,000 existed as of December 31, 2015 and no deficiency existed as of December 31, 2014.

Changes in endowment net assets for the years ended December 31, 2015 and 2014, are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
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		(1,967)	(337)	—	(2,304)
Endowment net assets, December 31, 2014		—	18,179	4,362	22,541
Investment return:					
Investment income		1,973	—	—	1,973
Net depreciation		(380)	—	—	(380)
Contributions		—	—	(2)	(2)
Appropriation for expenditure		(1,671)	—	—	(1,671)
Endowment net assets, December 31, 2015	$	(78)	18,179	4,360	22,461

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

(Continued)

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 occupancy are recorded in occupancy expenses. The Association recognized approximately $2,055,000 and $2,044,000, in donated services provided in conjunction with the Association's activities during the years ended December 31, 2015 and 2014, 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 $2,268,000 and $2,171,000 for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, were allocated as follows (in thousands):

	2015	2014
Advocacy and public awareness	$ 9,942	10,594
Management and general	247	358
Fundraising	17,489	18,338
Total joint costs	$ 27,678	29,290

(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, 2015 and 2014, was approximately $1,754,000 and $2,783,000, 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 that protect the Association should total claims exceed a specified limit in a plan year. This limit was approximately $9,971,000 and $10,234,000 in 2015 and 2014, respectively.

The liability as of December 31, 2015 and 2014, was approximately $433,000 and $421,000, respectively, and is included in accounts payable and accrued liabilities in the consolidated balance sheets. Benefit expense under this plan was approximately $6,228,000 and $7,448,000 for the years ended December 31, 2015 and 2014, 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 September 2015 and was subsequently renewed for $10,000,000 in February 2016. The Association expects to renew the line of credit each year. The outstanding balance on the line of credit as of December 31, 2015 and 2014, was $0. Interest and fees for each of the years ended December 31, 2015 and 2014, were approximately $18,000 and $53,000, 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 $5,000,000 as of December 31, 2015.

(17) Lease Commitments

(a) Operating Leases

The Association is obligated under various noncancelable operating lease agreements for facilities expiring at various dates through July 2030. 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 March 2020.

(Continued)

As of December 31, 2015, the future minimum lease payments under operating leases with noncancelable lease terms in excess of one year were (in thousands):

Year ending December 31:		
2016	$	8,054
2017		6,201
2018		5,119
2019		4,741
2020		3,802
2021 and thereafter		35,155
Total minimum lease payments	$	63,072

Rent expense totaled approximately $8,951,000 and $6,804,000 for the years ended December 31, 2015 and 2014, respectively.

(b) Capital Leases

The Association leases computer equipment under capital lease agreements expiring on various dates through 2014. The liability at December 31, 2015 and 2014, was $0 and is included in accounts payable and accrued liabilities on the consolidated balance sheet. Assets under capital lease were approximately $0 and $1,753,000 and accumulated amortization on those assets was approximately $0 and $1,753,000 as of December 31, 2015 and 2014, 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, 2015, the future minimum lease payments due to the Association under these leases were (in thousands):

Year ending December 31:		
2016	$	1,446
2017		1,483
2018		1,551
2019		1,634
2020		1,643
2021 and thereafter		43,177
Total minimum lease receipts	$	50,934

The accumulated difference between the rental income recognized and the straight-line value of the leases was approximately $7,412,000 and $7,204,000 as of December 31, 2015 and 2014, 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 $1,054,000 and $1,080,000 as of December 31, 2015 and 2014, respectively.

(19) Subsequent Events

For the year ended December 31, 2015, the Association has evaluated subsequent events through May 27, 2016, the date the consolidated financial statements were available to be issued, and determined that no items required disclosure.

Schedule 1

AMERICAN DIABETES ASSOCIATION

Consolidating Schedule – Balance Sheet

December 31, 2015

(In thousands of dollars)

Assets		American Diabetes Association	Research Foundation	Property Title Holding Corp	Intercompany Eliminations	Consolidated Association
Cash and cash equivalents	$	24,694	371	—	—	25,065
Investments		51,258	—	12,818	(12,818)	51,258
Intercompany receivables		5,625	45,449	—	(51,074)	—
Accounts receivable, net		3,935	—	6,441	—	10,376
Inventory and supplies, net		2,077	—	—	—	2,077
Prepaid expenses and other assets		4,405	—	—	—	4,405
Contributions receivable, net		43,711	4,092	—	—	47,803
Fixed assets, net		10,173	—	—	—	10,173
Interest in perpetual trusts		9,627	82	—	—	9,709
Total assets	$	155,505	49,994	19,259	(63,892)	160,866
Liabilities and Net Assets						
Accounts payable and accrued liabilities	$	14,607	—	89	—	14,696
Research grants payable		—	13,480	—	—	13,480
Intercompany payables		45,449	—	5,625	(51,074)	—
Deferred revenues		13,577	—	727	—	14,304
Total liabilities		73,633	13,480	6,441	(51,074)	42,480
Unrestricted net assets		21,169	—	—	—	21,169
Temporarily restricted net assets		46,716	36,432	12,818	(12,818)	83,148
Permanently restricted net assets		13,987	82	—	—	14,069
Total net assets		81,872	36,514	12,818	(12,818)	118,386
Total liabilities and net assets	$	155,505	49,994	19,259	(63,892)	160,866

See accompanying independent auditors’ report.

Schedule 2

AMERICAN DIABETES ASSOCIATION

Consolidating Schedule – Statement of Activities

Year ended December 31, 2015

(In thousands of dollars)

	American Diabetes Association	Research Foundation	Property Title Holding Corp	Intercompany Eliminations	Consolidated Association
Revenue:					
Contributions and grants:					
Donations	$ 64,651	2,657	—	—	67,308
Special events, net	47,909	—	—	—	47,909
Bequests	18,679	366	—	—	19,045
Federated and nonfederated organizations	5,812	83	—	—	5,895
Total contributions and grants	137,051	3,106	—	—	140,157
Fees from exchange transactions:					
Subscriptions and periodicals	15,987	—	—	—	15,987
Sale of materials	3,615	—	—	—	3,615
Program service fees	17,185	—	—	—	17,185
Investment income	(277)	(1)	1,671	—	1,393
Miscellaneous revenues	3,949	—	—	—	3,949
Total fees from exchange transactions	40,459	(1)	1,671	—	42,129
Intercompany revenues	3,051	35,657	—	(38,708)	—
Total revenue	180,561	38,762	1,671	(38,708)	182,286
Expenses:					
Program activities	101,207	31,399	—	—	132,606
Management and general	9,566	—	—	—	9,566
Fundraising	41,152	—	—	—	41,152
Intercompany expenses	35,657	1,380	1,671	(38,708)	—
Total expenses	187,582	32,779	1,671	(38,708)	183,324
Change in net assets	(7,021)	5,983	—	—	(1,038)
Net assets, beginning of year	88,893	30,531	12,818	(12,818)	119,424
Other changes in net assets	—	—	—	—	—
Net assets, end of year	$ 81,872	36,514	12,818	(12,818)	118,386

See accompanying independent auditors' report.