KPMG

AMERICAN DIABETES ASSOCIATION

Consolidated Financial Statements
and Consolidating Schedules

December 31, 2017

(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, 2017, 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.

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, 2017, 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' 2016 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated May 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 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, Virginia
May 29, 2018

AMERICAN DIABETES ASSOCIATION

Consolidated Balance Sheet

December 31, 2017
(with comparative information as of December 31, 2016)

(In thousands of dollars)

Assets		2017	2016
Cash and cash equivalents	$	9,472	18,622
Investments (notes 4 and 5)		52,945	51,175
Accounts receivable, net (notes 6 and 18)		10,128	10,375
Inventory and supplies, net		2,296	2,254
Prepaid expenses and other assets		3,377	4,980
Contributions receivable, net (note 7)		31,722	41,945
Fixed assets, net (note 8)		16,095	18,784
Interest in perpetual trusts (note 5)		10,431	9,806
Total assets	$	136,466	157,941
Liabilities and Net Assets			
Accounts payable and accrued liabilities (notes 15 and 17)	$	25,682	29,160
Research grants payable		26,898	18,988
Deferred revenues		10,463	10,995
Total liabilities		63,043	59,143
Net assets (note 11):			
Unrestricted		(12,831)	1,085
Temporarily restricted (note 9)		71,286	83,552
Permanently restricted (note 10)		14,968	14,161
Total net assets		73,423	98,798
Total liabilities and net assets	$	136,466	157,941

See accompanying notes to consolidated financial statements.

AMERICAN DIABETES ASSOCIATION

Consolidated Statement of Activities

Year ended December 31, 2017
(with summarized information for the year ended December 31, 2016)

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	2017 Total	2016 Total
Revenue:					
Contributions and grants:					
Donations	$ 30,343	24,370	—	54,713	67,295
Special events	28,431	2,004	—	30,435	48,986
Less costs of direct benefits to donors	(4,985)	—	—	(4,985)	(8,288)
Bequests	16,523	6,570	182	23,275	14,495
Federated and nonfederated organizations	5,173	114	—	5,287	5,226
Total contributions and grants	75,485	33,058	182	108,725	127,714
Fees from exchange transactions:					
Subscriptions and other income from periodicals	13,259	—	—	13,259	15,344
Sales of materials	2,991	—	—	2,991	3,703
Program service fees	16,980	—	—	16,980	16,716
Investment income (note 4)	4,095	609	625	5,329	3,415
Miscellaneous revenues	2,956	—		2,956	4,170
Total fees from exchange transactions	40,281	609	625	41,515	43,348
Net assets released from restrictions	45,933	(45,933)	—	—	—
Total revenue	161,699	(12,266)	807	150,240	171,062
Expenses (note 13):					
Program activities:					
Research	49,098	—	—	49,098	45,474
Information	48,973	—	—	48,973	51,917
Advocacy and public awareness	31,055	—	—	31,055	40,839
Total program activities	129,126	—	—	129,126	138,230
Supporting services:					
Management and general	10,710	—	—	10,710	11,475
Fundraising	35,779	—	—	35,779	40,945
Total supporting services	46,489	—	—	46,489	52,420
Total expenses	175,615	—	—	175,615	190,650
Change in net assets	(13,916)	(12,266)	807	(25,375)	(19,588)
Net assets, beginning of year	1,085	83,552	14,161	98,798	118,386
Net assets, end of year	$ (12,831)	71,286	14,968	73,423	98,798

See accompanying notes to consolidated financial statements.

AMERICAN DIABETES ASSOCIATION

Consolidated Statement of Functional Expenses

Year ended December 31, 2017
(with summarized information for the year ended December 31, 2016)

(In thousands of dollars)

	Program activities				Supporting services				
	Research	**Information**	**Advocacy and public awareness**	**Total**	**Management and general**	**Fundraising**	**Total**	**2017 Total**	**2016 Total**
Grants	$ 36,557	73	26	36,656	—	—	—	36,656	32,426
Employee costs	3,529	19,961	15,976	39,466	5,966	14,844	20,810	60,276	69,064
Professional fees	1,676	7,100	3,952	12,728	1,349	3,761	5,110	17,838	20,600
Supplies	25	3,306	315	3,646	38	244	282	3,928	3,950
Telecommunications	106	579	472	1,157	155	434	589	1,746	1,960
Postage and shipping	199	1,747	1,338	3,284	195	3,996	4,191	7,475	9,584
Occupancy cost	480	4,966	2,022	7,468	668	1,851	2,519	9,987	12,725
Equipment rental and maintenance	59	496	355	910	91	314	405	1,315	1,436
Printing and publications	1,332	5,817	2,384	9,533	545	5,809	6,354	15,887	19,116
Travel	89	1,041	627	1,757	100	559	659	2,416	4,011
Conferences and meetings	4,441	889	839	6,169	10	116	126	6,295	6,309
Data processing	145	704	215	1,064	1	724	725	1,789	1,936
Depreciation and amortization	246	1,356	1,110	2,712	370	1,028	1,398	4,110	3,003
Miscellaneous	214	938	1,424	2,576	1,222	2,099	3,321	5,897	4,530
Total expenses	$ 49,098	48,973	31,055	129,126	10,710	35,779	46,489	175,615	190,650
Costs of direct benefits to donors								4,985	8,288
Total expenses and costs of direct benefits to donors								$ 180,600	198,938

See accompanying notes to consolidated financial statements.

AMERICAN DIABETES ASSOCIATION

Consolidated Statement of Cash Flows

Year ended December 31, 2017
(with comparative information for the year ended December 31, 2016)

(In thousands of dollars)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	(25,375)	(19,588)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		4,110	3,003
Net unrealized and realized gain on investments		(1,596)	(364)
Loss on disposal of assets		97	81
Provisions for doubtful receivables and obsolete inventory		2,648	943
Adjustments for changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable		285	(8)
Increase in inventory and supplies		(189)	(607)
Decrease (increase) in prepaid expenses and other assets		1,603	(575)
Decrease in contributions receivable		7,684	5,354
(Decrease) increase in accounts payable and accrued liabilities		(3,478)	5,510
Increase in research grants payable		7,910	5,508
Decrease in deferred revenues		(532)	(3,309)
Net cash used in operating activities		(6,833)	(4,052)
Cash flows from investing activities:			
Purchases of investments		(44,338)	(35,153)
Sales or maturities of investments		43,539	35,503
Proceeds from sale of fixed assets		5	12
Purchase of fixed assets		(1,523)	(2,753)
Net cash used in investing activities		(2,317)	(2,391)
Net decrease in cash and cash equivalents		(9,150)	(6,443)
Cash and cash equivalents, beginning of year		18,622	25,065
Cash and cash equivalents, end of year	$	9,472	18,622
Non cash investing activities:			
Fixed assets purchased by landlord	$	—	8,954

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 generally 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 generally exempt from income taxes under Section 501(c)(2) of the Code. These entities are subject to taxation on any net unrelated business income and 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, 2017, 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.

On December 22, 2017, the president signed into law H.R.1, originally known as the Tax Cuts and Jobs Act, which includes several changes relevant to tax exempt organizations, primarily related to unrelated business income, net operating losses, certain new excise taxes, and changes affecting the deductibility of certain expenses. Management is currently in the process of evaluating the new law and the impact it may have on the Association.

(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, 2017 and 2016, 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.

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(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 1.4% to 2.1%. 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.

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The Association's share of split-interest agreements is included in investments, contributions receivable, or interest in perpetual trusts. Assets of approximately $21,742,000 and $23,349,000 are reported on the consolidated balance sheets as of December 31, 2017 and 2016, 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 2017 and 2016 was 2.7%.

Amounts payable to beneficiaries, gift annuities payable, and pooled income fund liabilities of approximately $911,000 and $1,295,000 are reported as accrued liabilities or deferred revenues on the consolidated balance sheets as of December 31, 2017 and 2016, 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, 2016. 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 consolidated financial statements for the year ended December 31, 2016, from which the summarized information was derived.

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(n) Operations

In 2016, the Association adopted the provisions of Financial Accounting Standards Board Accounting Standards Update (ASU) 2015-14, Presentation of Financial Statements – Going Concern. The Association has experienced a decrease in net assets in 2017 and 2016 and the cash used for operations during 2017 and 2016 was $6,833 and $4,052, respectively. The Association has undertaken a variety of steps to reduce the operating deficit and improve revenue. In 2017 the Association completed and implemented a strategic plan and a new operating model. In addition, the Association has developed a strong portfolio of scalable programs and efforts, and has a strong infrastructure to support the next phase of growth at the Association. As required by ASU 2015-14, management has assessed its liquidity requirements for the one year period from the date of issuance of the consolidated financial statements and believes that the Association has sufficient liquidity to support operations.

(4) Investments

Investments as of December 31, 2017 and 2016, consist of the following (in thousands):

		2017	2016
U.S. government securities	$	16,175	15,423
Real estate		12,818	12,818
Fixed-income bonds		7,421	7,895
Fixed-income mutual funds		4,854	4,888
Corporate equities		5,142	4,373
Equity mutual funds		4,315	3,343
Money market funds		2,220	2,435
Total investments	$	52,945	51,175

Investments as of December 31, 2017 and 2016, include gift annuity investments of approximately $2,931,000 and $2,672,000, respectively, and the fair value of gift annuity obligations under those agreements was approximately $911,000 and $1,295,000, 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, 2017 and 2016, includes (in thousands):

		2017	2016
Property rental income, net	$	1,977	1,676
Net realized and unrealized gains		1,596	364
Interest and dividends		1,989	1,610
Investment fees		(233)	(235)
Total investment income, net	$	5,329	3,415

(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, 2017 (in thousands):

		Total	Level 1	Level 2	Level 3
Financial assets:					
Investments:					
Fixed-income bonds	$	7,421	—	7,421	—
U.S. government securities		16,175	—	16,175	—
Fixed-income mutual funds		4,854	4,854	—	—
Equity mutual funds		4,315	4,315	—	—
Money market funds		2,220	2,220	—	—
Corporate equities		5,142	5,142	—	—
Interest in perpetual trusts		10,431	—	—	10,431
Funds held in remainder trusts		8,380	—	—	8,380
Financial liabilities:					
Split-interest obligations	$	911	—	911	—

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, 2016 (in thousands):

		Total	Level 1	Level 2	Level 3
Financial assets:					
Investments:					
Fixed-income bonds	$	7,895	—	7,895	—
U.S. government securities		15,423	—	15,423	—
Fixed-income mutual funds		4,888	4,888	—	—
Equity mutual funds		3,343	3,343	—	—
Money market funds		2,435	2,435	—	—
Corporate equities		4,373	4,373	—	—
Interest in perpetual trusts		9,806	—	—	9,806
Funds held in remainder trusts		10,871	—	—	10,871
Financial liabilities:					
Split-interest obligations	$	1,295	—	1,295	—

(Continued)

Changes in perpetual trusts and funds held in remainder trusts for the years ended December 31, 2017 and 2016, are as follows (in thousands):

		Perpetual trusts	Funds held in remainder trusts
Balance, December 31, 2015	$	9,709	11,831
Investment gains		466	221
Distributions		(369)	(1,181)
Balance, December 31, 2016		9,806	10,871
New trusts		—	501
Investment gains		988	1,093
Distributions		(363)	(4,085)
Balance, December 31, 2017	$	10,431	8,380

(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 $991,000 and $1,372,000 as of December 31, 2017 and 2016, respectively. Of the allowance amount, $696,000 and $1,027,000 as of December 31, 2017 and 2016, respectively, relate to the land rental (note 18).

(7) Contributions Receivable

Contributions receivable consist of the following amounts due as of December 31, 2017 and 2016 (in thousands):

		2017	2016
Within one year	$	23,882	26,459
In one to five years		2,291	6,549
Total contributions receivable		26,173	33,008
Less:			
Allowance for doubtful accounts		(2,753)	(1,798)
Present value discount		(78)	(136)
Subtotal		23,342	31,074
Funds held in remainder trusts		8,380	10,871
Contributions receivable, net	$	31,722	41,945

(8) Fixed Assets

Fixed assets consist of the following as of December 31, 2017 and 2016 (in thousands):

		2017	2016
Land	$	4	67
Leasehold improvements		6,352	6,283
Software		20,728	20,381
Furniture, fixtures, and equipment		19,209	18,573
Total fixed assets		46,293	45,304
Less accumulated depreciation and amortization		(30,198)	(26,520)
Fixed assets, net	$	16,095	18,784

(Continued)

(9) Temporarily Restricted Net Assets

Net assets were temporarily restricted for the following as of December 31, 2017 and 2016 (in thousands):

		2017	2016
Research	$	32,330	39,150
Information		4,242	3,285
Advocacy		2,370	4,554
Sponsorship for fundraising activities		2,529	4,129
Future periods (otherwise unrestricted)		29,815	32,434
Total temporarily restricted net assets	$	71,286	83,552

(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, 2017 and 2016, is to be used as follows (in thousands):

		2017	2016
Research	$	4,287	3,924
Information		2,109	2,017
Advocacy and public awareness		194	193
Discretion of the Association		8,378	8,027
Total permanently restricted net assets	$	14,968	14,161

(11) Endowment

The Association’s endowment consists of 48 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.

(Continued)

Changes in endowment net assets for the years ended December 31, 2017 and 2016, are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, December 31, 2015	$	(78)	18,179	4,360	22,461
Investment return:					
Investment income		1,747	177	—	1,924
Net appreciation		49	—	—	49
Contributions		—	—	(5)	(5)
Appropriation for expenditure		(1,718)	(177)	—	(1,895)
Endowment net assets, December 31, 2016		—	18,179	4,355	22,534
Investment return:					
Investment income		2,052	334	—	2,386
Net appreciation		—	171	—	171
Contributions		—	—	182	182
Appropriation for expenditure		(2,052)	(322)	—	(2,374)
Endowment net assets, December 31, 2017	$	—	18,362	4,537	22,899

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., medical services provided in conjunction with the Association's program activities, primarily camps held for children with diabetes, and corporate communication services. Contributed services for occupancy are recorded in occupancy expenses. The Association recognized approximately $2,696,000 and $2,437,000, in donated services provided in conjunction with the Association's activities during the years ended December 31, 2017 and 2016, 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 $2,638,000 and $2,074,000 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, were allocated as follows (in thousands):

		2017	2016
Advocacy and public awareness	$	5,680	8,543
Management and general		925	827
Fundraising		14,516	16,008
Total joint costs	$	21,121	25,378

(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, 2017 and 2016, was approximately $1,421,000 and $1,529,000, 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 $9,629,000 and $9,060,000 in 2017 and 2016, respectively.

The liability as of December 31, 2017 and 2016, was approximately $572,000 and $542,000, respectively, and is included in accounts payable and accrued liabilities in the consolidated balance sheets. Benefit expense under this plan was approximately $6,057,000 and $7,537,000 for the years ended December 31, 2017 and 2016, 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 2.15% points. The line of credit of $10,000,000 was renewed in September 2015 and was subsequently renewed in July 2017. The Association expects to renew the line of credit each year. The outstanding balance on the line of credit as of December 31, 2017 and 2016, was $0. Interest and fees for each of the years ended December 31, 2017 and 2016, were approximately $38,000 and $47,000, 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 $7,500,000 as of December 31, 2017.

(17) Lease Commitments

The Association is obligated under various noncancelable operating lease agreements for facilities expiring at various dates through July 2030. The Association has received improvement, equipment and other incentives from landlords and 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 2021.

(Continued)

As of December 31, 2017, the future minimum lease payments under operating leases with noncancelable lease terms in excess of one year were (in thousands):

Year ending December 31:		
2018	$	6,701
2019		6,169
2020		4,855
2021		4,512
2022		3,986
2023 and thereafter		28,671
Total minimum lease payments	$	54,894

Rent expense totaled approximately $6,238,000 and $8,926,000 for the years ended December 31, 2017 and 2016, 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, 2017, the future minimum lease payments due to the Association under these leases were (in thousands):

Year ending December 31:		
2018	$	1,551
2019		1,634
2020		1,643
2021		1,240
2022		1,225
2023 and thereafter		40,712
Total minimum lease receipts	$	48,005

The accumulated difference between the rental income recognized and the straight-line value of the leases was approximately $7,775,000 and $7,613,000 as of December 31, 2017 and 2016, 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 $696,000 and $1,027,000 as of December 31, 2017 and 2016, respectively.

(19) Subsequent Events

For the year ended December 31, 2017, the Association has evaluated subsequent events through May 29, 2018, 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, 2017

(In thousands of dollars)

Assets	American Diabetes Association	Research Foundation	Property Title Holding Corp	Intercompany Eliminations	Consolidated Association
Cash and cash equivalents	$ 8,614	858	—	—	9,472
Investments	52,945	—	12,818	(12,818)	52,945
Intercompany receivables	6,445	63,290	—	(69,735)	—
Accounts receivable, net	2,906	—	7,222	—	10,128
Inventory and supplies, net	2,296	—	—	—	2,296
Prepaid expenses and other assets	3,377	—	—	—	3,377
Contributions receivable, net	31,305	417	—	—	31,722
Fixed assets, net	16,095	—	—	—	16,095
Interest in perpetual trusts	10,345	86	—	—	10,431
Total assets	$ 134,328	64,651	20,040	(82,553)	136,466
Liabilities and Net Assets					
Accounts payable and accrued liabilities	$ 25,593	—	89	—	25,682
Research grants payable	—	26,898	—	—	26,898
Intercompany payables	63,290	—	6,445	(69,735)	—
Deferred revenues	9,775	—	688	—	10,463
Total liabilities	98,658	26,898	7,222	(69,735)	63,043
Unrestricted net assets	(18,563)	5,732	—	—	(12,831)
Temporarily restricted net assets	39,351	31,935	12,818	(12,818)	71,286
Permanently restricted net assets	14,882	86	—	—	14,968
Total net assets	35,670	37,753	12,818	(12,818)	73,423
Total liabilities and net assets	$ 134,328	64,651	20,040	(82,553)	136,466

See accompanying independent auditors' report.

Schedule 2

AMERICAN DIABETES ASSOCIATION

Consolidating Schedule – Statement of Activities

Year ended December 31, 2017

(In thousands of dollars)

		American Diabetes Association	Research Foundation	Property Title Holding Corp	Intercompany Eliminations	Consolidated Association
Revenue:						
Contributions and grants:						
Donations	$	52,087	2,626	—	—	54,713
Special events, net		25,450	—	—	—	25,450
Bequests		21,994	1,281	—	—	23,275
Federated and nonfederated organizations		5,195	92	—	—	5,287
Total contributions and grants		104,726	3,999	—	—	108,725
Fees from exchange transactions:						
Subscriptions and periodicals		13,259	—	—	—	13,259
Sale of materials		2,991	—	—	—	2,991
Program service fees		16,980	—	—	—	16,980
Investment income		3,344	7	1,978	—	5,329
Miscellaneous revenues		2,956	—	—	—	2,956
Total fees from exchange transactions		39,530	7	1,978	—	41,515
Intercompany revenues		2,642	31,938	—	(34,580)	—
Total revenue		146,898	35,944	1,978	(34,580)	150,240
Expenses:						
Program activities		91,752	37,374	—	—	129,126
Management and general		10,710	—	—	—	10,710
Fundraising		35,779	—	—	—	35,779
Intercompany expenses		31,938	664	1,978	(34,580)	—
Total expenses		170,179	38,038	1,978	(34,580)	175,615
Change in net assets		(23,281)	(2,094)	—	—	(25,375)
Net assets, beginning of year		58,951	39,847	12,818	(12,818)	98,798
Net assets, end of year	$	35,670	37,753	12,818	(12,818)	73,423

See accompanying independent auditors' report.