American Diabetes Association
Consolidated Financial Statements
As of December 31, 2006
and Report of Independent Auditors

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Directors
American Diabetes Association

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities, functional expenses and cash flows present fairly, in all material respects, the consolidated financial position of the American Diabetes Association, the American Diabetes Association Research Foundation, Inc., the American Diabetes Association Property Title Holding Corporation and Shaping America's Health – Association for Weight Management and Obesity Prevention (consolidated, the Association) at December 31, 2006, and the changes in their net assets and their cash flows for the eighteen month period then ended, in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

June 30, 2007

AMERICAN DIABETES ASSOCIATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of December 31, 2006

(in thousands of dollars)

ASSETS

Cash and cash equivalents	$	13,725
Investments		48,990
Accounts receivable, net		5,271
Inventory and supplies, net		3,757
Prepaid expenses and other assets		3,959
Contributions receivable, net		34,046
Fixed assets, net		10,085
Total assets	$	119,833

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	$	17,080
Line of credit		9,000
Research grants payable		9,781
Deferred revenues		14,102
Total liabilities		49,963
Unrestricted net assets		27,651
Temporarily restricted net assets		36,422
Permanently restricted net assets		5,797
Total net assets		69,870
Total liabilities and net assets	$	119,833

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

AMERICAN DIABETES ASSOCIATION
CONSOLIDATED STATEMENT OF ACTIVITIES

for the eighteen month period ended December 31, 2006

(in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total
Revenues and gains:				
Contributions - direct:				
Donations	$ 96,509	39,823	-	136,332
Special events	70,401	4,432	-	74,833
Less: Costs of direct benefits to donors	(10,605)	-	-	(10,605)
Bequests	23,911	11,510	-	35,421
Contributions indirectly received from federated and nonfederated organizations	12,516	190	-	12,706
Grants from government agencies	375	-	-	375
Total contributions	193,107	55,955	-	249,062
Fees from exchange transactions:				
Subscription & other income from periodicals	39,121	-	-	39,121
Sales of materials	12,094	-	-	12,094
Program service fees	13,226	-	-	13,226
Investment income	6,148	533	131	6,812
Miscellaneous revenues	1,564	-	-	1,564
Total fees from exchange transactions	72,153	533	131	72,817
Net assets released from restrictions	52,178	(52,178)	-	-
Total revenues and gains	317,438	4,310	131	321,879
Expenses:				
Program activities:				
Research	83,329	-	-	83,329
Information	94,144	-	-	94,144
Advocacy and public awareness	77,337	-	-	77,337
Total program activities	254,810	-	-	254,810
Supporting services:				
Management and general	12,047	-	-	12,047
Fundraising	70,807	-	-	70,807
Total supporting services	82,854	-	-	82,854
Total expenses	337,664	-	-	337,664
Change in operating net assets	(20,226)	4,310	131	(15,785)
Net assets, beginning of year	47,877	32,112	5,666	85,655
Net assets, end of year	$ 27,651	36,422	5,797	69,870

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

AMERICAN DIABETES ASSOCIATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

for the eighteen month period ended December 31, 2006

(in thousands of dollars)

	Program Activities				Supporting Services			
	Research	Information	Advocacy and public awareness	Total	Management and general	Fundraising	Total	2006 Total
Grants	$ 67,303	603	130	68,036	-	-	-	68,036
Employee costs	3,627	29,878	29,925	63,430	3,045	25,304	28,349	91,779
Professional fees	2,182	13,023	11,097	26,302	2,452	7,494	9,946	36,248
Supplies	90	4,784	1,140	6,014	138	945	1,083	7,097
Telecommunications	194	1,553	1,603	3,350	147	1,359	1,506	4,856
Postage and shipping	960	7,772	6,197	14,929	277	10,302	10,579	25,508
Occupancy cost	617	6,784	3,200	10,601	1,193	2,637	3,830	14,431
Equipment rental and maintenance	160	1,208	1,203	2,571	159	1,017	1,176	3,747
Printing and publications	3,708	18,082	11,743	33,533	364	15,102	15,466	48,999
Travel	183	1,572	2,059	3,814	186	1,521	1,707	5,521
Conferences and meetings	3,774	2,791	4,494	11,059	344	1,242	1,586	12,645
Data processing	94	1,146	1,039	2,279	176	1,173	1,349	3,628
Depreciation and amortization	57	1,697	1,244	2,998	2,093	566	2,659	5,657
Miscellaneous	380	3,251	2,263	5,894	1,473	2,145	3,618	9,512
Total expenses	$ 83,329	94,144	77,337	254,810	12,047	70,807	82,854	337,664
Costs of direct benefits to donors								10,605
Total expenses and costs of direct benefits to donors								$ 348,269

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

AMERICAN DIABETES ASSOCIATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

for the eighteen month period ended December 31, 2006

(in thousands of dollars)

		2006
Cash flows from operating activities:		
Change in net assets	$	(15,785)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization		5,657
Net unrealized and realized gain loss on investments		(1,859)
Gain on sale or disposal of assets		(9)
Provision for doubtful contributions and accounts receivable		3,385
Adjustments for changes in operating assets and liabilities:		
Decrease in accounts receivable		1,491
Increase in inventory and supplies		(66)
Increase in prepaid expenses and other assets		(792)
Increase in contributions receivable		(7,555)
Increase in accounts payable and accrued liabilities		6,616
Decrease in research grants payable		(3,172)
Increase in deferred revenues		1,879
Net cash used in operating activities		(10,210)
Cash flows from investing activities:		
Purchases of investments		(84,849)
Sales or maturities of investments		91,333
Proceeds from sale of assets		505
Purchase of fixed assets		(4,278)
Net cash provided by investing activities		2,711
Cash flows from financing activities:		
Payments on capital lease agreements		(951)
Net decrease in cash and cash equivalents		(8,450)
Cash and cash equivalents, beginning of year		22,175
Cash and cash equivalents, end of year	$	13,725

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

1. Consolidation and organization

The consolidated financial statements include the American Diabetes Association, the American Diabetes Association Research Foundation, Inc., the American Diabetes Association Property Title Holding Corporation, and Shaping America's Health – Association for Weight Management and Obesity Prevention (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. Shaping America's Health – Association for Weight Management and Obesity Prevention has applied for exemption under Section 501(c)(3) of 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 (consolidated, the Association) have been classified as organizations that are not private foundations under Section 509(a) of the Code.

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. The principal programs of the Association include:

Research - The research program 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.

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Summary of significant accounting policies

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

Cash and cash equivalents
Cash and cash equivalents are defined as currency on hand, demand deposits with banks or financial institutions, 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. Cash and cash equivalents are carried at cost, which approximates fair value.

Investments
Investments primarily consist of the following: contributed commercial real estate, certificates of deposit with original maturities of more than three months, corporate securities, corporate bonds, mutual funds, money market funds and U.S. Government securities. The real estate investment is reported at the appraised value at the time of the donation. Investments in marketable securities and all debt securities are recorded at fair value, which is based on quoted market prices or dealer quotes. Gains and losses arising from the sale, maturity, or other disposition of investments are accounted for on a specific identification basis calculated as of the trade date. Unrealized and realized gains and losses are reported as investment income on the statement of activities. Investment income is reported net of fees as unrestricted revenue unless stipulated for a specific purpose by a donor.

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

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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 and are depreciated on a straight-line basis over the following useful lives:

Buildings	40 years
Building improvements	10 years
Furniture, fixtures and equipment	5 years
Software	5-7 years

Donated assets are recorded at fair market value on the date of receipt. 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.

Net assets

Resources 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 of these assets permit the Association to use the income earned on the related investment for general or specific purposes.

Temporarily restricted - Net assets subject to donor-imposed stipulations that may or 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.

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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 of the restriction is accomplished, 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 of contributions are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The present value is calculated based on an estimated risk free rate of return at the time of the contribution, ranging from 3.0% to 5.4%.

Fees from exchange transactions are recognized as earned from reciprocal transfers of goods and services. Revenue received for a subscription plus membership is allocated between membership and subscription revenue based on the fair value of the subscription benefit. Subscription revenue is recorded as deferred revenue upon receipt and is 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 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, a gift annuity fund and a pooled income fund.

The Association's share of split-interest agreements is included in either investments or contributions receivable. Assets of $13,219,000 are reported on the statement of financial position as of December 31, 2006, and are valued at fair-

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value or at the present value of the estimated future receipts from the trusts discounted. Where applicable, estimated future payments are discounted at a risk-free rate of return based on the expected term of the split-interest agreements at the time the agreements are created, ranging from 4.0% to 7.6%. The rates approximate the rate of return at the time of the gift on U.S. government securities of similar duration commensurate with the risk that management associates with the ultimate collection of the gift. The change in value of the contributions based on present value calculations was $61,000 for the eighteen months ended December 31, 2006.

Amounts payable to beneficiaries, gift annuities payable, and pooled income fund liabilities of $2,224,000 are reported as accrued liabilities and deferred revenue on the consolidated statement of financial position as of December 31, 2006.

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 funded 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 accompanying consolidated statement of financial position.

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Concentrations of credit risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist of deposits in banks and investments, including collateralized sweep repurchase agreements, in excess of the Federal Deposit Insurance Corporation, Securities Investor Protection Corporation and other privately insured limits. As of December 31, 2006, approximately $48,349,000 was held at such institutions. The Association has not experienced any credit losses on these financial instruments in past years.

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

Management estimates and uncertainties

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates include the value of land donated in 1999. The land is recorded at the appraised value at the time of the gift. Certain tenant leases contain escalation clauses, and rental income is recognized on a straight-line basis over the lease term. Therefore, rental income is recognized in excess of the cash payments received in the initial years of the lease, resulting in the recognition of deferred rent, which is reported as accounts receivable on the statement of financial position. Management believes there is a significant risk that future rent revenue will not be able to be recognized and has estimated a reserve against the deferred rent.

Significant estimates also include valuation of the estimated benefit liability under the Association's self-insured medical plan, including accrued amounts for the post-retirement medical benefit plan.

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Functional allocation of expenses

The costs of providing the various programs and other activities 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 as shown in the consolidated statement of functional expenses.

4. Investments

The types of investments as of December 31, 2006 are summarized as follows (in thousands):

	2006
Mutual and money market funds	$ 17,629
U.S. government securities	984
Certificates of deposit	6,942
Real estate	12,850
Corporate securities	10,340
Corporate bonds	245
Total investments	$ 48,990

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 eighteen months ended December 31, 2006 includes (in thousands):

	2006
Property rental income	$ 1,762
Net realized and unrealized gains	1,859
Interest and dividends	3,191
Total investment income, net	$ 6,812

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5. Gift Annuities

Assets received from donors in exchange for a gift annuity are invested in U.S. government bonds, fixed-income bonds and money market accounts, which are maintained separately from other investments of the Association. As of December 31, 2006, the market value of gift annuity investments was $4,117,000 and the present value of gift annuity obligations was $2,139,000. Gift annuities are reserved at the full gift value adjusted for accrued income less beneficiary payments. Assets are held (reserved) to meet the gift annuity obligations. The excess of gift annuity related assets over gift annuity obligations (net assets) is temporarily restricted.

6. Accounts receivable

Accounts receivable, which relate to fees from exchange transactions, are reported net of an allowance for doubtful accounts of approximately $4,188,000 as of December 31, 2006. The Association's receivables consist of amounts due for program service fees, publications, advertising, land rental and other exchange transactions.

7. Contributions receivable

As of December 31, 2006, donors have unconditionally promised to give contributions due to the Association as follows (in thousands):

	2006
Within one year	$ 29,239
One to five years	5,632
Greater than five years	2,114
Total contributions receivable	36,985
Less: allowance for doubtful accounts	(1,701)
Less: present value discount	(1,238)
Contributions receivable, net	$ 34,046

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8. Fixed assets

Fixed assets consisted of the following as of December 31, 2006 (in thousands):

	2006
Land	$ 67
Buildings and improvements	1,272
Software	14,139
Furniture, fixtures and equipment	14,215
Total fixed assets	29,693
Less: accumulated depreciation and amortization	(19,608)
Fixed assets, net	$ 10,085

9. Temporarily restricted net assets

Net assets were temporarily restricted for the following as of December 31, 2006 (in thousands):

	2006
Research	$ 2,032
Information	7,936
Advocacy	3,496
Sponsorship for fundraising activities	1,176
Time restricted for operations	21,782
Total temporarily restricted net assets	$ 36,422

(Continued)

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 is to be used as follows (in thousands):

	2006
Research activities	$ 1,738
Information activities	754
Advocacy and public awareness	182
Discretion of the Association	3,123
Total permanently restricted net assets	$ 5,797

11. Contributed services

The Association recognizes as contributions and as professional fees expense the fair value of services donated by certain 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 camp. The fair value of these services was estimated based on the number of hours worked valued at the estimated hourly rates of the professionals. The Association recognized $474,000 of contributed services related to the research review process during the eighteen months ended December 31, 2006. The Association also recognized $3,332,000, in medical services provided in conjunction with the Association's program activities during the eighteen months ended December 31, 2006. 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. Total non-cash contributions received, including contributed services and supplies, were approximately $7,551,000 for the eighteen month period ended December 31, 2006.

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12. Allocation of joint costs

The Association conducts activities to distribute information related to diabetes and to appeal for funds. The joint costs incurred through these activities for the eighteen months ended December 31, 2006, were allocated as follows (in thousands):

	2006
Advocacy and public awareness	$ 24,865
Management and general	2,312
Fundraising	35,576
Total joint costs	$ 62,753

13. Pension plan

The Association has a defined contribution pension plan (the Plan) which covers most salaried employees who have reached the age of 21 and completed one year of service. Pension expense for the eighteen months ended December 31, 2006, was approximately $2,750,000.

14. 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 $4,750,000 in a plan year as of December 31, 2006.

The liability as of December 31, 2006 was $830,000 and is included in accounts payable and accrued liabilities in the accompanying statement of financial position. Benefit expense under this plan was approximately $6,400,000 for the eighteen months ended December 31, 2006. The benefit expense includes claims paid and changes to the reserve for future claims.

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15. Postretirement Medical Benefits

The Association also has a benefit plan offering postretirement medical benefits to qualifying employees. In June 2005, the Association decided to curtail the plan effective January 1, 2006. The accrued benefit liability is reported as accounts payable and accrued liabilities on the accompanying statement of financial position.

The accumulated postretirement benefit obligation as of December 31, 2006 was as follows:

		2006
Benefit obligation at beginning of year	$	152,000
Service costs		11,000
Interest costs		-
Actuarial (gain)/losses, including assumption changes		(116,000)
Benefits paid		3,000
Benefit obligation at end of year	$	50,000

The plan assets as of December 31, 2006 were:

		2006
Fair value of plan assets at beginning of year	$	-
Employer contributions		(3,000)
Benefits paid		3,000
Fair value of plan assets at end of year	$	-

The liability as of December 31, 2006 is calculated as follows:

	2006
Accumulated postretirement benefit obligation	$ (50,000)
Unrecognized actuarial (gain)/loss	(116,000)
Unrecognized prior service cost	-
Unrecognized transition obligation	-
Accrued postretirement benefit liability	$ (166,000)

The components of the net periodic benefit cost as of December 31, 2006 were:

		2006
Service cost	$	-
Interest cost		11,000
Amortization of prior service cost		-
Net periodic benefit cost	$	11,000

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Significant assumptions as of December 31, 2006 include:

	2006	
Discount rate:	5.25%	5.25%
Return on plan assets:	N/A	N/A
Healthcare cost trend rate:	Medical	Dental
2007-2008	10%	5%
2009-2010	8%	5%
2011-2012	6%	5%
2013 and thereafter	5%	5%

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid as of December 31, 2006:

Year ending December 31,	
2007	$ 11,000
2008	11,000
2009	14,000
2010	15,000
2011	6,000
Years 2012-2016	-

The health care trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rate by one percentage point would have the following effects as of and for the years ended December 31:

	2006
Increase the accumulated postretirement benefit obligation	$ 2,000
Increase the aggregate of the service and interest cost components of the net periodic postretirement benefit expense	-

(Continued)

Decreasing the assumed health care cost trend rate by one percentage point would have the following effects as of and for the years ended December 31:

	2006
Decrease the accumulated postretirement benefit obligation	$ (2,000)
Decrease the aggregate of the service and interest cost components of the net periodic postretirement benefit expense	-

16. Other employee benefit plans

The Association has deferred compensation and life insurance agreements with certain current and former executives and certain highly compensated employees. As of December 31, 2006, $829,000 was included in accounts payable and accrued liabilities in the accompanying statements of financial position. Under these agreements, amounts are payable upon the earlier of their retirement or termination.

17. Line of credit

In fiscal year 2004, the Association obtained a secured line of credit with a bank at interest rates calculated as a factor of the London Interbank Offered Rate (LIBOR). The line of credit ($10,000,000) was obtained for operating purposes and is subject to review and approval by the bank in August 2007. As of December 31, 2006, $9 million was outstanding on the line of credit. Interest and fees for the eighteen months ended December 31, 2006, were approximately $91,000.

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 certain debt service coverage ratio and a minimum of unrestricted, unencumbered marketable securities, cash and cash equivalents of not less than $25,000,000.

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18. Lease commitments

Operating leases
The Association is obligated under various noncancelable operating lease agreements for office facilities expiring at various dates between February 2007 and June 2015. The terms of the main office facility lease 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 January 2012.

As of December 31, 2006, the future minimum lease payments under operating leases with initial or remaining noncancelable lease terms in excess of one year were (in thousands):

Year ending December 31,		
2007	$	7,037
2008		6,413
2009		5,374
2010		4,481
2011 and thereafter		19,221
Total minimum lease payments	$	42,526

Rent expense totaled approximately $12,928,000 for the eighteen months ended December 31, 2006.

Capital leases
The Association leases telecommunications equipment under capital lease agreements expiring on various dates through 2009. Assets and interest expense under these agreements as of and for the eighteen months ended 2006 are as follows:

		2006
New assets acquired	$	77,000
Total assets under capital lease		3,723,000
Interest expense		96,000

(Continued)

As of December 31, 2006, the future minimum lease payments under capital leases were (in thousands):

Year ending December 31,	
2007	$ 395
2008	387
2009	302
Total minimum lease payments	1,084
Less: Amount representing interest	(120)
Present value of lease obligation	$ 964

19. 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, 2006, the future minimum lease payments due to the Association under these leases were (in thousands):

Eighteen months ending December 31,	
2007	$ 1,214
2008	1,252
2009	1,298
2010	1,306
2011 and thereafter	57,831
Total minimum lease receipts	$ 62,901

(Continued)

Tenant leases contain escalation clauses throughout the terms of the leases, and rental income is recognized on a straight-line basis over the lease term. Therefore, rental income is recognized in excess of the cash payments received in the initial years of the lease, resulting in the recognition of deferred rent. The deferred rent is reduced over the terms of the leases as cash payments received exceed rental income recognized. The accumulated difference between the rental income recognized and the straight-line value of the leases was approximately $4,996,000 as of December 31, 2006. Due to market conditions, management believes a significant risk exists that future rent revenue will not be recognized, and therefore, has recorded an allowance against the deferred rent in the amount of $2,984,000 for the eighteen months ended December 31, 2006.