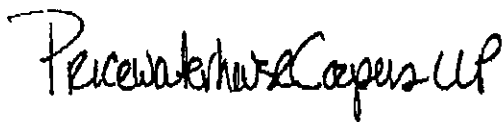


**American Diabetes Association  
Research Foundation, Inc  
Financial Statements  
As of December 31, 2006  
and Report of Independent Auditors**

Report of Independent Auditors

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

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



June 30, 2007

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

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**ASSETS**

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

**LIABILITIES AND NET ASSETS**

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

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

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

STATEMENT OF ACTIVITIES

for the eighteen month period ended December 31, 2006

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

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

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

for the eighteen month period ended December 31, 2006

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

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

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

STATEMENT OF CASH FLOWS

for the eighteen month period ended December 31, 2006

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

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

AMERICAN DIABETES ASSOCIATION RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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1. **Organization**

The American Diabetes Association (the Association) is a not-for-profit voluntary health agency that works to prevent and cure diabetes and to improve the lives of all people affected by diabetes. In October 1994, the Association's Board of Directors established the American Diabetes Association Research Foundation, Inc. (the Foundation), as a subsidiary of the Association. The objective of the Foundation is to secure major gifts and grants to fund diabetes-related research leading to:

- The prevention and cure of diabetes
- The prevention and cure of the complications of diabetes
- New and improved therapies for individuals affected by diabetes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and charitable contributions to the Foundation qualify for charitable tax deductions as described in the Code. The Foundation has been classified as an organization that is not a private foundation under Section 509(a) of the Code.

2. **Summary of significant accounting policies**

**Basis of accounting**

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

**Cash and cash equivalents**

Cash and cash equivalents are defined as currency on hand, demand deposits with banks or financial institutions and financial instruments with original maturities of less than three months. Cash and cash equivalents are carried at cost, which approximates fair value.

*Continued*

