



American Diabetes Association

Consolidated Financial Statements and
Supplementary Information
Year Ended December 31, 2022

American Diabetes Association

Consolidated Financial Statements and Supplementary Information
Year Ended December 31, 2022

American Diabetes Association

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Independent Auditor's Report

Board of Directors
American Diabetes Association
Arlington, Virginia

Opinion

We have audited the consolidated financial statements of American Diabetes Association, which comprise the consolidated statement of financial position as of December 31, 2022, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of American Diabetes Association as of December 31, 2022, the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of American Diabetes Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, American Diabetes Association has changed its method of accounting for leases for the year ended December 31, 2022 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about American Diabetes Association's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 American Diabetes Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about American Diabetes Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Report on Summarized Comparative Information

We have previously audited the American Diabetes Association's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 27, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

BDO USA, LLP

McLean, VA
May 26, 2023

Consolidated Financial Statements

American Diabetes Association

Consolidated Statement of Financial Position December 31, 2022 (With Summarized Comparative Totals for 2021)

(in thousands)

<i>December 31,</i>	2022	2021
Assets		
Cash and cash equivalents	\$ 61,074	\$ 40,517
Investments	44,330	49,367
Restricted investment in real estate	12,818	12,818
Accounts receivable, net	8,779	8,924
Inventory and supplies, net	337	296
Prepaid expenses and other assets	3,147	2,248
Contributions receivable, net	52,565	54,877
Right-of-use assets- operating leases	15,944	-
Property and equipment, net	4,240	5,587
Interest in perpetual trusts	11,105	12,517
Total assets	\$ 214,339	\$ 187,151
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 8,197	\$ 18,438
Research grants payable	15,769	3,903
Deferred revenue	6,204	5,836
Lease liabilities- operating leases	27,149	-
Refundable advances	-	2,233
Total liabilities	57,319	30,410
Commitments and contingencies		
Net assets		
Without donor restrictions	72,034	58,559
With donor restrictions	84,986	98,182
Total net assets	157,020	156,741
Total liabilities and net assets	\$ 214,339	\$ 187,151

See accompanying notes to consolidated financial statements.

American Diabetes Association

Consolidated Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2022 (With Summarized Comparative Totals for 2021)

(in thousands)

<i>December 31,</i>	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total (Summarized)
Revenue:				
Contributions and grants:				
Contributions of cash and other financial assets	\$ 22,513	\$ 28,815	\$ 51,328	\$ 68,979
Contributions of non-financial assets	3,930	162	4,092	967
Special events	9,330	967	10,297	8,391
Less: costs of direct benefits to donors	(1,516)	-	(1,516)	(589)
Bequests	24,652	4,971	29,623	26,770
Federated and nonfederated organizations	1,969	135	2,104	2,443
Total contributions and grants	60,878	35,050	95,928	106,961
Fees from exchange transactions:				
Subscriptions and other income from periodicals	7,491	-	7,491	6,905
Sales of materials	538	-	538	921
Program service fees	12,354	-	12,354	9,615
Other revenue	2,534	-	2,534	2,808
Total fees from exchange transactions	22,917	-	22,917	20,249
Investment return, net	(2,664)	(2,642)	(5,306)	4,610
Payroll Protection Program funding forgiveness	-	-	-	10,322
Net assets released from donor restrictions	45,604	(45,604)	-	-
Total revenue	126,735	(13,196)	113,539	142,142
Expenses:				
Program activities:				
Research	31,681	-	31,681	21,833
Information	41,192	-	41,192	32,437
Advocacy and public awareness	14,367	-	14,367	13,129
Total program activities	87,240	-	87,240	67,399
Supporting services:				
Management and general	7,457	-	7,457	6,253
Fundraising	18,563	-	18,563	17,895
Total supporting services	26,020	-	26,020	24,148
Total expenses	113,260	-	113,260	91,547
Change in net assets	13,475	(13,196)	279	50,595
Net assets, beginning of year	58,559	98,182	156,741	106,146
Net assets, end of year	\$ 72,034	\$ 84,986	\$ 157,020	\$ 156,741

See accompanying notes to consolidated financial statements.

American Diabetes Association

Consolidated Statement of Functional Expenses

For the Year Ended December 31, 2022 (With Summarized Comparative Totals for 2021)

(in thousands)

<i>Year ended December 31,</i>	Program activities				Supporting services			2022 Total	2021 Total
	Research	Information	Advocacy and public awareness	Total	Management and general	Fundraising	Total		
Employee costs	\$ 2,800	\$ 13,177	\$ 7,304	\$ 23,281	\$ 4,709	\$ 7,649	\$ 12,358	\$ 35,639	\$ 30,224
Professional fees	1,091	14,168	3,488	18,747	1,294	3,105	4,399	23,146	18,794
Grants	21,192	924	4	22,120	-	-	-	22,120	17,534
Printing and publications	789	2,966	965	4,720	33	4,109	4,142	8,862	8,301
Conferences and meetings	5,088	873	80	6,041	5	58	63	6,104	2,134
Occupancy cost	272	2,646	749	3,667	440	784	1,224	4,891	4,327
Supplies	13	2,317	200	2,530	41	63	104	2,634	318
Miscellaneous	64	652	447	1,163	466	836	1,302	2,465	2,599
Depreciation and amortization	177	797	465	1,439	288	487	775	2,214	3,000
Postage and shipping	57	440	342	839	36	1,136	1,172	2,011	2,300
Data processing	31	1,425	19	1,475	-	71	71	1,546	806
Travel	47	370	142	559	53	100	153	712	100
Equipment rental and maintenance	32	211	92	335	49	94	143	478	688
Telecommunications	28	226	70	324	43	71	114	438	422
	\$ 31,681	\$ 41,192	\$ 14,367	\$ 87,240	\$ 7,457	\$ 18,563	\$ 26,020	\$ 113,260	\$ 91,547

See accompanying notes to consolidated financial statements.

American Diabetes Association

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2022 (with Summarized Comparative Totals for 2021)

(in thousands)

<i>December 31,</i>	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 279	\$ 50,595
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,214	3,000
Net unrealized and realized losses (gains) on investments	8,617	(1,716)
Loss on disposal of property and equipment	5	4
Provisions for doubtful receivables and obsolete inventory	496	961
Restricted contributions in perpetual trusts	-	(72)
Donated securities	(1,440)	(2,766)
Proceeds from donated stocks	1,440	2,766
Non-cash lease expense	1,943	-
(Increase) decrease in:		
Accounts receivable	(169)	5,165
Inventory and supplies	(74)	348
Prepaid expenses and other assets	(899)	(234)
Contributions receivable	2,163	(11,525)
Increase (decrease) in:		
Accounts payable and accrued liabilities	2,151	(2,974)
Research grants payable	11,866	327
Refundable advances	(2,233)	(5,847)
Operating lease liabilities	(3,130)	-
Deferred revenue	368	(746)
Net cash provided by operating activities	23,597	37,286
Cash flows from investing activities:		
Purchases of investments	(53,862)	(116,680)
Sales or maturities of investments	51,694	99,363
Purchase of property and equipment	(872)	(216)
Net cash used in investing activities	(3,040)	(17,533)
Cash flows from financing activities:		
Repayment of bank line-of-credit	-	(10,000)
Restricted contributions in perpetual trusts	-	72
Net cash provided by (used in) financing activities	-	(9,928)
Net increase in cash and cash equivalents	20,557	9,825
Cash and cash equivalents, beginning of year	40,517	30,692
Cash and cash equivalents, end of year	\$ 61,074	\$ 40,517
Supplemental disclosure of cash flow information:		
Operating right-of-use assets obtained in exchange for operating lease liabilities	\$ 19,689	\$ -
Cash paid for interest	\$ -	\$ 192

See accompanying notes to consolidated financial statements.

American Diabetes Association

Notes to the Consolidated Financial Statements

1. Consolidation and Organization

The consolidated financial statements include the American Diabetes Association and the American Diabetes Association Property Title Holding Corporation (PTHC), formed to hold an investment in real estate (collectively referred to as “ADA”). All significant inter-Association transactions have been eliminated in consolidation.

Prior to 2022, the financial statements of the American Diabetes Association included the American Diabetes Association Research Foundation, Inc. (RF). On December 31, 2021, the activity of RF was merged into the American Diabetes Association, and the RF was dissolved. Assets and liabilities of the RF were received by the American Diabetes Association at their book value in a net asset transfer on December 31, 2021 under the carry over basis method of accounting. There were no transactions recorded in the RF in 2022.

The American Diabetes Association is 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. PTHC 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.

ADA 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. ADA has analyzed the tax positions taken and has concluded that as of December 31, 2022, 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. ADA is open to examination by taxing authorities for the years ended December 31, 2019 and forward.

2. Program Activities

ADA 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 ADA are as follows:

Research - ADA 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 - ADA conducts programs that provide diabetes information to individuals with diabetes, their families, and their healthcare providers.

Advocacy and public awareness - ADA 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.

American Diabetes Association

Notes to the Consolidated Financial Statements

3. Summary of Significant Accounting Policies

Basis of Accounting

The consolidated financial statements of ADA have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net assets

The net assets and revenues, gains, and losses of ADA are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of ADA are classified and reported into the two categories, net assets without donor restrictions and net assets with donor restrictions, as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations. These net assets generally result from providing services and receiving contributions without donor restrictions, restricted gifts whose donor-imposed restrictions were met during the fiscal year less expenses incurred in providing services, raising contributions, and performing administrative functions.

Net assets with donor restrictions - Net assets with donor restrictions are subject to stipulations imposed by donors. These net assets generally result from contributions and other inflows of assets, the use of which is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of ADA pursuant to those stipulations. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Generally, the donors of these assets permit ADA to use the income earned on related investments for operations or specific purposes.

When a donor restriction expires as a result of a stipulated time restriction ending or purpose restriction being accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

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. ADA has classified any cash or money market accounts held by external investment managers as investments as these funds are intended to be part of ADA's long-term investment strategy.

Investments

Investments in marketable equity securities and all debt securities are recorded at fair value, which is based on quoted market prices or dealer quotes. Alternative investments may include absolute return funds and private capital funds for which there may be no ready market to determine fair value. For these investments, ADA has concluded that either the net asset values or the ownership percentage of the fund's net assets approximate the fair value of the investments. These estimated values do not necessarily represent the amounts that will ultimately be realized upon the disposition

American Diabetes Association

Notes to the Consolidated Financial Statements

of those assets, which may be materially higher or lower than values determined if a ready market for the securities existed.

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.

Restricted Investment in Real Estate

The restricted investment in real estate represents a 1998 donor bequest that restricted ADA from selling the property for 25 years. This restricted investment in real estate is included in donor restricted gift amounts (see Note 11). The restricted investment in real estate was reported at the fair value at the time of the donation which established historical cost. The restricted investment in real estate is evaluated for impairment on an annual basis. The property is leased to corporations and derives monthly rental income that is reported in net investment return in the consolidated statement of activities and changes in net assets (see Note 16).

Accounts Receivable

ADA's receivables consist of amounts due for program service fees, publications, advertising, land rental (see Note 16), and other exchange transactions. ADA records an allowance for doubtful accounts on its outstanding receivables based on its collection history, analysis of subsequent collections and specific identification of uncollectible accounts.

Inventory

Inventory comprises primarily publications and is valued at the lower of cost (first-in, first-out method) or market at net realizable value. Annually, the inventory value is reviewed and items with net realizable value less than cost are written off.

Contributions Receivable

Unconditional promises to give, including grants, contributions and bequests that are expected to be collected within one year, are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows using a risk-adjusted rate at the time of the contribution ranging from 0.8% to 4.5%. Accretion of the discount is included in contribution revenue. ADA records an allowance for doubtful accounts on its outstanding receivables based on its collection history, analysis of subsequent collections and specific identification of uncollectible accounts.

Property and Equipment

All property and equipment greater than \$1,000 are capitalized at cost or fair value on the date of receipt and are depreciated on a straight-line basis over the following estimated useful lives:

Leasehold improvements	10 years or life of lease if shorter
Furniture, fixtures, and equipment	5 years
Software	5-7 years

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Notes to the Consolidated Financial Statements

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 with donor restrictions, otherwise such donations are reported as contributions without donor restrictions. Land is not depreciated or amortized.

Split-Interest Agreements

ADA receives certain planned gift donations that benefit not only ADA, 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 ADA in the future. ADA benefits from the following types of split-interest agreements: perpetual trusts, charitable lead and remainder trusts, gift annuities, and a pooled income fund.

ADA's share of split-interest agreements is included in investments, contributions receivable, or interest in perpetual trusts. Assets of approximately \$21,114,000 and \$25,476,000 are reported in the consolidated statement of financial position as of December 31, 2022 and 2021, respectively. When applicable, amounts to be received in future periods are discounted using a rate of LIBOR +1% based on the expected term of the split-interest agreements. The rate for 2022 and 2021 was 6.4% and 1.6%, respectively.

Amounts payable to beneficiaries, gift annuities payable, and pooled income fund liabilities of approximately \$768,000 and \$703,000 are reported as accrued liabilities in the consolidated statement of financial position as of December 31, 2022 and 2021, respectively.

Leases

A contract is determined to contain a lease if the contract conveys the right to control the use of identified property or equipment (an identified asset) for a period of time in exchange for consideration.

GAAP requires recognition of lease liabilities and related right-of-use assets in the consolidated statement of financial position. Lessees are required to recognize a lease liability measured on a discounted basis, which is the lessee's obligation to make lease payments arising from a lease, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Both financing leases and operating leases create right-of-use assets and lease liabilities. ADA does not have any existing leases that are classified as financing leases.

ADA made an accounting policy election to use a risk-free discount rate, commensurate with the term of the lease based on the adoption date of Topic 842 or commencement date of any new leases, to determine the present value of the lease payments for each lease agreement.

Short-term leases with terms of one year or less that do not include an option to purchase the underlying asset are not included in the measurement of lease assets and liabilities, and accordingly, lease expense is recognized over the term of the lease.

American Diabetes Association

Notes to the Consolidated Financial Statements

Revenue Recognition

Revenue Accounted for in Accordance with Contribution Accounting

Contributions and Grants and Refundable Advances

All unconditional contributions and grants, including donations, those related to special events, and those related to federated and nonfederated organizations, are recognized when received and are considered available for the general programs of ADA unless specifically restricted by the donor. ADA reports monetary gifts as support with donor restrictions if they are received with donor stipulations that limit their use or are subject to time restrictions. A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration of the restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restriction.

ADA records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed at the date of gift using risk-adjusted interest rates applicable to the years in which the promised funds are expected to be received. Accretion of the discounts is recognized as contribution revenue.

ADA is the beneficiary under various wills and trust agreements. Contributions received under such arrangements are recorded when a will is declared valid by a probate court and the proceeds are measurable.

Conditional promises to give are those with a measurable performance or other barrier and right of return. ADA recognizes conditional promises to give when the conditions stipulated by the donor are substantially met. A conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote.

As of December 31, 2022, ADA has no conditional gifts. As of December 31, 2021, ADA had two conditional gifts totaling \$2.23 million. These amounts are classified as refundable advances in the accompanying consolidated statement of financial position and will be recognized as revenue as the projects progress and conditions related to performance are met, generally as expenses are incurred.

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Notes to the Consolidated Financial Statements

Contributions of Non-financial Assets

ADA received contributions of non-financial assets during the year ended December 31, 2022 and 2021, as follows (in thousands):

<i>(in thousands)</i>	2022	2021	Utilization in Programs / Activities	Valuation Techniques and Inputs
Supplies	\$ 1,629	\$	- Utilized within in public health information	Medical supplies are valued at estimated fair value based on current value for similar supplies that are purchased or on retail values if none are purchased.
Professional services	1,471		- Utilized within public health information and research	Contributed services from medical and scientific professionals are valued at the estimated fair values based on weighted average salary data across all disciplines and regions of the country. Contributed services from other professionals are valued at estimated fair value based on current rates for similar provided services.
Database and software	505	505	Utilized primarily within public health and professional information and fundraising	Valued at estimated fair value based on the cost of similar software products.
Vehicles	487	462	Monetized for use throughout all programs and activities.	All vehicles are sold and valued according to the actual cash proceeds on their disposition.
	\$ 4,092	\$ 967		

ADA recognizes contributions of non-financial assets at their estimated fair value at date of donation. ADA recognizes contributions of services received 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.

It is ADA's policy to monetize vehicles immediately upon receipt at auction or for salvage unless the vehicle is restricted for use in a specific program by the donor. No vehicles received during the period were restricted for use. All vehicles were sold and valued according to the actual cash proceeds on disposition.

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Notes to the Consolidated Financial Statements

In addition, ADA receives services from a large number of volunteers who give significant amounts of their time to ADA's programs, fundraising campaigns, and management. No amounts have been reflected for these types of contributed services, as they do not meet the criteria for recognition.

Revenue Accounted for as Contracts with Customers

Revenue is recognized when ADA satisfies a performance obligation by transferring a promised good to or performing a service for, a customer. The amount of revenue recognized reflects the consideration ADA expects to receive in exchange for satisfying distinct performance obligations. If a performance obligation does not meet the criteria to be considered distinct, ADA combines it with other performance obligations until a distinct bundle of goods or services exists. Fees or amounts received in advance of satisfying contractual performance obligations are reflected as deferred revenue in the consolidated statements of financial position. Revenue is recognized either over time or at the point in time that contractual obligations are met.

Specifically, for the various types of contracts with customers, ADA recognizes revenue as follows:

Fees from Exchange Transactions and Deferred Revenue

ADA records revenue from exchange transactions as increases in net assets without donor restrictions to the extent that the earnings process is complete. Resources received in exchange transactions are recognized as deferred revenue to the extent the earnings process has not yet been completed. These transactions include the following:

Subscriptions and other income from periodicals include member dues and fees, publication and journal subscriptions and advertising revenue. Member dues and fees and publication and journal subscriptions are recognized ratably over the term which is generally one year. Advertising revenue is recognized at a point in time when the advertisement is published.

Sales of materials is revenue from the sale of professional and consumer books and other publications and is recognized at a point in time when shipped from warehouses maintained by ADA vendors.

Program service fees results from registration fees paid for professional events and youth and family activities and from booth and other space rentals at our professional events. Revenue for such activities is recognized at a point in time when the related event occurs.

Other revenue relates primarily to royalties, translation rights and permissions. Such revenue is earned based on the performance obligations. Under fixed fee arrangements, revenue is earned ratably over the period of the agreement for allowing the third-party organizations to use ADA's intellectual property. Under variable agreements, revenue is recognized in the period in which the sale of goods utilizing ADA's intellectual property are reported.

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Notes to the Consolidated Financial Statements

Research Program

Research grants awarded by ADA generally extend over a period of one to five years, subject to renewal on an annual basis. These are considered to be unconditional and the liability and related expenses are recorded when the recipients are notified of their annual award amount. The liability is recorded as research grants payable in the consolidated statement of financial position.

Management Estimates and Uncertainties

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

Functional Allocation of Expenses

Expenses have been reported on a functional basis in the consolidated statement of activities and changes in net assets. Expenses, which include some occupancy costs related to camps that are specifically associated with a programmatic activity or supporting service are allocated to that activity. Employee costs are allocated based on employee time attributed to each programmatic activity or supporting service. Overhead costs, which include office occupancy and other costs are allocated based on a weighted average of employee costs attributed to each programmatic activity or supporting service.

Joint Cost Activity

Costs associated with the development and distribution of mail pieces that include a call to action along with fundraising component, as described further in Note 12, are allocated based on the proportion of space used for each purpose to each programmatic activity or supporting services.

Concentrations of credit risk

ADA maintains its cash balance in bank deposit accounts, which, at times, may exceed Federal Deposit Insurance Corporation limits up to \$250,000. ADA has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on cash.

Credit risk with respect to account and contributions receivable is mitigated by ADA through the creation of allowances for uncollectible receivables and the discounting of long-term contributions to present value. ADA also believe the credit risk is limited due to the diversity of its donor and customer base and the size of the amount owed.

Summarized Financial Information

The consolidated statements of financial position, of activities and changes in net assets, and of functional expenses include certain summarized comparative information for the year ended December 31, 2021. Such information does not include sufficient detail to constitute a presentation in accordance with GAAP. Accordingly, such information should be read in conjunction with ADA's consolidated financial statements for the year ended December 31, 2021, from which the summarized information was derived.

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Notes to the Consolidated Financial Statements

Reclassifications

Certain amounts presented in the 2021 consolidated financial statement relating to deferred revenue and refundable advances, have been reclassified to conform to the 2022 consolidated financial statement presentation, with no effect on the change in net assets.

Recently Adopted Authoritative Guidance

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. For leases with a lease term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize a right-of-use asset or lease liability. A lessee making this accounting policy election would recognize lease expense over the term of the lease, generally in a straight-line pattern. This guidance has been subsequently updated by ASUs 2018-01, 2018-10, 2018-11, 2018-20, 2019-01, 2019-10, 2020-05, 2021-05 and 2021-09. This ASU is effective for fiscal years beginning after December 15, 2021.

As part of the transition to the new lease standard, ADA used the modified retrospective approach to measure and recognize leases that existed as of January 1, 2022. ADA elected to apply practical expedients allowing it to 1) not reassess whether any expired or existing contracts previously assessed as not containing leases are, or contain, leases; 2) not reassess the lease classification for any expired or existing leases; and 3) not reassess initial direct costs for any existing leases.

Upon the adoption of Topic 842 on January 1, 2022, ADA recorded initial operating right-of-use assets of \$17.9 million, initial operating lease liabilities of \$30.3 million and a reduction of deferred rent of \$12.4 million related to its existing office leases (see Note 16).

At the adoption of Topic 842, ADA's lessor accounting remained similar (see Note 16). ADA's existing leases continued to be classified as operating leases.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU improves the transparency of contributed nonfinancial assets through enhancements to presentation and disclosures. The ASU requires that a nonprofit present contributed nonfinancial assets as a separate line item in the statement of activities apart from contributions of cash or other financial assets. Information that shows the contributed nonfinancial assets disaggregated by category will be required to be disclosed. In addition, the ASU requires that for each type of contributed nonfinancial asset the following will be disclosed: (a) policy (if any) on liquidating rather than using the contributed nonfinancial assets, (b) qualitative considerations on whether the contributed nonfinancial assets were liquidated or used during the reporting period and, if used, a description of how the asset was employed should be included, (c) any donor imposed restrictions related to contributed nonfinancial assets, (d) valuation methods and inputs utilized to determine a fair value measure at initial recognition, and (e) the principal or most advantageous market utilized to calculate fair value if it is a market in which the organization is restricted by the donor from selling or utilizing the contributed nonfinancial assets. ADA adopted this ASU during the year ended December 31, 2022. Accordingly, the statement of activities presents two categories of contributions: contributions of cash and other financial assets and contributions of nonfinancial assets. Additionally, the notes to the consolidated financial statements include disclosures identifying the types of assets contributed and the valuation methodology used.

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Notes to the Consolidated Financial Statements

Accounting Pronouncements Not Yet Adopted

In June 2016 the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU eliminates the requirement that a credit loss on a financial instrument be "probable" prior to recognition. Instead, a valuation allowance will be recorded to reflect an entity's current estimate of all expected credit losses, based on both historical and forecasted information related to an instrument. This ASU should be adopted using a modified retrospective approach, which applies a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective. A prospective approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date and loans and debt securities acquired with deteriorated credit quality. This guidance has been subsequently updated by ASU 2020-2. The amendments in the ASU are effective for annual reporting periods beginning after December 15, 2022. Early adoption of the ASU is permitted. ADA is currently evaluating the impact of this ASU on its consolidated financial statements.

In March 2020, the FASB issued Accounting Standard Update (ASU) 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. This guidance has been subsequently updated by ASU 2021-01 to address emerging diversity in practice related to certain derivative instruments that undergo a change in the interest rate used for discounting. In December 21, 2022, this ASU was extended again by ASU 2022-06 to defers the sunset date of ASC Topic 848, Reference Rate Reform from December 31, 2022 to December 31, 2024. The effective period is from March 12, 2020 through December 31, 2024. ADA is currently evaluating the impact of this ASU on its consolidated financial statements.

4. Liquidity and Availability

ADA funds its operations through contributions and grants and through fees from exchange transactions. ADA maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Cash required to meet operating needs is invested in short term accounts. ADA's policy is to manage its financial assets and budget to meet its general expenditure needs.

American Diabetes Association

Notes to the Consolidated Financial Statements

The following is a reconciliation of ADA's financial assets as of December 31, 2022 and 2021 to financial assets available to fund ADA's general expenditures for the following year (in thousands). General expenditures include all programmatic and supporting operating expenditures.

<i>December 31,</i>	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	\$ 61,074	\$ 40,517
Investments	44,330	49,367
Accounts receivable, net	8,779	8,924
Contributions receivable, net	52,565	54,877
Interest in perpetual trusts	11,105	12,517
Total financial assets	177,853	166,202
Adjustments for amounts not available for general expenditures within one year:		
Perpetual and term endowments	(19,723)	(22,505)
Accounts receivable due after one year, net	(7,416)	(7,325)
Contributions receivable due after one year, net	(8,071)	(14,392)
Split interest obligations	(768)	(703)
Donor restricted net assets that are not expected to be spent within one year	(11,330)	(12,252)
	\$ 130,545	\$ 109,025

5. Investments

Investments as of December 31 consist of the following (in thousands):

	2022	2021
Fixed-income mutual funds	\$ 18,129	\$ 18,295
Corporate equities	12,221	11,807
Equity mutual funds	8,452	10,310
Alternative investments	3,539	-
Money market funds	1,331	3,363
Certificates of deposit	658	29
U.S. government securities	-	4,354
Fixed-income bonds	-	1,209
Total investments	\$ 44,330	\$ 49,367

Investments as of December 31, 2022 and 2021 include gift annuity investments of approximately \$822,000 and \$897,000, respectively. The fair value of gift annuity obligations under those agreements was approximately \$768,000 and \$703,000, respectively. These amounts are included in accounts payable and accrued liabilities in the accompanying consolidated statements of financial position. Reserves for gift annuities are held in separate investment accounts at a value equal to the original gift plus accrued income less beneficiary payments.

American Diabetes Association

Notes to the Consolidated Financial Statements

Net investment return consists of the following (in thousands):

<i>Years ended December 31,</i>		2022		2021
Property rental income, net (Note 16)	\$	1,773	\$	1,765
Net realized and unrealized (losses) gains		(8,617)		1,722
Interest and dividends		1,748		1,340
Investment fees		(210)		(217)
Total investment return, net	\$	(5,306)	\$	4,610

6. 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 ADA's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by ADA based on the best information available in the circumstances.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the use of observable inputs when available. 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 fair value 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.

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.

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Notes to the Consolidated Financial Statements

The following table presents the fair value hierarchy for ADA's financial assets and liabilities that are measured at fair value on a recurring basis as follows (in thousands):

<i>Description</i>	As of December 31, 2022			
	Total	Level 1	Level 2	Level 3
Financial Assets:				
Investments				
Corporate equities	\$ 12,221	\$ 12,221	\$ -	-
Mutual funds and others:				
Fixed-income mutual funds	18,129	18,129	-	-
Equity mutual funds	8,452	8,452	-	-
Money Market Funds	1,331	1,331	-	-
Total mutual funds and others	27,912	27,912	-	-
Total investments at fair value	40,133	40,133	\$ -	-
Alternative Investments reported at NAV (a)	3,539			
Certificates of deposit	658			
Total investments	\$ 44,330			
Interest in perpetual trusts (b)	\$ 11,105	\$ -	\$ -	\$ 11,105
Funds held in remainder trusts (c) (Note 8)	9,188	-	-	9,188
Total fair value of other assets	\$ 20,293	\$ -	\$ -	\$ 20,293
Financial liabilities:				
Split-interest obligations (d) (Note 3)	\$ 768	\$ -	\$ -	\$ 768
Total fair value of liabilities	\$ 768	\$ -	\$ -	\$ 768

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Notes to the Consolidated Financial Statements

<i>Description</i>	As of December 31, 2021			
	Total	Level 1	Level 2	Level 3
Financial Assets:				
Investments				
Fixed income securities:				
U.S. government securities	\$ 4,354	\$ -	\$ 4,354	\$ -
Fixed income-bonds	1,209	-	1,209	-
	5,563	-	5,563	-
Corporate equities	11,807	11,807	-	-
Mutual funds and others:				
Fixed-income mutual funds	18,295	18,295	-	-
Equity mutual funds	10,310	10,310	-	-
Money market funds	3,363	3,363	-	-
Total mutual funds and others	31,968	31,968	-	-
Total investments at fair value	49,338	\$ 43,775	\$ 5,563	-
Alternative Investments reported at NAV (a)				
Certificates of deposit	-	29		
Total investments	\$ 49,367			
Interest in perpetual trusts (b)	\$ 12,517	\$ -	\$ -	\$ 12,517
Funds held in remainder trusts (c) (Note 8)	12,062	-	-	12,062
Total fair value of other assets	\$ 24,579	\$ -	\$ -	\$ 24,579
Financial liabilities:				
Split-interest obligations (d) (Note 3)	\$ 703	\$ -	\$ -	\$ 703
Total fair value of liabilities	\$ 703	\$ -	\$ -	\$ 703

(a) These investments invest in funds that are measured at NAV. The fair value of these investments has been estimated either by using the NAV per share of the investments or the ownership percentage of the fund's net assets as allowed as a practical expedient under fair value guidance.

(b) ADA's interest in perpetual trusts is carried at the fair value of ADA'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.

(c) 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

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Notes to the Consolidated Financial Statements

expiration. Note 3 includes information about the discount rates used in determining the value of the assets.

- (d) 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.

There were no transfers of assets between Level 1, 2 or 3 classifications for the years ended December 31, 2022 and 2021.

The following table is a roll forward for the consolidated statement of financial position amount for perpetual trusts and funds held in remainder trusts classified by ADA within Level 3 of the fair value hierarchy as follows (in thousands):

	Perpetual trusts		Funds held in remainder trusts	
Balance, December 31, 2020	\$	11,822	\$	11,664
Contributions		72		149
Net investment gain		623		1,544
Distributions		-		(1,295)
Balance, December 31, 2021		12,517		12,062
Purchases/ contributions		-		102
Net investment loss		(1,412)		(2,648)
Distributions		-		(328)
Balance, December 31, 2022	\$	11,105	\$	9,188

ADA's investments that are valued at net asset value or its equivalent including general information related to each category, are as follows (in thousands):

	Fair Value 2022	Fair Value 2021	Unfunded Commitments 2022	Redemption Frequency (if eligible)	Redemption Notice Period
Alternative investments	\$ 3,539	\$ -	\$ -	Monthly/quarterly /annual	45-90 days
	\$ 3,539	\$ -	\$ -		

7. Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts of approximately \$760,000 and \$817,000 as of December 31, 2022 and 2021, respectively. Of the allowance amount, \$655,000 and \$669,000 as of December 31, 2022 and 2021, respectively, relates to the land rental (see Note 16).

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Notes to the Consolidated Financial Statements

8. Contributions Receivable

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

	2022	2021
Within one year	\$ 36,210	\$ 29,526
One to five years	8,285	14,641
More than five years	85	-
	44,580	44,167
Less:		
Allowance for doubtful accounts	(904)	(1,103)
Present value discount	(299)	(249)
Subtotal	43,377	42,815
Funds held in remainder trusts	9,188	12,062
Contributions receivable, net	\$ 52,565	\$ 54,877

9. Property and Equipment

Property and equipment consist of the following as of December 31, (in thousands):

	2022	2021
Land	\$ 4	\$ 4
Leasehold improvements	5,827	5,843
Software	10,428	10,044
Furniture, fixtures and equipment	10,987	10,617
Total property and equipment	27,246	26,508
Less: accumulated depreciation and amortization	(23,006)	(20,921)
Property and equipment, net	\$ 4,240	\$ 5,587

Depreciation and amortization expense on property and equipment totaled approximately \$2,214,000 and \$3,000,000 for the years ended December 31, 2022 and 2021, respectively.

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Notes to the Consolidated Financial Statements

10. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31 (in thousands):

<i>As of December 31,</i>	2022	2021
Subject to expenditure for specified purpose and time:		
Research	\$ 1,382	\$ 8,390
Information	33,395	34,956
Advocacy	2,764	4,514
Sponsorship for fundraising activities	917	388
Future periods	13,987	14,612
Total subject to expenditure for specified purpose and time	52,445	62,860
Endowments and perpetual trusts:		
Research	4,017	4,859
Information	6,943	7,867
Advocacy	169	195
General operations of ADA	21,412	22,401
Total endowments and perpetual trusts	32,541	35,322
Total net assets with donor restrictions	\$ 84,986	\$ 98,182

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purpose as specified by donors or for the passage of time. Expenditures of donor-restricted funds are released from the appreciation related to those funds to the extent allowed by the donors. Such net assets were released as follows (in thousands):

<i>Years ended December 31,</i>	2022	2021
Satisfaction of purpose and time restrictions:		
Research	\$ 15,005	\$ 11,033
Information	24,931	27,040
Advocacy	4,193	4,951
Sponsorship for fundraising activities	651	5,678
Future periods	815	95
Total satisfaction of purpose and time restrictions	45,595	48,797
Restricted purpose spending rate distribution:		
Research	1	115
Information	6	464
Advocacy	-	34
General operations of ADA	2	150
Total restricted purpose spending rate distribution	9	763
Total release from donor restrictions	\$ 45,604	\$ 49,560

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Notes to the Consolidated Financial Statements

11. Endowment

ADA's endowment consists of 52 individual donor restricted endowment funds and donor restricted term endowment funds established for a variety of purposes. ADA has no board-designated endowment funds.

ADA has interpreted the Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowed funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ADA classifies donor restricted net assets as (a) the original value of the gifts donated to a permanent endowment and (b) the original value of subsequent gifts to permanent endowments. The associated gains and income on donor-restricted endowed funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by ADA in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, ADA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Endowment and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of ADA
- The investment policies of ADA

ADA has adopted an investment policy for endowment assets that provides continued financial stability for ADA and a revenue stream for spending on ADA's mission. Under this policy, as approved by the board of directors, ADA 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). ADA targets a diversified asset allocation that utilizes fixed income and equity-based investments to achieve its long-term objectives within prudent risk constraints. ADA expects its endowment funds, over time, to provide an average rate of return of approximately 7.5% annually.

ADA's endowment spending policy permits spending at a rate of 4.0% of the endowments' market value over a rolling five-year average. The long-term return of 7.5% and a spending rate of 4.0% are intended to maintain the purchasing power of the endowment.

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. During these periods, ADA does not spend income derived from underwater endowment funds but rather uses that income to replenish the corpus. Deficiencies of this nature are reported in net assets with donor restrictions. As of December 31, 2022, funds with deficiencies have an original gift value of \$9.98 million a current fair value of \$8.62 million and deficiency of \$1.36 million. As of December 31, 2021, there were no underwater funds.

American Diabetes Association

Notes to the Consolidated Financial Statements

ADA's endowment funds are recorded with donor restrictions and consist of the following as of December 31 (in thousands):

<i>As of December 31,</i>	2022	2021
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donors:	\$ 22,801	\$ 22,801
Accumulated investment (losses) gains	(1,365)	4
Total endowment funds	\$ 21,436	\$ 22,805

Changes in endowment net assets for the years ended December 31, 2022 and 2021 are as follows (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2020	\$ -	\$ 23,165	\$ 23,165
Investment return, net			
Investment income, net	1,746	349	2,095
Net appreciation	-	54	54
Appropriation for expenditure	(1,746)	(763)	(2,509)
Endowment net assets, December 31, 2021	-	22,805	22,805
Investment return, net			
Investment income, net	1,773	(48)	1,725
Net depreciation	-	(1,312)	(1,312)
Appropriation for expenditure	(1,773)	(9)	(1,782)
Endowment net assets, December 31, 2022	\$ -	\$ 21,436	\$ 22,436

12. Allocation of Joint Costs

ADA 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, were allocated as follows (in thousands):

<i>Years ended December 31,</i>	2022	2021
Advocacy and public awareness	\$ 2,198	\$ 2,185
Management and general	99	74
Fundraising	8,180	7,208
Total joint costs	\$ 10,477	\$ 9,467

American Diabetes Association

Notes to the Consolidated Financial Statements

13. Pension Plans

ADA has two defined contribution pension plans that cover most salaried employees who have reached the age of 21 and completed one year of service. Pension expense for the years ended December 31, 2022 and 2021 was approximately \$546,000 and \$678,000, respectively.

14. Self-Insured Medical and Dental Benefits

ADA 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 ADA, 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 ADA should total claims exceed a specified limit in a plan year. This limit was approximately \$4,400,000 and \$5,700,000 in 2022 and 2021, respectively.

The liability as of December 31, 2022 and 2021 was approximately \$253,000 and \$231,000, respectively, and is included in accounts payable and accrued liabilities in the consolidated statement of financial position. Benefit expense under this plan was approximately \$3,405,000 and \$3,124,000 for the years ended December 31, 2022 and 2021, respectively. The benefit expense includes claims paid and changes to the reserve for future claims.

15. Bank Line-of- Credit

On November 28, 2018, the PTHC obtained a \$10,000,000 revolving line-of-credit with a bank. The line-of-credit bears interest at the rate of LIBOR plus 2.5% (4.3% as of December 31, 2022), is secured by real property of PTHC and is guaranteed by ADA. The line-of-credit expires, if not renewed, on November 24, 2023. There is no outstanding balance as of December 31, 2022 and 2021. The fees for the years ended December 31, 2022 and 2021 were approximately \$57,000 and \$12,000, respectively.

The line-of-credit is available for working capital and requires that PTHC maintain compliance with certain financial covenants. PTHC was in compliance with these covenants as of December 31, 2022 and 2021.

16. Leases

Disclosures under the new lease standard

ADA has entered into both noncancelable lessor and lessee commitments. ADA determines if a contract contains a lease at the inception of a contract.

All of ADA's leases include fixed rental payments and there are no variable rental payments. ADA has elected the practical expedients to allow the lease and non-lease components not to be separated in the event the contract contains both and to not record leases with an initial term of 12 months or less in the consolidated statement of financial position. ADA leases property and equipment under short-term lease arrangements. These leases relate primarily to program execution and event storage facilities.

American Diabetes Association

Notes to the Consolidated Financial Statements

Leasing Arrangements as a Lessor

ADA holds leases on commercial land that was donated in 1998 through a bequest. As part of the bequest, the donor restricted ADA from selling the land for 25 years from the date of the donation. These leases include options to renew, with varying option terms. The exercise of lease renewals, if available under the lease options, is considered in ADA's assessment of the respective lease term.

As of December 31, 2022, the future minimum lease rental income is as follows (in thousands):

Years ending December 31,

2023	\$	1,726
2024		1,790
2025		1,799
2026		1,363
2027		1,394
Thereafter		34,081
	\$	42,153

The rental income is recognized on a straight-line basis over the term of the leases. The accumulated difference between the rental income recognized and rental payments received recorded as deferred rent receivable, was approximately \$8,062,000 and \$7,984,000 as of December 31, 2022 and 2021, respectively, and is included in accounts receivable in the accompanying consolidated statement of financial position. Due to market conditions, management believes a significant risk exists that a portion of future rent revenue will not be recognized; therefore, an allowance against the deferred rent receivable has been recorded in the amount of \$655,000 and \$669,000 as of December 31, 2022 and 2021, respectively.

Leasing Arrangements as a Lessee

ADA is obligated under various noncancelable operating lease agreements for office and data warehousing facilities expiring at various dates through July 2030. ADA has received improvements, equipment and other incentives from landlords and certain of these agreements contain cost escalations providing for increases in rental rates.

As of December 31, 2022, right-of-use assets and lease liabilities were \$15,944,000 and \$27,149,000, respectively. The weighted-average discount rate used to calculate the present value of future minimum lease payments was 1.51% and the weighted-average lease term is 7.4 years.

American Diabetes Association

Notes to the Consolidated Financial Statements

Aggregate remaining maturities of operating lease liabilities as of December 31, 2022, are as follows:

Years ending December 31,

2023	\$	3,652
2024		3,666
2025		3,740
2026		3,800
2027		3,875
Thereafter		10,039
Total lease payments		28,772
Less: imputed interest		(1,623)
		\$ 27,149

Lease expenses consist of the following for the year ended December 31, 2022 under ASC 842 (in thousands):

<i>Years ended December 31,</i>		2022
Operating lease expense	\$	2,846
Short-term lease expense		1,563
Sublease income		(109)
Net lease expense	\$	4,300

Transitional disclosure

As of December 31, 2021, the future minimum lease payments under operating leases were as follows (in thousands):

Years ending December 31,

2022	\$	4,113
2023		3,645
2024		3,651
2025		3,724
2026		3,799
Thereafter		13,914
		\$ 32,846

American Diabetes Association

Notes to the Consolidated Financial Statements

Lease expenses consist of the following for the year ended December 31, 2021 under ASC 840 (in thousands):

<i>Years ended December 31,</i>		2021
Operating lease expense	\$	3,595
Short-term lease expense		403
Sublease income		(198)
Net lease expense	\$	3,800

Deferred rent totaling \$12.4 million as of December 31, 2021 was included in accounts payable and accrued liabilities in the consolidated statements of financial position.

17. Subsequent Events

ADA has evaluated subsequent events through May 26, 2023 the date the consolidated financial statements were available to be issued. There were no events noted that required adjustment to or disclosure in the consolidated financial statements.

Supplemental Schedules



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Independent Auditor's Report on the Supplemental Schedules

Board of Directors
American Diabetes Association
Arlington, Virginia

Our audit of the consolidated financial statements of the American Diabetes Association included in the preceding section of this report was conducted for the purpose of forming an opinion on those consolidated statements as a whole. The supplemental schedules presented in the following section of this report are presented for purposes of additional analysis and are 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 relation to the consolidated financial statements as a whole.

BDO USA, LLP

McLean, VA
May 26, 2023

American Diabetes Association

Consolidating Schedule of Financial Position

(in thousands)

<i>December 31, 2022</i>	American Diabetes Association	Property Title Holding Corp	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 61,074	\$ -	\$ -	\$ 61,074
Investments	44,330	-	-	44,330
Restricted investment in real estate	-	12,818	-	12,818
Intercompany receivables	6,856	57	(6,913)	-
Accounts receivable, net	1,262	7,517	-	8,779
Inventory and supplies, net	337	-	-	337
Prepaid expenses and other assets	3,147	-	-	3,147
Contributions receivable, net	52,565	-	-	52,565
Right-of-use asset- operating lease	15,944	-	-	15,944
Property and equipment, net	4,240	-	-	4,240
Interest in perpetual trusts	11,105	-	-	11,105
Total assets	\$ 200,860	\$ 20,392	\$ (6,913)	\$ 214,339
Liabilities and Net Assets				
Accounts payable and accrued liabilities	\$ 8,070	\$ 127	\$ -	\$ 8,197
Research grants payable	15,769	-	-	15,769
Intercompany payables	57	6,856	(6,913)	-
Deferred revenue	5,613	591	-	6,204
Lease liability- operating lease	27,149	-	-	27,149
Total liabilities	56,658	7,574	(6,913)	57,319
Net assets:				
Without donor restrictions	72,034	-	-	72,034
With donor restrictions	72,168	12,818	-	84,986
Total net assets	144,202	12,818	-	157,020
Total liabilities and net assets	\$ 200,860	\$ 20,392	\$ (6,913)	\$ 214,339

American Diabetes Association

Consolidating Schedule of Activities and Change in Net Assets

(in thousands)

<i>Year ended December 31, 2022</i>	American Diabetes Association	Property Title Holding Corp	Eliminations	Total
Revenue:				
Contributions and grants:				
Contributions of cash and other financial assets	\$ 51,328	\$ -	\$ -	\$ 51,328
Contributions of non-financial assets	4,092	-	-	4,092
Special events	10,297	-	-	10,297
Less: costs of direct benefits to donors	(1,516)	-	-	(1,516)
Bequests	29,623	-	-	29,623
Federated and nonfederated organizations	2,104	-	-	2,104
Total contributions and grants	95,928	-	-	95,928
Fees from exchange transactions:				
Subscriptions and periodicals	7,491	-	-	7,491
Sale of materials	538	-	-	538
Program service fees	12,354	-	-	12,354
Miscellaneous revenues	2,534	-	-	2,534
Total fees from exchange transactions	22,917	-	-	22,917
Investment return, net	(7,079)	1,773	-	(5,306)
Intercompany revenues	1,773	57	(1,830)	-
Total revenue	113,539	1,830	(1,830)	113,539
Expenses:				
Program activities:				
Research	31,681	-	-	31,681
Information	41,181	11	-	41,192
Advocacy and public awareness	14,356	11	-	14,367
Total program activities	87,218	22	-	87,240
Management and general	7,445	12	-	7,457
Fundraising	18,540	23	-	18,563
Intercompany expenses	57	1,773	(1,830)	-
Total expenses	113,260	1,830	(1,830)	113,260
Change in net assets	279	-	-	279
Net assets, beginning of year	143,923	12,818	-	156,741
Net assets, end of year	\$ 144,202	\$ 12,818	\$ -	\$ 157,020