KPMG

AMERICAN DIABETES ASSOCIATION

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

(with Independent Auditors' Report Thereon)

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Directors
American Diabetes Association:

We have audited the accompanying consolidated balance sheet of the American Diabetes Association (the Association) as of December 31, 2009, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Association's 2008 financial statements and, in our report dated June 19, 2009, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the American Diabetes Association as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

July 7, 2010

AMERICAN DIABETES ASSOCIATION
CONSOLIDATED BALANCE SHEET

December 31, 2009

(with comparative information as of December 31, 2008)

(in thousands of dollars)

	2009	2008
ASSETS		
Cash and cash equivalents	$ 9,895	$ 3,729
Investments	26,046	36,949
Accounts receivable, net	8,360	7,404
Inventory and supplies, net	1,881	3,886
Prepaid expenses and other assets	4,947	5,225
Contributions receivable, net	44,224	45,045
Fixed assets, net	9,770	7,995
Interest in perpetual trusts	3,725	2,945
Total assets	$ 108,848	$ 113,178
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	$ 16,810	$ 18,459
Line of credit	1,320	1,560
Research grants payable	10,464	12,208
Deferred revenues	11,824	13,434
Total liabilities	40,418	45,661
Net assets:		
Unrestricted	16,550	13,186
Temporarily restricted	44,470	47,081
Permanently restricted	7,410	7,250
Total net assets	68,430	67,517
Total liabilities and net assets	$ 108,848	$ 113,178

See accompanying notes to the consolidated financial statements.

AMERICAN DIABETES ASSOCIATION
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended December 31, 2009

(with summarized information for the year ended December 31, 2008)

(in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
Revenues:					
Contributions and grants:					
Donations	$ 46,343	30,873	-	77,216	92,193
Special events	47,962	2,572	-	50,534	54,889
Less: Costs of direct benefits to donors	(7,503)	-	-	(7,503)	(8,224)
Bequests	17,907	8,778	455	27,140	28,568
Federated and nonfederated organizations	8,775	147	-	8,922	9,478
Total contributions and grants	113,484	42,370	455	156,309	176,904
Fees from exchange transactions:					
Subscriptions & other income from periodicals	23,872	-	-	23,872	26,390
Sales of materials	7,005	-	-	7,005	6,652
Program service fees	12,180	-	-	12,180	13,347
Investment income (loss)	4,196	510	(295)	4,411	(2,916)
Miscellaneous revenues	1,627	-	-	1,627	1,615
Total fees from exchange transactions	48,880	510	(295)	49,095	45,088
Net assets released from restrictions	45,491	(45,491)	-	-	-
Total revenues	207,855	(2,611)	160	205,404	221,992
Expenses:					
Program activities:					
Research	43,303	-	-	43,303	54,406
Information	58,354	-	-	58,354	63,838
Advocacy and public awareness	47,036	-	-	47,036	51,917
Total program activities	148,693	-	-	148,693	170,161
Supporting services:					
Management and general	8,326	-	-	8,326	9,867
Fundraising	47,472	-	-	47,472	49,890
Total supporting services	55,798	-	-	55,798	59,757
Total expenses	204,491	-	-	204,491	229,918
Change in net assets	3,364	(2,611)	160	913	(7,926)
Net assets, beginning of year	13,186	47,081	7,250	67,517	75,443
Net assets, end of year	$ 16,550	44,470	7,410	68,430	67,517

See accompanying notes to the consolidated financial statements.

AMERICAN DIABETES ASSOCIATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2009

(with summarized information for the year ended December 31, 2008)

(in thousands of dollars)

	Program Activities				Supporting Services			
	Research	Information	Advocacy and public awareness	Total	Management and general	Fundraising	Total	2009 Total
Grants	$ 33,502	152	-	33,654	-	-	-	33,654
Employee costs	2,387	18,371	20,409	41,167	1,864	17,422	19,286	60,453
Professional fees	1,203	10,057	4,807	16,067	1,573	5,158	6,731	22,798
Supplies	50	2,869	552	3,471	36	435	471	3,942
Telecommunications	113	966	956	2,035	85	732	817	2,852
Postage and shipping	338	4,551	3,702	8,591	393	6,242	6,635	15,226
Occupancy cost	559	5,062	2,417	8,038	720	1,989	2,709	10,747
Equipment rental and maintenance	55	445	441	941	53	356	409	1,350
Printing and publications	1,664	11,027	7,454	20,145	1,732	10,276	12,008	32,153
Travel	58	606	942	1,606	63	732	795	2,401
Conferences and meetings	3,154	1,339	2,234	6,727	65	276	341	7,068
Data processing	57	601	485	1,143	218	1,110	1,328	2,471
Depreciation and amortization	36	1,179	965	2,180	679	714	1,393	3,573
Miscellaneous	127	1,129	1,672	2,928	845	2,030	2,875	5,803
Total expenses	$ 43,303	58,354	47,036	148,693	8,326	47,472	55,798	204,491
Costs of direct benefits to donors								7,503
Total expenses and costs of direct benefits to donors								$ 211,994

See accompanying notes to the consolidated financial statements.

AMERICAN DIABETES ASSOCIATION
CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2009

(with comparative information for the year ended December 31, 2008)

(in thousands of dollars)

	2009	2008
Cash flows from operating activities:		
Change in net assets	$ 913	$ (7,926)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,573	3,998
Net unrealized and realized (gain) loss on investments	(1,989)	6,087
Loss on disposal of assets	14	53
Provisions for doubtful receivables and obsolete inventory	3,697	2,225
Adjustments for changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(788)	1,789
Decrease (increase) in inventory and supplies	643	(780)
Decrease (increase) in prepaid expenses and other assets	278	(115)
Increase in contributions receivable	(1,682)	(3,071)
Decrease in accounts payable and accrued liabilities	(1,199)	(424)
(Decrease) increase in research grants payable	(1,744)	2,530
Decrease in deferred revenues	(1,610)	(742)
Net cash provided by operating activities	106	3,624
Cash flows from investing activities:		
Purchases of investments	(46,666)	(39,703)
Sales or maturities of investments	58,778	34,030
Purchase of fixed assets	(5,362)	(2,730)
Net cash provided by (used in) investing activities	6,750	(8,403)
Cash flows from financing activities:		
Proceeds from borrowing on line of credit	68,460	48,020
Payments on line of credit	(68,700)	(46,460)
Payments on capital lease agreements	(450)	(346)
Net cash (used in) provided by financing activities	(690)	1,214
Net increase (decrease) in cash and cash equivalents	6,166	(3,565)
Cash and cash equivalents, beginning of year	3,729	7,294
Cash and cash equivalents, end of year	$ 9,895	$ 3,729

See accompanying notes to the 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, the American Diabetes Association Research Foundation, Inc. and Shaping America's Health – Association for Weight Management and Obesity Prevention are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and charitable contributions to these organizations qualify for tax deductions as described in the Code. The American Diabetes Association Property Title Holding 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.

On January 1, 2009, the Association adopted the provisions in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, Income Taxes, which requires that a tax position be recognized or derecognized based on a 'more-likely-than-not' threshold. This applies to positions taken or expected to be taken in a tax return. The implementation of this standard had no impact on the financial statements. The Association recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. The Association does not believe its financial statements include (or reflect) any significant uncertain tax positions.

As of May 1, 2009, the Association discontinued the operations of Shaping America's Health Association for Weight Management and Obesity Prevention. Certain of its activities have been continued as programs of the American Diabetes Association.

(continued)

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 program activities of the Association are:

Research - The Association provides financial support to researchers who are seeking knowledge in the following areas:

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

Information - The Association conducts programs that provide diabetes information to individuals with diabetes, their families, and their 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.

3. Summary of significant accounting policies

Basis of accounting

The Association prepares its financial statements on an accrual basis in accordance with U.S. generally accepted accounting principles.

The net assets and revenues, gains and losses of the Association are classified for accounting and reporting purposes in three classes of net assets based on the existence or absence of donor-imposed restrictions. A description of the three classes follows:

(continued)

Permanently restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors permit the Association to use the income earned on related investments for general or specific purposes.

Temporarily restricted - Net assets subject to donor-imposed stipulations that will be met either by actions of the Association and/or the passage of time.

Unrestricted - Net assets that are not subject to donor-imposed stipulations.

Cash and cash equivalents

Cash and cash equivalents are defined as currency on hand, demand deposits with banks or financial institutions, federally insured certificates of deposit with original maturities of less than three months, money market funds of U.S. Government securities and other amounts that have the general characteristics of demand deposits. The Association has classified any cash or money market accounts held by external investment managers as investments as these funds are not readily available for operations.

Investments

Investments in marketable equity securities and all debt securities are recorded at fair value, which is based on quoted market prices or dealer quotes. The real estate investment is reported at the appraised value at the time of the donation and is evaluated for impairment on an annual basis. Unrealized and realized gains and losses are reported as investment income on the consolidated statement of activities. Investments are exposed to certain risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities and the volatility in the capital markets, changes in the value of investment securities could occur in the near term, and those investment values could materially differ from the amounts reported in the accompanying financial statements.

Fair value of financial instruments

As of December 31, 2009 and 2008, the carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximated their fair value, based on the short-term maturities of these instruments. Additional fair value information is presented in note 5.

(continued)

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 or fair value on the date of receipt and are depreciated on a straight-line basis over the following useful lives:

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

If donors stipulate the purpose for which the assets must be used and/or how long the assets must be held, the contributions are recorded as temporarily restricted, otherwise such donations are reported as unrestricted contributions.

Recognition of revenues

Contributions, including unconditional promises to give, are recognized when received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Contributions that are restricted by the donor for a specific time or purpose are reported as temporarily or permanently restricted contributions based on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction 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 to give are reported 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 discount is calculated using a risk adjusted rate at the time of the contribution ranging from 1.6% to 5.3%.

Fees from exchange transactions are recognized as earned from reciprocal transfers of goods and services. Subscription revenue is deferred upon receipt and then recognized over the term of the subscription, which is generally one year, beginning with the mailing of the first issue to the subscriber.

(continued)

Split-interest agreements

The Association receives certain planned gift donations that benefit not only the Association, but also the donor or another beneficiary designated by the donor. These contributions are termed split-interest agreements and are generally gifts to be received by the Association in the future. The Association benefits from the following types of split-interest agreements: perpetual trusts, charitable lead and remainder trusts, gift annuities, and a pooled income fund.

The Association's share of split-interest agreements is included in investments, contributions receivable, or interest in perpetual trusts. Assets of approximately $14,097,000 and $10,969,000 are reported on the balance sheet as of December 31, 2009 and 2008, respectively. When applicable, amounts to be received in future periods are discounted using a risk adjusted rate based on the expected term of the split-interest agreements. The rates range from 2.6% to 7.6%.

Amounts payable to beneficiaries, gift annuities payable, and pooled income fund liabilities of approximately $2,010,000 and $1,753,000 are reported as accrued liabilities or deferred revenues on the consolidated balance sheets as of December 31, 2009 and 2008, respectively.

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 administered 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 consolidated balance sheet.

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

(continued)

insured limits. As of December 31, 2009 and 2008, approximately $6,340,000 and $2,592,000, respectively, was held at such institutions. The Association has not experienced any credit losses on these financial instruments in past years and management does not believe significant risk exists at December 31, 2009.

Management estimates and uncertainties

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Functional allocation of expenses

Expenses have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among program activities and supporting services.

Comparative financial statements

The consolidated statements of activities and functional expenses include certain summarized comparative information for the year ended December 31, 2008. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

(continued)

4. Investments

Investments as of December 31, 2009 and 2008, consist of the following (in thousands):

	2009	2008
Real estate	$ 12,850	$ 12,850
Fixed-income mutual funds	6,064	7,968
Corporate equities	1,144	3,973
Equity mutual funds	843	2,889
Certificates of deposit	1,896	6,072
Money market funds	3,123	2,914
U.S. government securities	126	210
Corporate bonds	-	73
Total investments	$ 26,046	$ 36,949

Investments as of December 31, 2009 and 2008, include gift annuity investments of approximately $2,441,000 and $2,665,000, respectively, and the fair value of gift annuity obligations under those agreements was approximately $1,944,000 and $1,693,000, respectively. Reserves for gift annuities are held in separate investment accounts at a value equal to the original gift plus accrued income less beneficiary payments.

The investment in real estate represents a 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 (loss) for the year ended December 31, 2009 and 2008, includes (in thousands):

	2009	2008
Property rental income	$ 1,622	$ 1,656
Net realized and unrealized gain (loss)	1,989	(6,087)
Interest and dividends	986	1,675
Investment fees	(186)	(160)
Total investment income (loss), net	$ 4,411	$ (2,916)

(continued)

5. Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Assets and liabilities reported at fair value use inputs that are classified in the following hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quotes 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.

The following table presents the Association's fair value hierarchy for financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2009 (in thousands).

	Total	Level 1	Level 2	Level 3
Financial Assets:				
Investments:				
Fixed-income mutual funds	6,064	6,064	-	-
Corporate equities	1,144	1,144	-	-
Equity mutual funds	843	843	-	-
Certificates of deposit	1,896	1,896	-	-
Money market funds	3,123	3,123	-	-
U.S. government securities	126	126	-	-
Interest in perpetual trusts	3,725	-	-	3,725
Financial Liabilities:				
Split interest obligations	2,010	-	2,010	-

The change in the Association's interest in perpetual trusts of approximately $780,000 reflects new trusts, investment returns and distributions.

(continued)

6. Accounts receivable

Accounts receivable are reported net of an allowance for doubtful accounts of approximately $1,766,000 and $2,227,000 as of December 31, 2009 and 2008, respectively. The Association's receivables consist of amounts due for program service fees, publications, advertising, land rental and other exchange transactions.

7. Contributions receivable

Contributions receivable consist of the following amounts due as of December 31, 2009 and 2008 (in thousands):

	2009	2008
Within one year	$ 33,573	$ 35,805
In one to five years	5,446	6,650
In more than five years	424	261
Total contributions receivable	39,443	42,716
Less: allowance for doubtful accounts	(2,635)	(2,440)
Less: present value discount	(292)	(387)
Subtotal	36,516	39,889
Funds held in remainder trusts	7,708	5,156
Contributions receivable, net	$ 44,224	$ 45,045

(continued)

8. Fixed assets

Fixed assets consist of the following as of December 31, 2009 and 2008 (in thousands):

	2009	2008
Land	$ 67	$ 67
Leasehold improvements	1,200	1,154
Software	16,222	14,625
Furniture, fixtures and equipment	17,691	15,298
Total fixed assets	35,180	31,144
Less: accumulated depreciation and amortization	(25,410)	(23,149)
Fixed assets, net	$ 9,770	$ 7,995

9. Temporarily restricted net assets

Net assets were temporarily restricted for the following as of December 31, 2009 and 2008 (in thousands):

	2009	2008
Research	$ 2,781	$ 2,560
Information	3,739	4,395
Advocacy	4,492	6,932
Sponsorship for fundraising activities	2,388	3,898
Time restricted for operations	31,070	29,296
Total temporarily restricted net assets	$ 44,470	$ 47,081

(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 at December 31, 2009 and 2008, is to be used as follows (in thousands):

	2009	2008
Research	$ 2,230	$ 2,236
Information	1,681	1,484
Advocacy and public awareness	182	182
Discretion of the Association	3,317	3,348
Total permanently restricted net assets	$ 7,410	$ 7,250

11. Endowment

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

The net assets associated with these funds are classified and reported based on the existence or absence of donor-imposed restrictions. Accordingly, the historic dollar value of donor-restricted endowment contributions is reported as permanently restricted net assets. The portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets and the term endowment funds are classified as temporarily restricted net assets until appropriated for expenditure.

At times, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the historic dollar value of the fund. Such deficiencies are reported in unrestricted net assets.

(continued)

Changes in endowment net assets for the years ended December 31, 2009 and 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2008	$ -	17,904	2,985	20,889
Investment return:				
Investment income	1,704	38	-	1,742
Net depreciation	(2,260)	-	-	(2,260)
Contributions	-	-	654	654
Appropriation for expenditure	(1,704)	(38)	-	(1,742)
Endowment net assets, December 31, 2008	(2,260)	17,904	3,639	19,283
Investment return:				
Investment income	1,754	257	-	2,011
Net appreciation	1,054	169	-	1,223
Contributions	-	308	46	354
Appropriation for expenditure	(1,816)	(395)	-	(2,211)
Endowment net assets, December 31, 2009	$ (1,268)	18,243	3,685	20,660

The Association has adopted an investment policy for endowment assets that provides continued financial stability for the Association and a revenue stream for spending on the Association's mission.

Under this policy, as approved by the Board of Directors, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yields (interest and dividends). The Association targets a diversified asset allocation that utilizes fixed income and equity-based investments to achieve its long-term objectives within prudent risk constraints. The Association expects its endowment funds, over time, to provide an average rate of return of approximately 7.5% annually.

The Association's endowment spending policy permits spending at a rate of 4% of the endowments' market value over a rolling five-year average. The long-term return of 7.5% and a spending rate of 4% are intended to maintain the purchasing power of the endowment.

(continued)

12. Contributed services and in-kind contributions

The Association recognizes as contribution revenue and as professional fees expense the fair value of services donated by volunteers in conjunction with the peer review process by the Grant Review Panel of the American Diabetes Association Research Foundation, Inc. and medical services provided in conjunction with the Association's program activities, primarily camp. Contributed public service announcements and occupancy are recorded in printing and publications and occupancy expenses, respectively. The Association recognized approximately $3,720,000 and $2,900,000, in donated services provided in conjunction with the Association's activities during the years ended December 31, 2009 and 2008, respectively.

Many other volunteers made significant contributions of time to the Association's program and supporting functions. The values of those contributed services do not meet the criteria for recognition and, accordingly, are not recognized as revenues and expenses in the accompanying consolidated statement of activities.

In-kind contributions of supplies are recognized as contribution revenue and supplies expense and totaled approximately $2,199,000 and $2,223,000 for the years ended December 31, 2009 and 2008, respectively.

13. Allocation of joint costs

The Association conducts activities to distribute information related to diabetes and a call to action, such as understanding the risks 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, 2009 and 2008, were allocated as follows (in thousands):

	2009	2008
Advocacy and public awareness	$ 13,036	$ 12,813
Management and general	3,618	4,067
Fundraising	23,869	23,795
Total joint costs	$ 40,523	$ 40,675

(continued)

14. 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 years ended December 31, 2009 and 2008, was approximately $1,731,000 and $2,238,000, respectively.

15. Self-insured benefits

The Association self-insures its employee medical and dental benefits. Losses from claims identified under the incident reporting system, as well as provisions for estimated losses for incurred but not reported incidents, are accrued based on estimates that incorporate the past experience of the Association, as well as other considerations, including the nature of the claims or incidents and relevant trend factors.

Self-insured risk for employee health benefits is secured through stop loss insurance policies which protect the Association should total claims exceed a specified limit in a plan year. This limit was $6,100,000 and $6,600,000 in 2009 and 2008, respectively.

The liability as of December 31, 2009 and 2008, was approximately $593,000 and $886,000, respectively, and is included in accounts payable and accrued liabilities in the accompanying balance sheets. Benefit expense under this plan was approximately $4,963,000 and $5,165,000 for the years ended December 31, 2009 and 2008, respectively. The benefit expense includes claims paid and changes to the reserve for future claims.

16. Line of credit

The Association has an unsecured line of credit with a bank at interest rates calculated as a factor of the London Interbank Offered Rate (LIBOR). The line of credit ($10,000,000) is subject to review and approval by the bank in August 2010. The outstanding balance on the line of credit as of December 31, 2009 and 2008, was $1,320,000 and $1,560,000, respectively. Interest and fees for the years ended December 31, 2009 and 2008, were approximately $68,000 and $70,000, respectively.

The line of credit is available for working capital and for financing the purchase and implementation costs of computer equipment and software. The Association is required to maintain a level of unrestricted, unencumbered marketable securities, cash and cash equivalents of not less than $15,000,000.

(continued)

17. Lease commitments

Operating leases

The Association is obligated under various noncancelable operating lease agreements for office facilities expiring at various dates between January 2010 and December 2019. Many of these agreements contain cost escalations providing for increases in rental rates. The Association recognizes rent expense on a straight-line basis over the life of the lease. The Association is also obligated under noncancelable operating leases for telephone and other equipment through December 2013.

As of December 31, 2009, the future minimum lease payments under operating leases with noncancelable lease terms in excess of one year were (in thousands):

Year ending December 31,	
2010	$ 8,603
2011	7,595
2012	5,518
2013	4,408
2014	4,073
2015 and thereafter	7,802
Total minimum lease payments	$ 37,999

Rent expense totaled approximately $7,832,000 and $8,196,000 for the years ended December 31, 2009 and 2008, respectively.

Capital leases

The Association leases computer equipment under capital lease agreements expiring on various dates through 2013. New assets were acquired under capital lease during the year ended December 31, 2009, in the amount of $1,446,000. Assets under capital lease were approximately $5,169,000 and $3,723,000 and accumulated amortization on those assets was approximately $3,887,000 and $3,437,000 as of December 31, 2009 and 2008, respectively.

(continued)

As of December 31, 2010, the future minimum lease payments under capital leases were (in thousands):

Year ended December 31,		
2010	$	372
2011		372
2012		372
2013		199
Less: Amount representing interest		(33)
Total minimum lease receipts	$	1,282

18. 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, 2009, the future minimum lease payments due to the Association under these leases were (in thousands):

Year ended December 31,		
2010	$	1,306
2011		1,313
2012		1,337
2013		1,379
2014		1,430
2015 and thereafter		52,371
Total minimum lease receipts	$	59,136

(continued)

The accumulated difference between the rental income recognized and the straight-line value of the leases was approximately $5,737,000 and $5,513,000 as of December 31, 2009 and 2008, respectively. Due to market conditions, management believes a significant risk exists that future rent revenue will not be recognized; therefore, an allowance against the deferred rent has been recorded in the amount of $1,305,000 and $1,331,000 as of December 31, 2009 and 2008, respectively.

19. Subsequent events

For the year ended December 31, 2009, the Association evaluated subsequent events through July 7, 2010, which is the date the financial statements were available for issuance.