KPMG

AMERICAN DIABETES ASSOCIATION

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

(with Independent Auditors' Report Thereon)

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

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, 2010, 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 2009 financial statements and, in our report dated July 7, 2010, 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, 2010, 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

May 31, 2011

AMERICAN DIABETES ASSOCIATION
CONSOLIDATED BALANCE SHEET

December 31, 2010

(with comparative information as of December 31, 2009)

(in thousands of dollars)

ASSETS	2010	2009
Cash and cash equivalents	$ 12,132	$ 9,895
Investments (notes 4 and 5)	28,769	26,046
Accounts receivable, net (notes 6 and 18)	10,533	8,360
Inventory and supplies, net	1,454	1,881
Prepaid expenses and other assets	4,117	4,947
Contributions receivable, net (note 7)	48,471	44,224
Fixed assets, net (note 8)	8,273	9,770
Interest in perpetual trusts	5,326	3,725
Total assets	$ 119,075	$ 108,848
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities (note 15)	$ 15,733	$ 16,810
Line of credit (note 16)	6,080	1,320
Research grants payable	9,324	10,464
Deferred revenues	11,849	11,824
Total liabilities	42,986	40,418
Net assets (note 11):		
Unrestricted	16,216	16,550
Temporarily restricted (note 9)	50,336	44,470
Permanently restricted (note 10)	9,537	7,410
Total net assets	76,089	68,430
Total liabilities and net assets	$ 119,075	$ 108,848

See accompanying notes to the consolidated financial statements.

AMERICAN DIABETES ASSOCIATION
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended December 31, 2010

(with summarized information for the year ended December 31, 2009)

(in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
Revenues:					
Contributions and grants:					
Donations	$ 45,040	27,537	220	72,797	74,991
Special events	49,381	3,341	-	52,722	50,534
Less: Costs of direct benefits to donors	(7,220)	-	-	(7,220)	(7,503)
Bequests	13,978	9,322	1,444	24,744	27,140
Federated and nonfederated organizations	8,544	9	-	8,553	8,922
Total contributions and grants	109,723	40,209	1,664	151,596	154,084
Fees from exchange transactions:					
Subscriptions & other income from periodicals	23,097	-	-	23,097	23,872
Sales of materials	8,576	-	-	8,576	7,005
Program service fees	14,385	-	-	14,385	14,405
Investment income (note 4)	2,284	351	463	3,098	4,411
Miscellaneous revenues	1,731	-	-	1,731	1,627
Total fees from exchange transactions	50,073	351	463	50,887	51,320
Net assets released from restrictions	34,694	(34,694)	-	-	-
Total revenues	194,490	5,866	2,127	202,483	205,404
Expenses (note 13):					
Program activities:					
Research	42,638	-	-	42,638	43,303
Information	54,956	-	-	54,956	58,354
Advocacy and public awareness	44,000	-	-	44,000	47,036
Total program activities	141,594	-	-	141,594	148,693
Supporting services:					
Management and general	9,777	-	-	9,777	8,326
Fundraising	43,453	-	-	43,453	47,472
Total supporting services	53,230	-	-	53,230	55,798
Total expenses	194,824	-	-	194,824	204,491
Change in net assets	(334)	5,866	2,127	7,659	913
Net assets, beginning of year	16,550	44,470	7,410	68,430	67,517
Net assets, end of year	$ 16,216	50,336	9,537	76,089	68,430

See accompanying notes to the consolidated financial statements.

AMERICAN DIABETES ASSOCIATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2010

(with summarized information for the year ended December 31, 2009)

(in thousands of dollars)

	Program Activities				Supporting Services				
	Research	Information	Advocacy and public awareness	Total	Management and general	Fundraising	Total	2010 Total	2009 Total
Grants	$ 33,242	145	2	33,389	-	-	-	33,389	33,654
Employee costs	2,365	18,184	20,246	40,795	1,844	17,261	19,105	59,900	60,453
Professional fees	954	8,154	4,866	13,974	1,685	4,351	6,036	20,010	22,798
Supplies	51	2,745	594	3,390	34	388	422	3,812	3,942
Telecommunications	103	882	864	1,849	78	668	746	2,595	2,852
Postage and shipping	315	4,477	3,378	8,170	455	6,358	6,813	14,983	15,226
Occupancy cost	528	4,776	2,265	7,569	651	1,869	2,520	10,089	10,747
Equipment rental and maintenance	56	458	432	946	52	343	395	1,341	1,350
Printing and publications	1,693	9,829	5,368	16,890	1,506	7,934	9,440	26,330	32,153
Travel	68	663	910	1,641	69	711	780	2,421	2,401
Conferences and meetings	3,014	1,089	1,725	5,828	89	331	420	6,248	7,068
Data processing	42	539	461	1,042	219	941	1,160	2,202	2,471
Depreciation and amortization	39	1,283	1,089	2,411	777	700	1,477	3,888	3,573
Miscellaneous	168	1,732	1,800	3,700	2,318	1,598	3,916	7,616	5,803
Total expenses	$ 42,638	54,956	44,000	141,594	9,777	43,453	53,230	194,824	204,491
Costs of direct benefits to donors								7,220	7,503
Total expenses and costs of direct benefits to donors								$ 202,044	$ 211,994

See accompanying notes to the consolidated financial statements.

AMERICAN DIABETES ASSOCIATION
CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2010

(with comparative information for the year ended December 31, 2009)

(in thousands of dollars)

	2010	2009
Cash flows from operating activities:		
Change in net assets	$ 7,659	$ 913
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,888	3,573
Net unrealized and realized gain on investments	(1,283)	(1,989)
Loss on disposal of assets	11	14
Provisions for doubtful receivables and obsolete inventory	2,658	3,697
Contributions to third party perpetual trusts	(1,138)	(409)
Other contributions restricted for long-term investments	(248)	(353)
Adjustments for changes in operating assets and liabilities:		
Increase in accounts receivable	(2,401)	(788)
Decrease in inventory and supplies	147	643
Decrease in prepaid expenses and other assets	830	278
Increase in contributions receivable	(6,397)	(1,682)
Decrease in accounts payable and accrued liabilities	(727)	(1,199)
Decrease in research grants payable	(1,140)	(1,744)
Increase (decrease) in deferred revenues	25	(1,610)
Net cash provided by (used in) operating activities	1,884	(656)
Cash flows from investing activities:		
Purchases of investments	(16,479)	(46,257)
Sales or maturities of investments	14,576	58,778
Purchase of fixed assets	(2,402)	(5,362)
Net cash (used in) provided by investing activities	(4,305)	7,159
Cash flows from financing activities:		
Proceeds from contributions restricted for investment in endowment	248	353
Proceeds from borrowing on line of credit	9,700	12,500
Payments on line of credit	(4,940)	(12,740)
Payments on capital lease agreements	(350)	(450)
Net cash provided by (used in) financing activities	4,658	(337)
Net increase in cash and cash equivalents	2,237	6,166
Cash and cash equivalents, beginning of year	9,895	3,729
Cash and cash equivalents, end of year	$ 12,132	$ 9,895

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., and the American Diabetes Association Property Title Holding Corporation (consolidated, the Association). All significant inter-Association transactions have been eliminated.

The American Diabetes Association and the American Diabetes Association Research Foundation, Inc. are 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 have been classified as organizations that are not private foundations under Section 509(a) of the Code.

The Association recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. The Association does not believe its financial statements include (or reflect) any significant uncertain tax positions.

2. Program activities

The Association is a not-for-profit voluntary health agency that works to prevent and cure diabetes and to improve the lives of all people affected by diabetes. This mission is accomplished through programs in communities throughout the country. The principal program activities of the Association are:

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

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

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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:

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.

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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, 2010 and 2009, 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.

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.

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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 1.4% 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.

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 $17,684,000 and $14,097,000 are reported on the balance sheet as of December 31, 2010 and 2009, 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 1.5% to 7.6%.

Amounts payable to beneficiaries, gift annuities payable, and pooled income fund liabilities of approximately $1,847,000 and $2,010,000 are reported as accrued liabilities or deferred revenues on the consolidated balance sheets as of December 31, 2010 and 2009, respectively.

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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 insured limits. As of December 31, 2010 and 2009, approximately $7,366,000 and $4,091,000, 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, 2010.

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.

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Comparative financial statements

The consolidated statements of activities and functional expenses include certain summarized comparative information for the year ended December 31, 2009. 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, 2009, from which the summarized information was derived.

Reclassifications

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

4. Investments

Investments as of December 31, 2010 and 2009, consist of the following (in thousands):

	2010	2009
Real estate	$ 12,850	$ 12,850
Fixed-income mutual funds	6,626	6,064
Certificates of deposit	5,055	1,896
Equity mutual funds	2,428	843
Corporate equities	919	1,144
Money market funds	716	3,123
U.S. government securities	175	126
Total investments	$ 28,769	$ 26,046

Investments as of December 31, 2010 and 2009, include gift annuity investments of approximately $2,728,000 and $2,441,000, respectively, and the fair value of gift annuity obligations under those agreements was approximately $1,744,000 and $1,944,000, 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

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corporations and derives monthly rental income that is reported in investment income in the consolidated statement of activities.

Investment income for the year ended December 31, 2010 and 2009, includes (in thousands):

	2010	2009
Property rental income	$ 1,172	$ 1,622
Net realized and unrealized gain	1,283	1,989
Interest and dividends	773	986
Investment fees	(130)	(186)
Total investment income, net	$ 3,098	$ 4,411

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.

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The following table presents the fair value hierarchy for the Association's financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2010 (in thousands).

	Total	Level 1	Level 2	Level 3
Financial Assets:				
Investments				
Fixed income mutual funds	6,626	6,626	-	-
Certificates of deposit	5,055	5,055	-	-
Equity mutual funds	2,428	2,428	-	-
Corporate equities	919	919	-	-
Money market funds	716	716	-	-
U.S. government securities	175	175	-	-
Interest in perpetual trusts	5,326	-	-	5,326
Financial Liabilities:				
Split interest obligations	1,847	-	1,847	-

In 2010, the change in the Association's interest in perpetual trusts of approximately $1,601,000 reflects new trusts, investment returns and distributions.

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

In 2009, the change in the Association's interest in perpetual trusts of approximately $780,000 reflects new trusts, investment returns and distributions.

6. Accounts receivable

Accounts receivable are reported net of an allowance for doubtful accounts of approximately $2,334,000 and $1,766,000 as of December 31, 2010 and 2009, respectively. The Association's receivables consist of amounts due for program service fees, publications, advertising, land rental and other exchange transactions.

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7. Contributions receivable

Contributions receivable consist of the following amounts due as of December 31, 2010 and 2009 (in thousands):

	2010	2009
Within one year	$ 35,763	$ 33,573
In one to five years	6,644	5,446
In more than five years	313	424
Total contributions receivable	42,720	39,443
Less: allowance for doubtful accounts	(3,363)	(2,635)
Less: present value discount	(271)	(292)
Subtotal	39,086	36,516
Funds held in remainder trusts	9,385	7,708
Contributions receivable, net	$ 48,471	$ 44,224

8. Fixed assets

Fixed assets consist of the following as of December 31, 2010 and 2009 (in thousands):

	2010	2009
Land	$ 67	$ 67
Leasehold improvements	1,232	1,200
Software	16,983	16,222
Furniture, fixtures and equipment	15,526	17,691
Total fixed assets	33,808	35,180
Less: accumulated depreciation and amortization	(25,535)	(25,410)
Fixed assets, net	$ 8,273	$ 9,770

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9. Temporarily restricted net assets

Net assets were temporarily restricted for the following as of December 31, 2010 and 2009 (in thousands):

	2010	2009
Research	$ 5,340	$ 2,781
Information	2,529	3,739
Advocacy	4,969	4,492
Sponsorship for fundraising activities	3,221	2,388
Time restricted for operations	34,277	31,070
Total temporarily restricted net assets	$ 50,336	$ 44,470

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, 2010 and 2009, is to be used as follows (in thousands):

	2010	2009
Research	$ 3,854	$ 2,230
Information	1,987	1,681
Advocacy and public awareness	193	182
Discretion of the Association	3,503	3,317
Total permanently restricted net assets	$ 9,537	$ 7,410

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

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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.

Changes in endowment net assets for the years ended December 31, 2010 and 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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
Investment return:				
Investment income	1,290	232	-	1,522
Net appreciation	539	62	-	601
Contributions	-	-	526	526
Appropriation for expenditure	(1,173)	(280)	-	(1,453)
Endowment net assets, December 31, 2010	$ (612)	18,257	4,211	21,856

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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.

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 services for the production of public service announcements and for occupancy are recorded in printing and publications and occupancy expenses, respectively. The Association recognized approximately $2,744,000 and $3,720,000, in donated services provided in conjunction with the Association's activities during the years ended December 31, 2010 and 2009, 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 $2,070,000 and $2,199,000 for the years ended December 31, 2010 and 2009, respectively.

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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, 2010 and 2009, were allocated as follows (in thousands):

	2010	2009
Advocacy and public awareness	$ 11,025	$ 13,036
Management and general	3,622	3,618
Fundraising	20,471	23,869
Total joint costs	$ 35,118	$ 40,523

14. Pension plan

The Association has a defined contribution pension 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, 2010 and 2009, was approximately $1,186,000 and $1,731,000, 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 $7,600,000 and $6,100,000 in 2010 and 2009, respectively.

The liability as of December 31, 2010 and 2009, was approximately $1,116,000 and $593,000, respectively, and is included in accounts payable and accrued liabilities in the consolidated balance sheets. Benefit expense under this plan was approximately $5,865,000 and $4,963,000 for the years ended December 31, 2010 and 2009,

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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 2011. The Association expects to renew the line of credit each year. The outstanding balance on the line of credit as of December 31, 2010 and 2009, was $6,080,000 and $1,320,000, respectively. Interest and fees for the years ended December 31, 2010 and 2009, were approximately $72,000 and $68,000, 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.

17. Lease commitments

Operating leases

The Association is obligated under various noncancelable operating lease agreements for headquarter and field office facilities expiring at various dates between January 2011 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 March 2015.

(continued)

As of December 31, 2010, the future minimum lease payments under operating leases with noncancelable lease terms in excess of one year were (in thousands):

Year ending December 31,	
2011	$ 7,973
2012	6,382
2013	5,036
2014	4,582
2015	3,890
2016 and thereafter	4,251
Total minimum lease payments	$ 32,114

Rent expense totaled approximately $7,180,000 and $7,832,000 for the years ended December 31, 2010 and 2009, respectively.

Capital leases

The Association leases computer equipment under capital lease agreements expiring on various dates through 2014. New assets were acquired under capital lease during the year ended December 31, 2010, in the amount of $30,000. Assets under capital lease were approximately $2,453,000 and $5,169,000 and accumulated amortization on those assets was approximately $1,511,000 and $3,887,000 as of December 31, 2010 and 2009, respectively.

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

Year ended December 31,	
2011	$ 378
2012	378
2013	206
2014	6
Less: Amount representing interest	(26)
Total minimum lease payments	$ 942

(continued)

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, 2010, the future minimum lease payments due to the Association under these leases were (in thousands):

Year ended December 31,		
2011	$	1,313
2012		1,337
2013		1,379
2014		1,430
2015		1,438
2016 and thereafter		50,933
Total minimum lease receipts	$	57,830

The accumulated difference between the rental income recognized and the straight-line value of the leases was approximately $6,078,000 and $5,737,000 as of December 31, 2010 and 2009, 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 $1,790,000 and $1,305,000 as of December 31, 2010 and 2009, respectively.

19. Subsequent events

For the year ended December 31, 2010, the Association evaluated subsequent events through May 31, 2011, which is the date the financial statements were available for issuance.