

# Diabetes Association of Greater Cleveland and Subsidiaries

Consolidated Financial Report  
December 31, 2009

**McGladrey & Pullen**  
Certified Public Accountants

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

Board of Directors  
Diabetes Association of Greater Cleveland  
Cleveland, Ohio

We have audited the accompanying consolidated statement of financial position of Diabetes Association of Greater Cleveland and Subsidiaries as of December 31, 2009, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of DAGC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the 2008 audited financial statements and, in our report, dated May 8, 2009, we expressed an unqualified opinion on those 2008 financial 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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 consolidated financial position of Diabetes Association of Greater Cleveland and Subsidiaries as of December 31, 2009, and the changes in its net assets, functional expenses, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Cleveland, Ohio  
June 8, 2010

Diabetes Association of Greater Cleveland and Subsidiaries

Consolidated Statement of Financial Position

December 31, 2009

(With Comparative Totals at December 31, 2008)

Assets	2009	2008
Current Assets		
Cash and cash equivalents	\$ 271,003	\$ 514,285
Receivables:		
Trade	12,414	3,345
Pledges	558,003	376,081
<b>Total receivables</b>	570,417	379,426
Prepaid expenses and deposits	9,262	16,953
<b>Total current assets</b>	850,682	910,664
Property, Buildings, Furnishings and Equipment, net	740,341	775,431
Investments	2,631,367	2,154,276
Pledges receivable	405,913	545,763
<b>Total assets</b>	\$ 4,628,303	\$ 4,386,134
Liabilities and Net Assets		
Current Liabilities		
Annuity payable	\$ 3,787	\$ 3,787
Pension obligation	-	73,984
Accrued expenses	6,013	29,408
Accounts payable	23,439	33,839
Research payable	47,000	196,750
<b>Total current liabilities</b>	80,239	337,768
Other Liabilities		
Annuity payable	11,654	13,173
Pension obligation	152,250	236,838
<b>Total other liabilities</b>	163,904	250,011
Net Assets		
Unrestricted	2,911,938	2,178,461
Temporarily restricted	1,457,222	1,604,894
Permanently restricted	15,000	15,000
<b>Total net assets</b>	4,384,160	3,798,355
<b>Total liabilities and net assets</b>	\$ 4,628,303	\$ 4,386,134

See Notes to Consolidated Financial Statements.

Diabetes Association of Greater Cleveland and Subsidiaries

Consolidated Statement of Activities

Year Ended December 31, 2009

(With Comparative Totals for the Year Ended December 31, 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Totals	2008 Totals
<b>Revenues and Support</b>					
Contributions, bequests and memorials	\$ 467,331	\$ 182,316	\$ -	\$ 649,647	\$ 401,610
Grants	116,783	122,350		239,133	154,390
Special events, net	304,610	2,689		307,299	396,507
Donated goods and services	195,252			195,252	151,940
Allocations from United Way Services	53,400	53,399		106,799	120,325
Camp fees	118,673			118,673	127,542
Less: camp scholarships and financial assistance	(31,260)			(31,260)	(29,473)
<b>Net camp fees</b>	<b>87,413</b>	<b>-</b>		<b>87,413</b>	<b>98,069</b>
Symposia and education programs	117,323	38,750		156,073	113,653
Less: client assistance	-			-	(3,537)
<b>Net symposia and education programs</b>	<b>117,323</b>	<b>38,750</b>		<b>156,073</b>	<b>110,116</b>
Investment income	64,381	2,169		66,550	106,757
Membership dues	8,310			8,310	8,480
Miscellaneous	8,576	(25,000)		(16,424)	8,873
Change in value of annuities	(2,268)			(2,268)	(3,783)
Net assets released from restrictions	551,064	(551,064)		-	-
<b>Total revenues and support</b>	<b>1,972,175</b>	<b>(174,391)</b>		<b>1,797,784</b>	<b>1,553,284</b>
<b>Expenses</b>					
Program services:					
Public information	206,230			206,230	249,670
Patient services and education	282,082			282,082	359,898
Advocacy	27,359			27,359	68,465
Camp	709,514			709,514	751,654
Research	197,984			197,984	420,986
Professional education	136,931			136,931	145,025
<b>Total program services</b>	<b>1,560,100</b>			<b>1,560,100</b>	<b>1,995,698</b>
Supporting services:					
General, management and administration	133,892			133,892	114,063
Fundraising	124,235			124,235	178,507
<b>Total supporting services</b>	<b>258,127</b>			<b>258,127</b>	<b>292,570</b>
<b>Total expenses</b>	<b>1,818,227</b>			<b>1,818,227</b>	<b>2,288,268</b>
<b>Increase (decrease) in net assets before investment activity</b>	<b>153,948</b>	<b>(174,391)</b>		<b>(20,443)</b>	<b>(734,984)</b>
Investment Activity					
Realized and unrealized gain on investments	561,107	26,719		587,826	(1,064,049)
<b>Increase (decrease) in net assets before effects of pension adjustments</b>	<b>715,055</b>	<b>(147,672)</b>		<b>567,383</b>	<b>(1,799,033)</b>
Pension related changes other than net periodic pension cost	18,422			18,422	201,326
<b>Increase (decrease) in net assets</b>	<b>733,477</b>	<b>(147,672)</b>		<b>585,805</b>	<b>(1,597,707)</b>
Net assets at beginning of year	2,178,461	1,604,894	15,000	3,798,355	5,396,062
<b>Net assets at end of year</b>	<b>\$ 2,911,938</b>	<b>\$ 1,457,222</b>	<b>\$ 15,000</b>	<b>\$ 4,384,160</b>	<b>\$ 3,798,355</b>

See Notes to Consolidated Financial Statements.

Diabetes Association of Greater Cleveland and Subsidiaries

Consolidated Statement of Functional Expenses

Year Ended December 31, 2009

(With Comparative Totals for the Year Ended December 31, 2008)

	Program Services							Supporting Services			2009 Totals	2008 Totals
	Public Information	Patient Education and Services	Advocacy	Camp	Research	Professional Education	Total	General, Management and Administration	Fundraising	Total		
Salaries	\$ 125,845	\$ 148,053	\$ 14,805	\$ 242,020	\$ 57,875	\$ 60,567	\$ 649,165	\$ 50,972	\$ 61,240	\$ 112,212	\$ 761,377	\$ 847,207
Employees benefits	11,293	13,286	1,329	13,830	5,194	5,435	50,367	4,529	5,496	10,025	60,392	297,678
Payroll taxes	10,452	12,296	1,230	25,607	4,807	5,030	59,422	5,701	5,086	10,787	70,209	79,809
<b>Total salaries and related expenses</b>	<b>147,590</b>	<b>173,635</b>	<b>17,364</b>	<b>281,457</b>	<b>67,876</b>	<b>71,032</b>	<b>758,954</b>	<b>61,202</b>	<b>71,822</b>	<b>133,024</b>	<b>891,978</b>	<b>1,224,694</b>
Grants, research and scholarships	-	-	-	1,000	62,000	-	63,000	-	-	-	63,000	201,000
Occupancy	15,999	15,999	5,333	51,665	5,333	15,999	110,328	15,999	15,999	31,998	142,326	154,809
Professional fees	17,437	20,592	2,051	50,098	8,199	8,392	106,769	10,439	8,486	18,925	125,694	105,084
Patient and professional education	6,324	30,701	-	197,909	39,427	32,364	306,725	2,678	133	2,811	309,536	303,837
Investment management fees	-	-	-	-	-	-	-	18,848	-	18,848	18,848	20,471
Printing and publications	1,864	6,047	227	3,612	5,501	928	18,179	2,082	2,281	4,363	22,542	22,211
Supplies	1,423	1,935	167	5,706	1,351	685	11,267	2,024	750	2,774	14,041	17,273
Conferences, meeting and public relations	1,896	15,071	95	5,870	1,655	186	24,773	1,225	508	1,733	26,506	18,692
Postage and shipping	1,317	1,760	135	4,467	577	553	8,809	1,272	2,740	4,012	12,821	11,366
Equipment lease, service	3,908	4,748	445	4,635	1,738	1,819	17,293	1,516	1,840	3,356	20,649	23,111
Telephone, Internet service and web maintenance	1,672	1,967	197	4,680	835	804	10,155	657	852	1,509	11,664	11,223
Miscellaneous expense	2,417	4,295	284	12,842	1,331	1,167	22,336	7,060	6,640	13,700	36,036	31,278
Insurance	1,708	1,708	569	1,708	569	1,708	7,970	6,892	1,708	8,600	16,570	18,288
Local transportation	127	368	167	2,556	58	67	3,343	384	689	1,073	4,416	7,446
Due and subscriptions	59	95	7	1,439	27	29	1,656	24	414	438	2,094	2,030
Licenses and fees	234	275	53	1,451	108	113	2,234	69	114	183	2,417	1,379
Special events, Awareness	-	233	-	-	362	-	595	616	8,161	8,777	9,372	27,030
<b>Total expenses before depreciation</b>	<b>203,975</b>	<b>279,429</b>	<b>27,094</b>	<b>631,095</b>	<b>196,947</b>	<b>135,846</b>	<b>1,474,386</b>	<b>132,987</b>	<b>123,137</b>	<b>256,124</b>	<b>1,730,510</b>	<b>2,201,222</b>
Depreciation	2,255	2,653	265	78,419	1,037	1,085	85,714	905	1,098	2,003	87,717	87,046
<b>Total expenses</b>	<b>\$ 206,230</b>	<b>\$ 282,082</b>	<b>\$ 27,359</b>	<b>\$ 709,514</b>	<b>\$ 197,984</b>	<b>\$ 136,931</b>	<b>\$ 1,560,100</b>	<b>\$ 133,892</b>	<b>\$ 124,235</b>	<b>\$ 258,127</b>	<b>\$ 1,818,227</b>	<b>\$ 2,288,268</b>

See Notes to Consolidated Financial Statements.

Diabetes Association of Greater Cleveland and Subsidiaries

Consolidated Statement of Cash Flows

Year Ended December 31, 2009

(With Comparative Totals for the Year Ended December 31, 2008)

	2009	2008
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ 585,805	\$ (1,597,707)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) operating activities:		
Pension related changes other than net periodic pension cost	(18,422)	(201,326)
Depreciation	87,717	87,046
Change in allowance for uncollectible receivables	15,711	837
Change in discount for receivables	(12,603)	(25,238)
Change in value of annuities	2,268	3,783
Net realized and unrealized (gain) loss on investments	(587,826)	1,064,049
(Increase) decrease in:		
Trade receivable	(9,069)	(2,922)
Leadership campaign and other pledges receivable	(45,180)	118,785
Prepaid expenses and deposits	7,691	54,253
Increase (decrease) in:		
Pension obligation	(140,150)	179,511
Accrued expenses	(23,395)	(2,684)
Accounts payable	(10,400)	(1,919)
Research payable	(149,750)	81,250
<b>Net cash (used in) operating activities</b>	<b>(297,603)</b>	<b>(242,282)</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of furnishings and equipment	(52,627)	(27,689)
Proceeds from sales of investments	385,172	1,501,834
Purchases of investments	(274,437)	(1,561,911)
<b>Net cash provided by (used in) investing activities</b>	<b>58,108</b>	<b>(87,766)</b>
<b>Cash Flows from Financing Activities</b>		
Payments to annuitants	(3,787)	(3,787)
<b>Net (decrease) in cash and cash equivalents</b>	<b>(243,282)</b>	<b>(333,835)</b>
<b>Cash and cash equivalents:</b>		
Beginning of year	514,285	848,120
End of year	\$ 271,003	\$ 514,285

See Notes to Consolidated Financial Statements.

## Diabetes Association of Greater Cleveland and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Principles of Consolidation

The consolidated financial statements of Diabetes Association of Greater Cleveland (collectively, DAGC) include the following entities:

- Diabetes Association of Greater Cleveland
- CHMK LLC
- CHMK Land LLC

All significant intercompany accounts and transactions have been eliminated in the consolidation.

#### Note 2. Purpose

The Diabetes Association of Greater Cleveland is organized to ensure that Greater Clevelanders affected by diabetes have the support they need to live well with the disease.

Effective July 1, 2006, the operations of Camp Ho Mita Koda (the Camp) merged with that of the Diabetes Association of Greater Cleveland. The Camp, located in Newbury, Ohio, has provided camp services to children with diabetes since 1929. This merger provides DAGC with a means to expand services to young people and their families who are affected by both Type 1 and Type 2 diabetes. For the Camp and its supporters, the merger provides assurance that the Camp program will continue until there is a cure for diabetes and children no longer need its services.

DAGC created two wholly owned subsidiaries, CHMK LLC and CHMK Land LLC, to house the operating activities of the Camp and the property of the Camp, respectively. These subsidiaries used continue in perpetuity unless otherwise dissolved.

#### Note 3. Nature of Activities and Summary of Significant Accounting Policies

**Financial statement presentation and accounting method:** DAGC's consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. DAGC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Included within unrestricted net assets are several designations. A board designated fund was established by the Board of Directors to cover budgeted deficits, board approved expenditures in excess of budget and for other board approved emergency purposes. The balance at December 31, 2009 is \$126,049.

The funds functioning as endowment represents funds set aside by the Board to be invested as endowment. Additions to and depletions of the fund must be approved by the Board of Directors. The balance at December 31, 2009 is \$2,000,000.

The designated for asset replacement fund was established to fund depreciation with the intention of using the accumulated funds for future major capital repairs or improvements. The balance at December 31, 2009 is \$54,281.

Temporarily restricted net assets result from timing differences between the receipt of funds and the incurrence of the related expenses. DAGC reports receipts of support as temporarily restricted if they are received with donor stipulations that limit the use of the donation. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets represent endowment funds which are subject to the restriction of the donors that the principal be invested in perpetuity and only the income be utilized.

**Note 3. Nature of Activities and Summary of Significant Accounting Policies (Continued)**

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

**Concentration of credit risk:** Financial instruments that potentially subject DAGC to concentrations of credit risk consist principally of cash and cash equivalents and investments. DAGC maintains its cash and cash equivalents with financial institutions and although at times invested amounts exceed federally insured limits, management does not believe that DAGC is exposed to any substantial credit risk. Investments are subject to market fluctuations, therefore the investment portfolio is monitored on a regular basis by management.

**Cash and cash equivalents:** Cash and cash equivalents include highly liquid debt instruments with a maturity, when purchased, of three months or less and are stated at cost, which approximates fair value.

**Receivables:** Management estimates an allowance based on their review of delinquent accounts and an assessment of DAGC's historical evidence of collections. At December 31, 2009, DAGC provided an allowance for uncollectible receivables in the amount of \$30,666 as it relates to pledges receivable.

**Pledges receivable:** Unconditional promises to give 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 cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue.

**Property, buildings, furnishings and equipment:** These assets are stated at cost except for Camp assets acquired through the merger at July 1, 2006 for which no historical cost data was available. These assets, which were determined to be fully depreciated at merger date, consisted of buildings and program facilities related to Camp operations and were stated at replacement cost as determined by an insurance valuation as of December 31, 2006. Expenditures that significantly increase values, change capacities or extend useful lives are capitalized. Maintenance and repairs are charged to expense as incurred. Building improvements are amortized over the useful life of the building. Depreciation is provided on a straight-line basis over the estimated useful lives of the capitalized assets, which ranges from 3 to 20 years.

Depreciation expense was \$87,717 for the year ended December 31, 2009.

**Valuation of long-lived asset:** DAGC reviews long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. For the year ended December 31, 2009, no impairment losses were recognized.

**Note 3. Nature of Activities and Summary of Significant Accounting Policies (Continued)**

**Investments:** The Investments Topic of the Accounting Standards Codification (ASC), requires that covered investments be reported in the consolidated statement of financial position at fair value with any realized and unrealized gains and losses reported in the consolidated statement of activities as non-operating activity. Investment income and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless a donor or law temporarily restricts their use.

DAGC invests in a professionally managed portfolio that contains fixed income and equity investments. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risk in the near term could materially affect investment balances and the amounts reported in the financial statements.

**Revenue recognition:** Contributions received are recorded as unrestricted, temporarily or permanently restricted depending on the nature of the restrictions. Non-government grants are recognized as revenue for the year when notification of the award is received; government grant and program fee revenue is recognized when services associated with those revenues have been provided. The United Way allocation is recognized as revenue when received or when the promise to give has been committed. Donated goods and services are recorded when received and are quantified based on valuation information provided by the third party donor. Camp fees, symposia and education programs and special events revenue are recorded as revenue when the activities associated with these events are held. Investment income is recognized when earned.

**Allocation of expenses:** Expenses are generally charged to the specific program service for which they are incurred. In some cases, however, common expenses are incurred which support the work performed under several programs. Such expenses are allocated among the various funding sources based on the relationship of functionalized payroll costs to total payroll.

**Pension plan:** In accordance with the Compensation - Retirement Benefits Topic of the ASC, DAGC recognizes the funded status of its pension benefit plan in the statement of financial position. The funded status is the difference between fair value of plan assets and the benefit obligation.

**Comparative amounts:** The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2008 from which the summarized information was derived.

**Note 3. Nature of Activities and Summary of Significant Accounting Policies (Continued)**

**Federal income tax status:** DAGC is a not-for-profit organization as described in Section 501(c) 3 of the Internal Revenue Code and is exempt from income taxes. CHMK, LLC and CHMK Land, LLC are limited liability companies wholly owned by Diabetes Association of Greater Cleveland. Accordingly, no provision for Federal income taxes has been reported in the financial statements.

**Subsequent events:** DAGC has evaluated subsequent events for potential recognition and/or disclosure through June 8, 2010, the date the financial statements were available to be issued.

**Recently issued accounting standards:** On January 1, 2009, DAGC adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, DAGC may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization, and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. At December 31, 2009, there were no unrecognized tax positions.

In April 2009, the Not for Profit – Business Combinations Topic of the ASC was issued which provides guidance on accounting for mergers and acquisitions by not-for-profit entities. This guidance is effective for mergers for which the merger date is on or after the beginning of an initial reporting period beginning on December 15, 2009 and for acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. Mergers and acquisitions also changes the subsequent accounting for goodwill and other intangible assets acquired in an acquisition by a not-for-profit entity for mergers and acquisitions completed prior to the effective date with the changes made prospectively in the first set of initial or annual financial statements for a reporting period beginning on or after December 15, 2009. Early application is prohibited.

Management will evaluate the impact, if any, the effect this pronouncement will have on the financial statements.

## Diabetes Association of Greater Cleveland and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 4. Pledges

Included within pledges receivable are campaign pledges in the amount of \$596,550 made in response to DAGC's 2002 Leadership Campaign fundraiser and were to be paid over several years. At December 31, 2009, remaining unpaid pledges are as follows:

Receivables in less than one year	\$ 588,669
Less: allowance for uncollectible accounts	(30,666)
<b>Net current pledges receivable</b>	<u>\$ 558,003</u>
Receivable in one to five years	\$ 434,850
Less 3% discount to net present value	(28,937)
<b>Net long-term pledges receivable</b>	<u>\$ 405,913</u>

#### Note 5. Property, Buildings, Furnishings and Equipment

Property, buildings, furnishings and equipment at December 31, 2009 are as follows:

Land and improvements	\$ 112,985
Buildings and improvements	1,734,694
Equipment and furnishings	472,711
Program facilities (pool, tennis and ropes course)	<u>392,920</u>
	2,713,310
Accumulated depreciation	(1,972,969)
	<u>\$ 740,341</u>

## Diabetes Association of Greater Cleveland and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 6. Investments

The following summarizes the fair values, cost and unrealized appreciation (depreciation) of investments at December 31:

	Fair Value	Cost	Unrealized Appreciation (Depreciation)
Mutual funds:			
Equity	\$ 973,715	\$ 1,131,186	\$ (157,471)
Fixed income	507,890	510,277	(2,387)
Common/collective funds	933,245	752,807	180,438
Government securities	70,438	65,130	5,308
Corporate bonds	130,157	122,951	7,206
Certificates of deposit	15,922	15,922	-
<b>Total</b>	<b>\$ 2,631,367</b>	<b>\$ 2,598,273</b>	<b>\$ 33,094</b>

#### Note 7. Lease Obligations

DAGC leases office space and office equipment under various operating leases expiring through 2012, exclusive of renewal options. Rent expense for office space was \$100,755 for the year ended December 31, 2009. At December 31, 2009, future minimum lease payments required, exclusive of renewal options, under non-cancellable operating leases are:

2010	\$ 107,652
2011	58,452
2012	9,252
<b>Total minimum lease payments</b>	<b>\$ 175,356</b>

## Diabetes Association of Greater Cleveland and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 8. Pension Plan

DAGC maintains a noncontributory defined benefit pension plan for the benefit of certain eligible employees. The benefits are based upon years of service and the employees' compensation. It is DAGC's policy to contribute annually to the defined benefit plan amounts which are actuarially determined to provide the plan with sufficient assets to meet future benefit payment requirements.

On September 16, 2008, the DAGC Board of Directors voted to freeze the defined benefit pension plan effective December 31, 2008.

Information relative to DAGC's frozen defined benefit pension plan as of and for the year ended December 31, 2009 is presented below:

Amounts at the end of year:

Projected benefit obligation	\$ (351,520)
Fair value of plan assets	199,270
<b>Unfunded status</b>	<b>\$ (152,250)</b>

Amounts recognized on the consolidated statement of financial position consists of:

Pension obligation - current	\$ -
Pension obligation - non current	152,250
	<b>\$ 152,250</b>

Amounts recognized for the year:

Employer contributions	\$ 94,097
Benefits paid	\$ 149,924

Components of Net Periodic Pension Cost:

Interest cost	\$ 19,881
Actual return on plan assets	(10,780)
Deferred asset gain	1,080
<b>Net Periodic Pension Cost</b>	<b>\$ 10,181</b>

Amounts not yet recognized in the Net Periodic Pension Cost:

Unrecognized net loss	\$ 11,180
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Expected amortization amounts during fiscal year ending December 31, 2010:

Unrecognized net loss	\$ -
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## Diabetes Association of Greater Cleveland and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 8. Pension Plan (Continued)

Weighted average assumptions:

Weighted average discount rate	<u>5.50%</u>
Expected long-term rate of return on assets	<u>6.25%</u>

The 6.25% long-term rate of return assumption is the estimated rate of return for assets invested in short and mid-term fixed-income securities.

Expected benefit payments during the year ending December 31:

2010	\$ -
2011	-
2012	20,730
2013	159,651
2014	139,259
2015-2018	24,301

Employer contributions expected to be paid during the year ended December 31, 2010 are \$14,883.

The primary investment objective for the Plan Assets is to maximize long-term return within an acceptable risk tolerance level, to meet current and future retirement payments. A secondary objective is to maintain real, inflation adjusted, purchasing power, and preservation of principal.

The strategies employed to achieve the stated objectives include employing a total return concept utilizing a diversified investment strategy of equities, fixed income, convertibles, real estate, and cash equivalents.

The assets in the Plan are held solely to fund retirement obligations as they come due. Distributions from the fund occur when an eligible, retiring employee selects a payment option as calculated by an actuary employed by DAGC.

Diabetes Association of Greater Cleveland and Subsidiaries

Notes to Consolidated Financial Statements

**Note 8. Pension Plan (Continued)**

The fair values of pension plan assets, by fair value hierarchy, were determined in a manner similar to that discussed in Note 16 and are as follows:

	Total	Level 1	Level 2	Level 3
Cash and equivalents	\$ 1,624	\$ 1,624	\$ -	\$ -
Mutual funds:				
Equity	91,926		91,926	-
Fixed income	59,578		59,578	-
Common/collective fund	46,332			46,332
<b>Total</b>	<u>\$ 199,460</u>	<u>\$ 1,624</u>	<u>\$ 151,504</u>	<u>\$ 46,332</u>

The changes in the fair value of Level 3 assets are summarized as follows:

	Common/Collective Fund
Balance, January 1, 2009	\$ 118,304
Investment income	6,975
Plan participant payouts	(78,947)
<b>Ending, December 31, 2009</b>	<u>\$ 46,332</u>

Diabetes Association of Greater Cleveland and Subsidiaries

Notes to Consolidated Financial Statements

**Note 9. Temporarily Restricted Net Assets**

Temporarily restricted net assets were available for the following purposes at December 31, 2009:

	Beginning	Additions	Net Assets Released from	Ending
	Balance	(Reductions)	Restrictions	Balance
Public awareness	\$ 14,952	\$ -	\$ 5,056	\$ 20,008
Research-Leadership	64,119		6,197	70,316
Research-General	324,918	59,892	(63,294)	321,516
Diabetes education	108,630	100,445	(51,328)	157,747
Camperships	81,330	35,576	(31,260)	85,646
Strategic Planning	-	25,000	(25,000)	-
Camp facilities	46,003	10,115	(42,837)	13,281
Camp and camp programs	62,033	5,450	(14,032)	53,451
Cleveland City Schools Testing Supplies	15,000		(3,200)	11,800
Diabetes supplies for the indigent	12,928	100	(734)	12,294
Arnoff Library	2,253		(106)	2,147
Staff wellness and development	-	1,000	(80)	920
Development/Advancement Dept. Project	-	6,000	(3,332)	2,668
Technology	424		(424)	-
Support Groups	8,000	10,100	(18,100)	-
	<u>740,590</u>	<u>253,678</u>	<u>(242,474)</u>	<u>751,794</u>
Time restrictions	864,304	149,714	(308,590)	705,428
	<u>\$ 1,604,894</u>	<u>\$ 403,392</u>	<u>\$ (551,064)</u>	<u>\$ 1,457,222</u>

**Note 10. Permanently Restricted Net Assets**

Permanently restricted net assets consist of a donor-restricted fund established at the Camp in 2002. Interest earned on this fund is utilized in full annually for its stated purpose of campership support (reduced camp fees for families demonstrating financial need).

## Diabetes Association of Greater Cleveland and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 11. Donated Materials and Services

In-kind donations valued at \$195,252 received during 2009 consist of \$16,436 in capital assets, \$156,721 in medical supplies and services donated to the Camp and \$22,095 in other in-kind professional services and supplies.

In addition, awards, prizes, advertisements, and other goods were donated to DAGC to support the Swim for Diabetes, the Promenade, the Golf Tournament and Backpack Bivouac. These in-kind donations valued at \$70,489 for the year ended December 31, 2009 are reflected in the accompanying consolidated statement of activities within special events revenue and expense at their estimated fair values at the dates of receipt.

#### Note 12. Charitable Gift Annuities

Since 1996, DAGC received gifts in the form of charitable gift annuities. The terms of the annuities require DAGC to make payments, ranging from \$228 to \$400, on a quarterly basis over the remaining lives of the donors. The present value of the expected annuity payments, discounted at 6.8%, is \$15,441 for the year ended December 31, 2009 of which \$3,787 is considered current at December 31, 2009.

#### Note 13. Special Events

Special events consist of the following for the year ending December 31, 2009:

	Revenue	Benefits to Donors	Net of Benefits	Expense	Net
Swim/Scuba for Diabetes	\$ 301,216	\$ 86,412	\$ 214,804	\$ 7,232	\$ 207,572
Promenade	79,841	48,092	31,749	897	30,852
Backpack Bivouac	78,757	41,881	36,876	601	36,275
Golf Tournament	79,808	64,506	15,302	396	14,906
Other events	8,568	-	8,568	246	8,322
	<u>\$ 548,190</u>	<u>\$ 240,891</u>	<u>\$ 307,299</u>	<u>\$ 9,372</u>	<u>\$ 297,927</u>

#### Note 14. Research Payable

DAGC's research payable of \$47,000 for the year ended December 31, 2009 consists of one grant awarded to a local professional for the purpose of diabetes-related research. This grant will be paid in 2010 in four quarterly installments of \$11,750 and will be paid in full by December 31, 2010.

Notes to Consolidated Financial Statements

**Note 15. Endowment Funds**

DAGC's endowment consists of one individual donor restricted endowment fund established to provide Campership support for families demonstrating financial need. Its endowment includes both a donor restricted endowment fund and a fund designated by the Board of Directors to function as an endowment. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The DAGC Board of Directors has interpreted the 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 endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, DAGC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. In addition, UPMIFA introduced the concept of total return expenditure of endowment net assets for charitable program purposes, expressly permitting prudent expenditure of endowment net assets for charitable program purposes, expressly permitting prudent expenditure of both appreciation and income. Thus asset growth and income can be appropriated for program purposes, subject to the rule that a fund cannot be spent below "historic dollar value."

Endowment net asset composition by type of fund as of December 31, 2009:

	Unrestricted	Total
Funds functioning as endowment	\$ -	\$ 2,000,000
Donor-restricted endowment	15,000	-
		15,000

There have been no material changes in endowment net assets for the year ended December 31, 2009.

**Funds with Deficiencies**

There are no funds with deficiencies at December 31, 2009.

**Return Objectives and Risk Parameters**

DAGC has adopted an investment policy designed to maximize long-term total return of its financial assets within an acceptable risk tolerance level, consistent with immediate cash needs and future spending needs. A secondary objective is to maintain real (inflation-adjusted) purchasing power.

**Strategies Employed for Achieving Objectives**

To achieve its investment objectives, DAGC will employ a total return concept and may utilize a diversified investment strategy of equities, fixed income, convertibles, real estate (REITs) and cash equivalents.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

DAGC has a policy of withdrawing up to 4% of a 36-month rolling average of the value of its investment portfolio to balance its annual operating budget. Withdrawals in excess of such amount must first be approved by its Board of Directors. Over the long-term, this policy is intended to allow its portfolio to grow at a rate that is consistent with its stated investment policy, although there can be no guaranty that such objective will be achieved.

**Note 16. Fair Value Disclosures**

DAGC measures its financial instruments at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting principles and standards established a three level hierarchy for disclosure to show the extent and level of judgment used to estimate fair value measurements:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 — Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the fiscal year ended December 31, 2009, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

*Investments*

The fair value of investments is based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

In determining the appropriate levels, DAGC performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as level 3.

Diabetes Association of Greater Cleveland and Subsidiaries

Notes to Consolidated Financial Statements

**Note 16. Fair Value Disclosures (Continued)**

Fair Value on a Recurring Basis

The table below presents the balance of investment assets measured at fair value on a recurring basis as of December 31, 2009:

	Total	Level 1	Level 2	Level 3
Mutual funds:				
Equity	\$ 973,715	\$ -	\$ 973,715	\$ -
Fixed income	507,890		507,890	-
Common/collective funds	933,245			933,245
Government securities	70,438		70,438	-
Corporate bonds	130,157		130,157	-
Certificates of deposit	15,922		15,922	-
<b>Total</b>	<b>\$ 2,631,367</b>	<b>\$ -</b>	<b>\$ 1,698,122</b>	<b>\$ 933,245</b>

The changes in the fair value of Level 3 assets are summarized as follows:

	Common/Collective Fund
Balance, January 1, 2009	\$ 1,003,680
Realized and unrealized loss on investments	(70,435)
<b>Ending, December 31, 2009</b>	<b>\$ 933,245</b>

The realized and unrealized loss on investments is reported within non-operating investment activity on the statement of activities.