

DIABETES AUSTRALIA LIMITED
(Incorporated in Australian Capital Territory
Company Limited by Guarantee)

ABN 47 008 528 461

Financial Report
For the Year Ended
30 June 2010

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CORPORATE INFORMATION

Directors

M Andrew
T Aylon
P De
G Deed
J Giles
J Gunton
H Hart
D Healy
R Jackson
R Kelso
C Mackey
P McKenzie
G Melson
A Sheehan
E Smyth
E Stockdale
A Stocks
C Thomas
J Townend
S Twigg
M Watson
P Williams

Company secretary

P Southcott

Registered office

Level 2, 103-105 Northbourne Avenue
Turner ACT 2612

Principle place of business

Level 2, 103-105 Northbourne Avenue
Turner ACT 2612

Bankers

Commonwealth Bank of Australia
33-35 Northbourne Avenue,
Canberra City ACT

National Australia Bank Limited
179 London Circuit,
Canberra ACT 2600

DIRECTORS' REPORT

Your directors present this report on the Company for the financial year ended 30 June 2010.

Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

M Andrew

Qualifications - Public Servant
- BA, MBA, GradCert SCI, AIMM

Experience - Board Member since 01/06/09 (resigned 09/10/09)

P De

Qualifications - Public Servant
- BE, MSC, PhD

Experience - Board member since 2/12/09

G Deed

Qualifications - Medical Practitioner
- MBBS, Dip Herbal Medicine, FACNEM

Experience - Board member since 2000 (resigned 09/08/09)

Special Responsibilities - President

J Giles

Qualifications - Registered Nurse
- B Ed, Master of Nursing

Experience - Board member since 2007 (resigned 02/11/09)

Special Responsibilities - Member of Medical, Education and Scientific Committee

J Gunton

Qualifications - MBBS, FRACP, PhD

Experience - Board member since 25/11/08 (resigned 11/10/09, joined 21/01/10)

H Hart

Qualifications - Registered Nurse, Registered Midwife
- Cardiac Care Certificate (CCC), Bachelor of Nursing (BN)

Experience - Board member since 11/03/10 (resigned 26/07/10)

DIRECTORS' REPORT (CONT'D)

D Healy

- Qualifications - B Com (Melb)
Experience - Board member since 01/07/10

R Jackson

- Qualifications - Finance Consultant
- CA, MAICD, B Fin Admin
Experience - Board member since 08/08/09 (resigned 10/08/09)

R Kelso

- Qualifications - B Physiotherapy, FAICD, MBA
Experience - Board member since 2006 (resigned 09/08/09)

C Mackey

- Qualifications - BEc, CTch, MAICD
Experience - Board member since 31/05/10

P McKenzie

- Qualifications - LLB
Experience - Board member since 08/06/10
Special Responsibilities - Independent president

G Melson

- Qualifications - Post grad dip MGT, MBA
Experience - Board member since 22/02/10, alternative director for A Sheehan

K Pettit

- Qualifications - Barrister
- BA, AIT (Pharmacy), B Juris, LLB
Experience - Board member since 11/01/09 (resigned 08/07/09)

A Sheehan

- Qualifications - B Ed, Grad Cert of Management, Cert IV Life Coaching
Experience - Board member since 2007 (extended leave of absence since 18/02/10,
G Melson appointed alternative director in absence)

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DIRECTORS' REPORT (CONT'D)

E Smyth

- Qualifications - B Sc (Hons), MSc (Applied), FAICD
- Experience - Board member since 2006 (resigned 05/01/09, joined 08/07/09, resigned 29/11/09)
- Special Responsibilities - Acting president (08/07/09 to 29/11/09)

E Stockdale

- Qualifications - BB, FAICD, FCPA, FCSA
- Experience - Board member since 01/05/08 (resigned 26/08/08, joined 26/06/09, resigned 30/06/10)

A Stocks

- Qualifications - AM, MBBS, FRCPEd, FRACP
- Experience - Board members since 1992 (resigned 13/10/09)

C Thomas

- Qualifications - MBA, Grad Cert in Bus, Grad Cert in HR
- Experience - Board member since 2007 (resigned 20/10/09)

J Townend

- Qualifications - AM, CFRE, FFIA, LFS (Hons)
- Experience - Board member since 18/06/10
- Special Responsibilities - Director and Chair of Diabetes Australia Research Limited

S Twigg

- Qualifications - Staff Specialist in Endocrinology, MBBS (Hons1), FRACP, PhD
- Experience - Board member since 2002 (resigned 11/10/09, joined 19/01/10)
- Special Responsibilities - Member of Medical Education and Scientific Committee

M Watson

- Qualifications - DIPTCH, BED, GRAD DIP DIST EF, DIP FMI
- Experience - Board member since 03/12/09

P Williams

- Qualifications - Hospital Scientist
- BSC (Hons), MSC, PhD
- Experience - Board member since 22/12/08 (resigned 11/10/09, joined 19/01/10)
- Special Responsibilities - Executive Officer, International Diabetes Federation Western Pacific Region

DIRECTORS' REPORT (CONT'D)

Company Secretary

The following person held the position of company secretary at the end of the financial year:

Mr Paul Southcott

B. Economics, CPA

Mr Southcott has extensive experience in senior management roles in private and the public sector in financial management, strategic planning, office administration and governance.

Mr Southcott was appointed as Company Secretary on 30 November 2008.

Dividends

Diabetes Australia Limited is a company limited by guarantee and does not pay dividends.

Principal activities

The principal activities of Diabetes Australia Limited and its controlled entities (the Group) during the year were to:

- undertake national policy, advocacy and government relations
- support national research agenda
- support and consult with member organisations
- actively represent Australia in International affairs through the International Diabetes Federation (IDF)
- contract manage the National Diabetes Services Scheme (NDSS)

No significant changes in the nature of the company's activity occurred during the financial year.

Operating results

The surplus of the Group amounted to \$247,508.

Review of operations

The overall operations for Diabetes Australia Limited remained consistent with the 2008-09 financial year. In February 2006 the Board approved a new Strategic Plan for Diabetes Australia Limited for the 2007-2010 period. The updated Strategic Plan places people affected by diabetes at the centre of all activities undertaken by Diabetes Australia Limited. The vision for Diabetes Australia Limited – A world free of diabetes - remains consistent with the previous Strategic Plan and the mission for the organisation – Turning diabetes around – and has been updated to reflect the new branding for the organisation which was launched in March 2006.

There are five focus areas which Diabetes Australia Limited is working on to turn diabetes around. These are awareness, prevention, detection, management and ultimately a cure for all types of diabetes. The objectives Diabetes Australia Limited is pursuing in each of these focus areas is listed in the table below:

Focus Area	Objective
Awareness	To raise awareness of the seriousness of all types of diabetes
Prevention	To reduce the incidence of all types of diabetes
Detection	To increase early diagnosis of all types of diabetes
Management	To maximise capacity to manage and care for all types of diabetes
Cure	To support and promote research for a cure for all types of diabetes

In pursuing these objectives, Diabetes Australia Limited is focusing on three key strategies:

- To lead and develop national policies and positions;
- To cooperate with federation members and other organisations to share knowledge and resources to add value for people with diabetes; and
- To assess and improve our performance to be a leading national not-for-profit health organisation.

DIRECTORS' REPORT (CONT'D)

Significant changes in the state of affairs

In the 2009-10 financial statements, Diabetes Australia Limited changed its accounting policies to consolidate the subsidiaries, Diabetes Australia Research Limited and Diabetes Australia Research Trust. The financial statements provide readers consolidated information for both the 2008-09 and 2009-10 financial year.

The Diabetes Australia Board of Directors appointed Patricia McKenzie as the company's first Independent President/Chair. Patricia has vast experience as an Independent Chair and CEO for the non profit sector and the energy industry.

Diabetes Australia made the full and final repayment to the Commonwealth of Australia for the loss resulting from the closure of the Macquarie Bank portfolio of \$622,169 in February 2010, in advance of its due date 30 June 2010.

After balance date events

Mr Greg Johnson continued in the role of Acting Chief Executive Officer through out the 2009-10 financial year. Mr Johnson has been seconded from Diabetes Australia Victoria where he became Chief Executive Officer in January 2003. Since balance date, the board has actively began the recruitment proceedings to employ a new Chief Executive Officer for Diabetes Australia.

Diabetes Australia and the State and Territory agents have reached agreement on a structural separation of the NDSS from Diabetes Australia Limited.

Diabetes Australia has received notices of intention to resign with six months effect from two member organisations. If these resignations take effect there will be no material impact on Diabetes Australia financial position.

Environmental regulations and performance

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or a state or territory.

Share options

Diabetes Australia Limited is a Company limited by guarantee and does not grant options.

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DIRECTORS' REPORT (CONT'D)

Directors' meetings

During the financial year, 16 meetings of directors were held. Attendees by each director were as follows:

<u>Director</u>	<u>Alternative Director</u>	Directors' Meetings	
		<u>Eligible Meetings</u>	<u>Number Attended</u>
M Andrew		6	6
P De	T Dimarhos	7	6
G Deed		4	0
J Giles	H Hart	6	6
J Gunton	W Cheung	12	6
H Hart	T Alylen	5	3
D Healy		0	0
R Jackson		1	1
R Kelso		4	4
C Mackey		2	2
P McKenzie		2	2
G Melson		6	6
K Pettit		1	1
A Sheehan		10	5
E Smyth	K Pettit	8	8
E Stockdale		16	13
A Stocks		6	4
C Thomas		6	5
J Townend		2	1
S Twigg		12	11
M Watson		7	7
P Williams		12	10

DIRECTORS' REPORT (CONT'D)

Indemnifying officers or auditor

During or since the end of the financial year the company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

- i. The company has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The amount of the premium was \$4,121 for all directors.

Proceedings on behalf of the company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Auditors' independence declaration

The lead auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 9 of the directors' report.

Signed in accordance with a resolution of the Board of Directors.

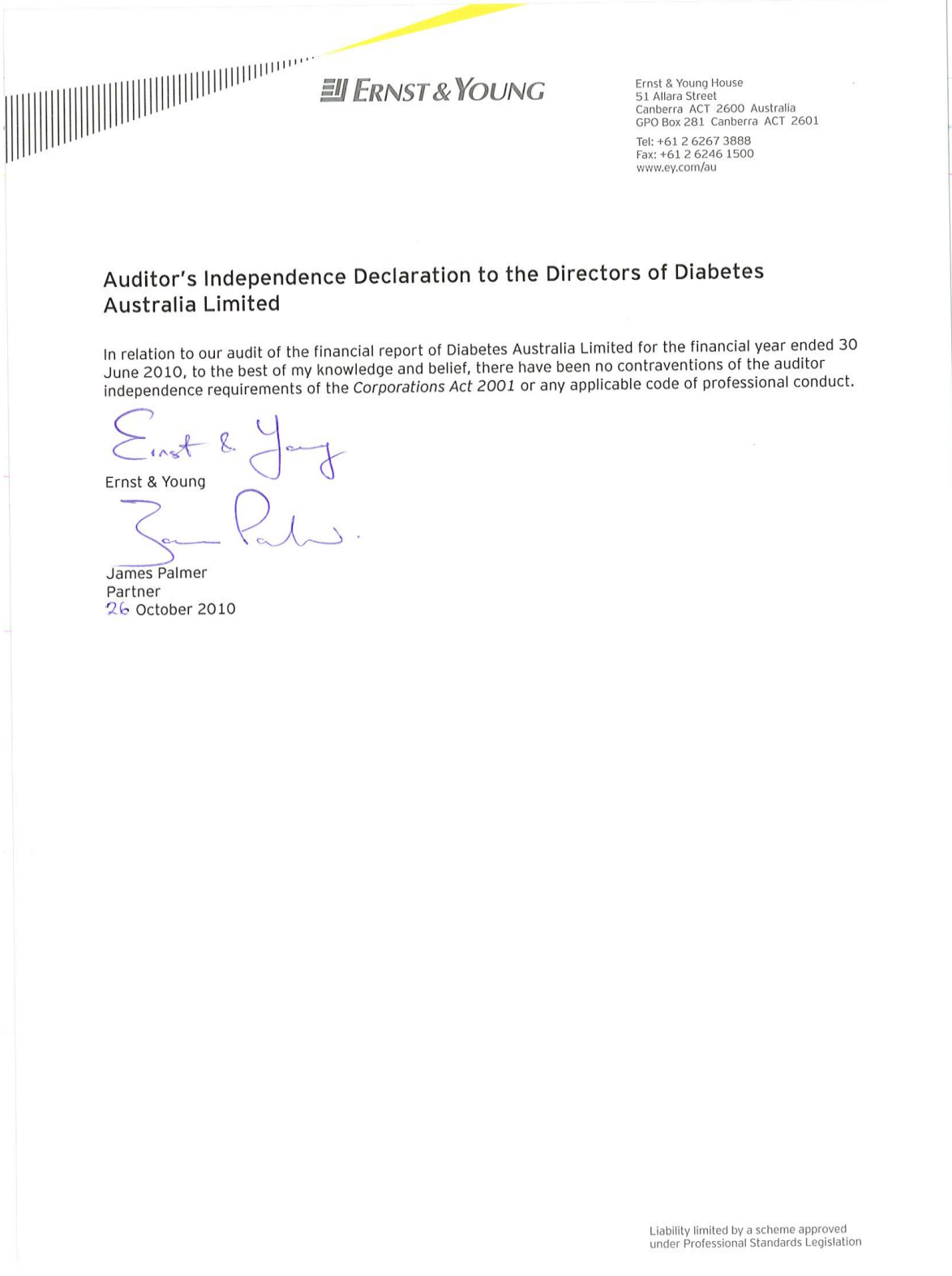


Patricia McKenzie, Director and President



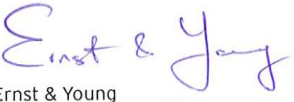

Don Healy, Director

Dated this 26th day of October 2010.



Auditor's Independence Declaration to the Directors of Diabetes Australia Limited

In relation to our audit of the financial report of Diabetes Australia Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.


Ernst & Young

James Palmer
Partner
26 October 2010

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated	
		2010	2009
		\$	\$
Revenue	3 (a)	168,700,726	159,272,555
Other income	3 (b)	2,411,262	3,459,958
Employee benefits expense	4 (a)	(1,626,315)	(2,370,389)
Depreciation	4 (b)	(591,746)	(141,776)
NDSS product supplies		(134,085,677)	(123,840,645)
Agents' remuneration		(29,912,859)	(27,621,556)
Research grants		(1,330,200)	(2,625,368)
Other expenses	4 (c)	(3,317,683)	(8,847,432)
Surplus/(deficit) for the period		247,508	(2,714,653)
Other comprehensive income		-	-
Total comprehensive surplus/(deficit) for the period		247,508	(2,714,653)

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	Consolidated	
		2010	2009
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	20,796,816	7,361,450
Trade and other receivables	8	15,647,393	14,406,601
Other current assets	11	84,233	721,732
TOTAL CURRENT ASSETS		36,528,442	22,489,783
NON-CURRENT ASSETS			
Property, plant and equipment	9	721,060	970,557
Intangible assets	10	631,543	525,915
TOTAL NON-CURRENT ASSETS		1,352,603	1,496,472
TOTAL ASSETS		37,881,045	23,986,255
CURRENT LIABILITIES			
Trade and other payables	12	35,930,691	21,776,376
Borrowings	13	12,341	632,696
TOTAL CURRENT LIABILITIES		35,943,032	22,409,072
NON-CURRENT LIABILITIES			
Provisions	14	129,252	3,591
Borrowings	13	3,408	15,747
TOTAL NON-CURRENT LIABILITIES		132,660	19,338
TOTAL LIABILITIES		36,075,692	22,428,410
NET ASSETS		1,805,353	1,557,845
EQUITY			
Reserves		100	100
Retained earnings		1,805,253	1,557,745
TOTAL EQUITY		1,805,353	1,557,845

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated			Total \$
	Asset held for sale revaluation reserve \$	Settlement capital	Retained earnings \$	
Balance at 1 July 2008	(1,673,738)	100	4,140,527	2,466,889
Profit attributable to the company	-	-	(2,714,653)	(2,714,653)
Prior year adjustment	-	-	131,871	131,871
Transfer to and from Asset Revaluation Reserves	1,673,738	-	-	1,673,738
Balance at 30 June 2009	-	100	1,557,745	1,557,845
Profit attributable to the company	-	-	247,508	247,508
Prior year adjustment	-	-	-	-
Transfer to and from Asset Revaluation Reserves	-	-	-	-
Balance at 30 June 2010	-	100	1,805,253	1,805,353

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STATEMENT OF CASH FLOWS FOR YEAR ENDED 30 JUNE 2010

		Consolidated	
	Note	2010	2009
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of grants		178,088,769	141,808,131
Other receipts		20,021,462	18,057,258
Payments to suppliers and employees		(171,890,726)	(168,854,151)
Interest received		333,739	923,385
GST (paid)		(12,657,662)	(9,789,365)
Net cash flows from/(used in) operating activities	16	13,895,582	(17,854,742)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for property, plant and equipment		(447,877)	(1,248,149)
Payment for available-for-sale investment		-	-
Proceeds from sale of available-for-sale investment		-	8,553,107
Loss on investment		-	1,673,738
Net cash flows from/(used in) investing activities		(447,877)	8,978,696
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of finance lease liabilities		(12,339)	-
Net cash flows from/(used in) investing activities		(12,339)	-
Net increase/(decrease) in cash		13,435,366	(8,876,046)
Cash at beginning of the financial year		7,361,450	16,237,496
Cash at end of the financial year	7	20,796,816	7,361,450

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report of Diabetes Australia Limited (the Company) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 26 October 2010.

Diabetes Australia Limited is a public company limited by guarantee incorporated and domiciled in Australia.

Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

Accounting policies

a. New accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

Diabetes Australia has adopted the following new and amended Australia Accounting Standards and AASB Interpretations as required.

AASB 101: Presentation of Financial Statements (revised 2007) effective 1 January 2009

The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the entity.

b. Basis of consolidation

The consolidated financial statements comprise the financial statements of Diabetes Australia Limited and its subsidiaries and special purpose entities (as outlined in note 17) as at and for the period ended 30 June 2010.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

Special purpose entities are those entities over which the Group has no ownership interest but in effect the substance of the relationship is such that the Group controls the entity so as to obtain the majority of benefits from its operations.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intergroup transactions have been eliminated in full.

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

c. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid funds with original maturities of six months or less.

d. Trade and other receivables

Trade receivables, which generally have a 30 day term, are recognised initially at fair value, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the entity will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment.

e. Investments and other financial assets

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted). Financial instruments are initially measured at fair value plus transactions costs except where the instrument is classified 'at fair value through profit and loss' in which case transaction costs are expensed to the profit and loss immediately.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability, which is extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets are liabilities assumed, is recognised in profit or loss.

Classification and subsequent measurement

Financial instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- i. the amount at which the financial asset or financial liability is measured at initial recognition;
- ii. less principal repayments;
- iii. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method, and
- iv. less and reduction for impairment

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in the profit and loss.

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

e. Investments and other financial assets (cont'd)

(i) *Financial assets as fair value through profit or loss*

Financial assets are classified at 'fair value through profit or loss' when they are held for trading for the purpose of short-term profit taking, where they are derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of the financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss and the related assets are classified as current assets in the statement of financial position.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequent measured at amortised cost.

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(v) *Financial liabilities*

Non derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

f. Intangible assets

Intangible assets are initially measured as cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets have been assessed as finite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of the future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate.

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**g. Property, plant and equipment**

Plant and equipment is stated as historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the useful life to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Office furniture and equipment	2.5 - 5 years
Computer equipment	2 - 2.5 years
Fixture, fittings and furniture	5 years
NDSS computer equipment	remaining life of contract

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Asset classes carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the income statement. When revealed assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

h. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the assets, but not the legal ownership, are classified as finance leases. Finance leases are capitalised by recording an asset and liability equal to the minimum lease payments, including any guaranteed residual values. Lease payments are allocation between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the Group will obtain ownership of the asset.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expense on a straight-line basis over the lease term.

i. Impairment of assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets, to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where the future economic benefits of an asset are not primarily dependent upon the assets ability to generate net cash inflows and when the Group would, if deprived of the asset, replace its remaining future economic benefits, value in use is determined as the depreciated replacement cost of an asset.

Where an impairment loss on a revalued asset is identified, this is debited against the revaluation reserve in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation reserve for that same class of asset.

j. Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these good and services. The amounts are unsecured and are usually paid within 30 days of recognition.

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

k. Provisions and employee benefits

Provisions are recognised when there is a present obligation as a result of services rendered as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Wages, salaries, superannuation, annual leave and sick leave

Employee benefits expected to be settled within one year together with benefits arising from wages, salaries and annual leave which may be settled after one year, have been measured at the amounts expect to be paid when the liability is settled.

Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable. Contributions made by the entity to an employee superannuation fund are charged as expenses when incurred.

Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the project unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of services.

l. Revenue recognition

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Grant revenue is recognised in the income statement when the entity obtains control of the grant and it is probably that the economic benefits gained from the grant will flow to the entity and the amount of the grant can be measured reliably.

Interest revenue is recognised using the effective rate method, which for floating rate financial assets is the rate inherent in the instrument.

Revenue from affliction fees are recognised upon the due date in accordance with the constitution.

Revenue from publications is recognised upon delivery of the goods to the customer or rendering of the service to the customer.

Donations and bequests are recognised as revenue when received unless they are designated for a specific purpose, where they are carried forward as prepaid income on the balance sheet.

All revenue is stated net of the amount of goods and services tax (GST).

m. Income tax

The Company is exempt from income tax in accordance with Section 50-5 of the *Income Tax Assessment Act 1997*.

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

n. Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

o. Government grants

Government grant monies are received to fund projects either for contracted periods of time or for specific projects irrespective of the period of time required to complete those projects. Government grants are recognised in the statement of financial position as a liability when the grant is received.

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Where the Group is contractually obliged to provide the services in a subsequent financial period as to when the grant is received, such monies are treated as unexpended grants in the statement of financial position.

When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to deferred income and is released to the statement of comprehensive income over the expected useful life of the relevant asset on a straight-line basis.

p. Contributions

Where non-reciprocal contributions are received from the government or other parties for a nominal value, such contributions are recognised at the fair value at the date of acquisition upon which time an asset is recognised in the statement of financial position and revenue in the statement of income.

q. Fundraising appeals

An appeal is run for regular donations through the "Cure Club" initiative without any face-to-face canvassing activities.

r. Research grants

Research grant expense is recognised when the grant is paid to the recipient. The unpaid grants are not recognised in the statement of financial position. Rather, the unpaid component is recognised as a commitment.

s. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

t. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expense. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumption are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Make good provision

A provision has been made for the present value of anticipated costs of future restoration of leased rental premises. The provision includes future cost estimates associated with dismantling the current fit out. The calculation of this provision requires assumptions such as the lease termination date, and estimated cost of removal. These uncertainties may result in future actual expenditure differing from the amounts currently provided. Changes to the estimated future costs, are recognised in the statement of financial position by adjusting both the expense or asset and provision. The related carrying amounts are disclosed in note 14.

Onerous contract

Diabetes Australia currently holds a rental lease agreement, where a substantial amount of the premises is under utilised. A provision has been made for the present value of the future obligation under the contract where the obligation under the agreement exceeds the economic benefits expected to be received. The calculation of the provision requires assumptions such as the lease termination date, sub leasing of the premises, and the amount of space under utilised. Changes in the onerous contract costs, are recognised in the statement of financial position by adjusting both the expense and provision. The related carrying amounts are disclosed in note 14.

u. Going concern

Diabetes Australia net equity is \$1,805,353 (2009: \$1,557,845) and the operating result for year ended 30 June 2010 is a surplus of \$247,508 (2009: \$2,714,653 deficit). The cash at bank for the Diabetes Australia Limited core business (excluding National Diabetes Service Scheme) is \$685,029 as at 30 June 2010, being \$138,000 higher than June 2009. In the 2009-10 financial year, Diabetes Australia Limited core business (excluding National Diabetes Service Scheme) exceeded the estimated operating budget surplus, repayed all outstanding debts and improved its financial strength.

The NDSS Agreement is a significant proportion of Diabetes Australia's business and will affect the operations of the Company if and when it ends. The current agreement expires on the 30 June 2011 and the Department of Health and Ageing has not yet advised the process for determining administration of the NDSS after that date. A likely outcome is an extension of the contract noting that a five month extension occurred at the expiration of the previous NDSS agreement. Diabetes Australia and the State and Territory agents have reached agreement on a structural separation of the NDSS from Diabetes Australia Limited.

The potential impact on Diabetes Australia of immediate loss of the NDSS has been addressed by the board to ensure the company continues as a going concern. The directors of the Company believe the adoption of the going concern basis is justified for the following reasons:

- (i) Diabetes Australia is developing a plan for the orderly transition of the NDSS Agreement to the Commonwealth or alternative service provider
- (ii) Diabetes Australia is developing plans to allow an appropriate and sustainable reduction in its cost base in the event of the loss of the NDSS agreement
- (iii) Diabetes Australia is working closely with member organisations to achieve its core objectives and principal activities to ensure ongoing member organisations support.

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

u. Going concern (cont'd)

As a result, the financial statements do not include any adjustment relating to the recoverability and classification of recorded asset amounts or to the amount and classification of liabilities that might be necessary should the Company not continue as a going concern.

v. New accounting standards for applications in future periods

The new standards, revised standards, interpretations and amendments to standards which are applicable to future reporting periods that were issued by the Australian Accounting Standards Board prior to the signing of the financial statements are not expected to have a material financial impact.

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 2: MEMBERS' GUARANTEE

The Company is incorporated under the Corporations Act 2001 and is a Company limited by guarantee. If the Company is wound up, the Constitution states that each member is required to contribute a maximum of \$50 each towards meeting any outstanding obligations of the Company.

The Diabetes Research Foundation of Western Australia, ceased voluntarily as a full member, and became an associate member.

At 30 June 2010 the number of members was 8 (2009:9).

NOTE 3: REVENUE AND OTHER INCOME

	Consolidated	
	2010	2009
	\$	\$
(a) Revenue		
<i>Revenue from government grants and other grants</i>		
— Federal government grants	167,076,101	156,479,407
<i>Other revenue</i>		
— Affiliation fees	643,473	1,133,387
— Interest received	385,520	907,472
— Publications	129,525	245,266
— Royalties	410,718	493,479
— Other revenue	55,389	13,544
Total Revenue	168,700,726	159,272,555
(b) Other income		
— Sponsorship	57,592	136,318
— Fundraising	182,574	203,386
— Donations and bequests received	1,133,291	2,014,470
— NDSS stock sales	586,146	262,602
— NDSS on costing	392,360	111,059
— Other	59,299	732,123
Total Other Income	2,411,262	3,459,958
Total Revenue and Other Income	171,111,988	162,732,513

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NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 4: EXPENSES

		Consolidated	
		2010	2009
		\$	\$
(a) Employee benefits expense			
—	Wages and salaries	1,280,855	2,101,250
—	Superannuation expense	120,404	184,615
—	Other employee benefits expense	225,056	84,524
		1,626,315	2,370,389
(b) Depreciation and amortisation			
—	Office equipment	9,767	9,783
—	Computer equipment	15,835	16,842
—	NDSS network	406,984	50,613
—	Fixtures, furniture and fittings	159,160	64,538
		591,746	141,776
(c) Other expenses			
—	Bad and doubtful debts expense	3,091	511,133
—	Rental expense on operating leases	241,461	234,974
—	Consultants and contractors	997,044	1,749,223
—	Fundraising activities	22,652	22,934
—	Office and equipment	774,279	1,251,175
—	Administrative expenses	1,045,903	1,998,999
—	Loss on investment	-	2,562,831
—	Other expenses	233,253	516,163
		3,317,683	8,847,432

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NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 5: AUDITORS' REMUNERATION

The auditor of Diabetes Australia Limited is Ernst & Young.

	Consolidated	
	2010	2009
	\$	\$
<i>Amounts received or due and receivable by Ernst & Young (Australia) for:</i>		
— auditing or reviewing the financial report of the entity and any other entity in the consolidated group	44,500	-
<i>Amounts received or due and receivable by non Ernst & Young audit firms:</i>		
— auditing or reviewing the financial report of the entity and any other entity in the consolidated group	9,387	57,911

NOTE 6: FUNDRAISING

(a) Income statement for fundraising appeals

	Consolidated	
	2010	2009
	\$	\$
Revenue from fundraising appeals	182,574	203,386
Research grant expenditure from fundraising appeals	159,922	180,452
Recurrent administration expenditure from fundraising appeals	22,652	22,934
Surplus from fundraising appeals	-	-

(b) Comparisons

	%	%
Direct expenditure	12%	11%
Research grant expenditure	88%	89%

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 7: CASH AND CASH EQUIVALENTS

	Note	Consolidated	
		2010	2009
		\$	\$
CURRENT			
Cash at bank and on hand		20,796,816	7,157,077
Short-term bank deposits		-	204,373
	22	<u>20,796,816</u>	<u>7,361,450</u>

Reconciliation to statement of cash flows

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 30 June:

Cash at bank and on hand		20,796,816	7,157,077
Short-term bank deposits		-	204,373
	16	<u>20,796,816</u>	<u>7,361,450</u>

Included in cash and cash equivalents is \$50,734 held by the Commonwealth Bank as a security for a guarantee provide by them to Hambib Pty Ltd. This guarantee is for the Company' obligations for rental bond under its tenancy agreement for the registered office.

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)
NOTE 8: TRADE AND OTHER RECEIVABLES

	Note	Consolidated	
		2010	2009
		\$	\$
CURRENT			
Trade receivables		15,479,349	14,309,158
Provision for impairment of receivables		(41,718)	(112,033)
		<u>15,437,631</u>	<u>14,197,125</u>
Other receivables		209,762	209,476
Total current trade and other receivables	22	<u><u>15,647,393</u></u>	<u><u>14,406,601</u></u>

(a) Provision for impairment of receivables

Trade receivables are non-interest bearing and are generally on 30 day terms. These receivables are assessed for recoverability and a provision for impairment is recognised when there is objective evidence that an individual trade receivable is impaired. These amounts have been included in other expense items.

Movement in the provision for impairment of receivables is as follows:

	\$
Provision for impairment as at 30 June 2008	-
— Charge for year	623,166
— Written off	<u>(511,133)</u>
Provision for impairment as at 30 June 2009	112,033
— Charge for year	(67,224)
— Written off	<u>(3,091)</u>
Provision for impairment as at 30 June 2010	<u><u>41,718</u></u>

(b) Credit risk

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled within the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Company.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

 NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)
NOTE 8: TRADE AND OTHER RECEIVABLES (CONT'D)

	Consolidated					Considered Impaired \$
	Total \$	0-30 \$	31-60 \$	61-90 \$	> 90 \$	
2010						
Trade receivables	15,479,349	15,430,775	5,940	391	525	41,718
Other receivables	209,762	209,762	-	-	-	-
Total	15,689,111	15,640,537	5,940	391	525	41,718
2009						
Trade receivables	14,309,158	13,735,151	13,694	55,770	392,510	112,033
Other receivables	209,476	209,476	-	-	-	-
Total	14,518,634	13,944,627	13,694	55,770	392,510	112,033

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NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Consolidated						
	NDSS network	Office equipment	Leased computer equipment	Computer equipment	Fixtures, fittings and furniture	Work in progress	Total
	\$	\$	\$	\$	\$	\$	\$
Year ended 30 June 2010							
Carrying amount at beginning of year	15,495	23,104	14,704	3,691	257,751	655,812	970,557
Additions	1,553	-	-	-	55,505	162,395	219,453
Transfers In/(Out)	818,207	-	-	-	-	(818,207)	-
Disposals	-	-	-	-	-	-	-
Depreciation	(284,187)	(9,767)	(13,316)	(2,519)	(159,161)	-	(468,950)
Impairment	-	-	-	-	-	-	-
Carrying amount at the end of year	<u>551,068</u>	<u>13,337</u>	<u>1,388</u>	<u>1,172</u>	<u>154,095</u>	<u>-</u>	<u>721,060</u>
At 30 June 2010							
Cost	2,824,836	34,329	35,936	13,730	381,983	-	3,290,814
Accumulated depreciation and impairment	(2,273,768)	(20,992)	(34,548)	(12,558)	(227,888)	-	(2,569,754)
Net carrying amount	<u>551,068</u>	<u>13,337</u>	<u>1,388</u>	<u>1,172</u>	<u>154,095</u>	<u>-</u>	<u>721,060</u>
Year ended 30 June 2009							
Carrying amount at beginning of year	8,953	32,887	29,079	3,673	315,507	-	390,099
Additions	-	-	-	2,486	6,782	676,147	685,415
Transfers In/(Out)	20,335	-	-	-	-	(20,335)	-
Disposals	-	-	-	-	-	-	-
Depreciation expense	(13,793)	(9,783)	(14,375)	(2,468)	(64,538)	-	(104,957)
Impairment	-	-	-	-	-	-	-
Carrying amount at the end of year	<u>15,495</u>	<u>23,104</u>	<u>14,704</u>	<u>3,691</u>	<u>257,751</u>	<u>655,812</u>	<u>970,557</u>
At 30 June 2009							
Cost	2,005,075	34,329	35,937	13,729	326,478	655,812	3,071,360
Accumulated depreciation and impairment	(1,989,580)	(11,225)	(21,233)	(10,038)	(68,727)	-	(2,100,803)
Net carrying amount	<u>15,495</u>	<u>23,104</u>	<u>14,704</u>	<u>3,691</u>	<u>257,751</u>	<u>655,812</u>	<u>970,557</u>

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 10: INTANGIBLE ASSETS**(a) Reconciliation of carrying amounts at the beginning and end of the period**

	Consolidated		
	Developed software \$	Work in progress \$	Total \$
Year ended 30 June 2010			
Carrying amount at beginning of year	187,399	338,516	525,915
Additions	-	228,424	228,424
Transfers In/(Out)	87,290	(87,290)	-
Disposals	-	-	-
Amortisation	(122,796)		(122,796)
Impairment			-
Carrying amount at the end of year	<u>151,893</u>	<u>479,650</u>	<u>631,543</u>
At 30 June 2010			
Cost (gross carrying amount)	311,508	479,650	791,158
Accumulated amortisation and impairment	(159,615)	-	(159,615)
Net carrying amount	<u>151,893</u>	<u>479,650</u>	<u>631,543</u>
Year ended 30 June 2009			
Carrying amount at beginning of year	-	-	-
Additions	-	562,734	562,734
Transfers In/(Out)	224,218	(224,218)	-
Disposals	-	-	-
Amortisation	(36,819)	-	(36,819)
Impairment			-
Carrying amount at the end of year	<u>187,399</u>	<u>338,516</u>	<u>525,915</u>
At 30 June 2009			
Cost (gross carrying amount)	224,218	338,516	562,734
Accumulated amortisation and impairment	(36,819)	-	(36,819)
Net carrying amount	<u>187,399</u>	<u>338,516</u>	<u>525,915</u>

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)
NOTE 10: INTANGIBLE ASSETS (CONT'D)**(b) Description of intangible assets***(i) Developed software*

Software developed by a third party on the entities behalf and is operational as intended. Developed software costs are carried as cost less accumulated amortisation and accumulated impairment losses. These intangible assets have been assessed as having a finite life and is amortised using the straight line method for the remaining life of the current NDSS contract, expected to expire on the 30 June 2011.

(ii) Work in progress

Software developed by a third party on the entities behalf, and is yet to become operational. Specifically relates to the new inventory and sales package for NDSS, and is currently still under construction. It is expected that this software will be operational from the 1 November 2010.

NOTE 11: OTHER ASSETS

	Consolidated	
	2010	2009
	\$	\$
CURRENT		
Prepayments	84,233	102,116
Sundry	-	(2,553)
NDSS receivable from Diabetes Australia	-	622,169
	<u>84,233</u>	<u>721,732</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 12: TRADE AND OTHER PAYABLES

	Note	Consolidated	
		2010	2009
		\$	\$
CURRENT			
Trade payables		11,914,302	11,174,457
Sundry payables and accrued expenses		1,240,132	214,344
Taxation liabilities		1,123,447	1,000,412
Grants received in advance		21,558,359	9,116,748
Employee benefits		94,451	270,415
	12 (a)	35,930,691	21,776,376

(a) Financial liabilities at amortised cost classified as trade and other payables

Trade and other payables			
— Total current		35,930,691	21,776,376
— Total non-current		-	-
		35,930,691	21,776,376
Less taxation liabilities		(1,123,447)	(1,000,412)
Less grants received in advance		(21,558,359)	(9,116,748)
Less annual leave entitlement		(54,263)	(115,237)
		13,194,622	11,543,979
Financial liabilities as trade and other payables	22	13,194,622	11,543,979

NOTE 13: BORROWINGS

	Note	Consolidated	
		2010	2009
		\$	\$
CURRENT			
Finance lease liabilities	19	12,341	10,527
Diabetes Australia payable to NDSS		-	622,169
		12,341	632,696
NON-CURRENT			
Finance lease liabilities	19	3,408	15,747
		3,408	15,747
TOTAL BORROWINGS		15,749	648,443

Unless otherwise disclosed, the carrying amount of the entities current and non-current borrowings approximate their fair value. Lease liabilities are secured by the underlying leased assets.

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)
NOTE 16: CASH FLOW STATEMENT RECONCILIATION

	Note	Consolidated	
		2010	2009
		\$	\$
(a) Reconciliation of cash			
Cash at bank		20,796,816	7,157,077
Other cash		-	204,373
	7	<u>20,796,816</u>	<u>7,361,450</u>
(b) Reconciliation of cash flow from operations with profit/(loss)			
Net Profit/(Loss)		247,508	(2,714,653)
Cash flows excluded from profit attributable operating activities			
<i>Adjustments for</i>			
Depreciation and amortisation		591,746	141,776
Bad debts and doubtful debts		3,091	511,133
Registrant contributions		(19,574,209)	(18,549,228)
<i>Changes in assets and liabilities</i>			
(Increase)/decrease in trade and other receivables		(1,243,883)	(737,627)
(Increase)/decrease in other assets		637,499	(664,353)
(Decrease)/increase in trade and other payables		33,728,524	4,172,170
(Decrease)/increase in long-term provisions		125,661	(3,433)
(Decrease)/increase in financial liabilities		(620,355)	(10,527)
Net cash from/(used in) operating activities		<u>13,895,582</u>	<u>(17,854,742)</u>

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 14: PROVISIONS

	Consolidated	
	2010	2009
	\$	\$
NON CURRENT		
— Long service leave	6,182	3,591
— Make good provision	63,942	-
— Onerous contract	59,128	-
	<u>129,252</u>	<u>3,591</u>

For a description of the nature and timing of cash flows associated with the above provisions, refer to section (b) on the following page.

(a) Movements in provisions

	Consolidated			Total
	Long service leave	Make good provision	Onerous contract	
	\$	\$	\$	\$
Opening balance at 1 July 2009	3,591	-	-	3,591
Arising during the year	4,609	60,177	59,128	123,914
Utilised	-	-	-	-
Unused amounts reversed	(2,018)	-	-	(2,018)
Unwinding and discount rate adjustment		3,765	-	3,765
Closing balance at 30 June 2010	<u>6,182</u>	<u>63,942</u>	<u>59,128</u>	<u>129,252</u>

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 14: PROVISIONS (CONT'D)

(b) Nature and timing of provisions

(i) Long service leave

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

(ii) Make good provision

In accordance with the lease agreement with Hamib Pty Ltd, the entity must restore the leased premises to its original condition at the end of the lease term in 2013.

A provision of \$60,177 was raised during the year ended 30 June 2010 in respect of the obligation to remove leasehold improvements from these leased premises and is included in the carrying amount of the leasehold improvements.

Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the costs that will ultimately be incurred. The provision has been calculated using a discount rate of 6.07%.

(iii) Onerous contract

The current lease agreement held with Hamib Pty Limited, currently provides more space than is required, resulting in under utilisation of the premises.

A provision of \$59,128 was raised during the year ended 30 June 2010 in respect of the future obligation which exceeds the economic benefit expected to be received.

NOTE 15: RESERVES

(a) Nature and purpose of reserves

(i) Assets available for sale revaluation reserve

The asset revaluation reserve is used to record increases and decreases in the fair value of assets to the extent that they offset each other.

The financial asset associated with this reserve was realised in the 2008-09 financial year.

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)
NOTE 17: RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of Diabetes Australia Limited and the subsidiaries listed below:

- Diabetes Research Australia Trust
- Diabetes Research Australia Limited

The Diabetes Australia Limited as parent company, manages and provides administrative support for Diabetes Australia Research Limited which acts as trustee for the Diabetes Australia Research Trust. The trust activities include the collection and disbursement of funds donated for research into diabetes.

(b) Other related parties

No other related party transactions occurred during the financial year.

NOTE 18: KEY MANAGEMENT PERSONNEL COMPENSATION

The expense recognised for employee services received during the year is shown in the table below:

	2010	2009
	\$	\$
Short - term employee benefits	353,802	792,951
Post - employment benefits	34,235	70,483
Other long - term benefits	-	-
Termination benefits	27,897	78,498
TOTAL COMPENSATION	415,934	941,932

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 19: COMMITMENTS

	Consolidated	
	2010	2009
	\$	\$
(a) Finance lease commitments		
Payable — minimum lease payments		
— Within one year	12,341	10,527
— After one year but not more than five years	3,408	15,747
— After more than five years	-	-
Minimum lease payments	15,749	26,274
Less future finance charges	(1,970)	(5,614)
Present value of minimum lease payments	<u>13,779</u>	<u>20,660</u>

The finance lease on computer equipment, commenced in the 2008 financial year, is for four years with the lease payments payable quarterly in advance. The equipment is being leased through Capital Easy Finance & Leasing.

(b) Operating lease commitments

Payable — minimum lease payments		
— Within one year	252,055	246,304
— After one year but not more than five years	350,007	602,072
— After more than five years	-	-
Minimum lease payments	<u>602,062</u>	<u>848,376</u>

The operating lease commitments consist of two distinct leases. The first, the property lease, is a non-cancellable operating lease with a five-year term, with rent payable quarterly in advance. Contingent rental provisions within the lease agreement require that the minimum lease payments shall be increased by 3% per annum. An option exists to renew the lease at the end of the five-year term for an additional term of five years.

The second operating lease relates to leased computer equipment with rent payable quarterly in advance.

(c) Research grants

Payable - research grants		
— Within one year	630,637	332,239
— After one year but not more than five years	252,000	525,581
	<u>882,637</u>	<u>857,820</u>

Research grant payments are made on a half yearly basis, resulting in outstanding commitments at 30 June 2010.

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 20: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets as at 30 June 2010.

NOTE 21: EVENTS AFTER THE BALANCE DATE

Mr Greg Johnson continued in the role of Acting Chief Executive Officer throughout the 2009-10 financial year. Mr Johnson has been seconded from Diabetes Australia Victoria where he became Chief Executive Officer in January 2003. Since balance date, the board has actively began the recruitment proceedings to employ a new Chief Executive Officer for Diabetes Australia.

Diabetes Australia and the State and Territory agents have reached agreement on a structural separation of the NDSS from Diabetes Australia Limited.

Diabetes Australia has received notices of intention to resign with six months effect from two member organisations. If these resignations take effect there will be no material impact on Diabetes Australia financial position.

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)
NOTE 22: FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist solely of deposits with AA credit rated (S&P) banks, accounts receivables, payable and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

		Consolidated	
	Note	2010	2009
		\$	\$
Financial Assets			
Cash and cash equivalents	7	20,796,816	7,361,450
Loans and receivables	8	15,647,393	14,406,601
		36,444,209	21,768,051
Financial Liabilities			
Trade and other payables	12	13,194,622	11,543,979
Lease liabilities	19	15,749	26,274
		13,210,371	11,570,253

Risk exposures and responses

The board's overall risk management strategy seeks to ensure maximum return on funds held, whilst minimising potential adverse effects on financial performance.

(i) Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

(ii) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- investing surplus cash only with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.
- Directors are in receipt of monthly management reports

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)
NOTE 22: FINANCIAL RISK MANAGEMENT (CONT'D)*(ii) Liquidity risk (cont'd)*

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the statement of financial position.

		Consolidated			
	Note	Within 1 year	1 - 5 years	> 5 years	Total
		\$	\$	\$	\$
Year ended 30 June 2010					
Liquid financial assets					
— Cash and cash equivalents	7	20,796,816	-	-	20,796,816
— Loan and receivables	8	15,647,393	-	-	15,647,393
Total anticipated inflows		<u>36,444,209</u>	-	-	<u>36,444,209</u>
Financial liabilities					
— Lease liabilities	19	(12,341)	(3,408)	-	(15,749)
— Trade and other payables	12	(13,194,622)	-	-	(13,194,622)
Total expected outflows		<u>(13,206,963)</u>	<u>(3,408)</u>	-	<u>(13,210,371)</u>
Net inflow/(outflow)		<u>23,237,246</u>	<u>(3,408)</u>	-	<u>23,233,838</u>
Year ended 30 June 2009					
Liquid financial assets					
— Cash and cash equivalents	7	7,361,450	-	-	7,361,450
— Loan and receivables	8	14,406,601	-	-	14,406,601
Total anticipated inflows		<u>21,768,051</u>	-	-	<u>21,768,051</u>
Financial liabilities					
— Lease liabilities	19	(10,527)	(15,747)	-	(26,274)
— Trade and other payables	12	(11,543,979)	-	-	(11,543,979)
Total expected outflows		<u>(11,554,506)</u>	<u>(15,747)</u>	-	<u>(11,570,253)</u>
Net inflow/(outflow)		<u>10,213,545</u>	<u>(15,747)</u>	-	<u>10,197,798</u>

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 22: FINANCIAL RISK MANAGEMENT (CONT'D)

(iii) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counter parties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and removal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counter parties), ensuring to the extent possible, that customers and counter parties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Credit terms are generally 30 days from the invoice date.

The maximum exposure to credit risk by class of recognised financial assets at balance date is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the balance sheet.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 7.

The trade receivables balance at 30 June 2010 comprises a receivable from Department of Health & Ageing of \$15,126,244, representing 98% of the total trade receivables balance. The trade receivables balance at 30 June 2010 and 30 June 2009 do not include any counter parties with external credit ratings. Customers are assessed for credit worthiness using the criteria detailed above.

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)

NOTE 22: FINANCIAL RISK MANAGEMENT (CONT'D)*(iv) Fair value*

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the balance sheet. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgement, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgement and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded.

		Consolidated				
		2010		2009		
		Net Carrying Value	Net Fair Value	Net Carrying Value	Net Fair Value	
Footnote		\$	\$	\$	\$	
Financial assets						
—	Cash and cash equivalents	*	20,796,816	20,796,816	7,361,450	7,361,450
—	Trade and other receivables	*	15,647,393	15,647,393	14,406,601	14,406,601
Total financial assets			36,444,209	36,444,209	21,768,051	21,768,051
Financial liabilities						
	Trade and other payables	*	13,194,622	13,194,622	11,543,979	11,543,979
	Lease liability	#	15,749	15,749	26,274	26,274
Total financial liabilities			13,210,371	13,210,371	11,570,253	11,570,253

The fair values disclosed in the above table have been determined based on the following methodologies:

* Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables exclude amounts provided for relating to annual leave, taxation liabilities and grants received in advance, which are not considered financial instruments.

For listed available-for-sale financial assets, closing quoted bid prices at reporting date are used.

Diabetes Australia Limited and its controlled entities do not undertake sensitivity analysis of their exposure to interest rate risk, as the risk is limited to fixed leasing liabilities. The Group's trade and other payables are non-interest bearing. The Group's cash and cash equivalents are invested in major financial institutions with a AA credit rating (S&P).

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2010 (CONT'D)
NOTE 23: CAPITAL MANAGEMENT

Management control the capital of the Group to ensure that adequate cash flows are generated to fund its programs and that returns from investments are maximised. The Board considers adequacy of cash reserves in conjunction with the annual budget process and regular financial reports.

The Group's capital consists of financial liabilities, supported by financial assets.

Management effectively manage the Group's capital by assessing the Group's financial risks and responding to changes in these risks and in the market. These responses may include the consideration of debt levels.

There have been no changes to the strategy adopted by management to control the capital of the Group since the previous year.

The gearing ratios for the years ended 30 June 2010 and 30 June 2009 are as follows:

		Consolidated	
	Note	2010	2009
		\$	\$
Total financial liabilities	22	13,210,371	11,570,253
Less cash and cash equivalents	7	<u>(20,796,816)</u>	<u>(7,361,450)</u>
Net debt		(7,586,445)	4,208,803
Total equity (reserves + retained earnings)		<u>1,805,353</u>	<u>1,557,845</u>
Total capital		<u><u>(5,781,092)</u></u>	<u><u>5,766,648</u></u>
Gearing ratio		131.2%	73.0%

NOTE 24: ECONOMIC DEPENDENCE

A significant portion of the Group's income is from the Australian Federal Government grants. The Group is dependent on these grants to operate at its current capacity.

NOTE 25: PARENT ENTITY

	2010	2009
	\$	\$
Information relating to Diabetes Australia Limited		
Current assets	35,405,752	21,359,934
Total assets	36,758,356	22,856,406
Current liabilities	35,932,036	22,400,249
Total liabilities	36,058,512	22,419,587
Issued capital	-	-
Retained earnings	699,844	436,819
Total shareholders' equity	<u>699,844</u>	<u>436,819</u>
Profit or loss of the parent entity	263,025	(1,667,650)
Total comprehensive income of the parent entity	<u>263,025</u>	<u>(1,667,650)</u>

DIRECTORS' DECLARATION

1. In the opinion of the directors:
 - (a) The financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the Group are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the Group's financial position as at 30 June 2010 and of their performance for the year ended on that date.
 - (ii) Complying with the Accounting Standards and *Corporations Regulations 2001*.
 - (b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
2. This declaration has been made in accordance with a resolution of the Board of Directors.



Patricia McKenzie, Director and President



Don Healy, Director

Dated this 26th day of October 2010.

Independent auditor's report to the members of Diabetes Australia Limited

Report on the Financial Report

We have audited the accompanying financial report of Diabetes Australia Limited, which comprises the consolidated statement of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

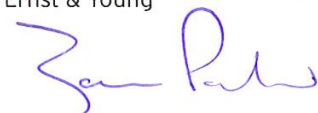
Auditor's Opinion

In our opinion the financial report of Diabetes Australia Limited is in accordance with the *Corporations Act 2001*, including:

- i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and
- ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'James Palmer'.

James Palmer
Partner
Canberra
26 October 2010