KPMG

JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
Juvenile Diabetes Research Foundation International:

We have audited the accompanying statements of financial position of The Juvenile Diabetes Research Foundation International (the Foundation) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Juvenile Diabetes Research Foundation International as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 13, 2011

JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

Statements of Financial Position

June 30, 2011 and 2010

(In thousands)

Assets		**2011**	**2010**
Cash and cash equivalents	$	20,479	23,011
Investments (note 3)		148,406	146,169
Accounts receivable		14,329	5,081
Pledges receivable, net (note 6)		19,769	23,094
Prepaid expenses and other assets		4,618	2,792
Fixed assets, net (note 7)		6,948	3,760
Total assets	$	214,549	203,907
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	13,000	12,610
Liabilities related to split-interest agreements		2,640	2,554
Deferred special events revenue		5,451	4,524
Research grants payable (note 9)		145,427	152,664
Total liabilities		166,518	172,352
Commitments and contingencies (note 10)			
Net assets:			
Unrestricted		12,792	466
Temporarily restricted (note 11)		28,784	25,675
Permanently restricted (note 11)		6,455	5,414
Total net assets		48,031	31,555
Total liabilities and net assets	$	214,549	203,907

See accompanying notes to financial statements.

JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

Statements of Activities

Years ended June 30, 2011 and 2010

(In thousands)

	2011				2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Public support and revenue:								
Public support:								
Contributions	$ 33,658	13,392	1,000	48,050	31,517	13,763	—	45,280
Special events:								
Proceeds	153,921	—	—	153,921	149,003	—	—	149,003
Direct donor benefits	(25,695)	—	—	(25,695)	(25,430)	—	—	(25,430)
Contributions from affiliates (note 8)	22,878	—	—	22,878	24,693	—	—	24,693
Total public support	184,762	13,392	1,000	199,154	179,783	13,763	—	193,546
Revenue:								
Investment return (note 3)	20,621	137	41	20,799	13,104	8	206	13,318
Other	306	—	—	306	224	—	—	224
Total revenue	20,927	137	41	21,105	13,328	8	206	13,542
Net assets released from restrictions	10,420	(10,420)		—	19,218	(19,218)	—	—
Total public support and revenue	216,109	3,109	1,041	220,259	212,329	(5,447)	206	207,088
Expenses (note 5):								
Program services:								
Research support, net (note 9)	128,264	—	—	128,264	117,920	—	—	117,920
Public education	39,940	—	—	39,940	38,657	—	—	38,657
	168,204	—	—	168,204	156,577	—	—	156,577
Supporting services:								
Management and general	13,742	—	—	13,742	13,001	—	—	13,001
Fundraising	21,837	—	—	21,837	21,417	—	—	21,417
	35,579	—	—	35,579	34,418	—	—	34,418
Total expenses	203,783	—	—	203,783	190,995	—	—	190,995
Change in net assets	12,326	3,109	1,041	16,476	21,334	(5,447)	206	16,093
Net assets (accumulated deficit) at beginning of year	466	25,675	5,414	31,555	(20,868)	31,122	5,208	15,462
Net assets at end of year	$ 12,792	28,784	6,455	48,031	466	25,675	5,414	31,555

See accompanying notes to financial statements.

JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

Statements of Functional Expenses

Years ended June 30, 2011 and 2010

(In thousands)

	2011						
	Program services			Supporting services			
	Research support	Public education	Total	Management and general	Fundraising	Total	Total expenses
Research grants, net (note 9)	$ 116,081	—	116,081	—	—	—	116,081
Payroll and related expenses	8,587	26,015	34,602	9,336	14,729	24,065	58,667
Printing and promotional expenses	261	2,222	2,483	491	1,913	2,404	4,887
Office rent and related expenses, including depreciation and amortization	1,608	6,043	7,651	2,502	3,141	5,643	13,294
Meetings and conferences	903	2,428	3,331	497	858	1,355	4,686
Professional services	646	1,802	2,448	403	580	983	3,431
Miscellaneous	178	1,430	1,608	513	616	1,129	2,737
Total functional expenses	$ 128,264	39,940	168,204	13,742	21,837	35,579	203,783
Percentage of total functional expenses	62.94%	19.60%	82.54%	6.74%	10.72%	17.46%	
Costs of direct benefits to donors							25,695
Total expenses and costs of direct benefits to donors							$ 229,478

	Program services			Supporting services			
	Research support	Public education	Total	Management and general	Fundraising	Total	Total expenses
Research grants, net (note 9)	$ 107,547	—	107,547	—	—	—	107,547
Payroll and related expenses	6,701	25,591	32,292	8,656	14,069	22,725	55,017
Printing and promotional expenses	284	2,086	2,370	489	2,019	2,508	4,878
Office rent and related expenses, including depreciation and amortization	1,624	6,305	7,929	2,548	3,329	5,877	13,806
Meetings and conferences	786	2,045	2,831	380	782	1,162	3,993
Professional services	869	995	1,864	379	390	769	2,633
Miscellaneous	109	1,635	1,744	549	828	1,377	3,121
Total functional expenses	$ 117,920	38,657	156,577	13,001	21,417	34,418	190,995
Percentage of total functional expenses	61.74%	20.24%	81.98%	6.81%	11.21%	18.02%	
Costs of direct benefits to donors							25,430
Total expenses and costs of direct benefits to donors							$ 216,425

See accompanying notes to financial statements.

JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

		2011	2010
Cash flows from operating activities:			
Change in net assets	$	16,476	16,093
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Net appreciation in fair value of investments		(14,749)	(11,002)
Depreciation and amortization		1,436	1,989
Changes in operating assets and liabilities:			
Accounts receivable		(9,248)	(1,311)
Pledges receivable		3,325	373
Prepaid expenses and other assets		(1,826)	776
Accounts payable and accrued expenses		390	5,287
Liabilities related to split-interest agreements		86	(44)
Deferred special events revenue		927	178
Research grants payable		(7,237)	(27,488)
Net cash used in operating activities		(10,420)	(15,149)
Cash flows from investing activities:			
Purchase of fixed assets		(4,624)	(3,519)
Purchase of investments		(22,573)	(24,121)
Proceeds from sale of investments		35,085	23,489
Net cash provided by (used in) investing activities		7,888	(4,151)
Change in cash and cash equivalents		(2,532)	(19,300)
Cash and cash equivalents at beginning of year		23,011	42,311
Cash and cash equivalents at end of year	$	20,479	23,011

See accompanying notes to financial statements.

(1) Organization

The mission of the Juvenile Diabetes Research Foundation International (the Foundation) is to find a cure for type 1 diabetes and its complications through the support of research.

The Foundation solicits contributions from the public and engages in various fund-raising activities. Funds raised are used to support type 1 diabetes research. In addition, the Foundation engages in advocacy efforts aimed at increasing federal funding of type 1 diabetes research.

The financial statements of the Foundation include the accounts of the Foundation and its Chapters located throughout the United States. The Foundation has international affiliates located in Canada, Australia, the United Kingdom, and a number of other countries. The financial statements of those organizations are not included in the accompanying financial statements since the Foundation does not exercise control over the management and operations of the international affiliates.

The Foundation is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, organized under the laws of the Commonwealth of Pennsylvania. The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Income generated from activities unrelated to the Foundation's exempt purpose is subject to tax under Internal Revenue Code Section 511. The Foundation did not recognize any unrelated business income tax liability for the years ended June 30, 2011 and 2010.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The Foundation's financial statements are prepared on the accrual basis of accounting in accordance with standards established by the Financial Accounting Standards Board (FASB) for external financial reporting by not-for-profit organizations. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets — Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets — Net assets subject to donor-imposed restrictions that will be met either by actions of the Foundation or by the passage of time.

Permanently Restricted Net Assets — Net assets subject to donor-imposed restrictions, that stipulate that the principal be maintained permanently by the Foundation, but permit the Foundation to expend part or all of the income and gains derived there from.

Revenues and gains and losses on investments and other assets are reported as changes in unrestricted net assets unless limited by explicit donor-imposed restrictions or by law. Expenses are reported as decreases in unrestricted net assets.

(Continued)

When a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

(b) Contributions

Contributions, including unconditional promises to give (pledges), are reported as revenues in the period received or pledged. Contributions with purpose or time restrictions that are not met in the same reporting period as received are reported as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Contributions subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions expected to be received after one year are discounted at a risk-adjusted rate of return. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contribution.

Contributions received for future special events, primarily Walk events, are recorded as deferred revenue and are recognized as revenue in the fiscal year the event takes place, which is generally within one year.

The Foundation administers two types of split-interest agreements — Charitable Gift Annuities and Charitable Remainder Trusts. With Charitable Gift Annuities, the Foundation receives cash or marketable securities from a donor in exchange for an annuity to be distributed for a fixed amount over the lifetime or lifetimes of the donor or other beneficiaries. With Charitable Remainder Trusts administered by the Foundation, the Foundation receives donated assets as trustee under a trust agreement established by the donor in exchange for an income stream to be distributed to the donor and/or other beneficiaries over a specified period of time. The distribution to the donor or other beneficiaries may be a fixed dollar amount (an annuity trust) or percentage of the fair value of the trust as determined annually (unitrust). For both Charitable Gift Annuities and Charitable Remainder Trusts, a related liability is recorded for the actuarially determined present value of the obligation to the annuitant or annuitants. The discount rates used to calculate the liability range between 2.6% and 8.2% at June 30, 2011. For Charitable Gift Annuities, the assets received are held as general assets of the Foundation, and the annuity liability is a general obligation of the Foundation.

(c) Cash and Cash Equivalents

Cash equivalents consist of money market accounts, demand notes, savings accounts, and certificates of deposit purchased with original maturities of three months or less, except for such instruments purchased by the Foundation's investment managers as part of their investment strategies.

(Continued)

(d) ***Investments***

The Foundation's investments, including assets related to split-interest agreements, are reported at fair value based upon quoted market prices or, with respect to hedge funds and convertible preferred stock, at estimated fair value. The estimated fair value of hedge funds, as a practical expedient, is the net asset value as provided by the investment managers, and evaluated for reasonableness by the Foundation. The fair value of the convertible preferred stock of a private company, which was deemed to be without value as of June 30, 2011, is estimated by the Foundation based upon audited financial statements and other information provided by the company. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been used had a ready market existed for such investments.

(e) ***Fixed Assets***

Fixed assets, which consist of furniture, equipment, and leasehold improvements, are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which approximate 3 to 10 years for furniture and equipment. Leasehold improvements are amortized on a straight-line basis over the shorter of the life of the asset or the lease term.

(f) ***Fair Value of Financial Instruments***

Financial instruments are defined to include: cash and cash equivalents, investments, receivables, assets related to split-interest agreements, accounts payable, and liabilities related to split-interest agreements. The fair value of investments is discussed in note 3. The carrying amount of the Foundation's remaining financial instruments approximates fair value.

(g) ***Allocation of Joint Costs***

The Foundation allocates joint costs between fundraising and program services or management and general in accordance with Accounting Standards Codification (ASC) No. 958-720, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fundraising.*

(h) ***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Significant estimates made in the preparation of the financial statements include fair value of alternative investments, net realizable value of contributions receivable, and functional expense allocation. Actual results could differ from those estimates.

(Continued)

(All dollars in thousands)

(i) *Functional Allocation of Expenses*

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services areas that were benefited.

(3) Investments

Investments at June 30, 2011 and 2010 consisted of the following:

		2011	2010
Cash and cash equivalents	$	174	16,107
Equity mutual funds:			
Domestic		31,560	18,626
Foreign		1,340	2,636
Convertible preferred stock		—	4,934
Fixed income mutual funds:			
Corporate		25,587	9,714
Government		8,315	14,565
Hedge funds		81,430	79,587
Total investments	$	148,406	146,169

Included in investments are amounts related to Charitable Gift Annuities and Charitable Remainder Trusts totaling $2,653 and $2,559 respectively at June 30, 2011 and $2,232 and $2,245 respectively at June 30, 2010.

The Foundation's investments are exposed to various risks, such as market and credit risks. Because of the risk associated with such investments, it is possible that change in their values will occur and that such changes could materially affect the Foundation's financial statements. The Foundation is exposed to credit risk in the event of nonperformance by the issuers of the fixed income securities. However, the Foundation does not anticipate such nonperformance.

Convertible preferred stock represents a program-related investment which was deemed to be without value as of June 30, 2011. The write-off of the original value of $3,500 was recorded as a research expense and the previously recognized appreciation of $1,434 was recorded as an investment loss.

(Continued)

(All dollars in thousands)

Assets and liabilities reported at fair value are required to be classified within a fair value hierarchy, which gives preference to the use of observable inputs over unobservable inputs. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

Most investments classified as Level 2 or 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the Foundation's interest therein, its classification in Level 2 or 3 is based on the Foundation's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The following table presents the fair value hierarchy of investments as of June 30, 2011:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 174	174	—	—
Equity mutual funds:				
Domestic	31,560	31,560	—	—
Foreign	1,340	1,340	—	—
Fixed income mutual funds:				
Corporate	25,587	25,587	—	—
Government	8,315	901	7,414	—
Hedge funds	81,430	—	79,063	2,367
Total	$ 148,406	59,562	86,477	2,367

(Continued)

(All dollars in thousands)

The following table presents the fair value hierarchy of investments as of June 30, 2010:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 16,107	16,107	—	—
Equity mutual funds:				
Domestic	18,626	18,626	—	—
Foreign	2,636	2,636	—	—
Convertible preferred stock	4,934	—	—	4,934
Fixed income mutual funds:				
Corporate	9,714	9,714	—	—
Government	14,565	14,565	—	—
Hedge funds	79,587	—	75,138	4,449
Total	$ 146,169	61,648	75,138	9,383

Information with respect to the strategies of those investment funds that are reported at estimated fair value based upon net asset value per share (or its equivalent) is as follows (amounts included are as of June 30, 2011):

Long only global excluding U.S. equity securities ($10,438) — includes investments in companies that are believed to have overlooked value as well as event driven stocks selling at discounts to their intrinsic values. Investments are in long positions, predominately in developed markets outside of the United States.

Long only emerging markets equity securities ($6,235) — includes investments in companies that are believed to have overlooked value as well as event driven stocks selling at discounts to their intrinsic values. Investments are in long positions, predominately in emerging market countries.

Multi-strategy hedge funds ($14,890) — includes investments in funds that pursue multiple investment strategies in an attempt to diversify risks and reduce volatility. Capital allocated to each of the strategies, as well as geographical areas, varies depending on market opportunities.

Equity long/short hedge funds ($20,864) — includes investments in funds that invest both long and short in equities. Investments are also made in fixed income securities and funds, depending on market conditions.

Distressed debt hedge funds ($6,599) — includes investments in bonds and bank loans trading at a significant discount to par value as a result of the debtor company's troubled financial condition.

Marketable real assets ($16,591) — includes investments in liquid energy, real estate, and natural resources equities, as well as investments in commodities.

Fixed income securities ($5,813) — includes investments in sovereign and investment-grade corporate bonds—both in the United States and globally. Investments also include the most senior debt of riskier, noninvestment-grade companies.

(All dollars in thousands)

The limitations and restrictions on the Foundation's ability to redeem or sell these investments vary by investment. Based upon the terms and conditions in effect at June 30, 2011, these investments can be redeemed or sold as follows:

		Amounts
Less than a month	$	10,437
Monthly		12,048
Quarterly		56,578
Annually		2,367
	$	81,430

The following table presents a reconciliation of Level 3 investments for the years ended June 30, 2011 and 2010:

		2011	2010
Balance at beginning of year	$	9,383	17,802
Transfer to Level 2		(2,225)	(9,554)
Net realized and unrealized gains		143	1,135
Program-related investment write-off		(4,934)	—
Balance at end of year	$	2,367	9,383

There were no unfunded commitments as of June 30, 2011.

The components of investment return and its classification in the statements of activities for the years ended June 30, 2011 and 2010 were as follows:

		2011			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividends	$	2,379	137	34	2,550
Net appreciation		18,242	—	7	18,249
	$	20,621	137	41	20,799

(Continued)

(All dollars in thousands)

		2010			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividends	$	2,280	8	28	2,316
Net appreciation		10,824	—	178	11,002
	$	13,104	8	206	13,318

Investment expenses relating to investment advisors, managers, and custodians and other bank charges are recorded as reductions to interest and dividend income. Investment expenses totaled $634 and $686 for the years ended June 30, 2011 and 2010, respectively.

(4) Retirement Plan

The Foundation has a defined contribution pension plan, which covers substantially all employees. The Foundation's expense for the years ended June 30, 2011 and 2010 was $1,554 and $994, respectively.

(5) Allocation of Joint Costs

In 2011 and 2010, the Foundation conducted activities, principally direct mail, that included fund-raising appeals as well as program components. The joint costs incurred were allocated as follows:

		2011	2010
Public education	$	1,479	1,559
Management and general		279	297
Fundraising		2,240	2,351
Total	$	3,998	4,207

(All dollars in thousands)

(6) Pledges Receivable

Pledges receivable at June 30, 2011 and 2010 consisted of:

		2011	2010
Gross pledges receivable, due in:			
Less than one year	$	11,590	11,942
One to five years		9,628	12,990
Thereafter		110	163
		21,328	25,095
Less:			
Allowance for doubtful accounts		(1,134)	(1,344)
Unamortized discount to present value, at rates ranging from 1% to 5.50%		(425)	(657)
	$	19,769	23,094

Pledges receivable have been discounted to their present value at the rate at the time the original unconditional promise to give was made. The Foundation's pledges receivable is made up of 14% and 15% from the 10 largest donors at June 30, 2011 and 2010, respectively.

(7) Fixed Assets

Fixed assets at June 30, 2011 and 2010 consisted of:

		2011	2010
Furniture and equipment	$	10,135	5,568
Leasehold improvements		1,744	1,687
		11,879	7,255
Less accumulated depreciation and amortization		(4,931)	(3,495)
Fixed assets, net	$	6,948	3,760

(All dollars in thousands)

(8) Contributions from Affiliates

During the years ended June 30, 2011 and 2010, the Foundation received contributions from affiliates as follows:

		2011	2010
JDRF — Canada	$	15,924	15,586
JDRF — Australia		4,871	7,202
JDRF — United Kingdom		1,933	1,599
JDRF — Greece		—	37
JDRF — Denmark		—	74
JDRF — Israel		150	195
	$	22,878	24,693

JDRF Australia's 2011 and 2010 contributions include $966 and $3,457, respectively, funded by the Australian Government as part of the JDRF Islet Transplantation Program (ITP) in Australia. The program, which began in 2007, funds JDRF-approved grants at Australian medical and research institutions to address the basic science surrounding preclinical approaches to improve islet transplantation techniques.

JDRF Canada's 2011 and 2010 contributions include $11,784 and $7,883, respectively, related to a joint funding agreement with the Federal Economic Development Agency for Southern Ontario as part of the JDRF Canadian T1D Clinical Trial Network. The program funds JDRF-approved grants to conduct clinical trials to further the development and/or commercialization of an artificial pancreas for diabetics and to establish a Clinical Trial Network in Southern Ontario in order to facilitate and coordinate the conduct of Phase I and II Clinical Trials.

(9) Research Grants Payable

Research grants payable at June 30, 2011 and 2010 consisted of:

		2011	2010
Amounts expected to be paid in:			
Less than one year	$	138,528	150,420
One to five years		6,965	2,269
Subtotal		145,493	152,689
Less discount to present value, at rates ranging from 1% to 1.71%		(66)	(25)
Total	$	145,427	152,664

(All dollars in thousands)

Research grant expense is net of any grant refunds, reductions, or terminations. These adjustments were \$19,066 and \$13,178 for the years ended June 30, 2011 and 2010, respectively.

(10) Commitments and Contingencies

(a) Research Grants

As of June 30, 2011, there were conditional research grant commitments of \$95,041, which will be recognized in the Foundation's financial statements when the conditions have been substantially met, and are currently estimated to be payable as follows:

2012	$	67,014
2013		22,940
2014		2,940
2015		2,147
	$	95,041

The conditional research grant commitments as of June 30, 2010 and 2009 were \$102,453 and \$112,661, respectively.

(b) Leases

In 2009, the Foundation entered into a lease agreement for its national headquarters for a 10-year term. Annual rent is \$1,269, increasing to \$1,353 after the fifth year. Rent expense is recognized on a straight-line basis and, accordingly, a deferred rent credit has been recorded. At June 30, 2011, a credit of approximately \$1,022 is included in accounts payable and accrued expenses.

The Foundation is also obligated under various leases for space occupied by certain Chapters. Rent expense including maintenance costs for the Chapters was \$3,942 and \$3,687 for the years ended June 30, 2011 and 2010, respectively.

Rental commitments for all leases are as follows:

2012	$	5,123
2013		3,946
2014		2,896
2015		2,358
2016		2,030
2017		1,712
Thereafter		3,589
	$	21,654

(Continued)

(All dollars in thousands)

(c) Line of Credit

On February 10, 2011, the Foundation entered into an agreement with JP Morgan Chase for an unsecured line of credit in the aggregate amount of $5 million. The term of the agreement expires January 29, 2012. The line of credit was unused as of June 30, 2011.

(11) Net Assets

(a) Temporarily Restricted Net Assets

At June 30, 2011 and 2010, temporarily restricted net assets were available for the following purposes:

		2011	2010
Future periods, principally contributions receivable and split-interest agreements	$	21,213	24,319
Various research projects		7,571	1,356
	$	28,784	25,675

(b) Permanently Restricted Net Assets

At June 30, 2011 and 2010, the investment return derived from permanently restricted net assets was expendable to support:

		2011	2010
General activities	$	2,576	1,576
Research projects:			
Artificial Pancreas Project		2,000	2,000
Virginia Mason Research Center		1,879	1,838
	$	6,455	5,414

The Foundation's endowment consists of five individual donor-restricted endowment funds established for a variety of purposes. The Commonwealth of Pennsylvania has not enacted a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), or a version of the Uniform Management of Institutional Funds Act (UMIFA). Governing law resides in 15 Pa. C.S. § 5548, *Investment of Trust Funds*. The Foundation has interpreted Pennsylvania law 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, the Foundation classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment and (b) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, when applicable. The endowment funds are invested in fixed income mutual funds. The Foundation has no board-designated endowment funds.

(All dollars in thousands)

The following tables present the changes in the Foundation's donor-restricted endowment funds (excluding permanently restricted contributions receivable of $1,000) for the years ended June 30, 2011 and 2010:

		2011			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at June 30, 2010	$	—	—	5,414	5,414
Investment income		279	133	34	446
Net appreciation (realized and unrealized)		73	—	7	80
Appropriation for expenditure		—	(133)	—	(133)
Endowment net assets at June 30, 2011	$	352	—	5,455	5,940

		2010			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at June 30, 2009	$	—	—	5,208	5,208
Investment income		397	—	28	425
Net appreciation (realized and unrealized)		495	—	178	673
Appropriation for expenditure		(892)	—	—	(892)
Endowment net assets at June 30, 2010	$	—	—	5,414	5,414

(All dollars in thousands)

(12) Subsequent Events

In connection with the preparation of the financial statements, the Foundation evaluated subsequent events through October 13, 2011, which was the date the financial statements were available for issuance. The Foundation entered a lease agreement with the National Headquarters' landlord for 42,000 square feet on the 15th floor at 26 Broadway, New York. The effective date of the lease is September 1, 2011 for an 8 ½ year term expiring on December 31, 2019.

Rental commitments for this new lease are as follows:

2012	$	300
2013		672
2014		1,163
2015		1,198
2016		1,241
2017		1,353
Thereafter		3,383
	$	9,310