KPMG

THE JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

THE 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
The 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, 2010 and 2009, 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, 2010 and 2009, 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 4, 2010

THE JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

Statements of Financial Position

June 30, 2010 and 2009

(In thousands)

Assets		2010	2009
Cash and cash equivalents	$	23,118	42,311
Investments (note 3)		146,062	134,535
Accrued income		5,081	3,770
Contributions receivable, net (note 6)		23,094	23,467
Prepaid expenses and other assets		2,792	3,568
Fixed assets, net (note 7)		3,760	2,230
Total assets	$	203,907	209,881
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	12,610	7,323
Liabilities related to split-interest agreements		2,554	2,598
Deferred special events revenue		4,524	4,346
Research grants payable (note 9)		152,664	180,152
Total liabilities		172,352	194,419
Commitments and contingencies (note 10)			
Net assets (accumulated deficit):			
Unrestricted		466	(20,868)
Temporarily restricted (note 11)		25,675	31,122
Permanently restricted (note 11)		5,414	5,208
Total net assets		31,555	15,462
Total liabilities and net assets	$	203,907	209,881

See accompanying notes to financial statements.

THE JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

Statements of Activities

Years ended June 30, 2010 and 2009

(In thousands)

	2010				2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Public support and revenue:								
Public support:								
Contributions	$ 31,517	13,763	—	45,280	32,509	8,136	—	40,645
Special events:								
Proceeds	149,003	—	—	149,003	147,140	—	—	147,140
Direct donor benefits	(25,430)	—	—	(25,430)	(27,095)	—	—	(27,095)
Contributions from affiliates (note 8)	24,693	—	—	24,693	18,567	—	—	18,567
Total public support	179,783	13,763	—	193,546	171,121	8,136	—	179,257
Revenue (loss):								
Investment return (loss) (note 3)	13,104	8	206	13,318	(36,390)	5	51	(36,334)
Other	224	—	—	224	622	—	—	622
Total revenue (loss)	13,328	8	206	13,542	(35,768)	5	51	(35,712)
Net assets released from restrictions	19,218	(19,218)	—	—	12,243	(12,243)	—	—
Total public support and revenue (loss)	212,329	(5,447)	206	207,088	147,596	(4,102)	51	143,545
Expenses (note 5):								
Program services:								
Research support, net (note 9)	117,920	—	—	117,920	109,912	—	—	109,912
Public education	38,657	—	—	38,657	36,072	—	—	36,072
	156,577	—	—	156,577	145,984	—	—	145,984
Supporting services:								
Management and general	13,001	—	—	13,001	11,930	—	—	11,930
Fund-raising	21,417	—	—	21,417	19,665	—	—	19,665
	34,418	—	—	34,418	31,595	—	—	31,595
Total expenses	190,995	—	—	190,995	177,579	—	—	177,579
Change in net assets	21,334	(5,447)	206	16,093	(29,983)	(4,102)	51	(34,034)
Net assets (accumulated deficit) at beginning of year	(20,868)	31,122	5,208	15,462	9,115	35,224	5,157	49,496
Net assets (accumulated deficit) at end of year	$ 466	25,675	5,414	31,555	(20,868)	31,122	5,208	15,462

See accompanying notes to financial statements.

THE JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

Statements of Functional Expenses

Years ended June 30, 2010 and 2009

(In thousands)

	2010						
	Program services			Supporting services			
	Research support	Public education	Total	Management and general	Fund-raising	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

	2009						
	Program services			Supporting services			
	Research support	Public education	Total	Management and general	Fund-raising	Total	Total expenses
Research grants, net (note 9)	$ 100,870	—	100,870	—	—	—	100,870
Payroll and related expenses	6,045	22,965	29,010	7,798	12,543	20,341	49,351
Printing and promotional expenses	242	2,560	2,802	523	1,936	2,459	5,261
Office rent and related expenses, including depreciation and amortization	1,190	5,776	6,966	2,173	2,822	4,995	11,961
Meetings and conferences	722	1,665	2,387	451	1,122	1,573	3,960
Professional services	776	1,648	2,424	509	634	1,143	3,567
Miscellaneous	67	1,458	1,525	476	608	1,084	2,609
Total functional expenses	$ 109,912	36,072	145,984	11,930	19,665	31,595	177,579
Percentage of total functional expenses	61.90%	20.31%	82.21%	6.72%	11.07%	17.79%	
Costs of direct benefits to donors							27,095
Total expenses and costs of direct benefits to donors							$ 204,674

See accompanying notes to financial statements.

THE JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

Statements of Cash Flows

Years ended June 30, 2010 and 2009

(In thousands)

		2010	2009
Cash flows from operating activities:			
Change in net assets	$	16,093	(34,034)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Net (appreciation) depreciation in fair value of investments		(11,002)	40,027
Depreciation and amortization		1,989	960
Changes in operating assets and liabilities:			
Accrued income		(1,311)	1,608
Contributions receivable		373	3,109
Prepaid expenses and other assets		776	(574)
Accounts payable and accrued expenses		5,287	(4,643)
Split-interest agreements		(44)	(282)
Deferred special events revenue		178	(260)
Research grants payable		(27,488)	(21,003)
Net cash used in operating activities		(15,149)	(15,092)
Cash flows from investing activities:			
Purchase of fixed assets		(3,519)	(1,381)
Purchase of investments		(24,014)	(14,863)
Proceeds from sale of investments		23,489	53,046
Net cash provided by investing activities		(4,044)	36,802
Change in cash and cash equivalents		(19,193)	21,710
Cash and cash equivalents at beginning of year		42,311	20,601
Cash and cash equivalents at end of year	$	23,118	42,311

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 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.

(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, which 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.

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. Upon the death of the annuitant or survivor of the annuitants, the Foundation is entitled to full use of the remainder. 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). Upon the termination of the trust, the Foundation is entitled to full use of the remainder. 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, 2010. 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.

(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 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 three to ten 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 fund-raising 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 Fund-Raising.*

(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.

(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.

(j) ***New Accounting Standards***

In 2010, the Foundation adopted the disclosure requirements of Accounting Standards Update (ASU) No. 2009-12, *Fair Value Measurements and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, with respect to investments within its scope. The Foundation had adopted the measurement provisions of this guidance in 2009.

In 2010, the Foundation adopted ASU 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, in conjunction with its adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (now included in ASC Subtopic 740-10, *Income Taxes – Overall*). FASB Interpretation No. 48 addresses the accounting for uncertainties in income taxes recognized in an organization's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. There was no significant impact on the Foundation's financial statements as a result of the adoption of this guidance.

(3) Investments

Investments at June 30, 2010 and 2009 consisted of the following:

		2010	2009
Cash and cash equivalents	$	16,000	—
Equity mutual funds:			
Domestic		18,626	16,962
Foreign		2,636	2,410
Convertible preferred stock		4,934	4,934
Fixed income mutual funds:			
Corporate		9,714	28,383
Government		14,565	7,380
Hedge funds		79,587	74,466
Total investments	$	146,062	134,535

Included in investments are amounts related to Charitable Gift Annuities and Charitable Remainder Trusts totaling $2,177 and $2,193, respectively, at June 30, 2010 and $1,928 and $2,040, respectively, at June 30, 2009.

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.

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.

(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	$	16,000	16,000	—	—
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	$	146,062	61,541	75,138	9,383

The following table presents the fair value hierarchy of investments as of June 30, 2009:

		Total	Level 1	Level 2	Level 3
Equity mutual funds:	$				
Domestic		16,962	16,962	—	—
Foreign		2,410	2,410	—	—
Convertible preferred stock		4,934	—	—	4,934
Fixed income mutual funds:					
Corporate		28,383	28,383	—	—
Government		7,380	7,229	151	—
Hedge funds		74,466	—	61,598	12,868
Total	$	134,535	54,984	61,749	17,802

Information with respect to the strategies of those investment funds which 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, 2010):

Long only global ex U.S. equity securities ($9,908) – 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 ($4,887) – 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.

(All dollars in thousands)

Long only emerging markets equity securities ($4,887) – 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 ($13,611) – 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 ($18,561) – 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 ($7,329) – includes investments in funds that attempt to invest opportunistically in troubled companies. Investments encompass distressed debt, private equity, real estate, high yield bonds, and a number of hedge fund strategies.

Real assets ($13,943) – includes investments in liquid energy, real estate, and natural resources equities, as well as investments in commodities.

Fixed income securities ($11,348) – 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, non-investment-grade companies.

The limitations and restrictions on the Foundation's ability to redeem or sell these investments, as well as the convertible preferred stock, vary by investment. Based upon the terms and conditions in effect at June 30, 2010, the Foundation's Level 2 and 3 investments can be redeemed or sold as follows:

	Amounts
Less than a month	$ 9,908
Monthly	10,792
Quarterly	54,438
Annually	2,225
Biannually	2,224
More than 2 years	4,934
	$ 84,521

(All dollars in thousands)

The following table presents a reconciliation of Level 3 investments for the years ended June 30, 2010 and 2009:

		2010	2009
Balance at beginning of year	$	17,802	11,274
Transfer to Level 2		(9,554)	—
Net realized and unrealized gains		1,135	528
Purchases		—	6,000
Balance at end of year	$	9,383	17,802

The components of investment return and its classification in the statements of activities for the years ended June 30, 2010 and 2009 were as follows:

		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

		2009			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividends	$	3,644	5	44	3,693
Net (depreciation) appreciation		(40,034)	—	7	(40,027)
	$	(36,390)	5	51	(36,334)

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 $686 and $556 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009 was $994 and $508, respectively.

(All dollars in thousands)

(5) Allocation of Joint Costs

In 2010 and 2009, 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:

		2010	2009
Public education	$	1,559	1,595
Management and general		297	314
Fund-raising		2,351	2,363
Total	$	4,207	4,272

(6) Contributions Receivable

Contributions receivable at June 30, 2010 and 2009 consisted of:

		2010	2009
Gross contributions receivable, due in:			
Less than one year	$	11,942	10,957
One to five years		12,990	14,579
Thereafter		163	372
		25,095	25,908
Less:			
Allowance for doubtful accounts		(1,344)	(1,324)
Unamortized discount to present value, at rates ranging from 1.00% to 5.50%		(657)	(1,117)
	$	23,094	23,467

Contributions receivable have been discounted to their present value at the rate at the time the original unconditional promise to give was made.

(All dollars in thousands)

(7) Fixed Assets

Fixed assets at June 30, 2010 and 2009 consisted of:

		2010	2009
Furniture and equipment	$	5,568	6,010
Leasehold improvements		1,687	2,054
		7,255	8,064
Less accumulated depreciation and amortization		(3,495)	(5,834)
Fixed assets, net	$	3,760	2,230

(8) Contributions from Affiliates

During the years ended June 30, 2010 and 2009, the Foundation received contributions from affiliates as follows:

		2010	2009
JDRF – Canada	$	15,586	7,908
JDRF – Australia		7,202	9,306
JDRF – United Kingdom		1,599	1,183
JDRF – Greece		37	65
JDRF – Denmark		74	—
JDRF – Israel		195	105
	$	24,693	18,567

JDRF Australia's 2010 and 2009 contributions include $3,457 and $6,116, 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 2010 contributions include $7,883 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.

(Continued)

(All dollars in thousands)

(9) Research Grants Payable

Research grants payable at June 30, 2010 and 2009 consisted of:

		2010	2009
Amounts expected to be paid in:			
Less than one year	$	150,420	168,837
One to five years		2,269	11,585
Subtotal		152,689	180,422
Less discount to present value, at rates ranging from 1% to 1.71%		(25)	(270)
Total	$	152,664	180,152

Research grant expense is net of any grant refunds, reductions, or terminations. These adjustments were $13,178 and $52,928 for the years ended June 30, 2010 and 2009, respectively.

(10) Commitments and Contingencies

(a) Research Grants

As of June 30, 2010, there were conditional research grant commitments of $102,453, 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:

2011	$	73,185
2012		27,212
2013		1,308
2014		748
	$	102,453

(b) Leases

Effective January 1, 1995, the Foundation entered into a 15-year lease agreement for executive office space in New York City. In 2001, the Foundation leased additional office space in the same building. Rent expense for the executive office was $1,605 and $1,369 for the years ended June 30, 2010 and 2009, respectively. The Foundation was also reimbursed for certain construction costs associated with leasehold improvements. The leasehold improvements and a corresponding deferred credit were recorded in 1995, both of which were amortized on a straight-line basis over the term of the lease, which expired on December 31, 2009. The Foundation did not renew this lease.

(All dollars in thousands)

On August 3, 2009, the Foundation entered into a new lease agreement and relocated its national headquarters during December 2009. The new lease commenced on September 1, 2009 for a 10-year term. Annual rent will be $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, 2010, a credit of approximately $1,000 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 $3,687 and $3,744 for the years ended June 30, 2010 and 2009, respectively.

Rental commitments for all leases are as follows:

2011	$	5,265
2012		4,680
2013		3,533
2014		2,488
2015		2,099
2016		1,827
Thereafter		5,130
	$	25,022

(c) *Line of Credit*

On February 19, 2010, the Foundation entered into an agreement with JP Morgan Chase for an unsecured line of credit in the aggregate amount of $10 million. The term of the agreement expires January 29, 2011. The line of credit was unused as of June 30, 2010.

(11) Net Assets

(a) *Temporarily Restricted Net Assets*

At June 30, 2010 and 2009, temporarily restricted net assets were available for the following purposes:

		2010	2009
Future periods, principally contributions receivable and split-interest agreements	$	24,319	29,733
Diabetes Care Coalition program (Know Your A1C)		—	1,014
Various research projects		1,356	375
	$	25,675	31,122

(All dollars in thousands)

(b) *Permanently Restricted Net Assets*

At June 30, 2010 and 2009, the investment return derived from permanently restricted net assets was expendable to support:

		2010	2009
General activities	$	1,576	1,576
Research projects:			
Artificial Pancreas Project		2,000	2,000
Virginia Mason Research Center		1,838	1,632
	$	5,414	5,208

The Foundation's endowment consists of four individual donor-restricted endowment funds established for a variety of purposes. 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 four endowment funds are invested in fixed income mutual funds. The Foundation has no board-designated endowment funds.

The following tables present the changes in the Foundation's donor-restricted endowment funds for the years ended June 30, 2010 and 2009:

		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)

		2009			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at June 30 , 2008	$	—	—	5,157	5,157
Investment income		626	—	44	670
Net appreciation (realized and unrealized)		20	—	7	27
Appropriation for expenditure		(646)	—	—	(646)
Endowment net assets at June 30, 2009	$	—	—	5,208	5,208

(12) Subsequent Events

In connection with the preparation of the financial statements, the Foundation evaluated subsequent events through October 4, 2010, which was the date the financial statements were available for issuance, and concluded that no additional disclosures are required.