

THE MESOTHELIOMA APPLIED RESEARCH FOUNDATION, INC.
(a not-for-profit organization)

REPORT ON AUDIT OF FINANCIAL STATEMENTS

for the year ended December 31, 2010

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Mesothelioma Applied Research Foundation
Alexandria, Virginia

We have audited the accompanying statement of financial position of The Mesothelioma Applied Research Foundation, Inc. (a not-for-profit organization) as of December 31, 2010 and the related statements of activities, functional expenses and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Mesothelioma Applied Research Foundation, Inc. as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Renner and Company, CPA, P.C.

August 19, 2011

THE MESOTHELIOMA APPLIED RESEARCH FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2010

ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2010</u>
<u>CURRENT ASSETS</u>			
Cash and cash equivalents	\$ 705,901	\$ 54,806	\$ 760,707
Pledge receivable	-	75,000	75,000
Contributions receivable	26,479	-	26,479
Prepaid expenses	10,027	-	10,027
<u>TOTAL CURRENT ASSETS</u>	<u>\$ 742,407</u>	<u>\$ 129,806</u>	<u>\$ 872,213</u>
<u>PROPERTY, at cost</u>			
Equipment and furniture, net of accumulated depreciation	\$ 8,030	\$ -	\$ 8,030
Other asset, net of accumulated amortization	1,600	-	1,600
<u>TOTAL PROPERTY, net</u>	<u>\$ 9,630</u>	<u>\$ -</u>	<u>\$ 9,630</u>
<u>OTHER ASSETS</u>			
Investments	\$ 1,236,268	\$ -	\$ 1,236,268
Pledges receivable	-	25,000	25,000
Deposit	4,350	-	4,350
<u>TOTAL OTHER ASSETS</u>	<u>\$ 1,240,618</u>	<u>\$ 25,000</u>	<u>\$ 1,265,618</u>
<u>TOTAL ASSETS</u>	<u>\$ 1,992,655</u>	<u>\$ 154,806</u>	<u>\$ 2,147,461</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>			
Accounts payable	\$ 7,407	\$ -	\$ 7,407
Grants payable	342,044	-	342,044
<u>TOTAL CURRENT LIABILITIES</u>	<u>\$ 349,451</u>	<u>\$ -</u>	<u>\$ 349,451</u>
<u>LONG-TERM LIABILITIES</u>			
Deferred rent	\$ 5,333	\$ -	\$ 5,333
<u>TOTAL LIABILITIES</u>	<u>\$ 354,784</u>	<u>\$ -</u>	<u>\$ 354,784</u>
<u>NET ASSETS</u>			
Unrestricted	\$ 1,637,871	\$ -	\$ 1,637,871
Temporarily restricted	-	154,806	154,806
<u>TOTAL NET ASSETS</u>	<u>\$ 1,637,871</u>	<u>\$ 154,806</u>	<u>\$ 1,792,677</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 1,992,655</u>	<u>\$ 154,806</u>	<u>\$ 2,147,461</u>

See accompanying Independent Auditors' Report and Notes.

THE MESOTHELIOMA APPLIED RESEARCH FOUNDATION, INC.

STATEMENT OF ACTIVITIES

December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2010</u>
<u>SUPPORT AND REVENUE</u>			
Contributions	\$ 743,922	\$ 432,562	\$ 1,176,484
Symposium	362,855	-	362,855
Investment income	139,675	-	139,675
Professional services	22,597	-	22,597
Net assets released from restrictions satisfaction of program restrictions	313,402	(313,402)	-
<u>TOTAL SUPPORT AND REVENUE</u>	<u>\$ 1,582,451</u>	<u>\$ 119,160</u>	<u>\$ 1,701,611</u>
<u>EXPENSES</u>			
Program	\$ 978,255	\$ -	\$ 978,255
Management and general	198,488	-	198,488
Fundraising	185,786	-	185,786
<u>TOTAL EXPENSES</u>	<u>\$ 1,362,529</u>	<u>\$ -</u>	<u>\$ 1,362,529</u>
<u>CHANGE IN NET ASSETS</u>	<u>\$ 219,922</u>	<u>\$ 119,160</u>	<u>\$ 339,082</u>
<u>NET ASSETS</u> , beginning of year	<u>1,417,949</u>	<u>35,646</u>	<u>1,453,595</u>
<u>NET ASSETS</u> , end of year	<u>\$ 1,637,871</u>	<u>\$ 154,806</u>	<u>\$ 1,792,677</u>

See accompanying Independent Auditors' Report and Notes.

THE MESOTHELIOMA APPLIED RESEARCH FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2010

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2010 Total</u>
Salaries and wages	\$ 409,619	\$ 90,142	\$ 74,646	\$ 574,407
Fringe benefits	21,837	4,806	3,979	30,622
Payroll taxes	31,984	7,038	5,829	44,851
Workers compensation	2,983	656	544	4,183
Pension	19,540	4,300	3,561	27,401
Payroll processing	1,804	397	329	2,530
Grants - patient travel	13,257	-	-	13,257
Accounting	18,059	3,974	3,291	25,324
Legal fees	5,341	1,175	973	7,489
Professional fees	18,779	12,439	13,422	44,640
Professional development	-	2,714	-	2,714
Telecommunications	11,041	2,430	2,012	15,483
Postage and shipping	14,753	3,246	2,688	20,687
Occupancy	41,560	9,146	7,574	58,280
Computer and internet	14,546	3,201	2,651	20,398
Printing	10,383	13,557	32,157	56,097
Publications and subscriptions	698	2,682	173	3,553
Advertising and marketing	16,481	8,385	1,902	26,768
Stipends	2,085	-	-	2,085
Filing fees	-	30	-	30
Gifts	918	564	31	1,513
Property taxes	-	174	-	174
Insurance	4,322	951	788	6,061
Travel	41,924	12,887	10,181	64,992
Newsletter	18,772	-	9,670	28,442
Event location rental	184,395	-	-	184,395
Event supplies	32,014	420	-	32,434
Depreciation and amortization	3,269	719	596	4,584
Office supplies	13,767	3,030	2,509	19,306
Bank and credit card service charges	5,687	1,252	1,036	7,975
Meals	4,187	3,896	2,597	10,680
Repairs and maintenance	2,667	587	486	3,740
Licenses and permits	-	1,140	50	1,190
Moving expense	9,091	2,001	1,657	12,749
Utilities	2,349	517	428	3,294
Miscellaneous	143	32	26	201
TOTAL EXPENSES	\$ 978,255	\$ 198,488	\$ 185,786	\$ 1,362,529

See accompanying Independent Auditors' Report and Notes.

THE MESOTHELIOMA APPLIED RESEARCH FOUNDATION, INC.

STATEMENT OF CASH FLOWS
for the year ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from operations	
Support and revenue	\$ 736,746
Interest and dividends	91,604
Total cash received from operations	<u>\$ 828,350</u>

Cash disbursed by operations	
Payments to employees and suppliers	\$ 1,358,259
Total cash disbursed by operations	<u>\$ 1,358,259</u>

NET CASH USED BY OPERATING ACTIVITIES \$ (529,909)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investments	\$ 11,067
Purchase of investments	<u>(74,698)</u>

NET CASH USED BY INVESTING ACTIVITIES \$ (63,631)

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on security deposit	<u>\$ (4,350)</u>
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NET CASH USED BY FINANCING ACTIVITIES \$ (4,350)

NET DECREASE IN CASH \$ (597,890)

CASH, beginning of year 1,358,597

CASH, end of year \$ 760,707

NON-CASH INVESTING ACTIVITIES

Unrealized gain in market value of investments	\$ (48,071)
Increase in investment value	48,071
Stock donation	62,159
Investment increase	<u>(62,159)</u>
	<u>\$ -</u>

See accompanying Independent Auditors' Report and Notes.

THE MESOTHELIOMA APPLIED RESEARCH FOUNDATION, INC.

STATEMENT OF CASH FLOWS
for the year ended December 31, 2010

RECONCILIATION OF CHANGE IN NET ASSETS TO
NET CASH USED BY OPERATING ACTIVITIES

<u>CHANGE IN NET ASSETS</u>	<u>\$ 339,082</u>
<u>ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES</u>	
Realized and unrealized gain on investment	\$ (48,071)
Donated stock contribution	(62,159)
Depreciation and amortization	4,584
<u>TOTAL ADJUSTMENTS</u>	<u>\$ (105,646)</u>
<u>CHANGE IN ASSETS AND LIABILITIES AFFECTING OPERATIONS PROVIDING (USING) CASH</u>	
<u>ASSETS</u>	
Pledges receivable	\$ (66,667)
Contributions receivable	8,067
Prepaid expenses	(7,630)
Total assets	<u>\$ (66,230)</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 1,883
Grants payable	(704,331)
Deferred rent	5,333
Total liabilities	<u>\$ (697,115)</u>
<u>NET CHANGE IN ASSETS AND LIABILITIES</u>	<u>\$ (763,345)</u>
<u>NET CASH USED BY OPERATING ACTIVITIES</u>	<u>\$ (529,909)</u>

See accompanying Independent Auditors' Report and Notes.

THE MESOTHELIOMA APPLIED RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION AND PURPOSE

Organization and Purpose

The mission of The Mesothelioma Applied Research Foundation, Inc. (the "Foundation") is to eradicate the cancer, mesothelioma, as a life-ending disease. The Foundation supports and promotes research to improve mesothelioma treatment, provides education and support to patients with the disease and their families, and raises awareness among the general public and federal officials of the need for research funding to develop improved treatments.

Significant Accounting Policies

Basis of Accounting

The Foundation's policy is to prepare its financial statements on the accrual basis of accounting; consequently, support and revenue are recognized when earned and expenses when incurred.

Cash and Cash Equivalents

The Foundation's policy is to treat all short term investments with original maturity of three months or less as cash equivalents. Cash currently consists of two checking accounts and two money market accounts.

Pledges Receivable

Contributions are recognized when the donor makes an unconditional promise to give to the Foundation. The allowance for doubtful promises to give is based on management's evaluation of the status of existing promises to give and historical results.

Property

Property is recorded at cost as of the date of acquisition, or fair market value at the date of donation for donated assets. Depreciation is calculated using the straight-line method over estimated useful lives of three to seven years. Routine repairs and maintenance are expensed as incurred. Intangibles, such as the Foundation's logo, are recorded at cost and are amortized over an estimated useful life of fifteen years using the straight line method.

See Independent Auditors' Report.

THE MESOTHELIOMA APPLIED RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION AND PURPOSE (Continued)

Investments

Investments are carried at fair market value.

The Foundation invests funds in professionally managed mutual funds that contain various types of marketable securities. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus it is at least reasonably possible that changes in the near term could materially affect investment balances and the amounts reported in the financial statements.

Grants Payable

Grants made by the Foundation are recorded in the financial statements at the time the grants are approved by the Board of Directors.

Rescission of Grants

The Foundation records the rescission of grants in the year the grant is cancelled.

Classes of Assets

The Foundation reports its resources in classes established according to their nature and purpose. As of December 31, 2010, the Foundation's resources were classified as follows:

Unrestricted Net Assets include net assets which are available for the general operations of the Foundation.

Temporarily Restricted Net Assets include net assets which are subjected to time or donor-imposed restrictions for support of a particular operating activity.

Contribution and Revenue Recognition

Contributions are recognized as revenue at the earlier of the date of receipt of funds or the date of a formal, unconditional pledge. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. If a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted.

See Independent Auditors' Report.

THE MESOTHELIOMA APPLIED RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION AND PURPOSE (Continued)

Donated Services and Materials

The Foundation relies heavily on volunteers to perform certain services for some of its programs. Because these services do not meet specified criteria for recognition as income and expense, the value of these services has not been included in the Statement of Activities. Donated property, materials and facilities are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized by function in the Statement of Functional Expenses. Direct costs are charged directly to the appropriate program. Joint costs such as insurance, rent and facility maintenance are allocated by using the direct costs of each program for the year ended December 31, 2010. The allocations are based on current data.

Income Taxes

The Foundation is exempt from payment of federal and state income taxation under 501(c) (3) of the Internal Revenue Code. However, the Foundation is subject to Federal and state income taxes on unrelated business income. No taxable income was generated for the year ended December 31, 2010. Accordingly, no provision for income taxes has been included in the financial statements.

The Foundation's Federal Exempt Organization Business Income Tax Return (Form 990) for 2007, 2008, and 2009 are subjected to examination by the Internal Revenue Service (IRS), generally for three years after they are filed.

Advertising

Advertising costs are expensed as incurred.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

See Independent Auditors' Report.

THE MESOTHELIOMA APPLIED RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

2. CASH AND CASH EQUIVALENTS

A summary of cash and cash equivalents at December 31, 2010 is as follows:

	<u>2010</u>
Checking	\$ (154,022)
Money market	914,729
	<u>\$ 760,707</u>

Bank balances in a financial institution are insured by the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation up to \$250,000. The bank balance as of December 31, 2010 not covered by FDIC and SIPC deposit insurance was \$404,579.

3. PLEDGE RECEIVABLE

At December 31, 2010, the Foundation has an outstanding pledge receivable to assist with its programs. The pledge is receivable within two years. The Foundation considers the pledge fully collectible; therefore, no provision has been made for uncollectible pledge receivable.

4. INVESTMENTS

Investments as of December 31, 2010 consisted of the following, shown at fair value:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized gain (loss)</u>
Mutual funds	\$ 1,089,134	\$ 953,312	\$ (135,822)
Equities	61,469	103,359	41,890
Corporate bonds	179,808	179,597	(211)
	<u>\$ 1,330,411</u>	<u>\$ 1,236,268</u>	<u>\$ (94,143)</u>

Investment income for the year ended December 31, 2010 is comprised of the following:

Realized gain	\$ 735
Unrealized gain	47,336
Interest and dividends	88,614
Income from investments	\$ 136,685
Income from interest bearing cash accounts	2,990
Total investment income	<u>\$ 139,675</u>

See Independent Auditors' Report.

THE MESOTHELIOMA APPLIED RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

5. FAIR VALUE MEASUREMENTS

The Foundation records investments based on fair value on a recurring basis. Financial accounting and reporting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. The standards emphasize that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the standards established a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent from the reporting entity (observable inputs that are classified within level 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within level 3 of the hierarchy).

Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the assets and liabilities (other than quoted prices), such as interest rate, foreign exchange rate and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The determination of the fair value level within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Foundation's assessment of the significance of the particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the assets or liabilities.

The following summarizes investments, measured at fair value on a recurring basis, aggregated by the level in the fair value hierarchy within which those measurements fall, as of December 31, 2010 and 2009:

	December 31, 2010			
	Fair Value	Level 1	Level 2	Level 3
Investments				
Corporate bonds	\$ 179,597	\$ -	\$ 179,597	\$ -
Equities	103,359	103,359	-	-
Mutual Fund	953,312	953,312	-	-
	<u>\$ 1,236,268</u>	<u>\$ 1,056,671</u>	<u>\$ 179,597</u>	<u>\$ -</u>

See Independent Auditors' Report.

THE MESOTHELIOMA APPLIED RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

5. FAIR VALUE MEASUREMENTS (Continued)

	December 31, 2009			
	Fair Value	Level 1	Level 2	Level 3
Investments				
Corporate bonds	\$ 138,320	\$ -	\$ 138,320	\$ -
Equities	68,466	68,466	-	-
Mutual Fund	855,621	855,621	-	-
	<u>\$ 1,062,407</u>	<u>\$ 924,087</u>	<u>\$ 138,320</u>	<u>\$ -</u>

Investments are reported at fair values as provided by the investment managers or other third-party service providers utilizing various methods dependent upon the specific type of investment. Corporate bonds are based on quoted prices in less active markets. Mutual funds and equity securities are based on quoted prices in active markets.

6. PROPERTY DEPRECIATION

A summary of information related to property and depreciation for the year ended December 31, 2010 is as follows:

	Estimated useful life (years)	Cost	Accumulated depreciation	Depreciation expense
Computer and office equipment	5	\$ 16,174	\$ 12,830	\$ 2,221
Furniture	5	10,547	5,861	1,963
Other fixed assets	3 - 7	4,054	4,054	-
		<u>\$ 30,775</u>	<u>\$ 22,745</u>	<u>\$ 4,184</u>

7. OTHER ASSET

Other asset consists of the following as of December 31, 2010:

	Estimated useful life (years)	Cost	Accumulated amortization	Amortization expense
Logo	15	\$ 6,000	\$ 4,400	\$ 400

See Independent Auditors' Report.

THE MESOTHELIOMA APPLIED RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

8. GRANTS

The Foundation promotes and funds research aimed at improving treatments for mesothelioma through financial grants to qualifying researchers affiliated with academic, medical or research institutions. The grants are awarded competitively, after a rigorous application and peer-review process. To control use of the grant funds, the Foundation, the researcher, and the researcher's institution execute a terms and conditions agreement before the funds are disbursed. On occasion, the funds are held with the researcher if he or she needs further approval on ethical matters. The Foundation expects to pay the balance of grants payable within one year. The Foundation paid \$704,331 in grants awarded in prior years.

Subsequent to year end, the Foundation entered into seven grant agreements in January 2011 in the amount of \$700,000.

During the year ended December 31, 2010, the Foundation rescinded a portion of a grant that was previously awarded. In 2007, the Foundation entered into a grant agreement with the University of Chicago to give \$50,000 per year for two years from 2008 to 2009. The grantee refunded the unused amount during the year ended December 31, 2010.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2010 consisted of the following:

	Balance at December 31, 2009	Support and revenue	Net assets released from restrictions	Balance at December 31, 2010
Research	\$ 28,494	\$ 429,462	\$ (303,150)	\$ 154,806
Assistance for travel	7,152	3,100	(10,252)	-
	<u>\$ 35,646</u>	<u>\$ 432,562</u>	<u>\$ (313,402)</u>	<u>\$ 154,806</u>

10. PENSION

All Foundation employees are eligible to participate in a deferred salary savings plan under Section 403(b) of the Internal Revenue Code. The Foundation matches up to 6% of the eligible salary upon participation. Foundation employer contributions for the year end 2010 was \$27,401.

See Independent Auditors' Report.

THE MESOTHELIOMA APPLIED RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

11. COMMITMENT AND CONTINGENCIES

Future Symposium Meeting Sites

The Foundation has two contracts in effect for the Foundation's Symposia taking place during the fiscal years ending December 31, 2011 and 2012. Should the Foundation decide to cancel any of the contracts at December 31, 2010, The Foundation could be liable for a minimum of \$157,986. Subsequent to year end, the Foundation held its 2011 Symposium in June 2011, reducing the potential cancelation fees by \$119,241.

12. OPERATING OFFICE LEASES

In 2010, the Foundation entered into a five year lease for office space in Alexandria, Virginia beginning August 1, 2010. The lease provides for base monthly rental payments of \$4,350 with annual escalations in base rental payments. Rent expense is recognized on a straight-line basis over the term of the lease. Total rent expense for the year for the California and Virginia office was \$49,040 for the year ended December 31, 2010.

Future net minimum lease commitments under the new lease are as follows:

2011	\$	52,853
2012		54,438
2013		56,072
2014		57,749
2015		34,278
	\$	<u>255,390</u>

13. SUBSEQUENT EVENTS

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 19, 2011, the date the financial statements were available to be issued.

Grant Agreements

As discussed in Note 8, the Foundation has entered into seven grant agreements with qualifying researchers affiliated with academic, medical or research institutions subsequent to year end in the amount of \$700,000.

See Independent Auditors' Report.