



JDRF INTERNATIONAL

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors
JDRF International:

We have audited the accompanying financial statements of JDRF International, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of JDRF International as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 8, 2013

JDRF INTERNATIONAL
Statements of Financial Position
June 30, 2013 and 2012
(In thousands)

Assets	2013	2012
Cash and cash equivalents	\$ 13,999	13,700
Investments (note 3)	123,989	130,044
Contributions receivable, net (note 6)	34,727	27,441
Prepaid expenses and other assets	3,444	2,927
Fixed assets, net (note 7)	19,881	12,895
Total assets	\$ 196,040	187,007
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 13,856	12,589
Research grants payable (note 9)	139,614	129,390
Deferred special events revenue	6,580	6,118
Liabilities related to split-interest agreements	2,460	2,511
Total liabilities	162,510	150,608
Commitments and contingencies (note 10)		
Net assets (accumulated deficit) (note 11):		
Unrestricted	(850)	4,798
Temporarily restricted	27,580	24,873
Permanently restricted	6,800	6,728
Total net assets	33,530	36,399
Total liabilities and net assets	\$ 196,040	187,007

See accompanying notes to financial statements.

JDRF INTERNATIONAL
 Statements of Activities
 Years ended June 30, 2013 and 2012
 (In thousands)

	2013				2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Public support and revenue:								
Public support:								
Contributions	\$ 40,741	16,637	100	57,478	37,096	14,075	227	51,398
Special events:								
Proceeds	150,389	—	—	150,389	151,037	—	—	151,037
Direct donor benefits	(26,711)	—	—	(26,711)	(27,321)	—	—	(27,321)
Contributions from affiliates (note 8)	15,792	—	—	15,792	20,859	—	—	20,859
Total public support	<u>180,211</u>	<u>16,637</u>	<u>100</u>	<u>196,948</u>	<u>181,671</u>	<u>14,075</u>	<u>227</u>	<u>195,973</u>
Revenue:								
Investment return (note 3)	8,940	37	(28)	8,949	(3,231)	133	46	(3,052)
Other	75	—	—	75	118	—	—	118
Total revenue	<u>9,015</u>	<u>37</u>	<u>(28)</u>	<u>9,024</u>	<u>(3,113)</u>	<u>133</u>	<u>46</u>	<u>(2,934)</u>
Net assets released from restrictions	13,967	(13,967)	—	—	18,119	(18,119)	—	—
Total public support and revenue	<u>203,193</u>	<u>2,707</u>	<u>72</u>	<u>205,972</u>	<u>196,677</u>	<u>(3,911)</u>	<u>273</u>	<u>193,039</u>
Expenses (note 5):								
Program services:								
Research, net (note 9)	123,361	—	—	123,361	123,928	—	—	123,928
Public education	45,971	—	—	45,971	43,264	—	—	43,264
	<u>169,332</u>	<u>—</u>	<u>—</u>	<u>169,332</u>	<u>167,192</u>	<u>—</u>	<u>—</u>	<u>167,192</u>
Supporting services:								
Management and general	15,912	—	—	15,912	14,690	—	—	14,690
Fundraising	23,597	—	—	23,597	22,789	—	—	22,789
	<u>39,509</u>	<u>—</u>	<u>—</u>	<u>39,509</u>	<u>37,479</u>	<u>—</u>	<u>—</u>	<u>37,479</u>
Total expenses	<u>208,841</u>	<u>—</u>	<u>—</u>	<u>208,841</u>	<u>204,671</u>	<u>—</u>	<u>—</u>	<u>204,671</u>
Change in net assets	(5,648)	2,707	72	(2,869)	(7,994)	(3,911)	273	(11,632)
Net assets at beginning of year	4,798	24,873	6,728	36,399	12,792	28,784	6,455	48,031
Net assets (accumulated deficit) at end of year	<u>\$ (850)</u>	<u>27,580</u>	<u>6,800</u>	<u>33,530</u>	<u>4,798</u>	<u>24,873</u>	<u>6,728</u>	<u>36,399</u>

See accompanying notes to financial statements.

JDRF INTERNATIONAL

Statements of Functional Expenses

Years ended June 30, 2013 and 2012

(In thousands)

	2013						
	Program services			Supporting services			Total expenses
	Research	Public education	Total	Management and general	Fundraising	Total	
Research grants, net (note 9)	\$ 106,005	—	106,005	—	—	—	106,005
Payroll and related expenses	11,398	30,796	42,194	10,540	15,425	25,965	68,159
Printing and promotional expenses	405	1,956	2,361	445	1,849	2,294	4,655
Office rent and related expenses, including depreciation and amortization	2,354	7,691	10,045	3,168	3,766	6,934	16,979
Meetings and conferences	1,049	2,380	3,429	737	1,134	1,871	5,300
Professional services	1,915	1,313	3,228	427	682	1,109	4,337
Miscellaneous	235	1,835	2,070	595	741	1,336	3,406
Total functional expenses	\$ 123,361	45,971	169,332	15,912	23,597	39,509	208,841
Costs of direct benefits to donors							26,711
Total expenses and costs of direct benefits to donors							\$ 235,552
	2012						
	Program services			Supporting services			Total expenses
	Research	Public education	Total	Management and general	Fundraising	Total	
Research grants, net (note 9)	\$ 110,071	—	110,071	—	—	—	110,071
Payroll and related expenses	9,754	28,690	38,444	10,095	15,211	25,306	63,750
Printing and promotional expenses	286	2,118	2,404	454	1,952	2,406	4,810
Office rent and related expenses, including depreciation and amortization	1,678	6,633	8,311	2,596	3,184	5,780	14,091
Meetings and conferences	800	2,699	3,499	585	1,020	1,605	5,104
Professional services	1,152	1,153	2,305	328	596	924	3,229
Miscellaneous	187	1,971	2,158	632	826	1,458	3,616
Total functional expenses	\$ 123,928	43,264	167,192	14,690	22,789	37,479	204,671
Costs of direct benefits to donors							27,321
Total expenses and costs of direct benefits to donors							\$ 231,992

See accompanying notes to financial statements.

JDRF INTERNATIONAL
Statements of Cash Flows
Years ended June 30, 2013 and 2012
(In thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ (2,869)	(11,632)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net (appreciation) depreciation in fair value of investments	(7,548)	4,442
Depreciation and amortization	3,195	1,587
Proceeds from permanently restricted contributions	(100)	(1,000)
Changes in operating assets and liabilities:		
Contributions receivable	(7,286)	6,461
Prepaid expenses and other assets	(517)	1,887
Accounts payable and accrued expenses	1,267	(411)
Research grants payable	10,224	(16,037)
Deferred special events revenue	462	667
Liabilities related to split-interest agreements	(51)	(129)
Net cash used in operating activities	<u>(3,223)</u>	<u>(14,165)</u>
Cash flows from investing activities:		
Purchase of fixed assets	(10,181)	(7,534)
Purchase of investments	(26,739)	(1,951)
Proceeds from sale of investments	40,342	15,871
Net cash provided by investing activities	<u>3,422</u>	<u>6,386</u>
Cash flows from financing activity:		
Proceeds from permanently restricted contributions	100	1,000
Net cash provided by financing activity	<u>100</u>	<u>1,000</u>
Change in cash and cash equivalents	299	(6,779)
Cash and cash equivalents at beginning of year	<u>13,700</u>	<u>20,479</u>
Cash and cash equivalents at end of year	<u>\$ 13,999</u>	<u>13,700</u>

See accompanying notes to financial statements.

JDRF INTERNATIONAL

Notes to Financial Statements

June 30, 2013 and 2012

(All dollars in thousands)

(1) Organization

JDRF International (JDRF) (formerly, the Juvenile Diabetes Research Foundation International) is the leading global organization focused on type 1 diabetes (T1D) research. Driven by passionate, grassroots volunteers connected to children, adolescents, and adults with this disease, JDRF is the largest charitable supporter of T1D research. The goal of JDRF is to improve the lives of every person affected by T1D by accelerating progress on the most promising opportunities for curing, better treating, and preventing the disease. JDRF collaborates with a wide spectrum of partners who share this goal. Many important developments in T1D research have resulted from JDRF funding, as well as its public awareness and advocacy efforts.

JDRF solicits contributions from the public and engages in various fund-raising activities. Funds raised are used principally to support T1D research. In addition, JDRF engages in advocacy efforts aimed at increasing federal funding of T1D research. In fiscal 2013, JDRF's advocacy efforts helped drive congressional passage of legislation for an additional \$150 million for T1D research through the National Institutes of Health.

JDRF's financial statements include the accounts of JDRF and its Chapters located throughout the United States. International affiliates are 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 JDRF does not exercise control over the management and operations of the international affiliates.

JDRF is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is organized under the laws of the Commonwealth of Pennsylvania. The effect of income tax positions is recognized only if those positions are more likely than not of being sustained. Income generated from activities unrelated to JDRF's exempt purpose is subject to tax under Internal Revenue Code Section 511. Unrelated business income tax liability was insignificant for the years ended June 30, 2013 and 2012.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

JDRF'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 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 JDRF or by the passage of time.

JDRF INTERNATIONAL

Notes to Financial Statements

June 30, 2013 and 2012

(All dollars in thousands)

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions, that stipulate that the principal be maintained permanently, but permit JDRF to expend part or all of the income and gains derived therefrom.

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 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.

Unconditional promises to give are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discounts is recorded as additional contribution revenue.

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.

JDRF administers two types of split-interest agreements – Charitable Gift Annuities and Charitable Remainder Trusts. With Charitable Gift Annuities, cash or marketable securities are received 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 JDRF, donated assets are received 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

JDRF INTERNATIONAL

Notes to Financial Statements

June 30, 2013 and 2012

(All dollars in thousands)

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 1.2% and 8.2% at June 30, 2013. For Charitable Gift Annuities, the assets received are held by JDRF as general assets and the annuity liability is a general obligation.

The carrying amount of annuity and other split-interest obligations approximates fair value because these instruments are recorded at the estimated net present value of future cash flows. The estimated fair value, however, involves unobservable inputs considered to be Level 3 in the fair value hierarchy.

(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 JDRF's investment managers as part of their investment strategies.

(d) *Investments*

Investments, including assets related to split-interest agreements, are reported at fair value based upon quoted market prices or, with respect to investments in funds, which report net asset value or its equivalent (NAV funds), at estimated fair value. The estimated fair value of NAV funds, as a practical expedient, is the net asset value as provided by the investment managers, and evaluated for reasonableness by JDRF. 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, contributions receivable, accounts payable, and liabilities related to split-interest agreements. The fair value of investments is discussed in note 3. The carrying amounts of JDRF's remaining financial instruments approximate fair value.

(g) *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.

JDRF INTERNATIONAL

Notes to Financial Statements

June 30, 2013 and 2012

(All dollars in thousands)

(h) *Allocation of Joint Costs*

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

(i) *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.

(3) **Investments**

Investments at June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 119	47
Mutual funds:		
Equity, principally domestic	32,012	24,057
Fixed income, principally corporate	30,048	25,736
Fixed income funds	14,468	14,083
Global equity funds	7,206	14,483
Real assets funds	8,239	13,345
Hedge funds	31,897	38,293
Total investments	<u>\$ 123,989</u>	<u>130,044</u>

Included in investments are amounts related to Charitable Gift Annuities and Charitable Remainder Trusts totaling \$2,511 and \$2,468, respectively, at June 30, 2013 and \$2,372 and \$2,407, respectively, at June 30, 2012.

Investments are exposed to various risks, such as market and credit risks. Because of such risks, it is possible that changes in investment values will occur and that such changes could materially affect JDRF's financial statements.

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

JDRF INTERNATIONAL

Notes to Financial Statements

June 30, 2013 and 2012

(All dollars in thousands)

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. The Level 2 classification is also applied to those NAV funds that are redeemable at or near the date of the statement of financial position.
- Level 3 inputs are unobservable inputs used when little or no market data is available. The Level 3 classification is also applied to those NAV funds that are not redeemable at or near the date of the statement of financial position.

Most investments classified as Level 2 or 3 consist of shares or units in NAV funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. The classification of such 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 fund's underlying assets and liabilities.

The following table presents the fair value hierarchy of investments as of June 30, 2013:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 119	119	—	—
Mutual funds:				
Equity, principally domestic	32,012	32,012	—	—
Fixed income, principally corporate	30,048	30,048	—	—
Fixed income funds	14,468	—	14,468	—
Global equity funds	7,206	—	7,206	—
Real assets funds	8,239	—	8,239	—
Hedge funds	31,897	—	15,519	16,378
Total	<u>\$ 123,989</u>	<u>62,179</u>	<u>45,432</u>	<u>16,378</u>

JDRF INTERNATIONAL

Notes to Financial Statements

June 30, 2013 and 2012

(All dollars in thousands)

The following table presents the fair value hierarchy of investments as of June 30, 2012:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 47	47	—	—
Mutual funds:				
Equity, principally domestic	24,057	24,057	—	—
Fixed income, principally corporate	25,736	25,736	—	—
Fixed income funds	14,083	—	14,083	—
Global equity funds	14,483	—	14,483	—
Real assets funds	13,345	—	8,810	4,535
Hedge funds	38,293	—	13,329	24,964
Total	<u>\$ 130,044</u>	<u>49,840</u>	<u>50,705</u>	<u>29,499</u>

Information with respect to the strategies of NAV funds is as follows (amounts included are as of June 30, 2013):

Fixed income funds (\$14,468) – Investments in two funds that invest in sovereign and investment-grade corporate bonds – both in the United States and globally, as well as noninvestment-grade bonds and bank loans.

Global equity funds (\$7,206) – Investments in one fund that invest 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 and emerging markets outside of the United States.

Real assets funds (\$8,239) – Investments in one fund that invests in liquid energy, real estate, and natural resources equities, as well as commodities and TIPS.

Hedge funds (\$31,897) – Investments in six funds that employ creative or “alternative” strategies, primarily involving marketable securities. In addition to stocks and bonds, financial instruments traded by these funds may include derivatives contracts (e.g., futures, forwards, swaps, and options related to stocks, bonds, commodities, interest rates, or currencies), or less liquid assets such as private placements, structured products, bank loans, real estate, insurance risk, special-purpose vehicles, royalties rights, and receivables. These funds often employ the use of leverage and short selling.

JDRF INTERNATIONAL

Notes to Financial Statements

June 30, 2013 and 2012

(All dollars in thousands)

The limitations and restrictions on JDRF's ability to redeem or sell its investments in NAV funds vary by investment. Based upon the terms and conditions in effect at June 30, 2013, these investments can be redeemed or sold as follows:

	<u>Amounts</u>
Less than a month	\$ 6,472
Monthly	23,441
Quarterly	15,519
Annually	<u>16,378</u>
	<u>\$ 61,810</u>

The following table presents a reconciliation of Level 3 investments for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ 29,499	35,561
Net gains (losses)	1,588	(2,426)
Redemptions	<u>(14,709)</u>	<u>(3,636)</u>
Balance at end of year	<u>\$ 16,378</u>	<u>29,499</u>

There were no unfunded commitments as of June 30, 2013.

The components of investment return and its classification in the statements of activities for the years ended June 30, 2013 and 2012 were as follows:

	<u>2013</u>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Interest and dividends	\$ 1,346	38	17	1,401
Net appreciation (depreciation)	<u>7,594</u>	<u>(1)</u>	<u>(45)</u>	<u>7,548</u>
	<u>\$ 8,940</u>	<u>37</u>	<u>(28)</u>	<u>8,949</u>

JDRF INTERNATIONAL

Notes to Financial Statements

June 30, 2013 and 2012

(All dollars in thousands)

	2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividends	\$ 1,240	132	18	1,390
Net appreciation (depreciation)	(4,471)	1	28	(4,442)
	<u>\$ (3,231)</u>	<u>133</u>	<u>46</u>	<u>(3,052)</u>

Investment expenses relating to investment advisors, managers, and custodians and other bank charges are recorded as reductions to interest and dividend income. Investment expenses paid directly totaled \$655 and \$681 for the years ended June 30, 2013 and 2012, respectively.

(4) Retirement Plan

JDRF has a defined contribution pension plan, which substantially covers all employees. Related expense for the years ended June 30, 2013 and 2012 was \$1,491 and \$1,598, respectively.

(5) Allocation of Joint Costs

In 2013 and 2012, JDRF conducted activities, principally direct mail, that included fundraising appeals as well as program components. The joint costs incurred were allocated as follows:

	2013	2012
Public education	\$ 1,093	1,194
Management and general	181	267
Fundraising	<u>1,768</u>	<u>2,218</u>
Total	<u>\$ 3,042</u>	<u>3,679</u>

JDRF INTERNATIONAL

Notes to Financial Statements

June 30, 2013 and 2012

(All dollars in thousands)

(6) Contributions Receivable

Contributions receivable include pledges due in future periods, uncollected special events revenues, and affiliate contributions receivable.

Pledges receivable at June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Gross pledges receivable, due in:		
Less than one year	\$ 13,228	10,179
One to five years	8,916	7,132
Thereafter	158	200
	<u>22,302</u>	<u>17,511</u>
Less:		
Allowance for doubtful accounts	(1,010)	(1,013)
Unamortized discount to present value, at rates ranging from 0.72% to 5.50%	(327)	(281)
	<u>20,965</u>	<u>16,217</u>
Pledges receivable, net		
Uncollected special events revenues	13,557	11,224
Affiliate contributions receivable	205	—
	<u>\$ 34,727</u>	<u>27,441</u>

Pledges receivable have been discounted to their present value at the rate at the time the original unconditional promise to give was made using a risk adjusted rate, which is considered Level 3 in the fair value hierarchy.

At June 30, 2013 and 2012, the ten largest pledges receivable represented 38% and 40% of the gross pledges receivable, respectively.

(7) Fixed Assets

Fixed assets at June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Furniture and equipment	\$ 25,099	16,680
Leasehold improvements	4,495	2,733
	<u>29,594</u>	<u>19,413</u>
Less accumulated depreciation and amortization	(9,713)	(6,518)
Fixed assets, net	<u>\$ 19,881</u>	<u>12,895</u>

JDRF INTERNATIONAL

Notes to Financial Statements

June 30, 2013 and 2012

(All dollars in thousands)

(8) Contributions from Affiliates

During the years ended June 30, 2013 and 2012, JDRF received contributions from affiliates as follows:

	<u>2013</u>	<u>2012</u>
JDRF – Canada	\$ 8,000	13,780
JDRF – Australia	5,267	4,485
JDRF – United Kingdom	1,974	2,094
JDRF – Netherlands	354	321
JDRF – Denmark	87	69
JDRF – Israel	110	110
	<u>\$ 15,792</u>	<u>20,859</u>

JDRF Canada's 2012 contributions include \$8,087 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 funded 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.

JDRF Australia's FY 2013 and FY 2012 contributions include \$807K and \$125K respectively, funded by the Australian Government as part of the Australian T1D Clinical Research Network (CRN). The program, which began in 2011, funds JDRF-approved grants at Australian medical and research institutions to encourage, facilitate and support the efficient conduct of a greater number of promising clinical trials in T1D in Australia.

(9) Research Grants Payable

Research grants payable at June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Amounts expected to be paid in:		
Less than one year	\$ 116,547	116,747
One to five years	23,247	12,700
Subtotal	139,794	129,447
Less discount to present value, at rates ranging from 0.41% to 0.81%	(180)	(57)
Total	<u>\$ 139,614</u>	<u>129,390</u>

Research grant expense is net of any grant refunds, reductions, or terminations. These adjustments were \$7,415 and \$7,028 for the years ended June 30, 2013 and 2012, respectively.

JDRF INTERNATIONAL

Notes to Financial Statements

June 30, 2013 and 2012

(All dollars in thousands)

(10) Commitments and Contingencies

(a) Research Grants

As of June 30, 2013, JDRF's conditional research grant commitments of \$96,513, which will be recognized in the financial statements when the conditions have been substantially met, are currently estimated to be payable as follows:

2014	\$	57,452
2015		30,541
2016		4,896
2017		3,624
		<u>96,513</u>
	\$	<u>96,513</u>

(b) Leases

In 2009, JDRF entered into a lease agreement for the 14th floor office of its national headquarters for a ten year term, with an escalation after the fifth year. In 2011, JDRF amended the lease to include the 15th floor for the same term. Annual rent increased from \$1,353 to \$2,468 as a result of the amendment.

JDRF is also obligated under various leases for space occupied by certain Chapters. Rent expense including maintenance costs for the Chapters was \$4,215 and \$4,092 for the years ended June 30, 2013 and 2012, respectively.

Rental commitments for all leases are as follows:

2014	\$	6,625
2015		6,000
2016		5,487
2017		5,056
2018		4,159
Thereafter		6,836
		<u>34,163</u>
	\$	<u>34,163</u>

Rent expense is recognized on a straight-line basis and, accordingly, a deferred rent credit has been recorded. At June 30, 2013 and 2012, a credit of approximately \$1,780 and \$1,072, respectively, is included in accounts payable and accrued expenses.

(c) Line of Credit

On January 23, 2013, JDRF entered into an agreement with JPMorgan Chase for an unsecured line of credit in the aggregate amount of \$5 million. The term of the agreement expires January 29, 2014. The line of credit has not been utilized.

JDRF INTERNATIONAL

Notes to Financial Statements

June 30, 2013 and 2012

(All dollars in thousands)

(11) Net Assets

(a) Temporarily Restricted Net Assets

At June 30, 2013 and 2012, temporarily restricted net assets were available for the following purposes:

	<u>2013</u>	<u>2012</u>
Future periods, principally pledges receivable and split-interest agreements	\$ 22,500	17,736
Various research projects	<u>5,080</u>	<u>7,137</u>
	<u>\$ 27,580</u>	<u>24,873</u>

(b) Permanently Restricted Net Assets

At June 30, 2013 and 2012, the investment return derived from permanently restricted net assets was expendable to support:

	<u>2013</u>	<u>2012</u>
General activities	\$ 2,902	2,803
Research projects:		
Artificial Pancreas Project	2,000	2,000
Virginia Mason Research Center	<u>1,898</u>	<u>1,925</u>
	<u>\$ 6,800</u>	<u>6,728</u>

JDRF's endowment consists of six 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*. JDRF 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, permanently restricted net assets include (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.

JDRF INTERNATIONAL

Notes to Financial Statements

June 30, 2013 and 2012

(All dollars in thousands)

The following tables present the changes in donor-restricted endowment funds.

	2013			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at June 30, 2012	\$ 171	—	6,728	6,899
Contributions	—	—	100	100
Investment income	190	38	17	245
Net depreciation	(118)	(1)	(45)	(164)
Appropriation for expenditure	(171)	—	—	(171)
Endowment net assets at June 30, 2013	<u>\$ 72</u>	<u>37</u>	<u>6,800</u>	<u>6,909</u>
	2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at June 30, 2011	\$ 352	—	5,455	5,807
Contributions	—	—	1,227	1,227
Investment income	140	132	18	290
Net appreciation	31	1	28	60
Appropriation for expenditure	(352)	(133)	—	(485)
Endowment net assets at June 30, 2012	<u>\$ 171</u>	<u>—</u>	<u>6,728</u>	<u>6,899</u>

(12) Subsequent Events

In connection with the preparation of the financial statements, JDRF evaluated subsequent events after the statement of financial position date of June 30, 2013 through October 8, 2013, the date the financial statements were available for issuance. JDRF has determined that there are no subsequent events to disclose.