



JDRF INTERNATIONAL

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Directors
JDRF International:

We have audited the accompanying statements of financial position of JDRF International (JDRF) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of JDRF'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 JDRF'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 JDRF International as of June 30, 2012 and 2011, 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 16, 2012

JDRF INTERNATIONAL
Statements of Financial Position
June 30, 2012 and 2011
(In thousands)

Assets	2012	2011
Cash and cash equivalents	\$ 13,700	20,479
Investments (note 3)	130,044	148,406
Contributions receivable, net (note 6)	27,441	33,902
Prepaid expenses and other assets	2,927	4,814
Fixed assets, net (note 7)	12,895	6,948
Total assets	\$ 187,007	214,549
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 12,589	13,000
Research grants payable (note 9)	129,390	145,427
Deferred special events revenue	6,118	5,451
Liabilities related to split-interest agreements	2,511	2,640
Total liabilities	150,608	166,518
Commitments and contingencies (note 10)		
Net assets:		
Unrestricted	4,798	12,792
Temporarily restricted (note 11)	24,873	28,784
Permanently restricted (note 11)	6,728	6,455
Total net assets	36,399	48,031
Total liabilities and net assets	\$ 187,007	214,549

See accompanying notes to financial statements.

JDRF INTERNATIONAL

Statements of Activities

Years ended June 30, 2012 and 2011

(In thousands)

	2012			2011				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Public support and revenue:								
Public support:								
Contributions	\$ 37,096	14,075	227	51,398	33,658	13,392	1,000	48,050
Special events:								
Proceeds	151,037	—	—	151,037	153,921	—	—	153,921
Direct donor benefits	(27,321)	—	—	(27,321)	(25,695)	—	—	(25,695)
Contributions from affiliates (note 8)	20,859	—	—	20,859	22,878	—	—	22,878
Total public support	181,671	14,075	227	195,973	184,762	13,392	1,000	199,154
Revenue:								
Investment return (note 3)	(3,231)	133	46	(3,052)	20,621	137	41	20,799
Other	118	—	—	118	306	—	—	306
Total revenue	(3,113)	133	46	(2,934)	20,927	137	41	21,105
Net assets released from restrictions	18,119	(18,119)	—	—	10,420	(10,420)	—	—
Total public support and revenue	196,677	(3,911)	273	193,039	216,109	3,109	1,041	220,259
Expenses (note 5):								
Program services:								
Research support, net (note 9)	123,928	—	—	123,928	128,264	—	—	128,264
Public education	43,264	—	—	43,264	39,940	—	—	39,940
	167,192	—	—	167,192	168,204	—	—	168,204
Supporting services:								
Management and general	14,690	—	—	14,690	13,742	—	—	13,742
Fundraising	22,789	—	—	22,789	21,837	—	—	21,837
	37,479	—	—	37,479	35,579	—	—	35,579
Total expenses	204,671	—	—	204,671	203,783	—	—	203,783
Change in net assets	(7,994)	(3,911)	273	(11,632)	12,326	3,109	1,041	16,476
Net assets at beginning of year	12,792	28,784	6,455	48,031	466	25,675	5,414	31,555
Net assets at end of year	\$ 4,798	24,873	6,728	36,399	12,792	28,784	6,455	48,031

See accompanying notes to financial statements.

JDRF INTERNATIONAL

Statements of Functional Expenses

Years ended June 30, 2012 and 2011

(In thousands)

	2012			2011		
	Program services	Supporting services	Total	Program services	Supporting services	Total
	Research support	Management and general	Total	Research support	Management and general	Total
Research grants, net (note 9)	\$ 110,071	—	110,071	\$ 116,081	—	116,081
Payroll and related expenses	9,754	10,095	38,444	8,587	9,336	34,602
Printing and promotional expenses	286	454	2,404	261	491	2,483
Office rent and related expenses, including depreciation and amortization	1,678	2,596	8,311	1,608	2,502	7,651
Meetings and conferences	800	585	3,499	903	497	3,331
Professional services	1,152	328	2,305	646	403	2,448
Miscellaneous	187	632	2,158	178	513	1,608
Total functional expenses	\$ 123,928	14,690	167,192	\$ 128,264	13,742	168,204
Percentage of total functional expenses	60.55%	7.18%	81.69%	62.94%	6.74%	82.54%
Costs of direct benefits to donors	—	22,789	37,479	—	21,837	35,579
		18.31%			10.72%	
Total expenses and costs of direct benefits to donors			27,321			203,783
						\$ 231,992

	2012			2011		
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		18.31%			10.72%	
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See accompanying notes to financial statements.

JDRF INTERNATIONAL
Statements of Cash Flows
Years ended June 30, 2012 and 2011
(In thousands)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (11,632)	16,476
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net depreciation (appreciation) in fair value of investments	4,442	(14,749)
Depreciation and amortization	1,587	1,436
Proceeds from permanently restricted contributions	(1,000)	—
Changes in operating assets and liabilities:		
Contributions receivable	6,461	(5,728)
Prepaid expenses and other assets	1,887	(2,021)
Accounts payable and accrued expenses	(411)	390
Research grants payable	(16,037)	(7,237)
Deferred special events revenue	667	927
Liabilities related to split-interest agreements	(129)	86
Net cash used in operating activities	<u>(14,165)</u>	<u>(10,420)</u>
Cash flows from investing activities:		
Purchase of fixed assets	(7,534)	(4,624)
Purchase of investments	(1,951)	(22,573)
Proceeds from sale of investments	15,871	35,085
Net cash provided by investing activities	<u>6,386</u>	<u>7,888</u>
Cash flows from financing activities:		
Proceeds from permanently restricted contributions	1,000	—
Net cash provided by financing activities	<u>1,000</u>	<u>—</u>
Change in cash and cash equivalents	(6,779)	(2,532)
Cash and cash equivalents at beginning of year	<u>20,479</u>	<u>23,011</u>
Cash and cash equivalents at end of year	<u>\$ 13,700</u>	<u>20,479</u>

See accompanying notes to financial statements.

JDRF INTERNATIONAL

Notes to Financial Statements

June 30, 2012 and 2011

(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.

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. No unrelated business income tax liability was recognized for the years ended June 30, 2012 and 2011.

(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 the Foundation or by the passage of time.

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

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Notes to Financial Statements

June 30, 2012 and 2011

(All dollars in thousands)

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.

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 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 1.6% and 8.2% at June 30, 2012. For Charitable Gift Annuities, the assets received are held by JDRF as general assets and the annuity liability is a general obligation.

(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.

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Notes to Financial Statements

June 30, 2012 and 2011

(All dollars in thousands)

(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, 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 amounts of JDRF's remaining financial instruments approximate fair value.

(g) Allocation of Joint Costs

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

(h) Use of Estimates

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

(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.

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Notes to Financial Statements

June 30, 2012 and 2011

(All dollars in thousands)

(j) Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

(3) Investments

Investments at June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 47	174
Mutual funds:		
Equity, principally domestic	24,057	32,900
Fixed income, principally corporate	25,736	26,487
Fixed income funds	14,083	13,227
Global equity funds	14,483	16,672
Real assets funds	13,345	16,591
Hedge funds	38,293	42,355
Total investments	<u>\$ 130,044</u>	<u>148,406</u>

Included in investments are amounts related to Charitable Gift Annuities and Charitable Remainder Trusts totaling \$2,372 and \$2,407, respectively, at June 30, 2012 and \$2,653 and \$2,559, respectively, at June 30, 2011.

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.

In fiscal 2011, a program-related investment in convertible preferred stock was deemed to be without value. The write-off of the original value of \$3,500 was recorded as a research expense and the previously recognized appreciation of \$1,434 was recorded as an investment loss.

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. 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.

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Notes to Financial Statements

June 30, 2012 and 2011

(All dollars in thousands)

- 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, 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>

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 174	174	—	—
Mutual funds:				
Equity, principally domestic	32,900	32,900	—	—
Fixed income, principally corporate	26,487	26,487	—	—
Fixed income funds	13,227	—	13,227	—
Global equity funds	16,672	—	16,672	—
Real assets funds	16,591	—	10,092	6,499
Hedge funds	42,355	—	13,293	29,062
Total	<u>\$ 148,406</u>	<u>59,561</u>	<u>53,284</u>	<u>35,561</u>

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Notes to Financial Statements

June 30, 2012 and 2011

(All dollars in thousands)

Information with respect to the strategies of NAV funds is as follows (amounts included are as of June 30, 2012):

Fixed income funds (\$14,083) — 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 (\$14,483) — Investments in two funds 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 (\$13,345) — Investments in two funds that invest in liquid energy, real estate, and natural resources equities, as well as commodities and TIPS.

Hedge funds (\$38,293) — Investments in eight 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.

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, 2012, these investments can be redeemed or sold as follows:

	Amounts
Less than a month	\$ 6,095
Monthly	31,283
Quarterly	13,327
Annually	29,499
	\$ 80,204

The following table presents a reconciliation of Level 3 investments for the years ended June 30, 2012 and 2011:

	2012	2011
Balance at beginning of year	\$ 35,561	36,053
Net (losses) gains	(2,426)	4,836
Program-related investment write-off	—	(4,934)
Redemptions	(3,636)	(394)
Balance at end of year	\$ 29,499	35,561

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Notes to Financial Statements

June 30, 2012 and 2011

(All dollars in thousands)

There were no unfunded commitments as of June 30, 2012.

The components of investment return and its classification in the statements of activities for the years ended June 30, 2012 and 2011 were as follows:

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

	2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividends	\$ 2,379	137	34	2,550
Net appreciation	18,242	—	7	18,249
	<u>\$ 20,621</u>	<u>137</u>	<u>41</u>	<u>20,799</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 totaled \$681 and \$634 for the years ended June 30, 2012 and 2011, respectively.

(4) Retirement Plan

JDRF has a defined contribution pension plan, which substantially covers all employees. Related expense for the years ended June 30, 2012 and 2011 was \$1,598 and \$1,554, respectively.

(5) Allocation of Joint Costs

In 2012 and 2011, JDRF conducted activities, principally direct mail, that included fundraising appeals as well as program components. The joint costs incurred were allocated as follows:

	2012	2011
Public education	\$ 1,194	1,479
Management and general	267	279
Fundraising	2,218	2,240
Total	<u>\$ 3,679</u>	<u>3,998</u>

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Notes to Financial Statements
June 30, 2012 and 2011
(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, 2012 and 2011 consisted of:

	2012	2011
Gross pledges receivable, due in:		
Less than one year	\$ 10,179	11,590
One to five years	7,132	9,628
Thereafter	200	110
	17,511	21,328
Less:		
Allowance for doubtful accounts	(1,013)	(1,134)
Unamortized discount to present value, at rates ranging from 0.72% to 5.50%	(281)	(425)
Pledges receivable, net	16,217	19,769
Uncollected special events revenues	11,224	7,006
Affiliate contributions receivable	—	7,127
	\$ 27,441	33,902

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

(7) Fixed Assets

Fixed assets at June 30, 2012 and 2011 consisted of:

	2012	2011
Furniture and equipment	\$ 16,680	10,135
Leasehold improvements	2,733	1,744
	19,413	11,879
Less accumulated depreciation and amortization	(6,518)	(4,931)
Fixed assets, net	\$ 12,895	6,948

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Notes to Financial Statements

June 30, 2012 and 2011

(All dollars in thousands)

(8) Contributions from Affiliates

During the years ended June 30, 2012 and 2011, JDRF received contributions from affiliates as follows:

	<u>2012</u>	<u>2011</u>
JDRF – Canada	\$ 13,780	15,924
JDRF – Australia	4,485	4,871
JDRF – United Kingdom	2,094	1,933
JDRF – Netherlands	321	—
JDRF – Denmark	69	—
JDRF – Israel	110	150
	<u>\$ 20,859</u>	<u>22,878</u>

JDRF Canada's 2012 and 2011 contributions include \$8,087 and \$11,784, respectively, related to a joint funding agreement with the Federal Economic Development Agency for Southern Ontario as part of the JDRF Canadian T1D Clinical Trial Network. The program funds JDRF-approved grants to conduct clinical trials to further the development and/or commercialization of an artificial pancreas for diabetics and to establish a Clinical Trial Network in Southern Ontario in order to facilitate and coordinate the conduct of Phase I and II Clinical Trials.

(9) Research Grants Payable

Research grants payable at June 30, 2012 and 2011 consisted of:

	<u>2012</u>	<u>2011</u>
Amounts expected to be paid in:		
Less than one year	\$ 116,747	138,528
One to five years	12,700	6,965
Subtotal	129,447	145,493
Less discount to present value, at rates ranging from 0.41% to 0.81%	<u>(57)</u>	<u>(66)</u>
Total	<u>\$ 129,390</u>	<u>145,427</u>

Research grant expense is net of any grant refunds, reductions, or terminations. These adjustments were \$7,028 and \$19,066 for the years ended June 30, 2012 and 2011, respectively.

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June 30, 2012 and 2011
(All dollars in thousands)

(10) Commitments and Contingencies

(a) Research Grants

As of June 30, 2012, JDRF's conditional research grant commitments of \$82,970, which will be recognized in the financial statements when the conditions have been substantially met, are currently estimated to be payable as follows:

2013	\$	59,401
2014		20,016
2015		2,953
2016		600
		82,970
	\$	82,970

(b) Leases

In 2009, JDRF entered into a lease agreement for its national headquarters for a 10-year term. Annual rent is \$1,269, increasing to \$1,353 after the fifth year. Rent expense is recognized on a straight-line basis and, accordingly, a deferred rent credit has been recorded. At June 30, 2012 and 2011, a credit of approximately \$1,123 and \$1,022, respectively, is included in accounts payable and accrued expenses.

JDRF is also obligated under various leases for space occupied by certain Chapters. Rent expense including maintenance costs for the Chapters was \$4,092 and \$3,942 for the years ended June 30, 2012 and 2011, respectively.

Rental commitments for all leases are as follows:

2013	\$	5,557
2014		5,377
2015		4,877
2016		4,490
2017		4,177
Thereafter		7,514
		31,992
	\$	31,992

(c) Line of Credit

On January 20, 2012, 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, 2013. The line of credit has not been utilized.

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June 30, 2012 and 2011

(All dollars in thousands)

(11) Net Assets

(a) Temporarily Restricted Net Assets

At June 30, 2012 and 2011, temporarily restricted net assets were available for the following purposes:

	2012	2011
Future periods, principally pledges receivable and split-interest agreements	\$ 17,736	21,213
Various research projects	7,137	7,571
	\$ 24,873	28,784

(b) Permanently Restricted Net Assets

At June 30, 2012 and 2011, the investment return derived from permanently restricted net assets was expendable to support:

	2012	2011
General activities	\$ 2,803	2,576
Research projects:		
Artificial Pancreas Project	2,000	2,000
Virginia Mason Research Center	1,925	1,879
	\$ 6,728	6,455

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.

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The following tables present the changes in donor-restricted endowment funds, exclusive of a \$1,000 pledge receivable in 2011:

		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	\$	171	—	6,728	6,899
		2011			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at					
June 30, 2010	\$	—	—	5,414	5,414
Investment income		279	133	34	446
Net appreciation (realized and unrealized)		73	—	7	80
Appropriation for expenditure		—	(133)	—	(133)
Endowment net assets at					
June 30, 2011	\$	352	—	5,455	5,807

(12) Subsequent Events

In connection with the preparation of the financial statements, JDRF evaluated subsequent events after the balance sheet date of June 30, 2012 through October 16, 2012, the date the financial statements were available for issuance. JDRF has determined that there are no subsequent events to disclose.