JDRF INTERNATIONAL

Consolidated Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
JDRF International:

We have audited the accompanying consolidated financial statements of JDRF International, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of JDRF International as of June 30, 2018 and 2017, 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.

(signed) KPMG LLP

Date

JDRF INTERNATIONAL

Consolidated Statements of Financial Position

June 30, 2018 and 2017

(In thousands)

Assets		2018	2017
Cash and cash equivalents	$	71,053	54,241
Investments (note 3):			
Financial investments		78,545	78,032
Programmatic investments		11,261	3,750
Contributions and other receivable, net (note 6)		50,674	42,418
Programmatic notes receivable (note 7)		1,500	3,500
Prepaid expenses and other assets		5,991	7,092
Fixed assets, net (note 8)		7,329	9,720
Total assets	$	226,353	198,753
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	22,351	16,729
Research grants payable (note 10)		94,920	94,060
Deferred revenue		10,052	7,935
Liabilities related to split-interest agreements		2,625	2,661
Total liabilities		129,948	121,385
Commitments and contingencies (note 11)			
Net assets (note 12):			
Unrestricted		57,009	39,586
Temporarily restricted		31,828	30,441
Permanently restricted		7,568	7,341
Total net assets		96,405	77,368
Total liabilities and net assets	$	226,353	198,753

See accompanying notes to consolidated financial statements.

JDRF INTERNATIONAL

Consolidated Statements of Activities

Years ended June 30, 2018 and 2017

(In thousands)

	2018				2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Public support and revenue:								
Public support:								
Contributions	$ 61,934	21,750	—	83,684	41,981	22,582	—	64,563
Events revenue:								
Proceeds	157,622	—	—	157,622	155,671	—	—	155,671
Direct donor benefits	(28,454)	—	—	(28,454)	(27,153)	—	—	(27,153)
Contributions from international affiliates (note 9)	8,294	—	—	8,294	7,662	—	—	7,662
Total public support	199,396	21,750	—	221,146	178,161	22,582	—	200,743
Revenue:								
Investment return, net (note 3)	3,807	42	227	4,076	5,416	101	267	5,784
Other	1,793	—	—	1,793	283	—	—	283
Total revenue	5,600	42	227	5,869	5,699	101	267	6,067
Net assets released from restrictions	20,405	(20,405)	—	—	24,932	(24,932)	—	—
Total public support and revenue	225,401	1,387	227	227,015	208,792	(2,249)	267	206,810
Expenses:								
Program services:								
Research, net (note 10)	107,790	—	—	107,790	99,876	—	—	99,876
Public education and advocacy	56,285	—	—	56,285	52,764	—	—	52,764
Total program services	164,075	—	—	164,075	152,640	—	—	152,640
Supporting services:								
Management and general	15,918	—	—	15,918	14,933	—	—	14,933
Fundraising	27,985	—	—	27,985	25,764	—	—	25,764
Total supporting services	43,903	—	—	43,903	40,697	—	—	40,697
Total expenses	207,978	—	—	207,978	193,337	—	—	193,337
Change in net assets	17,423	1,387	227	19,037	15,455	(2,249)	267	13,473
Net assets at beginning of year	39,586	30,441	7,341	77,368	24,131	32,690	7,074	63,895
Net assets at end of year	$ 57,009	31,828	7,568	96,405	39,586	30,441	7,341	77,368

See accompanying notes to consolidated financial statements.

JDRF INTERNATIONAL

Consolidated Statements of Functional Expenses

Years ended June 30, 2018 and 2017

(In thousands)

	2018						
	Program services			Supporting services			
	Research	Public education and advocacy	Total	Management and general	Fundraising	Total	Total expenses
Research grants, net (note 10)	$ 84,652	—	84,652	—	—	—	84,652
Payroll and related expenses	14,031	37,142	51,173	10,825	19,435	30,260	81,433
Printing and promotional expenses	857	2,100	2,957	378	1,782	2,160	5,117
Occupancy, including depreciation and amortization	3,301	8,053	11,354	3,150	4,052	7,202	18,556
Meetings and conferences	1,642	2,366	4,008	498	1,066	1,564	5,572
Professional services	2,927	3,460	6,387	473	669	1,142	7,529
Miscellaneous	380	3,164	3,544	594	981	1,575	5,119
Total expenses	$ 107,790	56,285	164,075	15,918	27,985	43,903	207,978
Costs of direct benefits to donors							28,454
Total expenses and costs of direct benefits to donors							$ 236,432

	2017						
	Program services			Supporting services			
	Research	Public education and advocacy	Total	Management and general	Fundraising	Total	Total expenses
Research grants, net (note 10)	$ 79,009	—	79,009	—	—	—	79,009
Payroll and related expenses	13,735	34,555	48,290	9,917	17,140	27,057	75,347
Printing and promotional expenses	564	2,192	2,756	432	1,979	2,411	5,167
Occupancy, including depreciation and amortization	3,188	8,120	11,308	3,218	4,072	7,290	18,598
Meetings and conferences	1,168	2,504	3,672	487	952	1,439	5,111
Professional services	1,918	3,183	5,101	339	733	1,072	6,173
Miscellaneous	294	2,210	2,504	540	888	1,428	3,932
Total expenses	$ 99,876	52,764	152,640	14,933	25,764	40,697	193,337
Costs of direct benefits to donors							27,153
Total expenses and costs of direct benefits to donors							$ 220,490

See accompanying notes to consolidated financial statements.

JDRF INTERNATIONAL

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	19,037	13,473
Adjustments to reconcile change in net assets to net cash provided by (used in) by operating activities:			
Net appreciation in fair value of investments		(3,199)	(5,642)
Depreciation and amortization		4,333	4,631
Deferred rent credits		(202)	(350)
Changes in operating assets and liabilities:			
Contributions and other receivables		(8,256)	(1,405)
Prepaid expenses and other assets		1,101	(2,612)
Accounts payable and accrued expenses		5,824	743
Research grants payable		860	(11,719)
Deferred revenue		2,117	(406)
Liabilities related to split-interest agreements		(36)	(82)
Net cash provided by (used in) operating activities		21,579	(3,369)
Cash flows from investing activities:			
Purchase of fixed assets		(1,942)	(761)
Funding of programmatic investments		(7,511)	(3,625)
Conversion (disbursement) of programmatic notes		2,000	(3,500)
Purchase of investments		(4,965)	(227)
Proceeds from sale of investments		7,651	1,017
Net cash used in investing activities		(4,767)	(7,096)
Change in cash and cash equivalents		16,812	(10,465)
Cash and cash equivalents at beginning of year		54,241	64,706
Cash and cash equivalents at end of year	$	71,053	54,241

See accompanying notes to consolidated financial statements.

(1) Organization

JDRF International (JDRF) is the leading global nonprofit organization funding type 1 diabetes (T1D) research with a mission to accelerate life-changing breakthroughs to cure, prevent and treat T1D and its complications. Guided by a strategic plan, JDRF maintains an in-house team of experts that identifies the most promising research to fulfill its mission. Over the decades, JDRF's work has resulted in significant developments in the understanding of the disease–bringing us closer to prevention and a cure–and better treatment options for people with T1D.

In addition to direct research funding, JDRF is able to leverage its influence to attract hundreds of millions of dollars more in follow-on investments by third parties to the T1D space each year. JDRF's ability to create funding partnerships and attract follow-on funding is a direct reflection of the credibility, success and influence that has been established over nearly five decades. By leveraging relationships, JDRF helps generate a greater number of innovative approaches to curing, preventing and better treating T1D.

JDRF solicits contributions from the public and engages in various fundraising activities. Funds raised are used principally to support T1D research. Furthermore, JDRF promotes public education initiatives and advocates for U.S. and foreign government funding of T1D research and raises awareness among Members of Congress of the financial, medical and emotional costs of the disease.

Since 1997, JDRF has helped secure nearly $2.8 billion in Federal funding for T1D research through the Special Diabetes Program. This program–administered by the National Institutes of Health–has produced tangible results in advancing cure therapies, prevention studies and treatments–including artificial pancreas technology and groundbreaking advances in vision improvement among people with diabetic eye disease. JDRF also advocates for regulatory and health policies, which enable research to proceed without delay and provide widespread access to life-changing T1D therapies.

JDRF drives early stage commercial investment in T1D therapies through an independently managed venture philanthropy fund. JDRF T1D Fund LLC (The Fund), formerly JDRF Therapeutics Fund LLC, is a limited liability company whose sole member is JDRF and was activated during the year ended June 30, 2016, and is considered a disregarded entity of JDRF. The purpose of The Fund is to materially accelerate the development of drugs, devices, diagnostics, and vaccines to treat, prevent and cure T1D. The Fund provides funding to companies and institutions conducting such T1D research and development through investment capital or other commercial agreements using donations made to The Fund and monies provided by JDRF.

JDRF financial results are presented on a consolidated basis, including JDRF and The Fund. All significant inter-company balances and transactions have been eliminated in consolidation.

JDRF's consolidated financial statements include the accounts of The Fund and JDRF 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 these international affiliates are not included in the accompanying consolidated financial statements since JDRF does not exercise control over their management or operations. However, international affiliates do provide contributions to JDRF to support funding of research grants as presented in note 9.

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, 2018 and 2017.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

JDRF's consolidated 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.

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 consolidated 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 treasury yield rate commensurate with the duration of the donor's payment plan. 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 treasury yield 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 events, primarily walk and ride 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 1.2% and 8.2% at June 30, 2018. 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.

(d) Investments

Investments include (i) Financial Investments made to increase earnings for support of JDRF’s mission and investments which support underlying planned giving and endowment agreements and (ii) Programmatic Investments made to provide equity capital to companies to materially accelerate the development of drugs, devices, diagnostics, and vaccines to treat, prevent and cure T1D.

Financial Investments in debt and equity securities, including assets related to split-interest agreements, with readily determinable fair values are reported at fair value based upon quoted market prices. Investments in funds, which report net asset value (NAV) or its equivalent (NAV funds), are reported at estimated fair value. The estimated fair value of NAV funds, as a practical expedient, is the NAV 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.

Programmatic Investments in equity securities are recorded at the lower of cost or fair market value which is evaluated annually for impairment.

As of June 30, 2018, JDRF T1D Fund recorded $12,761 in privately held companies with type 1 diabetes (T1D) related projects, of which $11,261 are Programmatic Investments (note 3) and $1,500 are Programmatic notes receivable (note 7). These Programmatic investments and notes receivable were made to provide equity capital to directly fund companies conducting the T1D research and development; therefore, there was no research grant related expense recorded thereby, decreasing the functional allocation percentage on research related expenses in the total program services while increasing the activities of the T1D fund through these 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

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 used when little or no market data is available.

JDRF follows Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, which removes the requirements to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient and removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient.

(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. As discussed in note 2(d), Programmatic investments provide equity capital to directly fund companies conducting T1D research and development that are completely tied to the mission. There was no research grant related expense recorded on those investments; therefore they are not included in the calculation of the total functional expenses.

(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 consolidated 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 consolidated financial statements, and the reported amounts of revenues and expenses during the year. Significant estimates made in the preparation of the consolidated financial statements include fair value of investments in NAV funds, net realizable value of contributions receivable, and functional expense allocation. Actual results could differ from those estimates.

(j) New Authoritative Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which among other things, changes how not-for-profit entities report net asset classes, expenses, and liquidity in their financial statements. The significant requirements of the ASU include the reduction of the number of net asset classes from three to two: with donor restrictions and without donor restrictions; the presentation of expenses by their function and their natural classification in one location; quantitative and qualitative information about the management of liquid resources and availability of financial assets to meet cash needs within one year of the date of the Statement of Financial Position. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early adoption is permitted. JDRF is in the process of evaluating the impact of the ASU on its financial statements. JDRF plans to adopt ASU 2016-14 for the year ending June 30, 2019.

In June 2018, the Financial Accounting Standards Board issued (ASC) 820-10-65-10, *Not-for-Profit Entitie:Clarifying the scope and accounting guidance for contributions received and contributions made*. ASU 2018-08 helps an entity evaluate whether it should account for a grant (or similar transaction) as a contribution or as an exchange transaction. The ASU also clarifies and expands the criteria for determining whether a contribution is conditional, which may delay recognition of contribution revenue (recipient) or expense (resource provided). The provisions in this ASU are effective for annual periods beginning after June 15, 2018. JDRF is in the process of evaluating the impact of the ASU. JDRF will implement the provisions of ASU 2018-08 as of July 1, 2019.

(In thousands)

(3) Investments

Investments (including Programmatic Investments) at June 30, 2018 and 2017 consisted of the following:

		2018	2017
Investments measured at fair value (Level 1):			
Cash and cash equivalents	$	4,229	38
Mutual funds:			
Equity, principally domestic		21,263	16,248
Fixed income, principally government		22,390	21,964
Investments measured at NAV:			
Fixed income funds		—	4,122
Global equity funds		7,958	10,214
Real assets funds		3,495	3,054
Hedge funds		19,210	22,392
Investments measured at cost:			
Preferred stock (Programmatic Investments)		11,261	3,750
Total investments	$	89,806	81,782

Included in investments are amounts related to Charitable Gift Annuities and Charitable Remainder Trusts totaling $2,591 and $1,573, respectively, at June 30, 2018 and $2,576 and $1,608, respectively, at June 30, 2017.

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

Preferred stock – During fiscal year 2018, the Fund made investments in four private companies for which it holds Series of Preferred Stocks to provide equity capital to help materially accelerate the development of drugs, devices, diagnostics, and vaccines to treat, prevent and cure T1D. These Programmatic Investments are reported at cost as of June 30, 2018. As of June 30, 2018, there are no unfunded contingent commitments to programmatic investments.

Information with respect to the strategies of investments measured at NAV is as follows:

Fixed income funds – Investment in one fund that invests in sovereign bonds – both in the United States and globally, as well as bank loans.

Global equity funds – Investments in one fund that seeks to benefit from the compounding effect of accumulated earnings, assets, and dividends of the portfolio's underlying companies. Investments are in long positions, predominately in developed and emerging markets outside of the United States.

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

(In thousands)

Hedge funds – Investments in three funds that employ "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, and special-purpose vehicles. 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, 2018, these investments in NAV funds can be redeemed or sold as follows:

		Amounts
Less than a month	$	—
Monthly		11,453
Quarterly		11,941
Annually (calendar basis and investment anniversary)		7,269
	$	30,663

There were no unfunded commitments as of June 30, 2018.

The components of investment return and its classification in the consolidated statements of activities for the years ended June 30, 2018 and 2017 were as follows:

		2018			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividends, net	$	866	1	10	877
Net appreciation		2,941	41	217	3,199
	$	3,807	42	227	4,076

(In thousands)

		2017			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividends, net	$	129	—	13	142
Net appreciation		5,287	101	254	5,642
	$	5,416	101	267	5,784

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 $449 and $452 for the years ended June 30, 2018 and 2017.

(4) Retirement Plans

JDRF maintains a Tax Deferred Annuity Plan (403B) which allows employees to defer a portion of their wages for saving for retirement. This Plan was amended effective July 1, 2015 to provide an annual employer matching contribution equal to 100% of an employee's own contributions for the first 3% of annual eligible wages and 50% of the next 3% for a maximum possible contribution match of 4.5% of annual eligible earnings. To receive employer matching contributions, an eligible employee must be employed by JDRF on the last day of the Plan year. Related contribution expense for the years ended June 30, 2018 and 2017 was $1,628 and $1,468, respectively.

JDRF also maintained a 401A Retirement Plan which was previously used by the JDRF to support employee retirement savings through a discretionary annual contribution to eligible employees. JDRF has redirected the majority of its support for employee retirement savings to the 403B Plan but continued to maintain the 401A Plan with reduced contribution funding throughout the 2018 fiscal year. Related contributions expense to the 401A Plan for the year ended June 30, 2017 was $50. The 401A Retirement Plan was terminated on June 30, 2017.

(5) Allocation of Joint Costs

In 2018 and 2017, JDRF conducted activities, principally direct mail, that included fundraising appeals as well as program components. The joint costs incurred were allocated as follows:

		2018	2017
Public education	$	719	743
Management and general		111	112
Fundraising		1,197	1,250
Total	$	2,027	2,105

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

(6) Contributions Receivable

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

Contributions and other receivables at June 30, 2018 and 2017 consisted of the following:

		2018	2017
Gross pledges receivable, due in:			
Less than one year	$	15,932	14,288
One to five years		15,177	15,684
Thereafter		20	20
		31,129	29,992
Less:			
Allowance for doubtful accounts		(1,473)	(1,443)
Unamortized discount to present value, at rates ranging from 0.28% to 5.1%		(513)	(406)
Pledges receivable, net		29,143	28,143
Other contributions receivable, net		15,136	9,847
Events revenues receivables		6,395	4,428
	$	50,674	42,418

At June 30, 2018 and 2017, ten donors represented 40% and 24% of the total outstanding contributions and other receivables, respectively.

(7) Programmatic Notes Receivable

Programmatic notes receivable represent loans made to companies to provide capital to materially accelerate the development of drugs, devices, diagnostics, and vaccines to treat, prevent, and cure T1D. As of June 30, 2018, the Fund has one convertible promissory note with a private company. The promissory note bears interest and is convertible into shares of the company's preferred stock under certain conditions. The note receivable is recorded at net realizable value at June 30, 2018 and 2017.

(In thousands)

(8) Fixed Assets

Fixed assets at June 30, 2018 and 2017 consisted of the following:

		2018	2017
Furniture and equipment	$	21,046	26,514
Leasehold improvements		4,786	4,723
		25,832	31,237
Less accumulated depreciation and amortization		(18,503)	(21,517)
Fixed assets, net	$	7,329	9,720

(9) Contributions from International Affiliates

During the years ended June 30, 2018 and 2017, JDRF received contributions from affiliates as follows:

		2018	2017
JDRF – Canada	$	3,173	3,801
JDRF – United Kingdom		2,320	2,150
JDRF – Australia		2,728	1,540
JDRF – Netherlands		50	146
JDRF – Denmark		10	—
JDRF – Israel		13	25
	$	8,294	7,662

In April 2018, JDRF and the Affiliates reached an agreement on a renewed three-year Affiliate Agreement with an option for a three year renewal, with all agreements to expire in 2023. The Agreement remains much the same as the previous agreement but with the addition of a provision for termination with and termination without cause.

(In thousands)

(10) Research Grants Payable

Research grants payable at June 30, 2018 and 2017 consisted of the following:

		2018	2017
Amounts expected to be paid in:			
Less than one year	$	76,316	78,882
One to five years		19,294	15,368
Subtotal		95,610	94,250
Less discount to present value, at rates ranging from 0.28% to 2.33%		(690)	(190)
Total	$	94,920	94,060

Research grant expense is net of any grant refunds, reductions, or terminations. These adjustments were $8,146 and $5,289 for the years ended June 30, 2018 and 2017, respectively.

(11) Commitments and Contingencies

(a) Research Grants

As of June 30, 2018, JDRF's conditional research grants commitments, including milestone contracts, of $77,673, which will be recognized in the consolidated financial statements when the conditions have been substantially met, are currently estimated to be payable as follows:

2019	$	64,320
2020		11,477
2021		1,522
2022		354
	$	77,673

(b) Leases

JDRF is obligated under various leases for space occupied by certain chapters. Rent expense, including maintenance costs for the chapters, was $4,608 and $4,079 for the years ended June 30, 2018 and 2017, respectively.

(In thousands)

Rental commitments for all leases are as follows:

2019	$	4,756
2020		2,774
2021		2,075
2022		1,853
2023		1,434
2024 and beyond		658
	$	13,550

Rent expense is recognized on a straight-line basis, and accordingly, a deferred rent credit has been recorded. At June 30, 2018 and 2017, a credit of approximately $1,170 and $1,372, respectively, is included in accounts payable and accrued expenses.

(c) Line of Credit

On January 23, 2013, JDRF entered into an agreement with a financial institution for an unsecured line of credit in the aggregate amount of $5 million. The line of credit expires December 31, 2018. The line was not used in fiscal year 2018 and 2017 and no amounts were outstanding at June 30, 2018 or 2017.

(12) Net Assets

(a) Temporarily Restricted Net Assets

At June 30, 2018 and 2017, temporarily restricted net assets were available for the following purposes:

		2018	2017
Future periods, principally pledges receivable and split-interest agreements	$	29,852	28,834
Other contributions/purpose restricted		1,976	1,607
	$	31,828	30,441

(In thousands)

(b) Permanently Restricted Net Assets

At June 30, 2018 and 2017, the investment return derived from permanently restricted net assets was expendable to support:

		2018	2017
General activities	$	3,006	2,936
Research projects:			
Artificial pancreas project		2,000	2,000
Virginia Mason Research Center		2,562	2,405
	$	7,568	7,341

(c) Endowment

JDRF's endowment consists of seven 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 SEC registered, institutional quality mutual funds across a range of diversified asset classes including domestic and international large and small cap stocks, emerging markets equities, domestic and international REITs, domestic and foreign bonds, and investment grade and high yield bonds.

(In thousands)

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

	2018		
	Temporarily restricted	Permanently restricted	Total
Endowment net assets at June 30, 2017	$ —	7,341	7,341
Investment income	1	10	11
Net appreciation	41	217	258
Appropriation for expenditure	(42)	—	(42)
Endowment net assets at June 30, 2018	$ —	7,568	7,568

	2017		
	Temporarily restricted	Permanently restricted	Total
Endowment net assets at June 30, 2016	$ 102	7,074	7,176
Investment income	—	13	13
Net appreciation	101	254	355
Appropriation for expenditure	(203)	—	(203)
Endowment net assets at June 30, 2017	$ —	7,341	7,341

(13) Subsequent Events

In connection with the preparation of the consolidated financial statements, JDRF evaluated subsequent events after the consolidated statement of financial position date of June 30, 2018 through _______ __, ____, the date the consolidated financial statements were available for issuance. JDRF has determined that there are no subsequent events to disclose.