Grant Thornton

Consolidated Financial Statements

Juvenile Diabetes Research Foundation Canada

December 31, 2017

Contents

Grant Thornton

Independent Auditor's Report

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To the Members of
Juvenile Diabetes Research Foundation Canada

We have audited the accompanying consolidated financial statements of Juvenile Diabetes Research Foundation Canada, which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and 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 auditor's 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 qualified audit opinion.

Basis for qualified opinion

In common with many charitable organizations, Juvenile Diabetes Research Foundation Canada derives revenue from campaigns and direct response activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of Juvenile Diabetes Research Foundation Canada. Therefore, we were not able to determine whether any adjustments might be necessary to revenue from campaigns and direct response activities, the excess (deficiency) of revenue over expenses, and cash flows from operations for the years ended December 31, 2017 and 2016, current assets as at December 31, 2017 and 2016, and net assets as at January 1, 2017 and 2016 and December 31, 2017 and 2016.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of Juvenile Diabetes Research Foundation Canada as at December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Grant Thornton LLP

Toronto, Canada
April 26, 2018

Chartered Professional Accountants
Licensed Public Accountants

Juvenile Diabetes Research Foundation Canada
Consolidated Statement of Operations

Year ended December 31	**2017**	2016
Revenue		
Campaigns and other income	**$ 21,058,677**	$ 18,949,383
Grants	**1,406,456**	1,169,804
Total revenue	**22,465,133**	20,119,187
Expenses (Note 9)		
Program costs		
Research support grants	**6,729,242**	6,482,098
Public education and advocacy	**1,143,929**	1,091,921
	7,873,171	7,574,019
Support costs		
Fundraising	**8,662,975**	9,406,933
Management and administration	**4,942,072**	4,629,479
Political activities	**243,303**	212,806
	13,848,350	14,249,218
Total expenses	**21,721,521**	21,823,237
Excess (deficiency) of revenue over expenses	**$ 743,612**	$ (1,704,050)

Net assets, beginning of the year	**$ 4,961,342**	$ 6,665,392
Excess (deficiency) of revenue over expenses	**743,612**	(1,704,050)
Net assets, end of year	**$ 5,704,954**	$ 4,961,342

See accompanying notes to the consolidated financial statements.

Juvenile Diabetes Research Foundation Canada
Consolidated Statement of Changes in Net Assets
Year ended December 31

	Unrestricted	Endowments	**Total 2017**	Total 2016
Net assets, beginning of year	$ 4,875,842	$ 85,500	**$ 4,961,342**	$ 6,665,392
Excess (deficiency) of revenue over expenses	743,612	-	**743,612**	(1,704,050)
Net assets, end of year	$ 5,619,454	$ 85,500	**$ 5,704,954**	$ 4,961,342

See accompanying notes to the consolidated financial statements.

Juvenile Diabetes Research Foundation Canada
Consolidated Statement of Financial Position

December 31	**2017**	2016
Assets		
Current		
Cash	**$ 4,353,965**	$ 3,897,363
Restricted cash (Note 6)	**2,530,562**	3,324,501
Accounts receivable	**1,073,230**	854,385
Prepaid expenses and other assets	**195,592**	196,255
	8,153,349	8,272,504
Investments held for endowments	**85,500**	85,500
Capital assets (Note 3)	**1,184,786**	167,917
Intangible assets (Note 4)	**492,154**	546,949
	$ 9,915,789	$ 9,072,870
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	**$ 830,758**	$ 787,027
Deferred contributions (Note 6)	**2,530,562**	3,324,501
Deferred lease inducements	**849,515**	-
	4,210,835	4,111,528
Net assets		
Unrestricted	**5,619,454**	4,875,842
Endowments	**85,500**	85,500
	5,704,954	4,961,342
	$ 9,915,789	$ 9,072,870

Commitments (Note 1 and Note 7)

On behalf of the Foundation

_______________ Director _______________ Director

See accompanying notes to the consolidated financial statements.

Juvenile Diabetes Research Foundation Canada
Consolidated Statement of Cash Flows

Year ended December 31	**2017**	2016
Increase (decrease) in cash		
Operating		
Excess (deficiency) of revenue over expenses	**$ 743,612**	$ (1,704,050)
Items not affecting cash		
Recognition of deferred contributions (Note 6)	**(2,688,350)**	(1,254,434)
Amortization and loss on disposal of capital assets	**142,997**	146,568
Amortization of intangible assets and loss on disposal	**191,192**	167,643
	1,610,549	(2,644,273)
Changes in non-cash working capital items		
Accounts receivable	**(218,845)**	(404,436)
Prepaid expenses and other assets	**663**	15,932
Accounts payable and accrued liabilities	**43,731**	155,680
Deferred contributions (Note 6)	**1,894,411**	1,972,690
Deferred lease inducements	**849,515**	-
	958,926	(904,407)
Investing		
Change in investments held for endowment (net)	**-**	140,075
Purchase of capital assets	**(1,159,866)**	(102,652)
Purchase of intangible assets	**(136,397)**	(186,607)
	(1,296,263)	(149,184)
Decrease in cash	**(337,337)**	(1,053,591)
Cash		
Beginning of year	**7,221,864**	8,275,455
End of year	**$ 6,884,527**	$ 7,221,864

Cash consists of		
Cash	**$ 4,353,965**	$ 3,897,363
Restricted cash	**2,530,562**	3,324,501
	$ 6,884,527	$ 7,221,864

See accompanying notes to the consolidated financial statements.

1. Purpose of the organization

Juvenile Diabetes Research Foundation Canada (JDRFC) is a national charitable organization with regions across Canada that are involved in various local and national activities. JDRFC's mission is to find a cure for diabetes and its complications through the support of research, focusing on Type 1 diabetes. JDRFC collaborates with Canadian universities and research institutions to create a world-class clinical research platform focused on:

- speeding advances in cures and therapies for diabetes and its complications;
- conducting and executing clinical trials in Canada;
- positioning Canada as an international hub for translational research; and
- attracting the best international scientists and institutions to Canada.

In addition, JDRFC engages in public education and advocacy activities.

In 2017, JDRFC secured a new multi-year partnership with the Government of Canada's health research investment agency – the Canadian Institutes of Health Research (CIHR). JDRFC and CIHR will each contribute $15M in future years, for a total $30M investment to fund Type 1 diabetes research.

During 2017, JDRF Canada received major gifts totalling $6.7M (2016 - $2.6M) of which $1.8M (2016 - $0.7M) was collected as cash and recorded in the 2017 financial statements with the residual of $4.9M (2016 - $1.9M) to be received and recognized in future years.

JDRFC is one of seven affiliates of Juvenile Diabetes Research Foundation International (JDRFI). JDRFI establishes a global research strategy and joint decisions are made to fund the best research in Canada and internationally.

The consolidated financial statements include the financial activities and financial position of JDRFC and its fully-controlled subsidiary organization, JDRF-Canadian Clinical Trial Network (CCTN). CCTN was created on April 13, 2010 to establish a clinical trial network for Type 1 diabetes research on a Canada-wide platform through the assistance of Southern Ontario Development Program (SODP).

JDRFC and CCTN were incorporated under the Canada Not-for-profit Corporations Act in October 2014. JDRFC and CCTN are registered charities with the Canada Revenue Agency (CRA) under Section 149 of the Income Tax Act (Canada) and are exempt from income taxes, with the CRA registration numbers 118976604RR0001 and 812584068RR0001, respectively.

2. Summary of significant accounting policies

The consolidated financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO), the more significant of which are outlined below.

2. Summary of significant accounting policies (continued)

Revenue recognition

JDRFC uses the deferral method of recognizing externally restricted contributions. Under the deferral method, externally restricted contributions, other than endowments, are initially deferred and are recognized as revenue in the year in which the related expenses are incurred. Endowments are recognized as a direct increase to net assets. Unrestricted contributions are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Investment income is recognized as revenue when earned. The income from endowments is to be used for general purposes, unless otherwise specified by the donor.

Contributed services

The work of JDRFC benefits from a substantial number of volunteers who have made significant contributions of their time to JDRFC and its purpose. Since these services are not normally purchased by JDRFC and because of the difficulty of determining their fair value, the value of this contributed time is not reflected in these consolidated financial statements.

Allocation of expenses

JDRFC allocates salaries and benefits, rent, and office and other expenses to research, public education and advocacy, fundraising, management and administration, and political activities. Allocations are based on the time spent by the employees on each function. The details of the allocation are disclosed in Note 9.

Research support grants

Research support grants are made by JDRFC and CCTN to research applicants as approved by both JDRFC and JDRFI. These grants are recorded as an expense when funds are advanced.

Financial assets and financial liabilities

JDRFC initially measures all its financial assets and financial liabilities at fair value and subsequently at amortized cost. Changes in fair value are recognized in the consolidated statement of operations.

Financial assets are tested for impairment at the end of each reporting period when there are indicators the assets may be impaired.

Capital assets

Capital assets are recorded at cost if purchased or recorded at their fair value if donated. Amortization is provided at the following rates:

Leasehold improvements	straight-line over the lease term
Computer hardware	3 years straight line
Office equipment, furniture and fixtures	5 years straight line

2. Summary of significant accounting policies (continued)

Intangible assets

Intangible assets acquired individually or as a part of a group of other assets are initially recognized and measured at cost. Amortization commences in the year the asset is purchased or put in use. The amortization method and estimated useful lives of intangible assets are reviewed annually. JDRFC's intangible assets consist of computer software and are amortized on a five year straight line basis.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction date. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the date of the consolidated statement of financial position. Non-monetary assets and liabilities are translated at the historic rate. Exchange gains and losses are included in the consolidated statement of operations.

Use of estimates

The preparation of consolidated financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates relate to the collectability of accounts receivable and the estimated useful lives of capital and intangible assets. Actual results could differ from those estimates.

3. Capital assets

			2017	2016
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
Leasehold improvements	$ 728,497	$ 20,742	**$ 707,755**	$ 68,601
Computer hardware	50,706	8,352	**42,354**	57,407
Office equipment, furniture and fixtures	490,898	56,221	**434,677**	41,909
	$ 1,270,101	$ 85,315	**$ 1,184,786**	$ 167,917

4. Intangible assets

			2017	2016
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
Computer software	$ 767,796	$ 275,642	**$ 492,154**	$ 546,949

5. Government remittances payable

Included in accounts payable and accrued liabilities are remittances payable to the government of $13,185 (2016 - $2,148).

6. Deferred contributions and restricted cash

	2017	2016
Balance, beginning of year	**$ 3,324,501**	$ 2,606,245
Amounts received during the year	**1,894,411**	1,972,690
Amounts recognized as revenue during the year	**(2,688,350)**	(1,254,434)
Balance, end of year	**$ 2,530,562**	$ 3,324,501

7. Commitments

The minimum annual lease payments under operating leases for rental of premises and equipment, for the next five years and thereafter, are as follows:

2018	$ 976,590
2019	784,048
2020	738,331
2021	635,877
2022	630,341
Thereafter	3,671,348
	$ 7,436,535

In 2017, JDRFC secured a new multi-year partnership with the Government of Canada's health research investment agency – the Canadian Institutes of Health Research (CIHR). JDRFC and CIHR will each contribute $15M in future years, for a total $30M investment to fund Type 1 diabetes research.

8. Banking arrangements

JDRFC has a line of credit of $1,000,000 available for its use with its principal bank. The facility bears interest at the bank's prime rate and is secured by an assignment of amounts on deposit with the bank, by all of the regions and the head office. As at December 31, 2017, no amounts have been drawn against this facility (2016 - $Nil).

9. Allocation of expenses in JDRFC

The following details the allocation of expenses to the activities of JDRFC. Allocations are based on the time spent by the employees on each function.

Allocated expenses	Research	Public education and advocacy	Fundraising	Management and administration	Political activities	**Total 2017**
Salaries and benefits	$ 55,265	$ 569,906	$ 5,150,559	$ 809,473	$ 52,597	**$ 6,637,800**
Rent	-	66,918	417,617	108,103	1,561	**594,199**
Office and other expenses	103,151	34,956	328,864	113,047	5,972	**585,990**
	158,416	671,780	5,897,040	1,030,623	60,130	**7,817,989**
Direct expenses	6,570,826	472,149	2,765,935	3,911,449	183,173	**13,903,532**
Total	$ 6,729,242	$ 1,143,929	$ 8,662,975	$ 4,942,072	$ 243,303	**$ 21,721,521**

Allocated expenses	Research	Public education and advocacy	Fundraising	Management and administration	Political activities	Total 2016
Salaries and benefits	$ 45,168	$ 561,839	$ 5,272,078	$ 636,968	$ 75,933	$ 6,591,986
Rent	10,687	133,346	467,171	130,452	5,343	746,999
Office and other expenses	253,569	40,475	254,927	68,624	1,000	618,595
	309,424	735,660	5,994,176	836,044	82,276	7,957,580
Direct expenses	6,172,674	356,261	3,412,757	3,793,435	130,530	13,865,657
Total	$ 6,482,098	$ 1,091,921	$ 9,406,933	$ 4,629,479	$ 212,806	$ 21,823,237

Expenses were allocated as follows: 2% to research (2016 - 4%), 9% to public education and advocacy (2016 - 9%), 75% to fundraising (2016 - 75%), 13% to management and administration (2016 - 11%), and 1% to political activities (2016 - 1%).

10. Support to CCTN from JDRFC

JDRFC and its Board of Directors agree to support the operations of CCTN as an independent entity on a year over year basis as required.

During the year, JDRFC transferred $681,176 (2016 - $992,669) to CCTN to cover its administrative expenses, which included an allocation of salaries and benefits costs of $497,950 (2016 - $501,430) for services provided to CCTN.

11. Financial risk management

The main risks to which JDRFC's financial instruments are exposed are credit risk, liquidity risk, and foreign currency exchange risk. It is management's opinion that JDRFC is not exposed to significant interest rate risk or market risk.

Credit risk

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject JDRFC to credit risk consist principally of cash, and accounts receivable. JDRFC manages credit risk related to its accounts receivable through regular monitoring of balances and communication with debtors.

Liquidity risk

Liquidity risk is the risk JDRFC will not be able to meet its financial obligations as they fall due. JDRFC manages its liquidity risk by forecasting cash flows from operations and anticipating activities to ensure it has sufficient available funds to meet current and foreseeable financial requirements.

Foreign currency risk

The risk to the organization arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. Cash balances held in US dollars to fund research support grants and salaries and benefits are exposed to these fluctuations. The organization does not use derivative instruments to reduce its exposure to such foreign currency risk.