Grant Thornton

Consolidated Financial Statements

Juvenile Diabetes Research Foundation Canada

December 31, 2018

Contents

Independent Auditor's Report

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To the Members of
Juvenile Diabetes Research Foundation Canada

Qualified Opinion

We have audited the consolidated financial statements of Juvenile Diabetes Research Foundation Canada ("JDRFC"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of JDRFC as at December 31, 2018, and its consolidated results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

In common with many not-for-profit organizations, JDRFC derives revenue from campaigns and direct response activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of JDRFC. Therefore, we were not able to determine whether any adjustments might be necessary to campaigns and other income, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 2018 and 2017, current assets as at December 31, 2018 and 2017, and net assets as at January 1 and December 31 for both the 2018 and 2017 years. Our audit opinion on the financial statements for the year ended December 31, 2017 was modified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of JDRFC in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the consolidated financial statements, management is responsible for assessing JDRFC's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate JDRFC or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing JDRFC's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 JDRFC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on JDRFC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause JDRFC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within JDRFC and the organizations it controls to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton LLP

Toronto, Canada
April 30, 2019

Chartered Professional Accountants
Licensed Public Accountants

Juvenile Diabetes Research Foundation Canada
Consolidated Statement of Operations

Year ended December 31	**2018**	2017
Revenue		
Campaigns and other income	**$ 20,338,881**	$ 21,058,677
Grants	**452,700**	1,406,456
Total revenue	**20,791,581**	22,465,133
Expenses (Note 10)		
Program costs		
Research support grants	**6,588,090**	6,729,242
Public education and advocacy	**1,347,585**	1,143,929
	7,935,675	7,873,171
Support costs		
Fundraising	**8,582,434**	8,662,975
Management and administration	**5,050,949**	4,942,072
Political activities	**322,810**	243,303
	13,956,193	13,848,350
Total expenses	**21,891,868**	21,721,521
Excess (deficiency) of revenue over expenses	**$ (1,100,287)**	$ 743,612

Net assets, beginning of the year	**$ 5,704,954**	$ 4,961,342
Excess (deficiency) of revenue over expenses	**(1,100,287)**	743,612
Net assets, end of year	**$ 4,604,667**	$ 5,704,954

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 2018**	Total 2017
Net assets, beginning of year	$ 5,619,454	$ 85,500	**$ 5,704,954**	$ 4,961,342
Excess (deficiency) of revenue over expenses	(1,100,287)	-	**(1,100,287)**	743,612
Net assets, end of year	$ 4,519,167	$ 85,500	**$ 4,604,667**	$ 5,704,954

See accompanying notes to the consolidated financial statements.

Juvenile Diabetes Research Foundation Canada
Consolidated Statement of Financial Position

December 31	**2018**	2017
Assets		
Current		
Cash	**$ 3,880,230**	$ 4,353,965
Restricted cash – deferred contributions (Note 6)	**4,296,863**	2,530,562
Restricted cash – contributions payable (Note 7)	**861,025**	-
Accounts receivable	**855,727**	1,073,230
Prepaid expenses and other assets	**232,700**	195,592
	10,126,545	8,153,349
Investments held for endowments	**85,500**	85,500
Capital assets (Note 3)	**1,119,548**	1,184,786
Intangible assets (Note 4)	**391,035**	492,154
	$ 11,722,628	$ 9,915,789

Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	**$ 1,169,622**	$ 830,758
Deferred contributions (Note 6)	**4,296,863**	2,530,562
Contributions payable (Note 7)	**861,025**	-
Deferred lease inducements	**790,451**	849,515
	7,117,961	4,210,835
Net assets		
Unrestricted	**4,519,167**	5,619,454
Endowments	**85,500**	85,500
	4,604,667	5,704,954
	$ 11,722,628	$ 9,915,789

Commitments (Note 1 and Note 8)

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	**2018**	2017
Increase (decrease) in cash		
Operating		
Excess (deficiency) of revenue over expenses	**$ (1,100,287)**	$ 743,612
Items not affecting cash		
Recognition of deferred contributions (Note 6)	**(1,557,220)**	(2,688,350)
Amortization and loss on disposal of capital assets	**184,837**	142,997
Amortization of intangible assets and loss on disposal	**158,914**	191,192
	(2,313,756)	(1,610,549)
Changes in non-cash working capital items		
Accounts receivable	**217,503**	(218,845)
Prepaid expenses and other assets	**(37,108)**	663
Accounts payable and accrued liabilities	**338,864**	43,731
Deferred contributions (Note 6)	**3,323,521**	1,894,411
Contributions payable (Note 7)	**861,025**	-
Deferred lease inducements	**(59,064)**	849,515
	2,330,985	958,926
Investing		
Purchase of capital assets	**(119,599)**	(1,159,866)
Purchase of intangible assets	**(57,795)**	(136,397)
	(177,394)	(1,296,263)
Increase (decrease) in cash	**2,153,591**	(337,337)
Cash		
Beginning of year	**6,884,527**	7,221,864
End of year	**$ 9,038,118**	$ 6,884,527

Cash consists of		
Cash	**$ 3,880,230**	$ 4,353,965
Restricted cash – deferred contributions	**4,296,863**	2,530,562
Restricted cash – contributions payable	**861,025**	-
	$ 9,038,118	$ 6,884,527

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 $15.0M, of which $0.8M was made in 2018. Another $1.1M is forecasted to be made in 2019 following achievement of project milestones with the remaining $13.1M in the subsequent five years, for a total $30.0M investment to fund Type 1 diabetes research.

During 2018, JDRF Canada received major gifts totalling $8.1M (2017 - $6.6M) and secured commitments related to future years of $4.9M (2017 - $8.6M) of which $2.7M is due to be received and recognized in 2019 with the remaining amount of $2.2M 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.

Contributions payable

Occasionally JDRFC and CCTN receive returned contributions from research institutions that have previously been distributed and recognized. When returned and redistributed, these amounts are reflected in restricted cash – contributions payable, and contributions payable in the consolidated statement of financial position.

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. If an impairment exists the asset is written down. If previously recognized, an impairment loss would be reversed to the extent of the improvement provided the asset is not carried at an amount, at the date of reversal, greater than the amount that would have been the carrying amount had no impairment loss been recognized previously. The amounts of any write-downs or reversals would be recognized in the consolidated statement of operations.

2. Summary of significant accounting policies (continued)

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

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

	Cost	Accumulated Amortization	**2018 Net Book Value**	2017 Net Book Value
Leasehold improvements	$ 731,303	$ (84,634)	**$ 646,669**	$ 707,755
Computer hardware	96,144	(22,910)	**73,234**	42,354
Office equipment, furniture and fixtures	562,252	(162,607)	**399,645**	434,677
	$ 1,389,699	$ (270,151)	**$ 1,119,548**	$ 1,184,786

4. Intangible assets

	Cost	Accumulated Amortization	**2018 Net Book Value**	2017 Net Book Value
Computer software	$ 825,591	$ (434,556)	**$ 391,035**	$ 492,154

5. Government remittances payable

Included in accounts payable and accrued liabilities are remittances payable to the government of $13,513 (2017 - $13,185).

6. Deferred contributions and restricted cash

	2018	2017
Balance, beginning of year	**$ 2,530,562**	$ 3,324,501
Amounts received during the year	**3,323,521**	1,894,411
Amounts recognized as revenue during the year	**(1,557,220)**	(2,688,350)
Balance, end of year	**$ 4,296,863**	$ 2,530,562

7. Contributions payable and restricted cash

CCTN received $1,559,033 from research institutions in relation to returned contributions that have previously been distributed. During 2018, $698,008 was redistributed in accordance with the underlying restrictions to fund ongoing research initiatives, with the remainder to be distributed in future years.

8. 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:

2019	$ 972,533
2020	895,119
2021	788,568
2022	772,217
2023	713,726
Thereafter	3,097,596
	$ 7,239,759

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 $15.0M, of which $0.8M was made in 2018 (2017 – $Nil) and $14.2M is to be made in future years, for a total $30.0M investment to fund Type 1 diabetes research.

9. 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, 2018, no amounts have been drawn against this facility (2017 - $Nil).

10. 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 2018**
Salaries and benefits	$ 96,912	$ 815,797	$ 4,333,512	$ 1,338,045	$ 75,616	**$ 6,659,882**
Rent	9,122	74,682	333,610	189,585	836	**607,835**
Office and other expenses	30,864	96,218	326,794	96,216	564	**550,656**
	136,898	986,697	4,993,916	1,623,846	77,016	**7,818,373**
Direct expenses	6,451,192	360,888	3,588,518	3,427,103	245,794	**14,073,495**
Total	$ 6,588,090	$ 1,347,585	$ 8,582,434	$ 5,050,949	$ 322,810	**$ 21,891,868**

10. Allocation of expenses in JDRFC (continued)

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

Expenses were allocated as follows: 2% to research (2017 - 2%), 13% to public education and advocacy (2017 - 9%), 64% to fundraising (2017 - 75%), 21% to management and administration (2017 - 13%), and 1% to political activities (2017 - 1%).

11. 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 $399,214 (2017 - $681,176) to CCTN to cover its administrative expenses, which included an allocation of salaries and benefits costs of $327,699 (2017 - $497,950) for services provided to CCTN.

12. Financial instruments

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.

12. Financial instruments (continued)

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.