Grant Thornton

Consolidated Financial Statements

Juvenile Diabetes Research Foundation Canada

December 31, 2016

Contents

Independent Auditor's Report

Grant Thornton LLP
Suite 200
15 Allstate Parkway
Markham, ON
L3R 5B4

T +1 416 366 0100
F +1 905 475 8906
www.GrantThornton.ca

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, 2016 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 deficiency of revenue over expenses, and cash flows from operations for the years ended December 31, 2016 and 2015, current assets as at December 31, 2016 and 2015, and net assets as at January 1, 2016 and 2015 and December 31, 2016 and 2015.

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, 2016, 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
March 28, 2017

Chartered Professional Accountants
Licensed Public Accountants

Juvenile Diabetes Research Foundation Canada
Consolidated Statement of Operations
Year ended December 31

	JDRFC (Note 1)	CCTN (Note 1)	**Total 2016**	Total 2015
Revenue				
Campaigns and other income	$ 18,915,548	$ 33,835	**$ 18,949,383**	$ 19,780,178
Grants	150,960	1,018,844	**1,169,804**	625,000
Total revenue	19,066,508	1,052,679	**20,119,187**	20,405,178
Expenses (Note 11)				
Program costs				
Research support grants	5,153,830	1,328,268	**6,482,098**	8,166,213
Public education and advocacy	1,091,921	-	**1,091,921**	970,262
	6,245,751	1,328,268	**7,574,019**	9,136,475
Support costs				
Fundraising	9,051,791	355,142	**9,406,933**	10,037,584
Management and administration	4,349,817	279,662	**4,629,479**	3,715,823
Political activities	130,530	82,276	**212,806**	170,017
	13,532,138	717,080	**14,249,218**	13,923,424
Total expenses	19,777,889	2,045,348	**21,823,237**	23,059,899
Deficiency of revenue over expenses	$ (711,381)	$ (992,669)	**$ (1,704,050)**	$ (2,654,721)

Net assets, beginning of the year	$ 6,665,392	$ -	**$ 6,665,392**	$ 9,320,113
Deficiency of revenue over expenses	(711,381)	(992,669)	**(1,704,050)**	(2,654,721)
Support to CCTN from JDRFC (Note 12)	(992,669)	992,669	**-**	-
Net assets, end of year	$ 4,961,342	$ -	**$ 4,961,342**	$ 6,665,392

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 2016**	Total 2015
Net assets, beginning of year	$ 6,579,892	$ 85,500	**$ 6,665,392**	$ 9,320,113
Deficiency of revenue over expenses	(1,704,050)	-	**(1,704,050)**	(2,654,721)
Net assets, end of year	$ 4,875,842	$ 85,500	**$ 4,961,342**	$ 6,665,392

See accompanying notes to the consolidated financial statements.

Juvenile Diabetes Research Foundation Canada
Consolidated Statement of Financial Position

December 31	2016	2015
Assets		
Current		
Cash	**$ 3,897,363**	$ 5,669,210
Restricted cash (Note 8)	**3,324,501**	2,606,245
Short-term investments (Note 4)	**-**	140,075
Accounts receivable	**854,385**	449,949
Prepaid expenses and other assets	**196,255**	212,187
	8,272,504	9,077,666
Investments held for endowments (Note 4)	**85,500**	85,500
Capital assets (Note 5)	**167,917**	211,833
Intangible assets (Note 6)	**546,949**	527,985
	$ 9,072,870	$ 9,902,984

Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	**$ 787,027**	$ 631,347
Deferred contributions (Notes 3 and 8)	**3,324,501**	2,606,245
	4,111,528	3,237,592
Net assets		
Unrestricted	**4,875,842**	6,579,892
Endowments	**85,500**	85,500
	4,961,342	6,665,392
	$ 9,072,870	$ 9,902,984

Commitments (Note 9)

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	**2016**	2015
Increase (decrease) in cash		
Operating		
Deficiency of revenue over expenses	**$ (1,704,050)**	$ (2,654,721)
Items not affecting cash		
Amortization and loss on disposal of capital assets	**146,568**	54,153
Amortization of intangible assets	**167,643**	35,647
Change in fair value of investments	**-**	(63,610)
	(1,389,839)	(2,628,531)
Changes in non-cash working capital items		
Accounts receivable	**(404,436)**	404,436
Prepaid expenses and other assets	**15,932**	249,738
Accounts payable and accrued liabilities	**155,680**	(194,196)
Deferred contributions	**718,256**	604,087
	(904,407)	(1,564,466)
Investing		
Change in investments (net)	**140,075**	1,935,175
Purchase of capital assets	**(102,652)**	(8,606)
Purchase of intangible assets	**(186,607)**	(444,792)
	(149,184)	1,418,777
Decrease in cash	**(1,053,591)**	(82,689)
Cash		
Beginning of year	**8,275,455**	8,358,144
End of year	**$ 7,221,864**	$ 8,275,455

Cash consists of		
Cash	**$ 3,897,363**	$ 5,669,210
Restricted cash	**3,324,501**	2,606,245
	$ 7,221,864	$ 8,275,455

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.

JDRFC is one of seven affiliates of Juvenile Diabetes Research Foundation International (JDRFI). As such, in the pursuit of the joint mission to find a cure for Type 1 diabetes, JDRFI establishes a global research strategy and joint decisions are made to fund the best research in Canada and internationally. Additionally, JDRFC is licensed to use the "JDRF" brand to support its efforts to secure donations.

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). This organization 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.

Change in accounting policy

During 2016, management reviewed and adjusted its expense allocation policy to include an allocation of costs attributable to facilitating research support grant activities to better reflect the underlying time spent on the activities of the organization. The new basis of expense allocation was retrospectively applied to the prior period. There was no impact on the statements of financial position or cash flows, the deficiency of revenue over expenses, or the amounts presented in prior periods, other than the changes in expense balances, as described in Note 11.

2. Summary of significant accounting policies (continued)

Fund accounting

The organization uses fund accounting to present its consolidated financial statements whereby resources for particular purposes are classified for accounting and reporting purposes into one of the following funds:

JDRFC

JDRFC discloses the activities of the unrestricted operating fund associated with JDRFC's day-to-day operations, as well as the net assets restricted for endowments.

JDRFC includes the financial activities and financial position of the JDRFC head office and its regions, which include: Eastern Canada, Central Canada, Prairies, Alberta & Northwest Territories, and British Columbia & Yukon.

CCTN

CCTN discloses the activities associated with CCTN's day-to-day operations, which are supported by JDRFC (Note 12). CCTN's net asset balance is $Nil (2015 - $Nil).

Interfund transfers

Transfers between JDRFC and CCTN are completed when resources of one have been approved to finance activities and acquisitions in the other.

Revenue recognition

JDRFC uses the deferral method of recognizing externally restricted contributions. Under the deferral method, externally restricted contributions, other than endowments, 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.

Deferred contributions

Deferred contributions represent externally restricted funds received for research and grant commitments. These funds are deferred until such time as the commitments are paid or the funds are used for the designated purpose.

2. Summary of significant accounting policies (continued)

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 11.

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	30% declining balance
Office equipment, furniture and fixtures	30% declining balance

Intangible assets

Intangible assets (Note 6) 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 30% declining balance 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.

2. Summary of significant accounting policies (continued)

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. Related party transactions

During the year, CCTN received US $1 million from JDRFI as a grant to be paid out when certain restrictions are met.

4. Investments

Investments comprise cash and guaranteed investment certificates.

5. Capital assets

			2016	2015
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
Leasehold improvements	$ 76,812	$ 8,211	**$ 68,601**	$ 121,121
Computer hardware	405,199	347,792	**57,407**	75,089
Office equipment, furniture and fixtures	558,917	517,008	**41,909**	15,623
	$ 1,040,928	$ 873,011	**$ 167,917**	$ 211,833

6. Intangible assets

			2016	2015
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
Computer software	$ 1,573,586	$ 1,026,637	**$ 546,949**	$ 527,985

7. Government remittances payable

Included in accounts payable and accrued liabilities are remittances payable to the government of $2,148 (2015 - $1,858).

8. Deferred contributions and restricted cash

	2016	2015
Balance, beginning of year	**$ 2,606,245**	$ 2,002,158
Amounts received during the year	**1,972,690**	1,229,087
Amounts recognized as revenue during the year	**(1,254,434)**	(625,000)
Balance, end of year	**$ 3,324,501**	$ 2,606,245

9. 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:

2017	$ 539,200
2018	575,678
2019	490,334
2020	447,806
2021	367,596
Thereafter	2,661,730
	$ 5,082,344

JDRFC is committed to $400,000 in research support grants in 2017.

10. 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, 2016, no amounts have been drawn against this facility (2015 - $Nil).

11. 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 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**

Allocated expenses	Research	Public education and advocacy	Fundraising	Management and administration	Political activities	Total 2015
Salaries and benefits	$ 37,405	$ 653,302	$ 5,730,180	$ 1,619,802	$ 103,833	$ 8,144,522
Rent	9,670	118,744	337,278	227,540	15,720	708,952
Office and other expenses	257,576	50,792	222,351	879,406	8,049	1,418,174
	304,651	822,838	6,289,809	2,726,748	127,602	10,271,648
Direct expenses	7,861,562	147,424	3,747,775	989,075	42,415	12,788,251
Total	$ 8,166,213	$ 970,262	$ 10,037,584	$ 3,715,823	$ 170,017	$ 23,059,899

Expenses were allocated as follows: 4% to research (2015 - 3%), 9% to public education and advocacy (2015 - 8%), 75% to fundraising (2015 - 61%), 11% to management and administration (2015 - 27%), and 1% to political activities (2015 - 1%).

12. 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 $992,669 (2015 - $756,150) to CCTN to cover its administrative expenses, which included an allocation of salaries and benefits costs of $501,430 (2015 - $351,870) for services provided to CCTN.

13. 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, investments (Note 4), and accounts receivable. JDRFC places its cash and investments with high quality institutions to mitigate this risk. 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.

14. Subsequent events

In March 2017, JDRFC received the first $1 million installment of a $3 million unrestricted donation commitment expected to be fulfilled over the next three years.

15. Comparative figures

Certain comparative figures have been reclassified to conform to the consolidated financial statement presentation adopted for 2016.