KPMG

THE JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors’ Report Thereon)

THE JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

June 30, 2008 and 2007

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KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors
The Juvenile Diabetes Research Foundation International:

We have audited the accompanying statement of financial position of The Juvenile Diabetes Research Foundation International (the Foundation) as of June 30, 2008, and the related statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Foundation as of and for the year ended June 30, 2007 were audited by other auditors whose report, dated September 21, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of The Juvenile Diabetes Research Foundation International as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 10, 2008

THE JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

Statements of Financial Position

June 30, 2008 and 2007

(In thousands)

Assets		2008	2007
Cash and cash equivalents	$	20,601	49,584
Investments (note 3)		212,745	163,693
Accrued income		5,378	4,615
Contributions receivable, net (note 6)		26,576	21,917
Prepaid expenses and other assets		2,994	2,060
Fixed assets, net (note 7)		1,809	2,041
Total assets	$	270,103	243,910
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	11,966	10,751
Liabilities related to split-interest agreements		2,880	3,110
Deferred special events revenue		4,606	4,647
Research grants payable (note 9)		201,155	171,094
Total liabilities		220,607	189,602
Commitments and contingencies (note 10)			
Net assets:			
Unrestricted		9,115	23,169
Temporarily restricted (note 11)		35,224	26,099
Permanently restricted (note 11)		5,157	5,040
Total net assets		49,496	54,308
Total liabilities and net assets	$	270,103	243,910

See accompanying notes to financial statements.

THE JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

Statements of Activities

Years ended June 30, 2008 and 2007

(In thousands)

	2008				2007			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Public support and revenue:								
Public support:								
Contributions	$ 37,322	19,603	—	56,925	38,267	10,826	—	49,093
Special events:								
Proceeds	175,974	—	—	175,974	169,325	—	—	169,325
Direct donor benefits	(28,258)	—	—	(28,258)	(26,985)	—	—	(26,985)
Contributions from affiliates (note 8)	20,115	—	—	20,115	12,217	—	—	12,217
Total public support	205,153	19,603	—	224,756	192,824	10,826	—	203,650
Revenue:								
Investment income (note 3)	5,746	5	117	5,868	24,314	2	(2)	24,314
Other	1,333	—	—	1,333	758	—	—	758
Total revenue	7,079	5	117	7,201	25,072	2	(2)	25,072
Net assets released from restrictions	10,483	(10,483)	—	—	11,388	(11,388)	—	—
Total public support and revenue	222,715	9,125	117	231,957	229,284	(560)	(2)	228,722
Expenses:								
Program services:								
Research support	166,072	—	—	166,072	146,614	—	—	146,614
Public education	36,201	—	—	36,201	39,876	—	—	39,876
	202,273	—	—	202,273	186,490	—	—	186,490
Supporting services:								
Management and general	13,324	—	—	13,324	15,447	—	—	15,447
Fund-raising	21,172	—	—	21,172	14,651	—	—	14,651
	34,496	—	—	34,496	30,098	—	—	30,098
Total expenses	236,769	—	—	236,769	216,588	—	—	216,588
(Decrease) increase in net assets	(14,054)	9,125	117	(4,812)	12,696	(560)	(2)	12,134
Net assets at beginning of year	23,169	26,099	5,040	54,308	10,473	26,659	5,042	42,174
Net assets at end of year	$ 9,115	35,224	5,157	49,496	23,169	26,099	5,040	54,308

See accompanying notes to financial statements.

THE JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

Statements of Cash Flows

Years ended June 30, 2008 and 2007

(In thousands)

		2008	2007
Cash flows from operating activities:			
(Decrease) increase in net assets	$	(4,812)	12,134
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:			
Net appreciation in fair value of investments		(1,180)	(20,886)
Depreciation and amortization		929	839
Changes in operating assets and liabilities:			
Accrued income		(763)	108
Contributions receivable		(4,659)	2,013
Prepaid expenses and other assets		(934)	(152)
Accounts payable and accrued expenses		1,215	572
Split-interest agreements		(230)	414
Deferred special events revenue		(41)	614
Research grants payable		30,061	28,725
Net cash provided by operating activities		19,586	24,381
Cash flows from investing activities:			
Purchase of fixed assets		(697)	(856)
Purchase of investments		(55,255)	(6,889)
Proceeds from sale of investments		7,383	11,500
Net cash (used in) provided by investing activities		(48,569)	3,755
Net (decrease) increase in cash and cash equivalents		(28,983)	28,136
Cash and cash equivalents at beginning of year		49,584	21,448
Cash and cash equivalents at end of year	$	20,601	49,584

See accompanying notes to financial statements.

THE JUVENILE DIABETES RESEARCH FOUNDATION INTERNATIONAL

Statements of Functional Expenses

Years ended June 30, 2008 and 2007

(In thousands)

	2008						
	Program services			Supporting services			
	Research support	Public education	Total	Management and general	Fund-raising	Total	Total expenses
Research grants, net (note 9)	$ 156,385	—	156,385	—	—	—	156,385
Payroll and related expenses	6,345	21,804	28,149	8,546	13,411	21,957	50,106
Printing and promotional expenses	305	2,543	2,848	621	2,203	2,824	5,672
Office rent and related expenses, including depreciation and amortization	1,323	5,277	6,600	2,242	2,953	5,195	11,795
Meetings and conferences	1,338	2,816	4,154	511	1,201	1,712	5,866
Professional services	274	1,973	2,247	718	475	1,193	3,440
Miscellaneous	102	1,788	1,890	686	929	1,615	3,505
Total functional expenses	$ 166,072	36,201	202,273	13,324	21,172	34,496	236,769
Percentage of total functional expenses	70.14%	15.29%	85.43%	5.63%	8.94%	14.57%	
Costs of direct benefits to donors							28,258
Total expenses and costs of direct benefits to donors							$ 265,027

	2007						
	Program services			Supporting services			
	Research support	Public education	Total	Management and general	Fund-raising	Total	Total expenses
Research grants, net (note 9)	$ 137,826	—	137,826	—	—	—	137,826
Payroll and related expenses	5,463	22,814	28,277	9,719	8,728	18,447	46,724
Printing and promotional expenses	309	3,418	3,727	814	1,995	2,809	6,536
Office rent and related expenses, including depreciation and amortization	1,223	5,595	6,818	2,513	2,053	4,566	11,384
Meetings and conferences	1,322	3,418	4,740	668	883	1,551	6,291
Professional services	342	2,641	2,983	834	578	1,412	4,395
Miscellaneous	129	1,990	2,119	899	414	1,313	3,432
Total functional expenses	$ 146,614	39,876	186,490	15,447	14,651	30,098	216,588
Percentage of total functional	67.69%	18.41%	86.10%	7.13%	6.76%	13.90%	
Costs of direct benefits to donors							26,985
Total expenses and costs of direct benefits to donors							$ 243,573

See accompanying notes to financial statements.

(1) Organization

The mission of The Juvenile Diabetes Research Foundation International (the Foundation) is to find a cure for diabetes and its complications through the support of research.

The Foundation solicits contributions from the public and engages in various fund-raising activities. Funds raised are used to support Type 1 diabetes research. In addition, the Foundation engages in advocacy efforts aimed at increasing federal funding of Type 1 diabetes research.

The financial statements of the Foundation include the accounts of the Foundation and its Chapters located throughout the United States. The Foundation has international affiliates located in Canada, Australia, the United Kingdom and a number of other countries. The financial statements of those organizations are not included in the accompanying financial statements since the Foundation does not exercise control over the management and operations of the international affiliates.

The Foundation is a not-for-profit organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The Foundation's financial statements are prepared on the accrual basis of accounting in accordance with standards established by the Financial Accounting Standards Board (FASB) for external financial reporting by not-for-profit organizations. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met either by actions of the Foundation or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions, which stipulate that the principal be maintained permanently by the Foundation, but permit the Foundation 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 statement 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 that are not met in the same reporting period as received are reported as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Contributions subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions expected to be received after one year are discounted at a risk-free rate of return. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contribution.

Contributions received for future special events, primarily walk events, are recorded as deferred revenue and are recognized as revenue in the fiscal year the event takes place, which is generally within one year.

The Foundation administers two types of split-interest agreements – Charitable Gift Annuities and Charitable Remainder Trusts. With Charitable Gift Annuities, the Foundation receives cash or marketable securities 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. Upon the death of the annuitant or survivor of the annuitants, the Foundation is entitled to full use of the remainder. With Charitable Remainder Trusts administered by the Foundation, the Foundation receives donated assets as Trustee 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 market value of the trust as determined annually (unitrust). Upon the termination of the trust, the Foundation is entitled to full use of the remainder. 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 3.6% and 8.2% at June 30, 2008. For Charitable Gift Annuities, the assets received are held as general assets of the Foundation, and the annuity liability is a general obligation of the Foundation.

(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 the Foundation’s investment managers as part of their investment strategies.

(d) Investments

The Foundation's investments, including assets related to split-interest agreements, are reported at fair value based upon quoted market prices or, with respect to alternative investments, at estimated values provided by the general partners of limited partnerships or other external investment managers. These estimated values are reviewed and evaluated by the Foundation. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been used had a ready market existed for such investments.

(e) Fixed Assets

Fixed assets, which consist of furniture, equipment and leasehold improvements, are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which approximate three to ten years for furniture and equipment. Leasehold improvements are amortized on a straight-line basis over the shorter of the life of the asset or the lease term.

(f) Fair Value of Financial Instruments

Financial instruments are defined to include: cash and cash equivalents, investments, receivables, assets related to split-interest agreements, accounts payable and liabilities related to split-interest agreements. The fair value of investments is discussed in note 3. The carrying amount of the Foundation's remaining financial instruments approximates fair value.

(g) Allocation of Joint Costs

The Foundation allocates joint costs between fund-raising and program services or management and general in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund-Raising*.

(h) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(i) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services areas that were benefited. For the year ended June 30, 2008, the Foundation modified its methodology for allocating expenses on a functional basis.

(Continued)

(Amounts in thousands)

(j) New Accounting Standards

In August 2008, FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds* (FSP), was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of that FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. New York State has not yet adopted UPMIFA so the Foundation will not have to reclassify its net assets until such time. However, for the year ended June 30, 2009, the Foundation is required to adopt certain of the disclosure requirements of the FSP.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. SFAS 157 is effective for reporting periods beginning after November 15, 2007. The Foundation is currently evaluating the impact of SFAS 157 on its financial statements; however, the adoption of SFAS 157 will require additional disclosures regarding the inputs used to develop the fair value measurements, and the impacts of certain measurements on the statements of activities.

In June 2006, FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more-likely-than-not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. FIN 48 is effective for the Foundation's June 30, 2009 financial statements. The adoption of FIN 48 is not expected to have a significant impact on the Foundation's financial statements.

(k) Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

(3) Investments

Investments at June 30, 2008 and 2007 consisted of the following:

		2008	2007
Equity mutual funds	$	58,088	45,048
Other equities		64,622	55,526
Fixed income mutual funds		47,937	33,609
Hedge funds		42,098	29,510
Total investments	$	212,745	163,693

(Amounts in thousands)

Included in investments are amounts related to Charitable Gift Annuities and Charitable Remainder Trusts totaling $2,406 and $2,878, respectively, at June 30, 2008 and $2,407 and $3,586, respectively, at June 30, 2007.

The Foundation's investments are exposed to various risks, such as market and credit risks. Because of the risk associated with such investments, it is possible that change in their values will occur and that such changes could materially affect the Foundation's financial statements.

The Foundation is exposed to credit risk in the event of nonperformance by the issuers of the fixed income securities. However, the Foundation does not anticipate such nonperformance.

The components of investment return and its classification in the statements of activities for the years ended June 30, 2008 and 2007 were as follows:

	2008			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Interest and dividends	$ 4,657	3	28	4,688
Net appreciation	1,089	2	89	1,180
	$ 5,746	5	117	5,868

	2007			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Interest and dividends	$ 3,401	3	24	3,428
Net appreciation (depreciation)	20,913	(1)	(26)	20,886
	$ 24,314	2	(2)	24,314

Investment expenses relating to investment advisors, managers and custodians and other bank charges are recorded as reductions to interest and dividend income.

Investment expenses totaled $946 and $644 for the years ended June 30, 2008 and 2007, respectively.

(4) Retirement Plan

The Foundation has a defined contribution pension plan, which covers substantially all employees. The Foundation's expense for the years ended June 30, 2008 and 2007 was $ 2,194 and $1,529, respectively.

(Amounts in thousands)

(5) Allocation of Joint Costs

In 2008 and 2007, the Foundation conducted activities, principally direct mail, that included fund-raising appeals as well as program components. The joint costs incurred were allocated as follows:

		2008	2007
Public education	$	1,752	1,745
Management and general		344	342
Fund-raising		2,599	2,593
Total	$	4,695	4,680

(6) Contributions Receivable

Contributions receivable at June 30, 2008 and 2007 consisted of:

		2008	2007
Gross contributions receivable, due in:			
Less than one year	$	13,993	9,360
One to five years		14,585	15,119
Thereafter		803	502
		29,381	24,981
Less:			
Unamortized discount to present value, at rates ranging from 2.46% to 5.50%		(1,303)	(1,467)
Allowance for doubtful accounts		(1,502)	(1,597)
	$	26,576	21,917

Contributions receivable have been discounted to their present value at the date the original unconditional promise to give was made.

As of June 30, 2008 and 2007, 30% and 19%, respectively, of the gross contributions receivable were due from 10 donors.

(Continued)

(Amounts in thousands)

(7) Fixed Assets

Fixed assets at June 30, 2008 and 2007 consisted of:

		2008	2007
Furniture and equipment	$	4,640	3,948
Leasehold improvements		2,043	2,038
		6,683	5,986
Less accumulated depreciation and amortization		(4,874)	(3,945)
Fixed assets, net	$	1,809	2,041

(8) Contributions from Affiliates

During the years ended June 30, 2008 and 2007, the Foundation received contributions from affiliates as follows:

		2008	2007
JDRF – Canada	$	8,615	4,799
JDRF – Australia		9,678	6,237
JDRF – United Kingdom		1,615	1,086
JDRF – Greece		65	60
JDRF – Others		142	35
	$	20,115	12,217

JDRF Australia’s 2008 contribution includes $5,780 funded by the Australian Government as part of the JDRF Islet Transplantation Program (ITP) in Australia. The program, which began in 2007, funds JDRF-approved grants at Australian medical and research institutions to address the basic science surrounding preclinical approaches to improve islet transplantation techniques.

(Amounts in thousands)

(9) Research Grants Payable

Research grants payable at June 30, 2008 and 2007 consisted of:

		2008	2007
Amounts expected to be paid in:			
Less than one year	$	190,035	163,496
One to five years		11,646	7,972
Subtotal		201,681	171,468
Less discount to present value, at rates ranging from 2.30% to 4.91%		(526)	(374)
Total	$	201,155	171,094

Research grant expense is net of any grant refunds, reductions or terminations. These adjustments were $14,630 and $4,347 for the years ended June 30, 2008 and 2007, respectively.

(10) Commitments and Contingencies

(a) Research Grants

As of June 30, 2008, there were conditional research grant commitments of $199,693, which will be recognized in the Foundation's financial statements when the conditions have been substantially met, and are currently estimated to be payable as follows:

2009	$	111,269
2010		59,458
2011		19,026
2012		9,940
	$	199,693

(b) Leases

Effective January 1, 1995, the Foundation entered into a 15-year lease agreement for executive office space in New York City. In 2001, the Foundation leased additional office space in the same building. Rent expense for the executive office was $1,239 and $1,136 for the years ended June 30, 2008 and 2007, respectively. The Foundation was also reimbursed for certain construction costs associated with leasehold improvements. The leasehold improvements and a corresponding deferred credit were recorded in 1995, both of which are being amortized on a straight-line basis over the term of the lease.

(Amounts in thousands)

The Foundation is also obligated under various leases for space occupied by certain U.S. Chapters. Rent expense including maintenance costs for the U.S. Chapters was $3,513 and $3,595 for the years ended June 30, 2008 and 2007, respectively.

Rental commitments for all leases are as follows:

2009	$	4,828
2010		3,274
2011		2,137
2012		1,811
2013		921
Thereafter		16
	$	12,987

(11) Restricted Net Assets

(a) Temporarily Restricted Net Assets

At June 30, 2008 and 2007, temporarily restricted net assets were available for the following purposes:

		2008	2007
Future periods, principally contributions receivable and split-interest agreements	$	30,177	23,362
Diabetes Care Coalition program (know your A1C)		2,446	2,230
Various research projects		2,601	507
	$	35,224	26,099

(b) Permanently Restricted Net Assets

At June 30, 2008 and 2007, the investment return derived from permanently restricted net assets was expendable to support:

		2008	2007
General activities	$	1,576	1,576
Research projects:			
Artificial Pancreas Project		2,000	2,000
Virginia Mason Research Center		1,581	1,464
	$	5,157	5,040