DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

berkowitz pollack brant
advisors and accountants

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Diabetes Research Institute Foundation, Inc.

We have audited the accompanying consolidated financial statements of Diabetes Research Institute Foundation, Inc. and its Affiliate, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the year 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 accounting principles generally accepted in the United States of America; 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.

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 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 of 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. 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 Diabetes Research Institute Foundation, Inc. and its Affiliate as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated statement of functional expenses on page 20 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Berkowitz Pollack Brant

Fort Lauderdale, Florida
October 1, 2018

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2018

	Unrestricted	Temporarily Restricted	Total
ASSETS			
Cash and cash equivalents	$ 1,839,519	$ 2,245,271	$ 4,084,790
Investments	12,002,573	3,912,782	15,915,355
Receivables:			
Pledges, net	-	9,208,062	9,208,062
Other, net of allowance for doubtful accounts of $44,874	515,719	-	515,719
Prepaid expenses	562,742	-	562,742
Office equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of $433,897	107,605	-	107,605
TOTAL ASSETS	$ 15,028,158	$ 15,366,115	$ 30,394,273
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued expenses	$ 581,669	$ 63,029	$ 644,698
Due to the Institute	902,152	-	902,152
TOTAL LIABILITIES	1,483,821	63,029	1,546,850
COMMITMENTS			
NET ASSETS	13,544,337	15,303,086	28,847,423
TOTAL LIABILITIES AND NET ASSETS	$ 15,028,158	$ 15,366,115	$ 30,394,273

See notes to consolidated financial statements.

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
REVENUE, GAINS, LOSSES AND OTHER SUPPORT:			
Contributions, legacies and bequests, net	$ 2,367,689	$ 5,700,769	$ 8,068,458
Grant contracts and other revenue	213,192	-	213,192
Interest and dividends, net of investment fees of $108,211	294,112	-	294,112
Realized gain on sales of investment securities, net	213,054	-	213,054
Unrealized gain on investment securities, net	294,695	-	294,695
Provision for uncollectible receivables	-	(5,523)	(5,523)
Net assets released from restrictions	3,204,142	(3,204,142)	-
	6,586,884	2,491,104	9,077,988
Special fundraising activities:			
Empire Ball:			
Revenues	1,134,790	-	1,134,790
Expenses	(378,843)	-	(378,843)
	755,947	-	755,947
Blueprint for Cure			
Revenues	1,346,384	-	1,346,384
Expenses	(769,535)	-	(769,535)
	576,849	-	576,849
Other fundraising activities:			
Revenues	3,494,681	-	3,494,681
Expenses	(2,261,268)	-	(2,261,268)
	1,233,413	-	1,233,413
Special fundraising activities, net of related expenses	2,566,209	-	2,566,209
TOTAL REVENUE, GAINS, LOSSES AND OTHER SUPPORT, NET OF RELATED EXPENSES	9,153,093	2,491,104	11,644,197
EXPENSES:			
Program services:			
Research	5,996,723	-	5,996,723
Community diabetes education	906,518	-	906,518
TOTAL PROGRAM SERVICES	6,903,241	-	6,903,241
Supporting services:			
Management and general	1,339,926	-	1,339,926
General fundraising	1,788,229	-	1,788,229
TOTAL SUPPORTING SERVICES	3,128,155	-	3,128,155
TOTAL EXPENSES	10,031,396	-	10,031,396
CHANGE IN NET ASSETS	(878,303)	2,491,104	1,612,801
NET ASSETS - BEGINNING OF YEAR	14,422,640	12,811,982	27,234,622
NET ASSETS - END OF YEAR	$ 13,544,337	$ 15,303,086	$ 28,847,423

See notes to consolidated financial statements.

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 1,612,801
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	28,504
Provision for uncollectible receivables	5,523
Discount on pledges receivable	209,778
Donated investments	(115,889)
Realized gain on sales of investment securities, net	(213,054)
Unrealized gain on investment securities, net	(294,695)
Change in operating assets and liabilities:	
Pledges receivable	(2,349,273)
Other receivables	156,682
Prepaid expenses	9,440
Accounts payable and accrued expenses	(137,172)
Due to the Institute	406,486
TOTAL ADJUSTMENTS	(2,293,670)
NET CASH USED IN OPERATING ACTIVITIES	(680,869)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investment securities	(8,578,982)
Purchases of office equipment and leasehold improvements	(45,627)
Proceeds from sales of investment securities	7,099,948
NET CASH USED IN INVESTING ACTIVITIES	(1,524,661)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,205,530)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	6,290,320
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,084,790

See notes to consolidated financial statements.

NOTE A--THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization: The Diabetes Research Institute Foundation, Inc. (the "US Foundation") is a not-for-profit organization exempt from income tax under Section 501(c) (3) of the United States Internal Revenue Code. The US Foundation's affiliate, the Diabetes Research Institute Foundation (UK) Limited (the "UK Foundation"), is a registered charity with the Charity Commission of England and Wales and a not-for-profit organization exempt from income tax under Section 501(c)(3) of the United States Internal Revenue Code. The US Foundation and UK Foundation are collectively termed the "Foundation" or the "Organization". The Foundation's main purpose is the support of research in the field of diabetes. The beneficiary of the Foundation's research support is the Diabetes Research Institute at the University of Miami Miller School of Medicine (the "Institute").

Principles of Consolidation: The consolidated financial statements include the accounts of the US Foundation and the UK Foundation. The US Foundation has effective control of the UK Foundation, which had insignificant operations during the year ended June 30, 2018. All significant transactions and account balances between entities have been eliminated in consolidation.

Basis of Accounting: The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

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

- Temporarily Restricted: Net assets used by the Foundation are limited by donor-imposed stipulations that either expire with the passage of time or that can be fulfilled or removed by actions of the Foundation pursuant to those stipulations.

- Permanently Restricted: Net assets used by the Foundation are limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. The Foundation had no permanently restricted net assets as of June 30, 2018.

NOTE A--THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Cash Equivalents: All highly liquid cash investments with original maturities of three months or less when purchased are considered to be cash equivalents.

Investment Securities: Investment securities are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (Note D). A decline in the fair value of an investment security below cost that is deemed other than temporary is charged as an impairment loss of investment securities. As of June 30, 2018, management determined that no investment securities were permanently impaired (Note C). Investment security transactions are recorded on a trade date basis. The cost basis of investments sold is determined by the average cost method. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Pledges Receivable: Unconditional promises to give are included in the consolidated financial statements as pledges receivable and contribution revenue in the appropriate net asset category. Allowances are provided for amounts estimated to be uncollectible based on historical experience and any specific collection issues that the Organization has identified. It is the Organization's policy to charge uncollectible promises to give against the allowance when management determines that the related balance will not be collected. Pledges and bequests due in future periods are recorded at their net present value based upon discount rates ranging between 0.52% and 2.83% per annum. Conditional promises to give (amounted to approximately $200,000 at June 30, 2018) are not recognized until the conditions on which they depend are substantially met.

Office Equipment and Leasehold Improvements: Office equipment and leasehold improvements are recorded at cost or, if donated, at fair value at the donation date. Major renewals and improvements are capitalized, while repairs and maintenance expenditures are expensed as incurred. When items are retired or otherwise disposed of, the related costs and accumulated depreciation or amortization are removed from the accounts and any resulting gains or losses are recognized. Depreciation is provided on the straight-line basis over the estimated useful lives of the office equipment, ranging from three to ten years. Leasehold improvements are amortized over the lesser of the useful life or the term of the lease. Depreciation and amortization expense for the year ended June 30, 2018 amounted to approximately $29,000.

NOTE A--THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Contributions: Contributions and gifts received with no restrictions or specified uses identified by the donor or grantor are included in unrestricted revenue in the consolidated statement of activities when received. Contributions received with donor or grantor stipulations that limit the use of donated assets are reported as either temporarily or permanently restricted revenue in the consolidated statement of activities when received. When donor or grantor restrictions expire or are fulfilled by actions of the Foundation, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities as net assets released from restriction. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted revenue in the accompanying consolidated financial statements.

Fund-Raising Activities: The Organization's consolidated financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, "Not-for-Profit Entities". FASB ASC 958 establishes criteria for accounting and reporting for any entity that solicits contributions.

Allocated Expenses: The costs of providing the various programs and other activities have been summarized in the consolidated statement of activities. Certain common expenses have been allocated among the programs and supporting services based upon management's estimate of time spent. Expenditures made in direct fulfillment of the Foundation's expressed goals are classified as program services.

Donated Services: The Foundation utilizes the services of volunteers in its program services and fundraising campaigns. Because there are no objective means of valuing such services, no amounts have been recorded in the accompanying consolidated financial statements.

Use of Estimates: The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses, and gains and losses during the reporting period. The most significant estimates include an allowance for uncollectible pledges receivable and an estimate for indirect expenses that are allocated among the programs and supporting services. Actual results could differ from those estimates.

NOTE A--THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Subsequent Events: The Foundation has evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through October 1, 2018, the date the consolidated financial statements were available to be issued.

Recent Accounting Pronouncements: In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases. The Update will require entities that lease assets—referred to as "lessees"—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases; and ASU 2018-11, Targeted Improvements to Topic 842, Leases. The amendments in these updates affect narrow aspects of the guidance issued in the amendments in ASU 2016-02. The Foundation is currently evaluating the impact that the adoption of ASU 2016-02 and these amendments will have on the Foundation's consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This ASU simplifies and improves the manner in which a not-for-profit entity classifies its net assets, as well as the information that it presents in financial statements and notes concerning liquidity, financial performance, and cash flows. The amendments in the standard are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments in this Update is permitted. The Foundation is currently evaluating the impact that the adoption of ASU 2016-14 will have on the Foundation's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, Statement of Cash Flows (Topic 230). The amendments in this update change the classification of certain cash inflows and outflows on a statement of cash flows. The effective date of the amendments in this update are for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Foundation is currently evaluating the impact that the adoption of ASU 2016-15 will have on the Foundation's consolidated financial statements.

NOTE A--THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Recent Accounting Pronouncements--Continued: In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The effective date of the amendments in this update are for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Foundation is currently evaluating the impact that the adoption of ASU 2016-18 will have on the Foundation's consolidated financial statements.

NOTE B--CASH AND CASH EQUIVALENTS

Cash and cash equivalents are stated at cost plus accrued interest, which approximates market. Cash and cash equivalents as of June 30, 2018 consist of the following:

Cash	$ 954,813
Money market accounts	3,129,977
	$ 4,084,790

NOTE C--INVESTMENTS

Investments as of June 30, 2018 consist of the following (Note D):

	Cost	Net Unrealized Gains/(Losses)	Fair Value
Exchange traded funds	$ 13,310,454	$ 1,173,274	$ 14,483,728
Corporate bonds	1,433,245	(2,910)	1,430,335
Convertible bonds	150,000	(150,000)	-
Common stocks	108,709	(107,417)	1,292
	$ 15,002,408	$ 912,947	$ 15,915,355

NOTE D--FAIR VALUE MEASUREMENTS

In accordance with GAAP, the Organization defines fair value as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs are inputs that reflect the Organization's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 inputs are observable inputs other than quoted prices included in *Level 1* that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs derived from observable market data.

Level 3 inputs are inputs that reflect the entity's own assumptions about the market price of an asset or liability. Unobservable inputs may be used if there is little or no market data for the asset or liability at the measurement date.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value:

Exchange traded funds, common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate bonds: Valued based on quoted market prices, yield curves and pricing models using current market rates.

Convertible corporate bonds: Valued at the Foundation's assumptions about the market price of an asset or liability.

NOTE D--FAIR VALUE MEASUREMENTS--Continued

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair value measurements and the fair value hierarchy level for the Foundation's assets as of June 30, 2018, are shown below:

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Exchange Traded Funds:				
US Large Cap Equity	$ 5,457,438	-	-	$ 5,457,438
European Large Cap Equity	1,432,268	-	-	1,432,268
Emerging Market Equity	1,973,194	-	-	1,973,194
US Small Cap Equity	844,562	-	-	844,562
Japanese Large Cap Equity	188,265	-	-	188,265
US Fixed Income	3,967,035	-	-	3,967,035
Non US Fixed Income	620,966	-	-	620,966
Equities:				
Health Care	1,292	-	-	1,292
Corporate Bonds	-	1,430,335	-	1,430,335
Convertible Bonds (A)	-	-	-	-
Assets at fair value	$14,485,020	$1,430,335	$ -	$15,915,355

(A) This is a level 3 investment with an original cost of $150,000 and a fair value of $0.

NOTE E--ENDOWMENT FUNDS

At June 30, 2018, the Foundation's endowment consists of one individual fund designated by a donor to support the objectives of the Foundation's mission. The endowment fund is subject to donor restrictions which stipulate that the original principal of the gift is to be invested, commingled, or merged with and become part of the general endowment funds and investment assets of the Foundation. Ten percent of the principal balance each year together with all income earned may be used by the Foundation for a period of nine years to fund the Foundation's research programs. In the tenth year, a final distribution will be made of the remaining balance of the endowment.

NOTE E--ENDOWMENT FUNDS--Continued

Net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment fund of the Foundation has been pooled in the Foundation’s investments (Note C).

The Organization has interpreted the Florida Uniform Prudent Management of Institutional Funds Act (“FUPMIFA”) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation would classify as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation of earnings required to be added to the permanent endowment as stipulated by the donor-applicable donor gift instrument. At June 30, 2018, the Organization has not received any gifts that are classified as permanently restricted net assets.

The portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the FUPMIFA. In accordance with the FUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund.
2) The intent of the donor of the endowment fund.
3) General economic conditions.
4) The possible effect of inflation and deflation.
5) The expected total return from income and the appreciation of investments.
6) Other resources of the Organization.
7) The investment policies of the Organization.

Endowment net assets consist of the following at June 30, 2018:

Donor temporarily restricted endowment fund	$ 3,912,782

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

Endowment fund net assets, June 30, 2017	$ 4,347,536
Amounts appropriated for expenditure	(434,754)
Endowment fund net assets, June 30, 2018	$ 3,912,782

NOTE E--ENDOWMENT FUNDS--Continued

The Organization has adopted investment and spending policies for endowment assets that meet the overall investment objectives of the Organization and provide funding to support the Organization's programs. Endowment assets include those assets of donor-restricted funds that the Foundation must hold for a donor-specified period. These assets are comingled with the investments of the Organization and are subject to overall investment policies of the Organization. The Organization's spending policy appropriates for distribution each year, ten percent of its endowment fund's principal balance and is based on donor-imposed restrictions. The current spending policy is not expected to allow the Organization's endowment fund to grow as a result of investment returns. Real growth is achieved through new gifts.

NOTE F--PLEDGES RECEIVABLE

Unconditional promises to give as of June 30, 2018 consist of the following:

Within one year	$ 2,338,858
Between one year and five years	7,762,071
	10,100,929
Allowance for uncollectible promises to give of $522,608 and discounts of $370,259	(892,867)
Net pledges receivable	$ 9,208,062

NOTE G--GRANT CONTRACTS

The US Foundation executed an agreement, as amended, with the State of Florida Department of Health-Children's Medical Services ("CMS"). Under this agreement, CMS is to reimburse the US Foundation up to approximately $1,062,000 for costs incurred from July 1, 2015 through June 30, 2018. The reimbursement is made throughout the three years in amounts up to approximately $313,000 in the first year, $535,000 in the second year and $213,000 in the third year. CMS reimbursed the US Foundation a total of approximately $213,000 during the year ended June 30, 2018, which is included in grant contracts and other revenue in the accompanying consolidated statement of activities.

In June 2018, the US Foundation executed a new agreement with CMS to reimburse the US Foundation up to approximately $900,000 for costs incurred from July 1, 2018 through June 30, 2021. The reimbursement is made throughout the three years in amounts up to approximately $300,000 in each of the three years.

NOTE H--TAX STATUS

The US Foundation is exempt (except for unrelated business income) from Federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. The UK Foundation is a registered charity that is exempt from Corporation Tax. The Foundation had no components of unrelated business income for the year ended June 30, 2018.

The Foundation accounts for uncertainty in income taxes in accordance with GAAP, which requires recognition in the consolidated financial statements of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The US Foundation had no material unrecognized tax benefits and no adjustments to its consolidated financial position, activities or cash flows were required as of June 30, 2018. The Foundation does not expect that unrecognized tax benefits will increase within the next twelve months. The Foundation's tax returns for the years ended June 30, 2015 through 2017 remain subject to examination by major tax jurisdictions. The Foundation recognizes accrued interest and penalties, if any, related to uncertain tax positions as income tax expense.

NOTE I--COMMITMENTS

The US Foundation has non-cancelable operating leases to rent office facilities in Florida and New York. These leases expire at various dates through June 2024 and provide for annual increases in rental payments for certain operating expenses, as defined in the leases. Additionally, the US Foundation leases office equipment under non-cancelable operating leases expiring at various dates through December 2020. Rent expense for all of the above leases for the year ended June 30, 2018 amounted to approximately $411,000.

The Foundation accounts for lease abatements and escalations under the straight line method over the life of the lease. Consequently, as of June 30, 2018, the Organization has a deferred lease liability amounting to approximately $90,000, which is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

NOTE I--COMMITMENTS--Continued

As of June 30, 2018, the estimated minimum annual non-cancelable commitments on these leases are as follows:

Year Ended June 30	Equipment	Office	Total
2019	$ 18,000	$ 282,000	$ 300,000
2020	8,000	272,000	280,000
2021	1,000	272,000	273,000
2022	-	288,000	288,000
2023	-	146,000	146,000
Thereafter	-	149,000	149,000
	$ 27,000	$ 1,409,000	$ 1,436,000

NOTE J--RELATED PARTY TRANSACTIONS

Included in gross pledges receivable (Note F) are amounts due from various related parties, including members of the Board of Directors amounting to approximately $1,814,000 as of June 30, 2018. During the year ended June 30, 2018, these related parties pledged approximately $647,000.

NOTE K--EMPLOYEE BENEFIT PLAN

The Foundation has a 403(b) Thrift Plan (the "Plan") covering substantially all employees who work more than 20 hours a week. The Plan has no minimum service requirement and no minimum age requirement. The Plan allows eligible participants to defer a portion of their current compensation and have these amounts contributed to the Plan on their behalf. The Foundation provides 100% matching of employee contributions up to a maximum of 6% of the employee’s gross earnings for substantially all employees who have completed at least one year of service and have reached the age of twenty-one. The Foundation contributed approximately $105,000 to the Plan during the year ended June 30, 2018.

NOTE L--CONCENTRATIONS OF CREDIT RISK

Financial instruments, which potentially subject the Foundation to significant concentrations of credit risk, consist principally of cash, cash equivalents, investment securities and pledges receivable.

From time to time, the Foundation maintains its cash in accounts at financial institutions that exceed the Federal Deposit Insurance Corporation ("FDIC") limits. Balances are insured by the FDIC up to $250,000 per depositor at each financial institution. As of June 30, 2018, the amounts on deposit in these accounts exceeded the FDIC limits by approximately $777,000. The UK Foundation maintains its cash in accounts at financial institutions that are protected by the Financial Services Compensation Scheme ("FSCS"). Balances are insured by the FSCS up to £75,000 per depositor at each financial institution. As of June 30, 2018, the amounts on deposit in these accounts did not exceed the FSCS limits. The Foundation has cash accounts with an investment fund. As of June 30, 2018, the Foundation's cash balances exceeded the Securities Investor Protection Corporation ("SIPC") limits by approximately $2,618,000. To date, no losses have been incurred on any of the Foundation's cash, cash equivalents or investments related to its deposits in these accounts.

Concentrations of credit risk with respect to pledges receivable are limited due to the Foundation's large number of donors. The Foundation maintains allowances for potential credit losses. Actual losses incurred have historically been within management's expectations and estimates.

NOTE M--SUBSEQUENT EVENT

During September 2018, the Foundation's Board of Directors voted to disband the UK Foundation. The UK Foundation's operations are expected to cease, and assets and liabilities are expected to be settled by December 31, 2018.

SUPPLEMENTARY INFORMATION

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018

	PROGRAM SERVICES			SUPPORTING SERVICES			Total Program
	Research	Community Diabetes Education	Total Program Services	Management and General	General Fundraising	Total Supporting Services	and Supporting Services Expenses
Salaries	$ 97,699	$ 497,928	$ 595,627	$ 673,496	$ 918,281	$ 1,591,777	$ 2,187,404
Payroll taxes	7,535	32,900	40,435	48,375	55,060	103,435	143,870
Employee benefits	475	45,259	45,734	105,540	63,212	168,752	214,486
Employee retirement benefits	-	23,794	23,794	28,514	40,659	69,173	92,967
Total salaries and related expenses	105,709	599,881	705,590	855,925	1,077,212	1,933,137	2,638,727
Audit and tax	-	-	-	35,573	-	35,573	35,573
Awards and plaques	-	-	-	-	42,164	42,164	42,164
Catering	-	-	-	4,934	27,847	32,781	32,781
Conferences, meetings, and seminars	-	183,913	183,913	18,226	5,550	23,776	207,689
Contractual services	-	82,455	82,455	460,773	343,085	803,858	886,313
Depreciation and amortization	-	986	986	24,807	1,725	26,532	27,518
Dues and subscriptions	-	19,330	19,330	6,831	10,064	16,895	36,225
Focus and annual report	-	36,567	36,567	27,421	-	27,421	63,988
Grant support to the Institute	5,872,037	-	5,872,037	-	-	-	5,872,037
Insurance	-	-	-	53,240	-	53,240	53,240
Legal	-	-	-	17,337	363	17,700	17,700
Licenses and taxes	-	-	-	4,550	-	4,550	4,550
Lobbying	-	-	-	-	48,080	48,080	48,080
Maintenance and repairs	-	510	510	32,119	22,584	54,703	55,213
Miscellaneous	-	100	100	20,977	2,473	23,450	23,550
Office supplies	-	3,478	3,478	34,297	2,324	36,621	40,099
Postage	-	837	837	12,276	20,466	32,742	33,579
Printing and publications	-	12,400	12,400	4,699	50,242	54,941	67,341
Public relations	-	6,444	6,444	-	14,177	14,177	20,621
Rent, leases and equipment	18,977	16,004	34,981	228,795	42,917	271,712	306,693
Telephone	-	2,641	2,641	28,029	6,649	34,678	37,319
Travel and entertainment	-	3,889	3,889	27,498	70,307	97,805	101,694
Utilities	-	-	-	2,817	-	2,817	2,817
Net allocated in (out)	-	(62,917)	(62,917)	(561,198)	-	(561,198)	(624,115)
Total	$ 5,996,723	$ 906,518	$ 6,903,241	$ 1,339,926	$ 1,788,229	$ 3,128,155	$ 10,031,396

See independent auditor's report.