



**DIABETES RESEARCH INSTITUTE
FOUNDATION, INC. AND ITS AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2010



DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Independent Auditors' Report	2
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-16
Supplemental Accompanying Information	17
Independent Auditors' Report on Accompanying Information	18
Consolidated Statement of Functional Expenses	19
Schedule of Expenditures of State Financial Assistance Projects	20
Notes to the Schedule of Expenditures of State Financial Assistance Projects	21
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	22-23
Independent Auditors' Report on Compliance and on Internal Control over Compliance Applicable to Each Major State Project	24-25
Schedule of Findings and Questioned Costs	26-27

Please direct mail to Miami office:
200 South Biscayne Boulevard
Sixth Floor
Miami, Florida 33131-5310
Telephone: 305-379-7000
Toll Free: 800-999-1CPA (1272)
Fax: 305-379-8200

515 East Las Olas Boulevard
Fifteenth Floor
Fort Lauderdale, FL 33301-2281
Telephone: 954-712-7000
Toll Free: 800-999-1CPA (1272)
Fax: 954-712-7070

INDEPENDENT AUDITORS' REPORT

www.bdpb.com

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

We have audited the accompanying consolidated statement of financial position of Diabetes Research Institute Foundation, Inc. and its Affiliate as of June 30, 2010 and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the management of Diabetes Research Institute Foundation, Inc. and its Affiliate. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010 and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2010 on our consideration of Diabetes Research Institute Foundation, Inc. and its Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



Fort Lauderdale, Florida
November 3, 2010

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 15,082,288	\$ 88,808	\$ 15,171,096
Investment securities	8,111,755	-	8,111,755
Receivables:			
Pledges, net	-	5,105,653	5,105,653
Grants	303,333	-	303,333
Other, net of allowance for doubtful accounts of \$113,568	544,747	-	544,747
Prepaid expenses	196,277	-	196,277
Office equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$375,491	<u>165,956</u>	<u>-</u>	<u>165,956</u>
TOTAL ASSETS	<u>\$ 24,404,356</u>	<u>\$ 5,194,461</u>	<u>\$ 29,598,817</u>
 LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts payable and accrued expenses	\$ 504,315	\$ -	\$ 504,315
Due to the University of Miami	<u>1,473,789</u>	<u>-</u>	<u>1,473,789</u>
TOTAL LIABILITIES	1,978,104	-	1,978,104
 COMMITMENTS			
NET ASSETS	<u>22,426,252</u>	<u>5,194,461</u>	<u>27,620,713</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,404,356</u>	<u>\$ 5,194,461</u>	<u>\$ 29,598,817</u>

See notes to consolidated financial statements.

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Total
REVENUE, GAINS, LOSSES AND OTHER SUPPORT:			
Contributions, legacies and bequests, net (Note D)	\$ 3,817,482	\$ 1,426,491	\$ 5,243,973
Grant contracts and other revenue	2,428,604	-	2,428,604
Interest and dividends, net of investment fees of \$24,757	113,077	-	113,077
Realized loss on sales of investment securities, net	(521,283)	-	(521,283)
Unrealized gain on investment securities, net	871,525	-	871,525
Bad debt loss	-	(2,390,257)	(2,390,257)
Net assets released from restrictions	2,329,959	(2,329,959)	-
	<u>9,039,364</u>	<u>(3,293,725)</u>	<u>5,745,639</u>
Special fundraising activities:			
Empire Ball:			
Revenues	958,671	-	958,671
Expenses	(360,620)	-	(360,620)
	<u>598,051</u>	<u>-</u>	<u>598,051</u>
Love and Hope Ball:			
Revenues	840,421	-	840,421
Expenses	(377,489)	-	(377,489)
	<u>462,932</u>	<u>-</u>	<u>462,932</u>
Other fundraising activities:			
Revenues	3,878,759	-	3,878,759
Expenses	(2,468,817)	-	(2,468,817)
	<u>1,409,942</u>	<u>-</u>	<u>1,409,942</u>
Special fundraising activities, net of related expenses	<u>2,470,925</u>	<u>-</u>	<u>2,470,925</u>
TOTAL REVENUE, GAINS, LOSSES AND OTHER SUPPORT, NET OF RELATED EXPENSES	<u>11,510,289</u>	<u>(3,293,725)</u>	<u>8,216,564</u>
EXPENSES:			
Program services:			
Research	9,498,337	-	9,498,337
Community diabetes education	657,392	-	657,392
TOTAL PROGRAM SERVICES	<u>10,155,729</u>	<u>-</u>	<u>10,155,729</u>
Supporting services:			
Management and general	962,590	-	962,590
General fundraising	2,157,883	-	2,157,883
TOTAL SUPPORTING SERVICES	<u>3,120,473</u>	<u>-</u>	<u>3,120,473</u>
TOTAL EXPENSES	<u>13,276,202</u>	<u>-</u>	<u>13,276,202</u>
CHANGE IN NET ASSETS	<u>(1,765,913)</u>	<u>(3,293,725)</u>	<u>(5,059,638)</u>
NET ASSETS - BEGINNING OF YEAR	<u>24,192,165</u>	<u>8,488,186</u>	<u>32,680,351</u>
NET ASSETS - END OF YEAR	<u>\$ 22,426,252</u>	<u>\$ 5,194,461</u>	<u>\$ 27,620,713</u>

See notes to consolidated financial statements.

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (5,059,638)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	60,166
Provision for uncollectible receivables	(2,427,069)
Discount on pledges receivable	(252,162)
Donated investments	(14,954)
Realized loss on sales of investment securities, net	521,283
Unrealized gain on investment securities, net	(871,525)
Change in operating assets and liabilities:	
Pledges receivable	6,038,922
Grants receivable	278,499
Other receivables	(351,419)
Prepaid expenses	32,689
Accounts payable and accrued expenses	60,927
Due to the University of Miami	(339,659)
TOTAL ADJUSTMENTS	<u>2,735,698</u>

NET CASH USED IN OPERATING ACTIVITIES (2,323,940)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of office equipment	(16,100)
Purchases of investment securities	(5,504,702)
Proceeds from sales of investment securities	<u>12,311,743</u>

NET CASH PROVIDED BY INVESTING ACTIVITIES 6,790,941

NET CHANGE IN CASH AND CASH EQUIVALENTS 4,467,001

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 10,704,095

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 15,171,096

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Donated investments	<u>\$ 14,954</u>
---------------------	------------------

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

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, 2010. 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, which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.
- 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, 2010.

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

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 (see the Fair Value Measurements caption in this financial statement footnote for further discussion). 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, 2010, management believes that there is no permanent impairment in the value of investment securities.

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 a discount rate ranging between 1.10% and 5.31% per annum.

Office Equipment and Leasehold Improvements: Office equipment and leasehold improvements are recorded at cost or, if donated, at fair value at the date of donation. 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, 2010 amounted to approximately \$60,000.

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

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, formerly known as the Statement of Position 98-2, "Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Government Entities that Included Fund Raising". FASB ASC 958 establishes criteria for accounting and reporting for any activity 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.

Fair Value Measurements: In accordance with GAAP, the Foundation 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 Foundation.

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

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

Fair Value Measurements--Continued: Unobservable inputs are inputs that reflect the Foundation'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: Observable inputs, such as quoted market prices in active markets for the identical asset or liability that are accessible at the measurement date.

Level 2: Inputs, other than quoted market prices included in Level 1, that are observable either directly or indirectly for the asset or liability.

Level 3: Unobservable inputs that reflect the entity's own assumptions about the exit price of the 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 methodologies used for assets measured at fair value.

Mutual and investment funds: Valued at the net asset value ("NAV") of shares held at year end.

Common stocks and U.S. government treasury securities: Valued at the closing price reported on the active market on which the individual securities are traded.

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.

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

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

Fair value measurements and the fair value hierarchy level for the Foundation's assets measured at fair value as of June 30, 2010, are shown below:

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 38,720	\$ 2,206,642	\$ -	\$ 2,245,362
Common stocks	1,593,029	-	-	1,593,029
U.S. government treasury securities	3,011,250	-	-	3,011,250
Investment fund	-	1,262,114	-	1,262,114
Assets at fair value	<u>\$ 4,642,999</u>	<u>\$ 3,468,756</u>	<u>\$ -</u>	<u>\$ 8,111,755</u>

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 dates of the consolidated financial statements and the reported amounts of revenues and expenses, and gains and losses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements: In June 2009, the Foundation adopted the changes issued by the FASB to the authoritative hierarchy of GAAP. These changes establish the FASB Accounting Standards Codification ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The FASB will no longer issue new standards in the form of FASB Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification.

Recent Accounting Pronouncements--Continued: These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, these changes had no impact on the Foundation's consolidated financial statements.

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

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

In September 2006, the FASB issued guidance on measurements of fair value. The guidance defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. The guidance does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued authoritative guidance which allowed for the delay of the effective date of the authoritative guidance related to fair value measurement of nonfinancial assets and nonfinancial liabilities, except for certain items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). In August 2009, the FASB issued an update regarding fair value measurement. This Accounting Standards Update amends the provisions related to the fair value measurement of liabilities and clarifies for circumstances in which a quoted price in an active market for the identical liability is not available. The Accounting Standards Update is intended to reduce potential ambiguity in financial reporting when measuring the fair value of liabilities. The adoption of the guidance for financial assets and financial liabilities did not have a material impact on the Foundation's consolidated results of operations or the fair values of its financial assets and liabilities.

In May 2009, the FASB issued guidance regarding subsequent events (events or transactions occurring after the balance sheet date but before financial statements are issued). The Foundation adopted these requirements for the year ended June 30, 2010.

In September 2009, the FASB issued Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities. This update provides implementation guidance, through examples, on how to apply the standards for uncertainty in income taxes for nonpublic entities and adopt the uncertainty standard for those years beginning on or after December 15, 2008. In addition, the amendments eliminate the disclosures required for nonpublic entities whereby a tabular reconciliation of the total amount of unrecognized tax benefits at the beginning and end of the periods presented is not required. The guidance requires the disclosure of the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate.

Recent Accounting Pronouncements--Continued: The Foundation has implemented the guidance for the year ended June 30, 2010. The adoption of this guidance did not have an impact on the consolidated financial statements of the Foundation.

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

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 November 3, 2010, the date the consolidated financial statements were available to be issued.

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, 2010 consist of the following:

Cash	\$ 485,175
Money market accounts	<u>14,685,921</u>
	<u>\$ 15,171,096</u>

NOTE C--INVESTMENT SECURITIES

Investment securities as of June 30, 2010 consist of the following:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government Treasury Securities	\$ 2,999,531	\$ 11,719	\$ -	\$ 3,011,250
Common Stocks and Other Equity Securities	<u>5,514,432</u>	<u>307,556</u>	<u>(721,483)</u>	<u>5,100,505</u>
	<u>\$ 8,513,964</u>	<u>\$ 319,275</u>	<u>\$ (721,483)</u>	<u>\$ 8,111,755</u>

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

NOTE D--PLEDGES RECEIVABLE

Unconditional promises to give as of June 30, 2010 consist of the following:

Within one year	\$ 2,658,542
Between one year and five years	<u>3,839,293</u>
	6,497,835
Allowance for unconditional promises to give of \$1,166,270 and discount of \$225,912	<u>(1,392,182)</u>
Net pledges receivable	<u>\$ 5,105,653</u>

Pledges of approximately \$4,823,000 were deemed uncollectible and were written off during the year ended June 30, 2010.

NOTE E--GRANT CONTRACTS

During year ended June 30, 2008, the US Foundation executed a contract with the Naval Health Research Center (the "Center") under which the Center reimburses the US Foundation for certain expenses incurred by the Institute related to expansion of the Human Somatic Cell Laboratory located at the University of Miami. The contract allows for a maximum of \$2,642,000 to be reimbursed to the US Foundation through July 23, 2009. The US Foundation incurred expenses and was reimbursed approximately \$309,000 in the current year, which is included in grant contracts revenue in the accompanying consolidated statement of activities.

On January 1, 2009, the US Foundation executed an additional agreement with the Center under which the Center reimburses the US Foundation for certain expenses incurred by the Institute related to the collection, storage and development of post-natal sources of insulin-producing cells for the treatment of diabetes. The contract allows for a maximum of \$1,370,740 to be reimbursed from January 1, 2009 through January 1, 2010. The US Foundation incurred expenses and was reimbursed for approximately \$892,000 during the current year, which is included in grant contracts revenue in the accompanying consolidated statement of activities.

On July 1, 2009, the US Foundation executed an agreement with the State of Florida Department of Health-Children's Medical Services ("CMS"). Under this agreement, the CMS is to reimburse the US Foundation up to \$639,996 for costs incurred from July 1, 2009 through June 30, 2012 for on-going clinical islet cell transplantation trials conducted at the Institute.



DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

NOTE E--GRANT CONTRACTS--Continued

Effective September 1, 2009, the US Foundation executed an amendment to this agreement with the CMS to be reimbursed for an additional \$1,000,000 in incurred costs. The CMS reimbursed the US Foundation a total of \$1,213,332 during the current year, which is included in grant contracts revenue in the accompanying consolidated statement of activities.

NOTE F--TAX STATUS

The Foundation is exempt (except for unrelated business income) from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization had no components of unrelated business income for the year ended June 30, 2010.

The Foundation adopted new guidance regarding Accounting for Uncertainty in Income Taxes, which provides guidance on the financial statement recognition 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 Foundation applied this guidance to its tax positions for the year ended June 30, 2010. The Foundation had no material unrecognized tax benefits and no adjustments to its consolidated financial position, activities or cash flows were required. 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, 2007 through June 30, 2010 remain subject to examination by Federal and State tax jurisdictions. The Foundation recognizes accrued interest and penalties, if any, related to uncertain tax positions as income tax expense.

NOTE G--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 December 2016 and provide for annual increases in rental payments for certain operating expenses, as defined in the leases, equivalent to the consumer price index. Additionally, the US Foundation leases office equipment under non-cancelable operating leases expiring at various dates through December 2014. Rent expense for all of the above leases for the year ended June 30, 2010 amounted to approximately \$321,000.

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

NOTE G--COMMITMENTS--Continued

As of June 30, 2010, the estimated minimum annual non-cancelable commitments on these leases are as follows:

<u>Year Ended June 30</u>	<u>Equipment</u>	<u>Office</u>	<u>Total</u>
2011	\$ 24,000	\$ 273,000	\$ 297,000
2012	15,000	261,000	276,000
2013	13,000	229,000	242,000
2014	7,000	236,000	243,000
2015	-	243,000	243,000
Thereafter	-	285,000	285,000
	<u>\$ 59,000</u>	<u>\$ 1,527,000</u>	<u>\$ 1,586,000</u>

NOTE H--RELATED PARTY TRANSACTIONS

Included in gross pledges receivable are amounts due from various members of the Board of Directors amounting to approximately \$3,834,000 as of June 30, 2010. During the year ended June 30, 2010, various members of the Board of Directors pledged approximately \$1,438,000 to the US Foundation.

NOTE I--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 \$114,000 to the Plan during the year ended June 30, 2010.

NOTE J--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.



DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

NOTE J--CONCENTRATIONS OF CREDIT RISK--Continued

From time to time, the Foundation maintains its cash in deposit accounts at financial institutions that exceed the Federal Deposit Insurance Corporation (“FDIC”) limits. As of June 30, 2010, the Foundation did not have cash in deposit accounts in excess of FDIC limits. The Foundation places its cash equivalents and investment securities, such as money market funds, U.S. government treasury securities, and common stock and other equity securities at a large brokerage firm. As of June 30, 2010, the Foundation exceeded the Securities Investor Protection Corporation (“SIPC”) limits by approximately \$18,600,000. The Foundation also has an investment security in a brokerage firm and as of June 30, 2010, its balance exceeded the SIPC limits by approximately \$1,700,000. Additionally, one of the Foundation’s investment securities is held at an institution that is not a member of the SIPC. The balance of this investment is approximately \$1,300,000 and the entire balance is subject to credit risk. To date, no losses have been incurred on any of the Foundation’s cash, cash equivalents or investment securities.

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. Except for the writeoff of certain significant pledges (Note D) due to current economic conditions, actual losses incurred have historically been within management’s expectations and estimates.

While the Foundation has recognized all investment losses as of June 30, 2010, it is reasonably possible that individual investments may experience additional declines in value in the future if the U.S. and International markets experience declines as well.



SUPPLEMENTAL ACCOMPANYING INFORMATION

Please direct mail to Miami office:
200 South Biscayne Boulevard
Sixth Floor
Miami, Florida 33131-5310
Telephone: 305-379-7000
Toll Free: 800-999-1CPA (1272)
Fax: 305-379-8200

515 East Las Olas Boulevard
Fifteenth Floor
Fort Lauderdale, FL 33301-2281
Telephone: 954-712-7000
Toll Free: 800-999-1CPA (1272)
Fax: 954-712-7070

www.bdpb.com

INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION

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

The report on our audit of the basic consolidated financial statements of Diabetes Research Institute Foundation, Inc. and its Affiliate as of June 30, 2010 and for the year then ended appears on page 2. That audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidated statement of functional expenses is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The accompanying Schedule of Expenditures of State Financial Assistance Projects is presented for purposes of additional analysis and is required by Chapter 10.650, Rules of the Auditor General. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic consolidated financial statements taken as a whole.

Berkowitz Dick Pollack & Brant LLP

Fort Lauderdale, Florida
November 3, 2010

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2010

	PROGRAM SERVICES			SUPPORTING SERVICES			Total Program and Supporting Services Expenses
	Research	Community diabetes education	Total program services	Management and general	General fundraising	Total supporting services	
Salaries	\$ 114,064	\$ 210,707	\$ 324,771	\$ 862,616	\$ 1,407,942	\$ 2,270,558	\$ 2,595,329
Payroll taxes	9,747	14,931	24,678	70,597	71,305	141,902	166,580
Employee benefits	285	43,826	44,111	163,677	170,784	334,461	378,572
Total salaries and related expenses	124,096	269,464	393,560	1,096,890	1,650,031	2,746,921	3,140,481
Audit and tax	-	-	-	34,400	-	34,400	34,400
Awards and plaques	-	-	-	1,200	5,778	6,978	6,978
Catering	-	-	-	143	-	143	143
Conferences, meetings, and seminars	-	74,266	74,266	36,242	6,618	42,860	117,126
Contractual services	-	79,032	79,032	39,644	74,409	114,053	193,085
Depreciation and amortization	-	16,734	16,734	38,094	4,249	42,343	59,077
Dues and subscriptions	-	13,651	13,651	1,387	6,428	7,815	21,466
Focus and annual report	-	25,320	25,320	61,046	-	61,046	86,366
Grant support to the Institute	9,190,797	-	9,190,797	-	-	-	9,190,797
Insurance	-	-	-	81,559	997	82,556	82,556
Interest	-	-	-	1,780	-	1,780	1,780
Legal	-	-	-	8,460	3,410	11,870	11,870
Licenses and taxes	-	-	-	4,566	-	4,566	4,566
Lobbying	-	-	-	-	116,390	116,390	116,390
Maintenance and repairs	-	2,652	2,652	21,040	19,488	40,528	43,180
Miscellaneous	-	320	320	16,527	3,498	20,025	20,345
Office supplies	-	1,363	1,363	20,821	9,851	30,672	32,035
Photography	-	-	-	-	-	-	-
Postage	-	2,023	2,023	15,053	27,510	42,563	44,586
Printing and publications	-	14,291	14,291	10,578	45,781	56,359	70,650
Public relations	-	2,018	2,018	-	3,645	3,645	5,663
Rent, leases, and equipment	10,987	14,976	25,963	168,050	24,354	192,404	218,367
Telephone	-	6,190	6,190	20,587	24,971	45,558	51,748
Travel and entertainment	-	5,943	5,943	33,986	130,475	164,461	170,404
Utilities	-	-	-	5,429	-	5,429	5,429
Net allocated in (out)	172,457	129,149	301,606	(754,892)	-	(754,892)	(453,286) *
Total	\$ 9,498,337	\$ 657,392	\$ 10,155,729	\$ 962,590	\$ 2,157,883	\$ 3,120,473	\$ 13,276,202

* Approximately \$453,000 in supporting services was allocated to special fund raising activities. See accompanying independent auditors' report on accompanying information.

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE PROJECTS

Year ended June 30, 2010

<u>State Agency Name</u>	<u>CSFA No.</u>	<u>Contract</u>	<u>Expenditures</u>	<u>Transfers to Subrecipients</u>
Direct Project:				
Florida Department of Health - Children's Medical Services Network	64.043	COQRL	\$ 1,213,332	\$ -
 Total Expenditures of State Financial Assistance			 <u>\$ 1,213,332</u>	 <u>\$ -</u>

See notes to the schedule of expenditures of state financial assistance projects.



DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL
ASSISTANCE PROJECTS

Year Ended June 30, 2010

NOTE A--GENERAL

The accompanying Schedule of Expenditures of State Financial Assistance Projects (the Schedule”) presents the state grant activity of the Foundation for the year ended June 30, 2010. The Foundation’s reporting entity is described in Note A to the consolidated financial statements.

NOTE B--BASIS OF ACCOUNTING

The Schedule is presented using GAAP, which is described in Note A to the Foundation’s consolidated financial statements. The information in the Schedule is presented in accordance with the requirements of Chapter 10.650, Rules of the Auditor General. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of the basic consolidated financial statements.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the consolidated financial statements of Diabetes Research Institute Foundation, Inc. and its Affiliate as of and for the year ended June 30, 2010 and have issued our report thereon dated November 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Diabetes Research Institute Foundation, Inc. and its Affiliate's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Diabetes Research Institute Foundation, Inc. and its Affiliate's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Diabetes Research Institute Foundation, Inc. and its Affiliate's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether Diabetes Research Institute Foundation, Inc. and its Affiliate's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors, management, state awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

Berhany Dick Pollack & Brent LLP

Fort Lauderdale, Florida
November 3, 2010



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER COMPLIANCE
APPLICABLE TO EACH MAJOR STATE PROJECT

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

Compliance

We have audited the compliance of Diabetes Research Institute Foundation, Inc. and its Affiliate with the types of compliance requirements described in the Executive Office of the Governor's State Projects Compliance Supplement that are applicable to each of its major state projects for the year ended June 30, 2010. Diabetes Research Institute Foundation, Inc. and its Affiliate's major state project is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major state project is the responsibility of Diabetes Research Institute Foundation, Inc. and its Affiliate's management. Our responsibility is to express an opinion on Diabetes Research Institute Foundation, Inc. and its Affiliate's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and Chapter 10.650, Rules of the Auditor General. Those standards and Rules of the Auditor General require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major state project. An audit includes examining, on a test basis, evidence about Diabetes Research Institute Foundation, Inc. and its Affiliate's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Diabetes Research Institute Foundation, Inc. and its Affiliate's compliance with those requirements.

In our opinion, Diabetes Research Institute Foundation, Inc. and its Affiliate complied, in all material respects, with the requirements referred to above that are applicable to its major state project for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Diabetes Research Institute Foundation, Inc. and its Affiliate is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state projects. In planning and performing our audit, we considered Diabetes Research Institute Foundation, Inc. and its Affiliate's internal control over compliance with requirements that

could have a direct and material effect on a major state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Diabetes Research Institute Foundation, Inc. and its Affiliate's internal control over compliance.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a state project on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than those specified parties.

Bernard A. Paul & Brent LLP

Fort Lauderdale, Florida
November 3, 2010

DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

I. Summary of Independent Auditors' Results

Consolidated Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

___ Yes

X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

___ Yes

X No

Noncompliance material to financial statement noted?

___ Yes

X No

State Projects

Internal control over major projects:

Material weakness(es) identified?

___ Yes

X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

___ Yes

X No

Type of auditor's report issued on compliance for major projects:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.656, Rules of the Auditor General?

___ Yes

X No

Identification of major projects:

CSFA Number

Name of State Project

64.043

Florida Department of Health – Children's Medical Services Network

Dollar threshold used to distinguish between type A and type B projects:

\$300,000



DIABETES RESEARCH INSTITUTE FOUNDATION, INC. AND ITS AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

II. Findings Relating to the Consolidated Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

A. Significant Deficiencies or Material Weaknesses in Internal Control

The audit of the consolidated financial statements of Diabetes Research Institute Foundation, Inc. and its Affiliate as of and for the year ended June 30, 2010 disclosed no significant deficiencies or material weaknesses relating to state projects. Accordingly, a management letter was not issued.

B. Compliance Findings

The audit disclosed no instances of noncompliance which are material to the financial statements of Diabetes Research Institute Foundation, Inc. and its Affiliate as of and for the year ended June 30, 2010.

III. Findings and Questioned Costs for State Projects

The audit of the consolidated financial statements of Diabetes Research Institute Foundation, Inc. and its Affiliate as of and for the year ended June 30, 2010 disclosed no findings or questioned costs relating to state projects.

There were no findings or questioned costs noted during the audit of the June 30, 2009 consolidated financial statements of Diabetes Research Institute Foundation, Inc. and its Affiliate.