



SANSUM DIABETES  
RESEARCH INSTITUTE

**Financial Statements**  
**December 31, 2018**





## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Sansum Diabetes Research Institute

We have audited the accompanying financial statements of Sansum Diabetes Research Institute (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Sansum Diabetes Research Institute as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

Sansum Diabetes Research Institute's 2017 financial statements were audited by other auditors who expressed an unmodified audit opinion on those audited financial statements in their report dated August 24, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Stoltey & Associates*

Orcutt, California  
April 25, 2019

**SANSUM DIABETES RESEARCH INSTITUTE**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2018**  
**(with comparative totals for 2017)**

<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,914,875	\$ 884,516
Operating Investments (Note 3)	752,330	1,799,203
Accounts Receivable	513,956	570,848
Contributions Receivable (Notes 2 & 3)	1,936,471	2,273,692
Other Receivable	30,511	34,159
Prepaid Expenses and Other Assets	99,548	48,531
Investments Designated for Operating Reserve (Notes 3 and 9)	2,587,732	2,659,712
Cash Surrender Value of Life Insurance (Note 5)	115,355	112,801
Fixed Assets, Net (Note 6)	1,555,014	1,735,601
Assets Held Under Split-Interest Agreements (Note 3)	156,265	302,269
Beneficial Interests in Charitable Trusts Held by Others (Note 3)	584,088	523,690
Beneficial Interest in Perpetual Trust (Notes 3, 7 and 8)	1,447,513	1,718,546
Endowment Assets (Notes 3, 7 and 8):		
Cash and Cash Equivalents	-	716,003
Investments	3,251,175	2,869,576
Total Endowment Assets	3,251,175	3,585,579
Total Assets	<u>\$ 14,944,833</u>	<u>\$ 16,249,147</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 82,730	\$ 100,771
Accrued Expenses	374,967	329,724
Deferred Revenue	21,175	-
Liabilities Under Split-Interest Agreements (Note 3)	65,490	101,716
Total Liabilities	<u>544,362</u>	<u>532,211</u>
<b>NET ASSETS (Notes 8 and 9)</b>		
Without Donor Restriction:		
Undesignated	1,888,549	1,177,098
Board Designated for Operating Reserve	2,587,732	2,659,712
Invested in Fixed Assets	1,555,014	1,735,601
Total Net Assets Without Donor Restrictions	<u>6,031,295</u>	<u>5,572,411</u>
With Donor Restrictions:		
Purpose Restrictions	1,572,617	2,566,708
Time Restricted for Future Period	2,097,871	2,273,692
Beneficial Interest in Perpetual Trust	1,447,513	1,718,546
Endowment:		
Purpose Restrictions - Endowment	110,677	393,025
Perpetual in Nature - Endowment	3,192,262	3,192,554
Underwater Endowment	(51,764)	-
Total Endowment	<u>3,251,175</u>	<u>3,585,579</u>
Total Net Assets With Donor Restrictions	<u>8,369,176</u>	<u>10,144,525</u>
Total Net Assets	<u>14,400,471</u>	<u>15,716,936</u>
Total Liabilities and Net Assets	<u>\$ 14,944,833</u>	<u>\$ 16,249,147</u>

See accompanying notes.

**SANSUM DIABETES RESEARCH INSTITUTE****STATEMENT OF ACTIVITIES**

December 31, 2018

(with Comparative Totals for 2017)

	2018		2017
	Without Donor Restriction	With Donor Restriction	Total
<b>OPERATING</b>			
<b>PUBLIC SUPPORT</b>			
Special Events, Gross	\$ 70,965	\$ -	\$ 70,965
Less: Direct Costs	(27,967)	-	(27,967)
Special Events, Net	42,998	-	42,998
Contributions and Grants	478,966	879,777	1,358,743
Total Public Support	521,964	879,777	1,401,741
			3,713,722
<b>REVENUE</b>			
Research Contracts	2,168,213	-	2,168,213
Patient Care Fees	31,328	-	31,328
Rental Income	78,618	-	78,618
Royalty Income	57,382	-	57,382
Other Revenue	27,769	-	27,769
Total Public Support and Revenue	2,885,274	879,777	3,765,051
			5,988,351
Net Assets Released from Restriction	2,279,054	(2,279,054)	-
			-
<b>EXPENSES</b>			
<b>PROGRAM SERVICES</b>	3,298,406	-	3,298,406
<b>SUPPORTING SERVICES</b>			2,958,655
Management and General	802,734	-	802,734
Fundraising	548,195	-	548,195
Total Supporting Services	1,350,929	-	1,350,929
Total Operating Expenses	4,649,335	-	4,649,335
			4,111,155
Change in Net Assets from Operating Activities	514,993	(1,399,277)	(884,284)
			1,877,196
<b>NONOPERATING</b>			
<b>REVENUE</b>			
Investment Income (Loss)	(65,327)	(105,039)	(170,366)
Trust Distributions	158,624	-	158,624
Change in Value of Interest in Split Interest Agreements	62,151	-	62,151
Change in Value of Beneficial Interest in Perpetual Trusts	-	(271,033)	(271,033)
Gain (Loss) on Disposal of Assets	(24,426)	-	(24,426)
Total Nonoperating Revenue	131,022	(376,072)	(245,050)
			1,066,133
<b>EXPENSES</b>			
Depreciation	187,131	-	187,131
Total Nonoperating Expense	187,131	-	187,131
			148,070
Change in Net Assets from Nonoperating Activities	(56,109)	(376,072)	(432,181)
			918,063
Total Change in Net Assets	458,884	(1,775,349)	(1,316,465)
			2,795,259
Net Assets, Beginning of Year	5,572,411	10,144,525	15,716,936
			12,921,677
Net Assets, End of Year	\$ 6,031,295	\$ 8,369,176	\$ 14,400,471
			\$ 15,716,936

See accompanying notes.

**SANSUM DIABETES RESEARCH INSTITUTE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**December 31, 2018**

	2018						
	Program Services			Total Programs Services	Support Services		Total Expenses 2018
	Research	Education	Care		Management & General	Fundraising	
<b>Compensation and Related Benefits</b>							
Salaries	\$ 1,769,773	\$ 287,357	\$ 93,555	\$ 2,150,685	\$ 422,808	\$ 372,683	\$ 2,946,176
Payroll Taxes	124,779	20,071	6,589	151,439	30,840	26,396	208,675
Pension Expense	58,160	7,849	-	66,009	18,159	8,371	92,539
Employee Benefits	123,138	28,961	3,685	155,784	30,952	20,839	207,575
<b>Total Compensation and Related Benefit</b>	<b>2,075,850</b>	<b>344,238</b>	<b>103,829</b>	<b>2,523,917</b>	<b>502,759</b>	<b>428,289</b>	<b>3,454,965</b>
<b>Other Operating Expenses</b>							
Legal	1,913	-	-	1,913	24,260	-	26,173
Accounting	-	-	-	-	49,485	-	49,485
Outside Services	133,776	4,680	9,238	147,694	-	36,018	183,712
Communications	10,618	766	-	11,384	2,474	32,131	45,989
Office Expenses	34,465	4,789	2,364	41,618	38,805	11,737	92,160
Information Technology	53,411	3,969	4,797	62,177	48,104	26,204	136,485
Royalties	19,127	-	-	19,127	-	-	19,127
Occupancy	32,190	4,182	1,261	37,633	93,607	2,105	133,345
Travel	48,892	7,306	-	56,198	14,578	6,265	77,041
Conferences	14,728	7,678	1,001	23,407	5,637	3,170	32,214
Insurance	22,187	3,679	10,872	36,738	23,025	1,852	61,615
Subject Reimbursement	268,385	450	-	268,835	-	-	268,835
Lab Supplies	67,097	668	-	67,765	-	424	68,189
<b>Total Operating Expenses</b>	<b>2,782,639</b>	<b>382,405</b>	<b>133,362</b>	<b>3,298,406</b>	<b>802,734</b>	<b>548,195</b>	<b>4,649,335</b>
<b>Nonoperating Expenses</b>							
Depreciation	80,070	13,278	4,005	97,353	83,095	6,683	187,131
<b>Total Nonoperating Expenses</b>	<b>80,070</b>	<b>13,278</b>	<b>4,005</b>	<b>97,353</b>	<b>83,095</b>	<b>6,683</b>	<b>187,131</b>
<b>Total Functional Expenses 2018</b>	<b>\$ 2,862,709</b>	<b>\$ 395,683</b>	<b>\$ 137,367</b>	<b>\$ 3,395,759</b>	<b>\$ 885,829</b>	<b>\$ 554,878</b>	<b>\$ 4,836,466</b>

See accompanying notes.

# SANSUM DIABETES RESEARCH INSTITUTE

## STATEMENT OF CASH FLOWS

December 31, 2018

(with Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ (1,316,465)	\$ 2,795,259
Adjustments to reconcile increase in Net Assets to Cash Provided by (Used by) operating activities:		
Depreciation	187,131	148,070
Loss on Disposal of Intangible Assets	-	17,701
Loss (Gain) on Investments	347,125	(651,024)
Contributions Perpetual in Nature	(3,300)	-
Change in Cash and Cash Equivalents Held for Investment	716,003	183,470
Change in Cash Surrender Value of Life Insurance	(2,554)	(2,489)
Change in Value of Assets Held Under Split-Interest Agreements	146,004	891
Change in Value of Beneficial Interest in Split-Interest Agreements	(60,398)	(319,889)
Change in Value of Beneficial Interest in Perpetual Trusts	271,033	(139,730)
Loss on Disposal of Fixed Assets	24,426	-
Change in operating assets and liabilities:		
Accounts Receivable	56,892	98,371
Contributions Receivable	337,221	(617,602)
Other Receivable	3,648	(6,249)
Prepaid Expenses	(51,017)	(5,572)
Accounts Payable	(18,041)	43,508
Accrued Expenses	45,243	42,465
Deferred Revenue	21,175	-
Liabilities Under Split Interest Agreements	(36,226)	(3,249)
<b>Net Cash Provided by Operating Activities</b>	<u>667,900</u>	<u>1,583,931</u>
<b>Cash Flows from Investing Activities</b>		
Prurchase of Fixed Assets	(30,970)	(158,785)
Proceeds from sale of securities	1,448,263	636,688
Purchase of securities	(1,058,134)	(1,538,462)
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>359,159</u>	<u>(1,060,559)</u>
<b>Cash Flows from Financing Activities</b>		
Contributions Perpetual in Nature	<u>3,300</u>	<u>-</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,030,359	523,372
<b>Cash and Cash Equivalents at Beginning of Year</b>	884,516	361,144
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 1,914,875</u>	<u>\$ 884,516</u>

See accompanying notes.

# SANSUM DIABETES RESEARCH INSTITUTE

## Notes to Financial Statements

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### Note 1: **Summary of Significant Accounting Policies**

This summary of significant accounting policies of Sansum Diabetes Research Institute (SDRI) is presented to assist in understanding the SDRI financial statements. The financial statements and notes are representations of SDRI management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

#### **Nature of Activities**

SDRI is a non-profit charitable corporation and has been at the forefront of helping to improve the lives of people living with diabetes through research, education and care since its creation in 1944. William Sansum, MD was the first physician in the United States to manufacture and administer insulin to a patient with diabetes in 1922. Today SDRI has an established world reputation in the fields of research, artificial pancreas and diabetes in pregnancy. SDRI's office and research facilities are located in Santa Barbara, California.

#### **Prior-Year Summarized Comparative Information**

The financial statements include certain prior-year summarized comparative information in total but are not presented by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with SDRI financial statements for the year ended December 31, 2017 from which the summarized information was derived.

#### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents consists of cash on hand, cash in banks, and cash in money market funds.

#### **Accounts Receivable**

Accounts receivable consist primarily of non-interest-bearing amounts due for research activities. SDRI determines an allowance for uncollectible accounts receivable based on management's analysis of the potential credit risk of clients owing the receivable, historical trends, and subsequent collections. Accounts receivable are written off when deemed uncollectible. At December 31, 2018 management believed all accounts receivable were fully collectible and thus no allowance for uncollectible accounts receivable is reported.

#### **Contributions Receivable**

SDRI initially records and subsequently carries unconditional contributions receivable at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.



# SANSUM DIABETES RESEARCH INSTITUTE

## Notes to Financial Statements

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### **Fixed Assets**

SDRI records fixed asset additions over \$500 at cost, or if donated, at fair value on the date of donation. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. Management has estimated the useful lives of depreciable assets as follows:

- Furniture and Equipment 5 years
- Building and Improvements 15-40 years

SDRI reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. Management has determined there were no indicators of asset impairment during the year ended December 31, 2018.

### **Assets and Liabilities Held Under Split-Interest Agreements**

Under charitable gift annuity contracts, SDRI receives immediate title to contributed assets and agrees to make fixed recurring beneficiary payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as a contribution with donor restrictions for future period. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect changes in the fair value of the liability at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.

### **Beneficial Interests in Charitable Trusts Held by Others**

SDRI has been named as an irrevocable beneficiary of charitable trusts held and administered by independent trustees. These trusts were created independently by donors and administered by outside agents designated by the donors. Therefore, SDRI has neither possession nor control over the assets of the trusts. At the date SDRI receives notice of a beneficial interest, a contribution with donor restrictions is recorded in the statement of activities, and a beneficial interest in charitable trust held by others is recorded in the statement of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are

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## Notes to Financial Statements

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reported at fair value in the statement of financial position, with changes in fair value recognized in the statement of activities.

Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions.

### **Beneficial Interest in Perpetual Trusts**

SDRI has been named as an irrevocable beneficiary of a perpetual trust held and administered by an independent trustee. Perpetual trusts provide for the distribution of the net income of the trusts to SDRI; however, SDRI will never receive the assets of the trust. At the date SDRI receives notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature is recorded in the statement of financial position at fair value of the underlying trust assets. Thereafter, beneficial interests in perpetual trusts are reported at the fair value of the trust's assets in the statement of financial position, with trust distributions and changes in fair value recognized in the statement of activities.

### **Investments**

SDRI records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment management expenses.

### **Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

#### **Net Assets without Donor Restrictions**

Net assets available for use in general operations and not subject to donor restrictions are reported as net assets without donor restriction. The governing Board has designated, from net assets without donor restrictions, net assets for an operating reserve.

#### **Net Assets with Donor Restrictions**

Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

SDRI reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the

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## Notes to Financial Statements

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restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

### **Revenue and Revenue Recognition**

#### **Exchange Transactions**

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred.

#### **Contributions**

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

#### **Donated Services and In-Kind Contributions**

The financial statements do not reflect the value of contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. SDRI records donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended December 31, 2018.

### **Advertising Costs**

Advertising costs are expensed as incurred and approximated \$1,300 during the year ended December 31, 2018.

### **Functional Expenses**

The cost of providing SDRI programs and other activities is summarized on a functional basis in the statement of functional expenses. The statement of functional expenses presents the natural classification detail of expenses by function. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Expenses that are attributed to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. The expenses allocated include salaries, benefits, payroll taxes, occupancy, information technology, insurance, and depreciation.

### **Tax Exempt Status**

SDRI is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(3) and qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A)(vi) and has been determined not to be a private foundation under IRC Section 509(a)(2). SDRI is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, SDRI is subject to tax on income that is derived from

# SANSUM DIABETES RESEARCH INSTITUTE

## Notes to Financial Statements

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business activities that are unrelated to its exempt purpose. Management has determined SDRI is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

SDRI tax filings are subject to examination by the IRS, generally for three years after they are filed. SDRI is not aware of any activities that would jeopardize its tax-exempt status.

### **Non-Operating Revenue and Expenses**

SDRI considers revenue and expenses associated with investments, endowments, planned gifts, bequests, and depreciation as non-operating revenue and expenses.

### **Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, SDRI management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. SDRI management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates. Significant estimates used in the preparation of these financial statements include:

- Allocation of functional expenses
- Allowance for uncollectible accounts receivable
- Fair value of contributions receivable

### **Reclassifications**

Certain items in the 2017 financial statements were reclassified in order to conform to the 2018 presentation.

### **Change in Accounting Principle**

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. SDRI has implemented ASU 2016-14 and have adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented with no material reclassifications between net asset without donor restrictions and net assets with donor restrictions.

### **Subsequent Events**

Management has evaluated subsequent events through April 25, 2019, the date that the financial statements were available to be issued.

# SANSUM DIABETES RESEARCH INSTITUTE

## Notes to Financial Statements

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### Note 2: Contributions Receivable

Unconditional contributions receivable are estimated to be collected as follows at December 31, 2018:

2019	\$ 1,594,174
2020	246,852
2021	110,544
2022	<u>1,000</u>
Total	1,952,570
Adjustment for Fair Value	<u>(16,099)</u>
Contributions Receivable, Net	<u>\$ 1,936,471</u>

### Note 3: Fair Value Measurements and Disclosures

SDRI reports certain assets and liabilities at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that SDRI can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, SDRI develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The

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## Notes to Financial Statements

categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to management's assessment of the quality, risk, or liquidity profile of the asset or liability.

A significant portion of SDRI investment assets are classified within Level 1 as they are comprised of common stock, exchange traded funds and open-end mutual funds, with readily determinable fair values based on daily redemption values.

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost or by using net asset value per share as a practical expedient as identified in the following, at December 31, 2018:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Operating Assets:				
Operating				
Investments:				
Corporate Bonds	\$ 732,982	\$ -	\$ 732,982	\$ -
U.S. Obligations	19,348	-	19,348	-
	<u>752,330</u>	<u>-</u>	<u>752,330</u>	<u>-</u>
Contributions				
Receivable	1,936,471	-	-	1,936,471
	<u>1,936,471</u>	<u>-</u>	<u>-</u>	<u>1,936,471</u>
Total Operating Assets	<u>\$ 2,688,801</u>	<u>\$ -</u>	<u>\$ 752,330</u>	<u>\$ 1,934,471</u>
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Operating Reserve Assets:				
Investments:				
Mutual Funds –				
Equities	\$ 1,673,631	\$ 1,673,631	\$ -	\$ -
ETF – Equities	195,573	195,573	-	-
Corporate Bonds	718,528	-	718,528	-
	<u>2,587,732</u>	<u>1,869,204</u>	<u>718,528</u>	<u>-</u>
Total Operating Reserve Assets	<u>\$ 2,587,732</u>	<u>\$ 1,869,204</u>	<u>\$ 718,528</u>	<u>\$ -</u>

# SANSUM DIABETES RESEARCH INSTITUTE

## Notes to Financial Statements

	Total	Level 1	Level 2	Level 3
Assets Held Under Split-Interest Agreements:				
Cash and Money Market Funds (at Cost)	\$ 6,798	\$ 6,798	\$ -	\$ -
U.S. Obligations	93,963	-	93,963	-
ETF – Fixed Income	11,030	11,030	-	-
ETF – Equities	44,474	44,474	-	-
Total Assets Held Under Split-Interest Agreements	<u>\$ 156,265</u>	<u>\$ 62,302</u>	<u>\$ 93,963</u>	<u>\$ -</u>
	Total	Level 1	Level 2	Level 3
Beneficial Interest in Charitable Trusts Held by Others	<u>\$ 584,088</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 584,088</u>
	Total	Level 1	Level 2	Level 3
Beneficial Interest in Perpetual Trusts	<u>\$ 1,447,513</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,447,513</u>
	Total	Level 1	Level 2	Level 3
Endowment Assets:				
Mutual Funds–				
Equities	1,636,886	1,636,886	-	-
Corporate Bonds	159,029	159,029	-	-
ETF – Equities	202,370	202,370	-	-
Corporate Bonds	1,252,890	1,252,890	-	-
Total Endowment Assets	<u>\$ 3,251,175</u>	<u>\$ 3,251,175</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities Under Split-Interest Agreements	<u>\$ 65,490</u>	<u>\$ -</u>	<u>\$ 65,490</u>	<u>\$ -</u>

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## Notes to Financial Statements

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The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2018:

Contributions Receivable:	
Balance at Beginning of Year	\$ 2,273,692
Additions	1,627,471
Collections	<u>(1,964,692)</u>
Balance at End of Year	<u>\$ 1,936,471</u>
Beneficial Interest in Perpetual Trusts:	
Balance at Beginning of Year	\$ 1,718,546
Change in Value of Beneficial Interest In Perpetual Trusts	<u>(271,033)</u>
Balance at End of Year	<u>\$ 1,447,513</u>
Beneficial Interest in Trusts Held by Others:	
Balance at Beginning of Year	\$ 523,690
Change in Value of Beneficial Trusts Held by Others	<u>60,398</u>
Balance at End of Year	<u>\$ 584,088</u>

**Note 4: Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the balance sheet date, comprise the following:

Cash and Cash Equivalents	\$ 1,914,875
Operating Investments	752,330
Accounts Receivable	513,956
Contributions Receivable without Purpose Restriction	1,423,008
Other Receivable	30,511
Endowment spending-rate distributions and appropriations	<u>200,000</u>
Total	<u>\$ 4,834,680</u>

SDRI Endowment funds consist of Donor-Restricted Endowments which are subject to an annual spending policy as described in Note 7.

As part of SDRI's liquidity management plan, SDRI invests cash in excess of daily requirements in money market funds and operating investments. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was \$2,587,732 at December 31, 2018.

**Note 5: Life Insurance**

SDRI is the beneficiary of life insurance policies with total death benefits of \$144,841 and cash surrender value of \$115,355 as of December 31, 2018. The increase of



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## Notes to Financial Statements

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cash surrender value of \$2,554 for the year ended December 31, 2018 has been recorded as investment income in the accompanying statement of activities.

**Note 6: Fixed Assets**

Fixed Assets at December 31, 2018 are summarized by major classifications as follows:

Land	\$ 351,758
Buildings and Improvements	3,561,433
Furniture and Equipment	<u>274,378</u>
	4,187,569
Less Accumulated Depreciation	<u>(2,632,555)</u>
Fixed Assets, Net	<u>\$ 1,555,014</u>

**Note 7: Endowment Funds**

SDRI's Endowment (the Endowment) consists of seven funds established by donors to provide annual funding for general operations, diabetes research, internship opportunities and diabetes education.

The Board of Directors of SDRI has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the Donor-Restricted Endowment Funds absent explicit donor stipulations to the contrary. At December 31, 2018, there were no such donor stipulations. As a result of this interpretation, SDRI retains in perpetuity (a) the original value of initial and subsequent gift amount (including contributions receivable at fair value donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by SDRI in a manner consistent with the standard of prudence prescribed by UPMIFA. SDRI considers the following factors in making a determination to appropriate or accumulate Donor-Restricted Endowment Funds:

- The duration and preservation of the fund
- The purposes of SDRI and the fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of SDRI
- The investment policies of SDRI

**Funds with Deficiencies**

From time to time, certain Donor-Restricted Endowment Funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). SDRI has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At

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## Notes to Financial Statements

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December 31, 2018, funds with original gift value of \$2,421,526, fair value of \$2,369,762 and deficiency \$51,764 were reported in net assets with donor restrictions. This amount was fully recovered in the first quarter of 2019 due to favorable market fluctuations.

Changes in Endowment Net Assets for the year ended December 31, 2018 are as follows:

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>
Endowment Net Assets, Beginning of Year	\$ -	\$ 5,304,125
Contributions	-	3,300
Investment income	-	(105,039)
Adjustment of Prior Year Balance	-	(1,751,211)
Draw per Spending Policy	-	(200,000)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 3,251,175</u>

During the year ended December 31, 2018 management discovered the Beneficial Interest in the Perpetual Trust was not restricted to the endowment by the donor. Accordingly, the endowment assets have been adjusted to report fair value of the beneficial interest in the perpetual trust as with donor restriction for future period.

### **Investment and Spending Policies**

SDRI has a policy of appropriating for distribution each year a prudent portion of earnings from endowment assets. In establishing this policy, SDRI considered the long- term expected return on its endowment. Accordingly, over the long term, SDRI expects its spending policy to allow SDRI to conduct diabetes research. This is consistent with SDRI's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts.

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## Notes to Financial Statements

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### Note 8: Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purpose or periods:

Purpose Restrictions:

Research	\$ 951,198
Education	55,572
Internship	35,044
Building	4,403
Equipment	12,937
Contributions Receivable, the Proceeds from which Have Been Restricted by Donor for Research	<u>513,463</u>
	<u>\$ 1,572,617</u>

Time Restricted for Future Period:

Contributions Receivable without Donor Purpose Restrictions	\$ 1,423,008
Assets Held Under Split-Interest Agreements	156,265
Less Liabilities Under Split-Interest Agreements	(65,490)
Beneficial Interests in Charitable Trusts Held by Others	<u>584,088</u>
	<u>\$ 2,097,871</u>

Beneficial Interest in Perpetual Trust \$ 1,447,513

Endowments:

Subject to Endowment Policy and Appropriation:

General Endowment	\$ 524,360
Research and Education	2,317,998
Internships	<u>408,817</u>
	<u>\$ 3,251,175</u>

### Note 9: Board Designated Net Assets

At December 31, 2018 the Board of Directors has designated \$2,587,732 of net assets without donor restrictions as an operating reserve.

### Note 10: Employee Benefits

SDRI maintains a defined contribution retirement plan for eligible employees. The plan is a qualified retirement plan under IRC Section 401(a). Contributions to the plan by SDRI are discretionary. Contributions to the plan for the year ended December 31, 2018 were \$92,539.

SDRI also offers a salary reduction plan as described in Section 403(b) of the IRC. Employees may contribute 100% of their salaries, subject to IRC limits of \$18,000 employee deferral, \$6,000 additional catch up if over the age of 50. Employees are eligible to participate as of their hire date.

SDRI pays all administrative costs of the above plans.

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## Notes to Financial Statements

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### **Note 11: Customer and Credit Risk Concentrations**

SDRI manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, SDRI has not experienced losses in any of these accounts. Credit risk associated with accounts receivable, bequests and contributions receivable is considered to be limited due to high historical collection rates. Investments are made by diversified investment managers whose performance is monitored by SDRI and the Finance Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Finance Committee believe that the investment policies and guidelines are prudent for the long-term welfare of SDRI.

SDRI maintains bank accounts at three financial institutions. Deposits at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Cash balances held in brokerage accounts are insured by the Securities Investor Protection Corporation (SIPC) up to \$250,000 per institution. From time to time cash held during the year exceeded the insured thresholds. At December 31, 2018 SDRI held \$939,864 of cash deposits in excess of FDIC insurance limits.

### **Note 12: Related Party Transactions**

SDRI's Board President receives compensation for patient care as part of SDRI's patient care program. For the year ended December 31, 2018 total compensation paid to the Board President for patient care services totaled \$8,938.