



SANSUM DIABETES
RESEARCH INSTITUTE

**Audited Financial Statements
December 31, 2020**





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, 2020, 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, 2020, 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

We have previously audited Sansum Diabetes Research Institute's 2019 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 27, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stoltey & Associates

Los Olivos, California
May 28, 2021

SANSUM DIABETES RESEARCH INSTITUTE
STATEMENT OF FINANCIAL POSITION
December 31, 2020
(with comparative totals for 2019)

ASSETS	2020	2019
ASSETS		
Cash and Cash Equivalents	\$ 3,863,052	\$ 2,207,334
Operating Investments (Note 3)	1,155,695	687,485
Accounts Receivable	526,685	461,508
Contributions Receivable (Notes 2 & 3)	935,565	900,244
Other Receivable	27,791	25,564
Prepaid Expenses and Other Assets	37,470	35,072
Investments Designated for Operating Reserve (Notes 3 and 9)	3,455,262	3,112,209
Cash Surrender Value of Life Insurance (Note 5)	120,628	117,980
Fixed Assets, Net (Note 6)	1,313,344	1,430,681
Assets Held Under Split-Interest Agreements (Note 3)	156,282	159,609
Beneficial Interests in Charitable Trusts Held by Others (Note 3)	732,658	690,647
Beneficial Interest in Perpetual Trust (Notes 3, 7 and 8)	1,620,432	1,602,800
Subtotal	<u>13,944,864</u>	<u>11,431,133</u>
Endowment Assets (Notes 3, 7 and 8):		
Cash and Cash Equivalents	-	87,411
Investments	4,026,624	3,751,971
Total Endowment Assets	<u>4,026,624</u>	<u>3,839,382</u>
Total Assets	<u>\$ 17,971,488</u>	<u>\$ 15,270,515</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 53,466	\$ 40,353
Accrued Expenses	337,870	296,154
Deferred Revenue	86,815	-
Notes Payable - PPP Loan (Note 13)	354,487	-
Liabilities Under Split-Interest Agreements (Note 3)	48,660	62,489
Total Liabilities	<u>881,298</u>	<u>398,996</u>
NET ASSETS (Notes 8 and 9)		
Without Donor Restriction:		
Undesignated	3,304,974	2,185,995
Board Designated for Operating Reserve	3,455,262	3,112,209
Invested in Fixed Assets	1,313,344	1,430,681
Total Non-Endowment Net Assets Without Donor Restrictions	<u>8,073,580</u>	<u>6,728,885</u>
With Donor Restrictions:		
Purpose Restrictions	1,672,166	1,479,247
Time Restricted for Future Period	1,697,388	1,221,205
Beneficial Interest in Perpetual Trust	1,620,432	1,602,800
Total Non-Endowment Net Assets With Donor Restrictions	<u>4,989,986</u>	<u>4,303,252</u>
Endowment:		
Purpose Restrictions - Endowment	834,362	647,120
Perpetual in Nature - Endowment	3,192,262	3,192,262
Total Endowment	<u>4,026,624</u>	<u>3,839,382</u>
Total Net Assets With Donor Restrictions	<u>9,016,610</u>	<u>8,142,634</u>
Total Net Assets	<u>17,090,190</u>	<u>14,871,519</u>
Total Liabilities and Net Assets	<u>\$ 17,971,488</u>	<u>\$ 15,270,515</u>

See accompanying notes.

SANSUM DIABETES RESEARCH INSTITUTE
STATEMENT OF ACTIVITIES
December 31, 2020
(with Comparative Totals for 2019)

	2020			2019
	Without Donor Restriction	With Donor Restriction	Total	Total
OPERATING				
PUBLIC SUPPORT				
Special Events, Gross	\$ 32,166	\$ -	\$ 32,166	\$ 82,600
Less: Direct Costs	(28,698)	-	(28,698)	(148,995)
Special Events, Net	3,468	-	3,468	(66,395)
Contributions and Grants	1,008,147	1,370,082	2,378,229	1,124,968
Total Public Support	1,011,615	1,370,082	2,381,697	1,058,573
REVENUE				
Research Contracts	3,169,945	-	3,169,945	2,617,733
Patient Care Fees	24,565	-	24,565	42,688
Rental Income	72,452	-	72,452	74,946
Royalty Income	38,208	-	38,208	6,206
Other Revenue	21,359	-	21,359	35,731
Total Revenue	3,326,529	-	3,326,529	2,777,304
TOTAL Public Support and Revenue	4,338,144	1,370,082	5,708,226	3,835,877
Net Assets Released from Restriction	987,380	(987,380)	-	-
EXPENSES				
PROGRAM SERVICES	3,294,939	-	3,294,939	3,519,177
SUPPORTING SERVICES				
Management and General	640,988	-	640,988	802,870
Fundraising	611,309	-	611,309	600,565
Total Supporting Services	1,252,297	-	1,252,297	1,403,435
Total Operating Expenses	4,547,236	-	4,547,236	4,922,612
Change in Net Assets from Operating Activities	778,288	382,702	1,160,990	(1,086,735)
NONOPERATING				
REVENUE				
Investment Income (Loss)	568,022	424,127	992,149	1,347,876
Trust Distributions	127,170	-	127,170	146,705
Change in Value of Interest in Split Interest Agreements	-	49,515	49,515	102,044
Change in Value of Beneficial Interest in Perpetual Trusts	-	17,632	17,632	155,287
Total Nonoperating Revenue	695,192	491,274	1,186,466	1,751,912
EXPENSES				
Depreciation	117,337	-	117,337	145,848
Capital and Endowment Campaign	11,448	-	11,448	48,281
Total Nonoperating Expense	128,785	-	128,785	194,129
Change in Net Assets from Nonoperating Activities	566,407	491,274	1,057,681	1,557,783
Total Change in Net Assets	1,344,695	873,976	2,218,671	471,048
Net Assets, Beginning of Year	6,728,885	8,142,634	14,871,519	14,400,471
Net Assets, End of Year	\$ 8,073,580	\$ 9,016,610	\$ 17,090,190	\$ 14,871,519

See accompanying notes.

SANSUM DIABETES RESEARCH INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
December 31, 2020
(with Comparative Totals for 2019)

	Programs Services	Support Services		Total Expenses 2020	Total Expenses 2019
		Management & General	Fundraising		
Compensation and Related Benefits					
Salaries	\$ 2,055,551	\$ 435,553	\$ 439,743	\$ 2,930,847	\$ 3,114,386
Payroll Taxes	143,388	31,045	30,494	204,927	221,361
Pension Expense	48,673	9,811	8,799	67,283	107,655
Employee Benefits	140,054	33,322	22,826	196,202	219,601
Total Compensation and Related Benefits	2,387,666	509,731	501,862	3,399,259	3,663,003
Other Operating Expenses					
Legal	-	3,250	-	3,250	1,082
Accounting	-	19,500	-	19,500	19,500
Outside Services	78,469	25,776	1,007	105,252	115,455
Communications	6,830	873	43,082	50,785	36,676
Office Expenses	52,215	14,681	14,691	81,587	108,228
Information Technology	75,461	36,024	30,902	142,387	152,941
Royalties	12,736	-	-	12,736	2,069
Occupancy	89,569	17,494	10,181	117,244	113,207
Travel	14,446	1,061	1,676	17,183	159,818
Conferences	26,251	4,547	2,699	33,497	61,220
Insurance	48,137	7,570	5,209	60,916	60,956
Subject Reimbursement	368,468	-	-	368,468	263,454
Lab Supplies	134,691	481	-	135,172	165,003
Total Operating Expenses	3,294,939	640,988	611,309	4,547,236	4,922,612
Nonoperating Expenses					
Depreciation	88,014	17,369	11,954	117,337	145,848
Capital and Endowment Campaign	-	-	11,448	11,448	48,281
Total Nonoperating Expenses	88,014	17,369	23,402	128,785	194,129
Total Functional Expenses 2020	<u>\$ 3,382,953</u>	<u>\$ 658,357</u>	<u>\$ 634,711</u>	<u>\$ 4,676,021</u>	<u>\$ 5,116,741</u>

See accompanying notes.

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STATEMENT OF CASH FLOWS
December 31, 2020
(with Comparative Totals for 2019)

	2020	2019
Cash Flows from Operating Activities		
Change in Net Assets	\$ 2,218,671	\$ 471,048
Adjustments to reconcile increase in Net Assets to Cash Provided by (Used by) operating activities:		
Depreciation	117,337	145,848
Loss (Gain) on Investments	(786,260)	(1,156,742)
Contributions Perpetual in Nature	-	-
Change in Cash Surrender Value of Life Insurance	(2,648)	(2,625)
Change in Value of Assets Held Under Split-Interest Agreements	3,327	(3,344)
Change in Value of Beneficial Interest in Split-Interest Agreements	(42,011)	(106,559)
Change in Value of Beneficial Interest in Perpetual Trusts	(17,632)	(155,287)
Loss on Disposal of Fixed Assets	-	-
Change in operating assets and liabilities:		
Accounts Receivable	(65,177)	52,448
Contributions Receivable	(35,321)	1,036,227
Other Receivable	(2,227)	4,957
Prepaid Expenses	(2,398)	64,476
Accounts Payable	13,113	(42,377)
Accrued Expenses	41,716	(78,823)
Deferred Revenue	86,815	(21,175)
Liabilities Under Split Interest Agreements	(13,829)	(3,001)
Net Cash Provided by Operating Activities	<u>1,513,476</u>	<u>205,071</u>
Cash Flows from Investing Activities		
Purchase of Fixed Assets	-	(21,515)
Proceeds from Sale of Securities	918,195	938,573
Purchase of Securities	(1,217,851)	(742,259)
Net Cash Provided (Used) by Investing Activities	<u>(299,656)</u>	<u>174,799</u>
Cash Flows from Financing Activities		
Proceeds From Issuance of Notes Payable	354,487	-
Net Increase in Cash and Cash Equivalents	1,568,307	379,870
Cash and Cash Equivalents at Beginning of Year	2,294,745	1,914,875
Cash and Cash Equivalents at End of Year	<u>\$ 3,863,052</u>	<u>\$ 2,294,745</u>
Cash and Cash Equivalents Held		
Cash Held for Operating Activities	\$ 3,863,052	\$ 2,207,334
Cash Held for Long Term Investments - Endowment	-	87,411
Total Cash and Cash Equivalents Held	<u>\$ 3,863,052</u>	<u>\$ 2,294,745</u>

See accompanying notes.

SANSUM DIABETES RESEARCH INSTITUTE

Notes to Financial Statements

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.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

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 established a worldwide reputation in diabetes research, including the artificial pancreas, diabetes and pregnancy, nutrition, and more. SDRI's office and research facilities are located in Santa Barbara, California.

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 accounts. Cash and Cash Equivalents excludes cash held in endowment accounts.

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, 2020 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.

Fixed Assets

SDRI records fixed asset additions over \$5,000 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

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Notes to Financial Statements

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, 2020.

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

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Notes to Financial Statements

Upon receipt of trust distributions, in satisfaction of the donor-restricted purpose, the assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence or other events specified by the donors.

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 restrictions. Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence or other events specified by the donors.

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Notes to Financial Statements

Revenue and Revenue Recognition

Exchange Transactions

SDRI recognizes revenue from contracted industry research ratably over the period of time the services are performed, which corresponds with progress toward complete satisfaction of the performance obligation using a time-based measure. Fees and payments received in advance are deferred to the applicable period of time the services are provided. SDRI records annual special event revenue equal to the fair value of direct benefits to donors, and contribution revenue for the difference. All goods and services, with exception of special event revenue, are transferred over the period of time the service is provided. Special event revenue is transferred at a point of in time.

The aggregate amount of contract performance obligation as of December 31, 2020 that SDRI expects to recognize as revenue in the next 2 years is \$1,669,000, with \$1,581,000 in 2021 and \$88,000 in 2022.

The beginning and ending contract balances are as follows:

	<u>2020</u>	<u>2019</u>
Receivables	<u>\$ 526,685</u>	<u>\$ 461,508</u>
Deferred revenue	<u>\$ 86,815</u>	<u>\$ -</u>

No revenue was recognized for the year ended December 31, 2020 that was included in the contract deferred revenue balance at the beginning of the year.

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, that is, those with a measurable performance or other barrier, and a right of return, 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, 2020.

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

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Notes to Financial Statements

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 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, depreciation and capital and endowment campaigns 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
- Fair value of trusts and split interest agreements

Change in Accounting Principle

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for*

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Notes to Financial Statements

Contributions Received and Contributions Made (Topic 958). SDRI retrospectively adopted the standards on January 1, 2020. The implementation did not have a material impact on the balances reported at December 31, 2019.

Note 2: Contributions Receivable

Unconditional contributions receivable estimated to be collected at December 31, 2020 follow:

2021	\$ 931,565
2022	2,000
2023	1,000
2024	<u>1,000</u>

Contributions Receivable, Net \$ 935,565

At December 31, 2020 SDRI was named in three bequests for which a value could not be estimated due to the nature of the underlying assets. The bequests are considered conditional contribution receivable and accordingly have not been reported as contributions receivable in the accompanying statement of financial position.

Note 3: Fair Value Measurements and Disclosures

Accounting Standards Codification 820 ("ASC 820"), Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that SDRI has the ability to access.

Level 2: inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. 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 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, 2020:

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Notes to Financial Statements

	Total	Level 1	Level 2	Level 3
Operating Assets:				
Corporate				
Bonds	\$ 1,145,705	\$ 1,145,705	\$ -	\$ -
U.S. Obligations	9,990	9,990	-	-
	<u>1,155,695</u>	<u>1,155,695</u>	-	-
Contributions				
Receivable	935,565		-	935,565
Total Operating Assets	<u>\$ 2,091,260</u>	<u>\$ 1,155,695</u>	<u>\$ -</u>	<u>\$ 935,565</u>
Operating Reserve Assets:				
Investments:				
Mutual Funds –				
Equities	\$ 2,459,106	\$ 2,459,106	\$ -	\$ -
ETF – Equities	199,308	199,308	-	-
Corporate				-
Bonds	796,848	796,848	-	
Total Operating Reserve Assets	<u>\$ 3,455,262</u>	<u>\$ 3,455,262</u>	<u>\$ -</u>	<u>\$ -</u>
Assets Held Under Split-Interest Agreements:				
Cash and Money Market Funds (at Cost)	\$ 32,688	\$ 32,688	\$ -	\$ -
U.S. Obligations	76,501	76,501	-	-
ETF – Equities	47,093	47,093	-	-
Total Assets Held Under Split-Interest Agreements	<u>\$ 156,282</u>	<u>\$ 156,282</u>	<u>\$ -</u>	<u>\$ -</u>

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Notes to Financial Statements

	Total	Level 1	Level 2	Level 3
Beneficial Interest in Charitable Trusts Held by Others	<u>\$ 732,658</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 732,658</u>
Beneficial Interest in Perpetual Trusts	<u>\$ 1,620,432</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,620,432</u>
Endowment Assets:				
Mutual Funds–				
Equities	2,489,133	2,489,133	-	-
ETF – Equities	230,248	230,248	-	-
Corporate Bonds	<u>1,307,243</u>	<u>1,307,243</u>	<u>-</u>	<u>-</u>
Total Endowment Assets	<u>\$ 4,026,624</u>	<u>\$ 4,026,624</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities Under Split-Interest Agreements	<u>\$ 48,660</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,660</u>

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, 2020:

Contributions Receivable:	
Balance at Beginning of Year	\$ 900,244
Additions	831,837
Collections	(531,699)
Fair Value Adjustments	<u>(264,817)</u>
Balance at End of Year	<u>\$ 935,565</u>
Beneficial Interest in Perpetual Trusts:	
Balance at Beginning of Year	\$ 1,602,800
Change in Value of Beneficial Interest In Perpetual Trusts	<u>17,632</u>
Balance at End of Year	<u>\$ 1,620,432</u>
Beneficial Interest in Trusts Held by Others:	
Balance at Beginning of Year	\$ 690,647
Change in Value of Beneficial Trusts Held by Others	<u>42,011</u>
Balance at End of Year	<u>\$ 732,658</u>

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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	\$ 3,863,052
Operating Investments	1,155,695
Accounts Receivable	526,685
Contributions Receivable without Purpose Restriction	860,652
Other Receivable	<u>27,791</u>
Total	<u>\$ 6,433,875</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 \$3,455,262 at December 31, 2020.

Note 5: Life Insurance

SDRI is the beneficiary of life insurance policies with total death benefits of \$149,691 and cash surrender value of \$120,628 as of December 31, 2020. The increase of cash surrender value of \$2,647 for the year ended December 31, 2020 has been recorded as change in value of interest in split interest agreements in the accompanying statement of activities.

Note 6: Fixed Assets

Fixed Assets at December 31, 2020 are summarized by major classifications as follows:

Land	\$ 351,758
Buildings and Improvements	3,561,433
Furniture and Equipment	<u>285,003</u>
	4,198,194
Less Accumulated Depreciation	<u>(2,884,850)</u>
Fixed Assets, Net	<u>\$ 1,313,344</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

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Endowment Funds absent explicit donor stipulations to the contrary. At December 31, 2020, 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. No endowment funds were underwater at December 31, 2020.

Changes in Endowment Net Assets for the year ended December 31, 2020 are as follows:

	Without Donor Restriction	With Donor Restriction
Endowment Net Assets, Beginning of Year	\$ -	\$ 3,839,382
Contributions	-	-
Investment Income	-	406,505
Draw per Spending Policy	-	(219,263)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 4,026,624</u>

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

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gifts. During the years ended December 31, 2020 SDRI appropriated income earned from certain endowment fund to fund research and operations.

Note 8: Net Assets with Donor Restrictions

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

Purpose Restrictions:

Research	\$ 1,523,207
Education	46,109
Building and Equipment	27,937
Contributions Receivable, the Proceeds from which Have Been Restricted by Donor for Research	<u>74,913</u>
	<u>\$ 1,672,166</u>

Time Restricted for Future Period:

Contributions Receivable without Donor Purpose Restrictions	\$ 860,652
Assets Held Under Split-Interest Agreements	156,282
Less Liabilities Under Split-Interest Agreements	(52,204)
Beneficial Interests in Charitable Trusts Held by Others	<u>732,658</u>
	<u>\$ 1,697,388</u>

Beneficial Interest in Perpetual Trust \$ 1,620,432

Endowments:

Subject to Endowment Policy and Appropriation:

General Endowment	\$ 641,351
Research and Education	2,875,965
Internships	<u>509,308</u>
	<u>\$ 4,026,624</u>

Note 9: Board Designated Net Assets

At December 31, 2020 the Board of Directors has designated \$3,455,262 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, 2020 were \$67,283.

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.

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SDRI pays all administrative costs of the above plans.

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 deposits 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, 2020 SDRI held \$3,007,891 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, 2020 total compensation paid to the Board President for patient care services totaled \$8,338.

Note 13: SBA Loan under the Payroll Protection Program

On April 13, 2020, SDRI received loan funding of \$354,487 under the Paycheck Protection Program, as allowed under the CARES Tax Act, related to the 2020 COVID-19 pandemic. The loan will be fully forgiven if the funds are used for payroll costs, rent, and utilities and at least 75% of the forgiven amount must have been used for payroll. Loan payments will also be deferred for six months. No collateral or personal guarantees were required.

Forgiveness will be based on SDRI maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease. This loan has a maturity of 2 years and an interest rate of 1%. Management believes SDRI is in compliance with all regulations to allow the loan to be fully forgiven.

Note 14: COVID-19 Financial Statement Impact

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. SDRI is closely monitoring

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its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on SDRI's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on SDRI's program participants, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact SDRI's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

Note 15: Subsequent Events

Management has evaluated subsequent events through May 28, 2021, the date the financial statements were available to be issued. There were no subsequent events requiring disclosure.