



SANSUM DIABETES RESEARCH INSTITUTE

Audited Financial Statements December 31, 2022





INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Sansum Diabetes Research Institute

Opinion

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sansum Diabetes Research Institute and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sansum Diabetes Research Institute's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Sansum Diabetes Research Institute's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sansum Diabetes Research Institute's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Sansum Diabetes Research Institute's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 27, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stoltey & Associates

Orcutt, California
June 30, 2023

SANSUM DIABETES RESEARCH INSTITUTE

STATEMENT OF FINANCIAL POSITION

December 31, 2022

(with comparative totals for 2021)

ASSETS	2022	2021
ASSETS		
Cash and Cash Equivalents	\$ 3,467,466	\$ 4,799,507
Operating Investments (Note 3)	690,156	742,009
Accounts Receivable	667,147	444,087
Contributions Receivable (Notes 2 & 3)	2,602,222	1,153,706
Other Receivable	30,984	30,048
Prepaid Expenses and Other Assets	45,457	60,948
Cash and Cash Equivalents Restricted for Long-Term Use (Note 8)	1,123,343	514,524
Investments Designated for Long-Term Use (Notes 3 and 9)	3,219,031	3,789,933
Investments Restricted for Long-Term Use (Notes 3 and 8)	1,078,239	896,667
Cash Surrender Value of Life Insurance (Note 5)	126,230	123,406
Fixed Assets, Net (Note 6)	1,258,390	1,219,647
Assets Held Under Split-Interest Agreements (Note 3)	1,990,586	160,257
Beneficial Interests in Charitable Trusts Held by Others (Note 3)	934,392	1,132,283
Beneficial Interest in Perpetual Trust (Notes 3 and 8)	1,384,692	1,719,380
Subtotal	<u>18,618,335</u>	<u>16,786,402</u>
Endowment Assets (Notes 3, 7 and 8):		
Investments	<u>3,556,246</u>	<u>4,138,658</u>
Total Endowment Assets	<u>3,556,246</u>	<u>4,138,658</u>
Total Assets	<u>\$ 22,174,581</u>	<u>\$ 20,925,060</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 136,667	\$ 68,260
Accrued Expenses	347,767	366,652
Deferred Revenue	55	50,000
Liabilities Under Split-Interest Agreements (Note 3)	731,821	36,018
Total Liabilities	<u>1,216,310</u>	<u>520,930</u>
NET ASSETS (Notes 8 and 9)		
Without Donor Restriction:		
Undesignated	4,863,221	4,837,784
Board Designated for Long-Term Use	3,219,031	3,789,933
Invested in Fixed Assets	1,258,390	1,219,647
Total Non-Endowment Net Assets Without Donor Restrictions	<u>9,340,642</u>	<u>9,847,364</u>
With Donor Restrictions:		
Purpose Restrictions	5,158,534	3,412,206
Time Restricted for Future Period	1,518,157	1,286,522
Beneficial Interest in Perpetual Trust	1,384,692	1,719,380
Total Non-Endowment Net Assets With Donor Restrictions	<u>8,061,383</u>	<u>6,418,108</u>
Endowment:		
Purpose Restrictions - Endowment	398,984	986,396
Perpetual in Nature - Endowment	3,157,262	3,152,262
Total Endowment	<u>3,556,246</u>	<u>4,138,658</u>
Total Net Assets With Donor Restrictions	<u>11,617,629</u>	<u>10,556,766</u>
Total Net Assets	<u>20,958,271</u>	<u>20,404,130</u>
Total Liabilities and Net Assets	<u>\$ 22,174,581</u>	<u>\$ 20,925,060</u>

See accompanying notes.

SANSUM DIABETES RESEARCH INSTITUTE
STATEMENT OF ACTIVITIES
December 31, 2022
(with Comparative Totals for 2021)

	2022			2021
	Without Donor Restriction	With Donor Restriction	Total	Total
OPERATING				
PUBLIC SUPPORT				
Special Events, Gross	\$ 109,800	\$ -	\$ 109,800	\$ 43,648
Less: Direct Costs	(171,029)	-	(171,029)	(3,874)
Special Events, Net	(61,229)	-	(61,229)	39,774
Contributions and Grants	2,543,515	2,594,737	5,138,252	2,985,030
Non-cash Contributions of Goods	11,994	-	11,994	32,504
Non-cash Forgiveness of PPP Loan	-	-	-	354,487
Total Public Support	2,494,280	2,594,737	5,089,017	3,411,795
REVENUE				
Research Contracts	2,524,311	-	2,524,311	3,166,593
Patient Care Fees	46,125	-	46,125	32,670
Rental Income	32,162	-	32,162	19,215
Royalty Income	6,256	-	6,256	35,816
Other Revenue	5,504	-	5,504	5,852
Total Revenue	2,614,358	-	2,614,358	3,260,146
TOTAL Public Support and Revenue	5,108,638	2,594,737	7,703,375	6,671,941
Net Assets Released from Restriction	640,278	(640,278)	-	-
EXPENSES				
PROGRAM SERVICES	4,051,404	-	4,051,404	3,835,302
SUPPORTING SERVICES				
Management and General	737,996	-	737,996	660,549
Fundraising	650,170	-	650,170	570,101
Total Supporting Services	1,388,166	-	1,388,166	1,230,650
Total Operating Expenses	5,439,570	-	5,439,570	5,065,952
Change in Net Assets from Operating Activities	309,346	1,954,459	2,263,805	1,605,989
NONOPERATING				
REVENUE				
Investment Income (Loss)	(729,640)	(344,947)	(1,074,587)	1,195,896
Trust Distributions	115,328	-	115,328	124,665
Change in Value of Interest in Split Interest Agreements	-	(213,961)	(213,961)	465,766
Change in Value of Beneficial Interest in Perpetual Trusts	-	(334,688)	(334,688)	98,948
Total Nonoperating Revenue	(614,312)	(893,596)	(1,507,908)	1,885,275
EXPENSES				
Depreciation	98,491	-	98,491	106,116
Capital and Endowment Campaign	103,265	-	103,265	71,208
Total Nonoperating Expense	201,756	-	201,756	177,324
Change in Net Assets from Nonoperating Activities	(816,068)	(893,596)	(1,709,664)	1,707,951
Total Change in Net Assets	(506,722)	1,060,863	554,141	3,313,940
Net Assets, Beginning of Year	9,847,364	10,556,766	20,404,130	17,090,190
Net Assets, End of Year	\$ 9,340,642	\$ 11,617,629	\$ 20,958,271	\$ 20,404,130

See accompanying notes.

SANSUM DIABETES RESEARCH INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
December 31, 2022
(with Comparative Totals for 2021)

	Support Services			Total Expenses 2022	Total Expenses 2021
	Programs Services	Management & General	Fundraising		
Compensation and Related Benefits					
Salaries	\$ 2,534,816	\$ 380,129	\$ 399,119	\$ 3,314,064	\$ 3,024,246
Payroll Taxes	182,219	31,844	27,918	241,981	234,685
Pension Expense	74,539	18,768	18,155	111,462	111,480
Employee Benefits	167,933	30,646	27,105	225,684	197,140
Total Compensation and Related Benefits	2,959,507	461,387	472,297	3,893,191	3,567,551
Other Operating Expenses					
Legal	-	11,610	-	11,610	-
Accounting	-	22,000	-	22,000	21,600
Outside Services	278,660	91,218	26,642	396,520	250,232
Communications	3,313	1,611	48,583	53,507	72,495
Office Expenses	41,401	21,376	29,519	92,296	84,359
Information Technology	99,101	62,037	41,323	202,461	195,726
Royalties	2,085	-	-	2,085	11,939
Occupancy	91,820	40,611	16,609	149,040	124,341
Travel	36,801	2,532	4,533	43,866	24,302
Conferences	30,745	6,474	2,724	39,943	23,443
Insurance	47,855	16,938	7,928	72,721	68,180
Subject Reimbursement	317,829	-	-	317,829	444,240
Lab Supplies	142,287	202	12	142,501	177,544
Total Operating Expenses	4,051,404	737,996	650,170	5,439,570	5,065,952
Nonoperating Expenses					
Depreciation	72,883	11,819	13,789	98,491	106,116
Capital Campaign	-	-	103,265	103,265	71,208
Total Nonoperating Expenses	72,883	11,819	117,054	201,756	177,324
Total Functional Expenses	<u>\$ 4,124,287</u>	<u>\$ 749,815</u>	<u>\$ 767,224</u>	<u>\$ 5,641,326</u>	<u>\$ 5,243,276</u>

See accompanying notes.

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STATEMENT OF CASH FLOWS

December 31, 2022

(with Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Change in Net Assets	\$ 554,141	\$ 3,313,940
Adjustments to reconcile increase in Net Assets to Cash Provided by (Used by) operating activities:		
Depreciation	98,491	106,116
Loss (Gain) on Investments	1,400,626	(788,504)
Noncash forgiveness of Notes Payable - PPP Loan	-	(354,487)
Change in Cash Surrender Value of Life Insurance	(2,824)	(2,778)
Change in Value of Assets Held Under Split-Interest Agreements	(1,830,329)	(3,975)
Change in Value of Beneficial Interest in Split-Interest Agreements	197,891	(399,625)
Change in Value of Beneficial Interest in Perpetual Trusts	334,688	(98,948)
Change in operating assets and liabilities:		
Accounts Receivable	(223,060)	82,598
Contributions Receivable	(1,448,516)	(218,141)
Other Receivable	(936)	(2,257)
Prepaid Expenses	15,491	(23,478)
Accounts Payable	68,407	14,794
Accrued Expenses	(18,885)	28,782
Deferred Revenue	(49,945)	(36,815)
Liabilities Under Split Interest Agreements	695,803	(12,642)
Net Cash From Operating Activities	<u>(208,957)</u>	<u>1,604,580</u>
Cash Flows from Investing Activities		
Purchase of Fixed Assets	(137,234)	(12,419)
Proceeds from Sale of Securities	892,896	6,743,234
Purchase of Securities	<u>(1,269,927)</u>	<u>(6,884,416)</u>
Net Cash From Investing Activities	<u>(514,265)</u>	<u>(153,601)</u>
Net Change in Cash and Cash Equivalents	(723,222)	1,450,979
Cash and Cash Equivalents at Beginning of Year	5,314,031	3,863,052
Cash and Cash Equivalents at End of Year	<u>\$ 4,590,809</u>	<u>\$ 5,314,031</u>
Cash and Cash Equivalents Held		
Cash Held for Operating Activities	\$ 3,467,466	\$ 4,799,507
Cash and Cash Equivalents Restricted for Long-Term Use	<u>1,123,343</u>	<u>514,524</u>
Total Cash and Cash Equivalents Held	<u>\$ 4,590,809</u>	<u>\$ 5,314,031</u>
Non-Cash Transactions		
Noncash forgiveness of Notes Payable - PPP Loan	<u>\$ -</u>	<u>\$ 354,487</u>
Non-cash contribution of in-kind goods	<u>\$ 11,994</u>	<u>\$ -</u>

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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, 2022 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. At December 31, 2022 the discount rate was 5%.

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, 2022.

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. At December 31, 2022 assets held under the contracts include a reserve of \$731,821 as required under California law. 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. A discount rate of 5% is used to calculate the estimated fair value of the liability. 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

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Notes to Financial Statements

satisfying the restricted purposes or by occurrence or other events specified by the donors.

Revenue and Revenue Recognition

Reciprocal 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, 2022 that SDRI expects to recognize as revenue in the next 3 years is \$501,922, with \$404,320 in 2023, \$97,602 in 2024 and \$0 in 2025.

The beginning and ending contract balances are as follows:

	<u>2022</u>	<u>2021</u>
Receivables	<u>\$ 667,147</u>	<u>\$ 444,087</u>
Deferred revenue	<u>\$ 55</u>	<u>\$ 50,000</u>

\$50,000 of revenue was recognized for the year ended December 31, 2022 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. SDRI received approximately \$12,000 of in-kind contributions of in-kind goods. The value of the in-kind goods was determined by determining the value of like kind goods. The in-kind goods were used in research activities. No significant amount donated services were received during the year ended December 31, 2022.

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Notes to Financial Statements

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 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 campaign 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

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Notes to Financial Statements

- Fair value of trusts and split interest agreements

Comparative Financial Statements

The amounts shown for the year ended December 31, 2021 in the accompanying financial statements are included to provide a basis for comparison with 2022 and present summarized totals only. Accordingly, the 2021 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the SDRI's financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Note 2: Contributions Receivable

Unconditional contributions receivable estimated to be collected at December 31, 2022 follow:

2023	\$ 1,109,500
2024	675,500
2025	375,500
2026	225,500
2027	100,000
Thereafter	<u>400,000</u>
	2,886,000
Less discount on long-term contributions receivable	<u>(283,778)</u>
Contributions Receivable, Net	<u>\$ 2,602,222</u>

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

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- 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.

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, 2022:

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	Total	Level 1	Level 2	Level 3
Investments:				
Corporate Bonds	\$ 3,490,843	\$ 3,490,843	\$ -	\$ -
Mutual Funds – Equities	2,959,576	2,959,576	-	-
ETF - Equities	2,093,253	2,093,253	-	-
Total Investments	<u>\$ 8,543,672</u>	<u>\$ 8,543,672</u>	<u>-</u>	<u>-</u>
Contributions Receivable	<u>\$ 2,602,222</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,602,222</u>
Assets Held Under Split-Interest Agreements:				
Cash and Money Market Funds (at Cost)	\$ 42,336	\$ 42,336	\$ -	\$ -
U.S. Obligations	665,317	665,317	-	-
Real Estate Held for Sale	1,200,000	-	-	1,200,000
ETF – Equities	82,933	82,933	-	-
Total Assets Held Under Split-Interest Agreements	<u>\$ 1,990,586</u>	<u>\$ 790,586</u>	<u>\$ -</u>	<u>\$ 1,200,000</u>
Beneficial Interest in Charitable Trusts Held by Others	<u>\$ 934,392</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 934,392</u>
Beneficial Interest in Perpetual Trusts	<u>\$ 1,384,692</u>	<u>\$ 1,384,692</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities Under Split-Interest Agreements	<u>\$ 731,821</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 731,821</u>

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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, 2022:

Contributions Receivable:	
Balance at Beginning of Year	\$ 1,153,706
Additions	2,124,000
Collections	(460,500)
Fair Value Adjustments	<u>(214,984)</u>
Balance at End of Year	<u>\$ 2,602,222</u>
Beneficial Interest in Trusts Held by Others:	
Balance at Beginning of Year	\$ 1,132,283
Fair Value Adjustment	<u>(197,891)</u>
Balance at End of Year	<u>\$ 934,392</u>
Property Held for Sale:	
Balance at Beginning of Year	\$ -
Additions	<u>1,200,000</u>
Balance at End of Year	<u>\$ 1,200,000</u>
Liabilities Under Split Interest Agreements:	
Balance at Beginning of Year	\$ 36,018
Additions	697,461
Fair Value Adjustment	<u>(1,658)</u>
Balance at End of Year	<u>\$ 731,821</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:

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Notes to Financial Statements

Financial Assets at December 31, 2022

Cash and Cash Equivalents	\$ 3,467,466
Operating Investments	690,156
Accounts Receivable	667,147
Contributions Receivable, net	2,602,222
Other Receivable	30,984
Cash and Cash Equivalents Restricted for Long-Term Use	1,123,343
Investments Designated for Long-Term Use	3,219,031
Investment Restricted for Long-Term Use	1,078,239
Cash Surrender Value of Life Insurance	126,230
Assets Held Under Split-Interest Agreements	1,990,586
Beneficial Interest in Charitable Trusts Held by Others	934,392
Beneficial Interest in Perpetual Trusts	1,384,692
Endowment Assets	<u>3,556,246</u>
Total Financial Assets	20,870,734

Less Those Unavailable for General Expenditures Within One Year

Because of Unavailability	
Promises to Give Support Due in More Than One Year	(1,492,722)
Because of Board Designations	
Investments designated for long-term use	(3,219,031)
Because of Donor Restrictions	
Restricted for purpose	(5,158,534)
Restricted for time	(2,902,849)
Restricted for endowment	<u>(3,556,246)</u>

Total \$ 4,541,352

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 \$3,219,031 at December 31, 2022.

Note 5: Life Insurance

SDRI is the beneficiary of life insurance policies with total death benefits of \$153,298 and cash surrender value of \$126,230 as of December 31, 2022. The increase of cash surrender value of \$2,824 for the year ended December 31, 2022 has been recorded as change in value of interest in split interest agreements in the accompanying statement of activities.

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Notes to Financial Statements

Note 6: Fixed Assets

Fixed Assets at December 31, 2022 are summarized by major classifications as follows:

Land	\$ 351,758
Buildings and Improvements	3,571,721
Furniture and Equipment	270,477
Construction in Process	<u>126,886</u>
	4,320,842
Less Accumulated Depreciation	<u>(3,062,452)</u>
Fixed Assets, Net	<u>\$ 1,258,390</u>

Construction in process consists of costs associated with a major renovation of SDRI's offices in Santa Barbara, California. The renovation is planned to be completed in the year ending December 31, 2025. Construction in process is not subject to depreciation until placed into service.

Depreciation expense for the years ended December 31, 2022 and 2021 were \$98,491 and \$106,116, respectively.

Note 7: Endowment Funds

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

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, 2022, 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

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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, 2022.

Changes in Endowment Net Assets for the year ended December 31, 2022 are as follows:

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>
Endowment Net Assets, Beginning of Year	\$ -	\$ 4,138,658
Contributions	-	5,000
Investment Income	-	(344,945)
Draw per Spending Policy	-	(242,467)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 3,556,246</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 gifts. During the years ended December 31, 2022 SDRI appropriated income earned from certain endowment fund to fund research and operations.

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Notes to Financial Statements

Note 8: Net Assets with Donor Restrictions

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

Purpose Restrictions:

Research	\$ 2,239,354
Education	60,395
Capital Campaign	2,845,848
Building and Equipment	<u>12,937</u>
	<u>\$ 5,158,534</u>

Time Restricted for Future Period:

Contributions Receivable without Donor Purpose Restrictions	\$ 525,000
Assets Held Under Split-Interest Agreements	790,586
Less Liabilities Under Split-Interest Agreements	(731,821)
Beneficial Interests in Charitable Trusts Held by Others	<u>934,392</u>
	<u>\$ 1,518,157</u>

Beneficial Interest in Perpetual Trust \$ 1,384,692

Endowments:

Subject to Endowment Policy and Appropriation:

Research and Education	\$ 3,093,943
Internships	<u>462,303</u>
	<u>\$ 3,556,246</u>

Note 9: Board Designated Net Assets

At December 31, 2022 the Board of Directors has designated \$3,219,031 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, 2022 were \$111,462.

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.

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

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Notes to Financial Statements

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, 2022 SDRI held \$3,556,558 of cash deposits in excess of FDIC insurance limits.

At December 31, 2022 unconditional contributions receivable from five donors represented approximately 99% of the unconditional contributions receivable. In addition, approximately 57% of total contributions and grants for the year ended December 31, 2022 were received from five donors.

SDRI's donor support primarily originates from the Santa Barbara California region.

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, 2022 total compensation paid to the Board President for patient care services totaled \$14,975.

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 was fully forgiven during the year ended December 31, 2021. The forgiveness was reported as a noncash contribution in the accompanying statement of activities.

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 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,

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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 June 30, 2023, the date the financial statements were available to be issued. There were no subsequent events requiring disclosure.