



# SANSUM DIABETES RESEARCH INSTITUTE

## **Audited Financial Statements December 31, 2023**





## 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, 2023, 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, 2023, 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 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 30, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Stoltey & Associates*

Orcutt, California  
July 26, 2024

# SANSUM DIABETES RESEARCH INSTITUTE

## STATEMENT OF FINANCIAL POSITION

December 31, 2023

(with comparative totals for 2022)

ASSETS	2023	2022
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 4,204,240	\$ 3,467,466
Operating Investments (Note 3)	1,078,468	690,156
Accounts Receivable	580,057	667,147
Contributions Receivable (Notes 2 & 3)	6,268,701	2,602,222
Other Receivable	31,890	30,984
Prepaid Expenses and Other Assets	48,302	45,457
Cash and Cash Equivalents Restricted for Long-Term Use (Note 8)	1,439,680	1,123,343
Investments Designated for Long-Term Use (Notes 3 and 9)	3,379,833	3,219,031
Investments Restricted for Long-Term Use (Notes 3 and 8)	897,415	1,078,239
Cash Surrender Value of Life Insurance (Note 5)	129,286	126,230
Fixed Assets, Net (Note 6)	1,693,775	1,258,390
Assets Held Under Split-Interest Agreements (Note 3)	1,529,954	1,990,586
Beneficial Interests in Charitable Trusts Held by Others (Note 3)	1,056,552	934,392
Beneficial Interest in Perpetual Trust (Notes 3 and 8)	1,514,527	1,384,692
Subtotal	<u>23,852,680</u>	<u>18,618,335</u>
Endowment Assets (Notes 3, 7 and 8):		
Investments	<u>3,731,273</u>	<u>3,556,246</u>
Total Endowment Assets	<u>3,731,273</u>	<u>3,556,246</u>
Total Assets	<u>\$ 27,583,953</u>	<u>\$ 22,174,581</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 588,132	\$ 136,667
Accrued Expenses	375,571	347,767
Deferred Revenue	-	55
Liabilities Under Split-Interest Agreements (Note 3)	<u>460,266</u>	<u>731,821</u>
Total Liabilities	<u>1,423,969</u>	<u>1,216,310</u>
<b>NET ASSETS (Notes 8 and 9)</b>		
Without Donor Restriction:		
Undesignated	4,515,366	4,863,221
Board Designated for Long-Term Use	3,379,833	3,219,031
Invested in Fixed Assets	<u>1,693,775</u>	<u>1,258,390</u>
Total Non-Endowment Net Assets Without Donor Restrictions	<u>9,588,974</u>	<u>9,340,642</u>
With Donor Restrictions:		
Purpose Restrictions	5,639,045	5,158,534
Time Restricted for Future Period	5,686,165	1,518,157
Beneficial Interest in Perpetual Trust	<u>1,514,527</u>	<u>1,384,692</u>
Total Non-Endowment Net Assets With Donor Restrictions	<u>12,839,737</u>	<u>8,061,383</u>
Endowment:		
Purpose Restrictions - Endowment	574,011	398,984
Perpetual in Nature - Endowment	<u>3,157,262</u>	<u>3,157,262</u>
Total Endowment	<u>3,731,273</u>	<u>3,556,246</u>
Total Net Assets With Donor Restrictions	<u>16,571,010</u>	<u>11,617,629</u>
Total Net Assets	<u>26,159,984</u>	<u>20,958,271</u>
Total Liabilities and Net Assets	<u>\$ 27,583,953</u>	<u>\$ 22,174,581</u>

See accompanying notes.

**SANSUM DIABETES RESEARCH INSTITUTE**  
**STATEMENT OF ACTIVITIES**  
**December 31, 2023**  
**(with Comparative Totals for 2022)**

	2023			2022
	Without Donor Restriction	With Donor Restriction	Total	Total
<b>OPERATING</b>				
PUBLIC SUPPORT				
Special Events, Gross	\$ 65,375	\$ -	\$ 65,375	\$ 109,800
Less: Direct Costs	(108,384)	-	(108,384)	(171,029)
Special Events, Net	(43,009)	-	(43,009)	(61,229)
Contributions and Grants	1,543,095	4,799,925	6,343,020	5,138,252
Non-cash Contributions of Goods	23,988	-	23,988	11,994
Non-cash Forgiveness of PPP Loan	-	-	-	-
Total Public Support	1,524,074	4,799,925	6,323,999	5,089,017
REVENUE				
Research Contracts	3,143,391	-	3,143,391	2,524,311
Patient Care Fees	51,650	-	51,650	46,125
Rental Income	71,665	-	71,665	32,162
Royalty Income	871,251	-	871,251	6,256
Other Revenue	13,082	-	13,082	5,504
Total Revenue	4,151,039	-	4,151,039	2,614,358
TOTAL Public Support and Revenue	5,675,113	4,799,925	10,475,038	7,703,375
Net Assets Released from Restriction	671,346	(671,346)	-	-
EXPENSES				
PROGRAM SERVICES	4,663,461	-	4,663,461	4,051,404
SUPPORTING SERVICES				
Management and General	1,074,758	-	1,074,758	737,996
Fundraising	689,177	-	689,177	650,170
Total Supporting Services	1,763,935	-	1,763,935	1,388,166
Total Operating Expenses	6,427,396	-	6,427,396	5,439,570
Change in Net Assets from Operating Activities	(80,937)	4,128,579	4,047,642	2,263,805
<b>NONOPERATING</b>				
REVENUE				
Investment Income (Loss)	444,588	416,231	860,819	(1,074,587)
Trust Distributions	78,742	-	78,742	115,328
Change in Value of Interest in Split Interest Agreements	-	278,736	278,736	(213,961)
Change in Value of Beneficial Interest in Perpetual Trusts	-	129,835	129,835	(334,688)
Total Nonoperating Revenue	523,330	824,802	1,348,132	(1,507,908)
EXPENSES				
Depreciation	107,809	-	107,809	98,491
Capital and Endowment Campaign	86,252	-	86,252	103,265
Total Nonoperating Expense	194,061	-	194,061	201,756
Change in Net Assets from Nonoperating Activities	329,269	824,802	1,154,071	(1,709,664)
Total Change in Net Assets	248,332	4,953,381	5,201,713	554,141
Net Assets, Beginning of Year	9,340,642	11,617,629	20,958,271	20,404,130
Net Assets, End of Year	\$ 9,588,974	\$ 16,571,010	\$ 26,159,984	\$ 20,958,271

See accompanying notes.

**SANSUM DIABETES RESEARCH INSTITUTE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**December 31, 2023**  
**(with Comparative Totals for 2022)**

	Support Services			Total	Total
	Programs Services	Management & General	Fundraising	Expenses 2023	Expenses 2022
Compensation and Related Benefits					
Salaries	\$ 2,600,875	\$ 408,131	\$ 431,712	\$ 3,440,718	\$ 3,314,064
Payroll Taxes	191,982	31,313	32,146	255,441	241,987
Pension Expense	87,802	17,334	21,784	126,920	111,462
Employee Benefits	172,184	37,257	31,770	241,211	225,684
Total Compensation and Related Benefits	3,052,843	494,035	517,412	4,064,290	3,893,197
Other Operating Expenses					
Legal	-	11,412	-	11,412	11,610
Accounting	-	24,000	-	24,000	22,000
Outside Services	318,134	406,913	20,797	745,844	396,520
Communications	3,311	2,597	57,080	62,988	53,507
Office Expenses	57,029	21,943	16,821	95,793	92,296
Information Technology	152,384	30,100	48,275	230,759	202,461
Royalties	286,088	-	-	286,088	2,085
Occupancy	95,988	40,994	13,967	150,949	149,040
Travel	70,325	16,878	3,955	91,158	43,866
Conferences	32,676	3,692	3,381	39,749	39,943
Insurance	57,453	22,194	7,489	87,136	72,721
Subject Reimbursement	351,769	-	-	351,769	317,829
Lab Supplies	185,461	-	-	185,461	142,501
Total Operating Expenses	4,663,461	1,074,758	689,177	6,427,396	5,439,576
Nonoperating Expenses					
Depreciation	80,394	14,868	12,547	107,809	98,491
Capital Campaign	-	-	86,252	86,252	103,265
Total Nonoperating Expenses	80,394	14,868	98,799	194,061	201,756
Total Functional Expenses	<u>\$ 4,743,855</u>	<u>\$ 1,089,626</u>	<u>\$ 787,976</u>	<u>\$ 6,621,457</u>	<u>\$ 5,641,332</u>

See accompanying notes.

# SANSUM DIABETES RESEARCH INSTITUTE

## STATEMENT OF CASH FLOWS

December 31, 2023

(with Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
<b>Cash Flows From Operating Activities</b>		
Change in Net Assets	\$ 5,201,713	\$ 554,141
Adjustments to reconcile increase in Net Assets to Cash Provided by (Used by) operating activities:		
Depreciation	107,809	98,491
Loss (Gain) on Investments	(885,014)	1,400,626
Change in Cash Surrender Value of Life Insurance	(3,056)	(2,824)
Change in Value of Assets Held Under Split-Interest Agreements	460,632	(1,830,329)
Change in Value of Beneficial Interest in Split-Interest Agreements	(122,160)	197,891
Change in Value of Beneficial Interest in Perpetual Trusts	(129,835)	334,688
Change in operating assets and liabilities:		
Accounts Receivable	87,090	(223,060)
Contributions Receivable	(3,666,479)	(1,448,516)
Other Receivable	(906)	(936)
Prepaid Expenses	(2,845)	15,491
Accounts Payable	451,465	68,407
Accrued Expenses	27,804	(18,885)
Deferred Revenue	(55)	(49,945)
Liabilities Under Split Interest Agreements	(271,555)	695,803
<b>Net Cash From Operating Activities</b>	<u>1,254,608</u>	<u>(208,957)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of Fixed Assets	(543,194)	(137,234)
Proceeds from Sale of Securities	2,014,260	892,896
Purchase of Securities	<u>(1,672,563)</u>	<u>(1,269,927)</u>
<b>Net Cash From Investing Activities</b>	<u>(201,497)</u>	<u>(514,265)</u>
<b>Net Change in Cash and Cash Equivalents</b>	1,053,111	(723,222)
<b>Cash and Cash Equivalents at Beginning of Year</b>	4,590,809	5,314,031
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 5,643,920</u>	<u>\$ 4,590,809</u>
<b>Cash and Cash Equivalents Held</b>		
Cash Held for Operating Activities	\$ 4,204,240	\$ 3,467,466
Cash and Cash Equivalents Restricted for Long-Term Use	<u>1,439,680</u>	<u>1,123,343</u>
<b>Total Cash and Cash Equivalents Held</b>	<u>\$ 5,643,920</u>	<u>\$ 4,590,809</u>
<b>Non-Cash Transactions</b>		
Non-cash contribution of in-kind goods	<u>\$ 23,988</u>	<u>\$ 11,994</u>

# 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.

#### **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, 2023 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, 2023 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



# SANSUM DIABETES RESEARCH INSTITUTE

## Notes to Financial Statements

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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, other than fair value adjustments to assets held under split-interest agreements, during the year ended December 31, 2023.

### **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, 2023 assets held under the contracts include a reserve of \$460,266 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

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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, 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

# SANSUM DIABETES RESEARCH INSTITUTE

## Notes to Financial Statements

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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.

### 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, 2023 that SDRI expects to recognize as revenue in the next 3 years is \$713,461, with \$640,188 in 2024, \$73,273 in 2025 and \$0 in 2026.

The beginning and ending contract balances are as follows:

	<u>2023</u>	<u>2022</u>
Receivables	<u>\$ 580,057</u>	<u>\$ 667,147</u>
Deferred revenue	<u>\$ -</u>	<u>\$ 55</u>

\$55 of revenue was recognized for the year ended December 31, 2023 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 \$24,000 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

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## Notes to Financial Statements

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significant amount donated services were received during the year ended December 31, 2023.

### **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

# SANSUM DIABETES RESEARCH INSTITUTE

## Notes to Financial Statements

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- Fair value of contributions receivable
- Fair value of trusts and split interest agreements

### **Comparative Financial Statements**

The amounts shown for the year ended December 31, 2022 in the accompanying financial statements are included to provide a basis for comparison with 2023 and present summarized totals only. Accordingly, the 2022 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, 2022, from which the summarized information was derived.

### **Note 2: Contributions Receivable**

Unconditional contributions receivable estimated to be collected at December 31, 2023 follow:

2024	\$ 5,225,425
2025	475,500
2026	275,500
2027	100,000
2028	100,000
Thereafter	<u>300,000</u>
	6,476,425
Less discount on long-term contributions receivable	<u>(207,724)</u>
Contributions Receivable, Net	<u>\$ 6,268,701</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

# SANSUM DIABETES RESEARCH INSTITUTE

## Notes to Financial Statements

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- 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.

**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, 2023:

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	Total	Level 1	Level 2	Level 3
Investments:				
Corporate Bonds	\$ 3,437,991	\$ 3,437,991	\$ -	\$ -
Mutual Funds – Equities	2,129,379	2,129,379	-	-
ETF - Equities	3,519,619	3,519,619	-	-
Total Investments	<u>\$ 9,086,989</u>	<u>\$ 9,086,989</u>	<u>-</u>	<u>-</u>
Contributions Receivable	<u>\$ 6,268,701</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,268,701</u>
Assets Held Under Split-Interest Agreements:				
Cash and Money Market Funds (at Cost)	\$ 210,279	\$ 210,279	\$ -	\$ -
U.S. Obligations	431,202	431,202	-	-
Real Estate Held for Sale	800,000	-	-	800,000
ETF – Equities	88,473	88,473	-	-
Total Assets Held Under Split-Interest Agreements	<u>\$ 1,529,954</u>	<u>\$ 729,954</u>	<u>\$ -</u>	<u>\$ 800,000</u>
Beneficial Interest in Charitable Trusts Held by Others	<u>\$ 1,056,552</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,056,552</u>
Beneficial Interest in Perpetual Trusts	<u>\$ 1,514,527</u>	<u>\$ 1,514,527</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities Under Split-Interest Agreements	<u>\$ 460,266</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 460,266</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, 2023:

Contributions Receivable:	
Balance at Beginning of Year	\$ 2,602,222
Additions	4,849,925
Collections	(1,259,500)
Fair Value Adjustments	<u>76,054</u>
Balance at End of Year	<u>\$ 6,268,701</u>
Beneficial Interest in Trusts Held by Others:	
Balance at Beginning of Year	\$ 934,392
Fair Value Adjustment	<u>122,160</u>
Balance at End of Year	<u>\$ 1,056,552</u>
Property Held for Sale:	
Balance at Beginning of Year	\$ 1,200,000
Fair value adjustment	<u>(400,000)</u>
Balance at End of Year	<u>\$ 800,000</u>
Liabilities Under Split Interest Agreements:	
Balance at Beginning of Year	\$ 731,821
Fair Value Adjustment	<u>(271,555)</u>
Balance at End of Year	<u>\$ 460,266</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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### *Financial Assets at December 31, 2023*

Cash and Cash Equivalents	\$ 4,204,240
Operating Investments	1,078,468
Accounts Receivable	580,057
Contributions Receivable, net	6,268,701
Other Receivable	31,890
Cash and Cash Equivalents Restricted for Long-Term Use	1,439,680
Investments Designated for Long-Term Use	3,379,833
Investment Restricted for Long-Term Use	897,415
Cash Surrender Value of Life Insurance	129,286
Assets Held Under Split-Interest Agreements	1,529,954
Beneficial Interest in Charitable Trusts Held by Others	1,056,552
Beneficial Interest in Perpetual Trusts	1,514,527
Endowment Assets	<u>3,731,273</u>
Total Financial Assets	25,841,876

### *Less Those Unavailable for General Expenditures Within One Year*

Because of Unavailability	
Promises to Give Support Due in More Than One Year	(1,043,276)
Because of Board Designations	
Investments designated for long-term use	(3,379,833)
Because of Donor Restrictions	
Restricted for purpose	(5,639,045)
Restricted for time	(7,200,692)
Restricted for endowment	<u>(3,731,273)</u>

Total \$ 4,847,757

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 \$3,379,833 at December 31, 2023.

### **Note 5: Life Insurance**

SDRI is the beneficiary of life insurance policies with total death benefits of \$153,298 and cash surrender value of \$129,286 as of December 31, 2023. The increase of cash surrender value of \$3,056 for the year ended December 31, 2023 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

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### Note 6: Fixed Assets

Fixed Assets at December 31, 2023 are summarized by major classifications as follows:

Land	\$ 351,758
Buildings and Improvements	3,658,463
Furniture and Equipment	466,632
Construction in Process	<u>369,882</u>
	4,846,735
Less Accumulated Depreciation	<u>(3,152,960)</u>
Fixed Assets, Net	<u>\$ 1,693,775</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, 2023 and 2022 were \$107,809 and \$98,491, 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, 2023, 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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## Notes to Financial Statements

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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, 2023.

Changes in Endowment Net Assets for the year ended December 31, 2023 are as follows:

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>
Endowment Net Assets, Beginning of Year	\$ -	\$ 3,556,246
Contributions	-	-
Investment Income	-	416,232
Draw per Spending Policy	-	(241,205)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 3,731,273</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, 2023 SDRI appropriated income earned from certain endowment fund to fund research and operations.

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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	\$ 2,602,577
Education	90,395
Capital Campaign	2,933,136
Building and Equipment	<u>12,937</u>
	<u>\$ 5,639,045</u>

Time Restricted for Future Period:

Contributions Receivable without Donor Purpose Restrictions	\$ 4,359,925
Assets Held Under Split-Interest Agreements	729,954
Less Liabilities Under Split-Interest Agreements	(460,266)
Beneficial Interests in Charitable Trusts Held by Others	<u>1,056,552</u>
	<u>\$ 5,686,165</u>

Beneficial Interest in Perpetual Trust \$ 1,514,527

Endowments:

Subject to Endowment Policy and Appropriation:

Research and Education	\$ 3,231,068
Internships	<u>500,205</u>
	<u>\$ 3,731,273</u>

**Note 9: Board Designated Net Assets**

At December 31, 2023 the Board of Directors designated \$3,379,833 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, 2023 were \$126,920.

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

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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, 2023 SDRI held \$3,499,697 of cash deposits in excess of FDIC insurance limits.

At December 31, 2023 unconditional contributions receivable from four donors represented approximately 88% of the unconditional contributions receivable. In addition, approximately 69% of total contributions and grants for the year ended December 31, 2023 were received from two 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, 2023 total compensation paid to the Board President for patient care services totaled \$15,263.

### **Note 15: Subsequent Events**

Management has evaluated subsequent events through July 26, 2024, the date the financial statements were available to be issued. There were no subsequent events requiring disclosure.