



# SANSUM DIABETES RESEARCH INSTITUTE

## **Audited Financial Statements December 31, 2021**





## 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, 2021, 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, 2021, 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 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 28, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Stoltey & Associates*

Orcutt, California  
May 27, 2022

**SANSUM DIABETES RESEARCH INSTITUTE**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2021**  
**(with comparative totals for 2020)**

	<b>ASSETS</b>	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>			
Cash and Cash Equivalents		\$ 4,799,507	\$ 3,863,052
Operating Investments (Note 3)		742,009	499,485
Accounts Receivable		444,087	526,685
Contributions Receivable (Notes 2 & 3)		1,153,706	935,565
Other Receivable		30,048	27,791
Prepaid Expenses and Other Assets		60,948	37,470
Cash and Cash Equivalents Restricted for Long-Term Use (Note 8)		514,524	-
Investments Designated for Long-Term Use (Notes 3 and 9)		3,789,933	3,455,262
Investments Restricted for Long-Term Use (Notes 3 and 8)		896,667	656,210
Cash Surrender Value of Life Insurance (Note 5)		123,406	120,628
Fixed Assets, Net (Note 6)		1,219,647	1,313,344
Assets Held Under Split-Interest Agreements (Note 3)		160,257	156,282
Beneficial Interests in Charitable Trusts Held by Others (Note 3)		1,132,283	732,658
Beneficial Interest in Perpetual Trust (Notes 3 and 8)		1,719,380	1,620,432
Subtotal		16,786,402	13,944,864
Endowment Assets (Notes 3, 7 and 8):			
Cash and Cash Equivalents		-	-
Investments		4,138,658	4,026,624
Total Endowment Assets		4,138,658	4,026,624
Total Assets		\$ 20,925,060	\$ 17,971,488
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts Payable		\$ 68,260	\$ 53,466
Accrued Expenses		366,652	337,870
Deferred Revenue		50,000	86,815
Notes Payable - PPP Loan (Note 13)		-	354,487
Liabilities Under Split-Interest Agreements (Note 3)		36,018	48,660
Total Liabilities		520,930	881,298
<b>NET ASSETS (Notes 8 and 9)</b>			
Without Donor Restriction:			
Undesignated		4,837,784	3,304,974
Board Designated for Long-Term Use		3,789,933	3,455,262
Invested in Fixed Assets		1,219,647	1,313,344
Total Non-Endowment Net Assets Without Donor Restrictions		9,847,364	8,073,580
With Donor Restrictions:			
Purpose Restrictions		3,412,206	1,672,166
Time Restricted for Future Period		1,286,522	1,697,388
Beneficial Interest in Perpetual Trust		1,719,380	1,620,432
Total Non-Endowment Net Assets With Donor Restrictions		6,418,108	4,989,986
Endowment:			
Purpose Restrictions - Endowment		986,396	834,362
Perpetual in Nature - Endowment		3,152,262	3,192,262
Total Endowment		4,138,658	4,026,624
Total Net Assets With Donor Restrictions		10,556,766	9,016,610
Total Net Assets		20,404,130	17,090,190
Total Liabilities and Net Assets		\$ 20,925,060	\$ 17,971,488

See accompanying notes.

**SANSUM DIABETES RESEARCH INSTITUTE**  
**STATEMENT OF ACTIVITIES**  
**December 31, 2021**  
**(with Comparative Totals for 2020)**

	2021			2020
	Without Donor Restriction	With Donor Restriction	Total	Total
<b>OPERATING</b>				
PUBLIC SUPPORT				
Special Events, Gross	\$ 43,648	\$ -	\$ 43,648	\$ 32,166
Less: Direct Costs	(3,874)	-	(3,874)	(28,698)
Special Events, Net	39,774	-	39,774	3,468
Contributions and Grants	845,880	2,171,654	3,017,534	2,378,229
Non-cash Forgiveness of PPP Loan	354,487	-	354,487	-
Total Public Support	1,240,141	2,171,654	3,411,795	2,381,697
REVENUE				
Research Contracts	3,166,593	-	3,166,593	3,169,945
Patient Care Fees	32,670	-	32,670	24,565
Rental Income	19,215	-	19,215	72,452
Royalty Income	35,816	-	35,816	38,208
Other Revenue	5,852	-	5,852	21,359
Total Revenue	3,260,146	-	3,260,146	3,326,529
TOTAL Public Support and Revenue	4,500,287	2,171,654	6,671,941	5,708,226
Net Assets Released from Restriction	1,708,892	(1,708,892)	-	-
EXPENSES				
PROGRAM SERVICES	3,835,302	-	3,835,302	3,294,939
SUPPORTING SERVICES				
Management and General	660,549	-	660,549	640,988
Fundraising	570,101	-	570,101	611,309
Total Supporting Services	1,230,650	-	1,230,650	1,252,297
Total Operating Expenses	5,065,952	-	5,065,952	4,547,236
Change in Net Assets from Operating Activities	1,143,227	462,762	1,605,989	1,160,990
<b>NONOPERATING</b>				
REVENUE				
Investment Income (Loss)	683,216	512,680	1,195,896	992,149
Trust Distributions	124,665	-	124,665	127,170
Change in Value of Interest in Split Interest Agreements	-	9,347	9,347	49,515
Change in Value of Beneficial Interest in Perpetual Trusts	-	555,367	555,367	17,632
Total Nonoperating Revenue	807,881	1,077,394	1,885,275	1,186,466
EXPENSES				
Depreciation	106,116	-	106,116	117,337
Capital and Endowment Campaign	71,208	-	71,208	11,448
Total Nonoperating Expense	177,324	-	177,324	128,785
Change in Net Assets from Nonoperating Activities	630,557	1,077,394	1,707,951	1,057,681
Total Change in Net Assets	1,773,784	1,540,156	3,313,940	2,218,671
Net Assets, Beginning of Year	8,073,580	9,016,610	17,090,190	14,871,519
Net Assets, End of Year	\$ 9,847,364	\$ 10,556,766	\$ 20,404,130	\$ 17,090,190

See accompanying notes.

**SANSUM DIABETES RESEARCH INSTITUTE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**December 31, 2021**  
**(with Comparative Totals for 2020)**

	Programs Services	Support Services		Total	Total
		Management & General	Fundraising	Expenses 2021	Expenses 2020
Compensation and Related Benefits	\$ 2,287,800	\$ 366,021	\$ 370,425	\$ 3,024,246	\$ 2,930,847
Salaries	175,743	29,269	29,673	234,685	204,927
Payroll Taxes	82,098	16,486	12,896	111,480	67,283
Pension Expense	149,123	29,077	18,940	197,140	196,202
Employee Benefits	2,694,764	440,853	431,934	3,567,551	3,399,259
Total Compensation and Related Benefits					
Other Operating Expenses	-	-	-	-	3,250
Legal	-	21,600	-	21,600	19,500
Accounting	167,835	77,500	4,897	250,232	105,252
Outside Services	8,448	3,146	60,901	72,495	50,785
Communications	48,097	20,472	15,790	84,359	81,587
Office Expenses	121,358	38,509	35,859	195,726	142,387
Information Technology	11,939	0	0	11,939	12,736
Royalties	73,937	38,646	11,758	124,341	117,244
Occupancy	20,449	2,557	1,296	24,302	17,183
Travel	20,402	1,770	1,271	23,443	33,497
Conferences	46,595	15,190	6,395	68,180	60,916
Insurance	444,240	0	0	444,240	368,468
Subject Reimbursement	177,238	306	0	177,544	135,172
Lab Supplies	3,835,302	660,549	570,101	5,065,952	4,547,236
Total Operating Expenses					
Nonoperating Expenses	80,637	11,401	14,078	106,116	117,337
Depreciation	-	-	71,208	71,208	11,448
Capital and Endowment Campaign	80,637	11,401	85,286	177,324	128,785
Total Nonoperating Expenses					
Total Functional Expenses 2021	<u>\$ 3,915,939</u>	<u>\$ 671,950</u>	<u>\$ 655,387</u>	<u>\$ 5,243,276</u>	<u>\$ 4,676,021</u>

See accompanying notes.

**SANSUM DIABETES RESEARCH INSTITUTE**  
**STATEMENT OF CASH FLOWS**  
**December 31, 2021**  
**(with Comparative Totals for 2020)**

	<u>2021</u>	<u>2020</u>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 3,313,940	\$ 2,218,671
Adjustments to reconcile increase in Net Assets to Cash Provided by (Used by) operating activities:		
Depreciation	106,116	117,337
Loss (Gain) on Investments	(788,504)	(786,260)
Noncash forgiveness of Notes Payable - PPP Loan	(354,487)	-
Change in Cash Surrender Value of Life Insurance	(2,778)	(2,648)
Change in Value of Assets Held Under Split-Interest Agreements	(3,975)	3,327
Change in Value of Beneficial Interest in Split-Interest Agreements	(399,625)	(42,011)
Change in Value of Beneficial Interest in Perpetual Trusts	(98,948)	(17,632)
Change in operating assets and liabilities:		
Accounts Receivable	82,598	(65,177)
Contributions Receivable	(218,141)	(35,321)
Other Receivable	(2,257)	(2,227)
Prepaid Expenses	(23,478)	(2,398)
Accounts Payable	14,794	13,113
Accrued Expenses	28,782	41,716
Deferred Revenue	(36,815)	86,815
Liabilities Under Split Interest Agreements	(12,642)	(13,829)
<b>Net Cash Provided by Operating Activities</b>	<u>1,604,580</u>	<u>1,513,476</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of Fixed Assets	(12,419)	-
Proceeds from Sale of Securities	6,743,234	918,195
Purchase of Securities	(6,884,416)	(1,217,851)
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>(153,601)</u>	<u>(299,656)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds From Issuance of Notes Payable	-	354,487
<b>Net Increase in Cash and Cash Equivalents</b>	1,450,979	1,568,307
<b>Cash and Cash Equivalents at Beginning of Year</b>	3,863,052	2,294,745
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 5,314,031</u>	<u>\$ 3,863,052</u>
<b>Cash and Cash Equivalents Held</b>		
Cash Held for Operating Activities	\$ 4,799,507	\$ 3,863,052
Cash and Cash Equivalents Restricted for Long-Term Use	514,524	-
<b>Total Cash and Cash Equivalents Held</b>	<u>\$ 5,314,031</u>	<u>\$ 3,863,052</u>

See accompanying notes.

# SANSUM DIABETES RESEARCH INSTITUTE

## Notes to Financial Statements

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

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

#### **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, 2021 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, 2021 the discount rate was 3.5%.

#### **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 during the year ended December 31, 2021.

### **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

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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

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

### **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, 2021 that SDRI expects to recognize as revenue in the next 3 years is \$2,539,000, with \$2,024,000 in 2022, \$379,000 in 2023 and \$136,000 in 2024.

The beginning and ending contract balances are as follows:

	<u>2021</u>	<u>2020</u>
Receivables	<u>\$ 444,087</u>	<u>\$ 526,685</u>
Deferred revenue	<u>\$ 50,000</u>	<u>\$ 86,815</u>

\$36,815 of revenue was recognized for the year ended December 31, 2021 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, 2021.

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## Notes to Financial Statements

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### **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 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

# SANSUM DIABETES RESEARCH INSTITUTE

## Notes to Financial Statements

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### Comparative Financial Statements

The amounts shown for the year ended December 31, 2020 in the accompanying financial statements are included to provide a basis for comparison with 2021 and present summarized totals only. Accordingly, the 2020 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 June 30, 2020, from which the summarized information was derived.

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

Unconditional contributions receivable estimated to be collected at December 31, 2021 follow:

2022	\$ 456,000
2023	315,500
2024	300,500
2025	<u>150,500</u>
	1,222,500
Less discount on long-term contributions receivable	<u>(68,794)</u>
Contributions Receivable, Net	<u>\$ 1,153,706</u>

At December 31, 2021 SDRI was named in one bequest 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

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## 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, 2021:

# SANSUM DIABETES RESEARCH INSTITUTE

## Notes to Financial Statements

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Corporate				
Bonds	\$ 3,685,455	\$ 3,685,455	\$ -	\$ -
Mutual Funds –				
Equities	3,780,451	3,780,451	-	-
ETF - Equities	2,101,361	2,101,361	-	-
Total Investments	<u>\$ 9,567,267</u>	<u>\$ 9,567,267</u>	<u>-</u>	<u>-</u>
Contributions				
Receivable	<u>\$ 1,153,706</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,153,706</u>
Assets Held Under				
Split-Interest				
Agreements:				
Cash and				
Money Market				
Funds (at Cost)	\$ 36,715	\$ 36,715	\$ -	\$ -
U.S. Obligations	70,946	70,946	-	-
ETF – Equities	52,596	52,596	-	-
Total Assets Held				
Under Split-				
Interest				
Agreements	<u>\$ 160,257</u>	<u>\$ 160,257</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest				
in Charitable				
Trusts Held by				
Others	<u>\$ 1,132,283</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,132,283</u>
Beneficial Interest				
in Perpetual				
Trusts	<u>\$ 1,719,380</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,719,380</u>
Liabilities Under				
Split-Interest				
Agreements	<u>\$ 36,018</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,018</u>

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## Notes to Financial Statements

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The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2021:

Contributions Receivable:	
Balance at Beginning of Year	\$ 935,565
Additions	1,192,500
Collections	(905,565)
Fair Value Adjustments	<u>(68,794)</u>
Balance at End of Year	<u>\$ 1,153,706</u>

Beneficial Interest in Perpetual Trusts:	
Balance at Beginning of Year	\$ 1,620,432
Change in Value of Beneficial Interest In Perpetual Trusts	<u>98,948</u>
Balance at End of Year	<u>\$ 1,719,380</u>

Beneficial Interest in Trusts Held by Others:	
Balance at Beginning of Year	\$ 732,658
Change in Value of Beneficial Trusts Held by Others	<u>399,625</u>
Balance at End of Year	<u>\$ 1,132,283</u>

#### **Note 4: Liquidity and Availability**

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

Cash and Cash Equivalents	\$ 4,799,507
Operating Investments	742,009
Accounts Receivable	444,087
Contributions Receivable without Purpose Restriction	30,000
Other Receivable	<u>30,048</u>
Total	<u>\$ 6,045,651</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 \$3,789,933 at December 31, 2021.

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

SDRI is the beneficiary of life insurance policies with total death benefits of \$151,491 and cash surrender value of \$123,406 as of December 31, 2021. The increase of



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## Notes to Financial Statements

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cash surrender value of \$2,778 for the year ended December 31, 2021 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, 2021 are summarized by major classifications as follows:

Land	\$ 351,758
Buildings and Improvements	3,557,598
Furniture and Equipment	283,485
Construction in Process	<u>7,324</u>
	4,200,165
Less Accumulated Depreciation	<u>(2,980,518)</u>
Fixed Assets, Net	<u>\$ 1,219,647</u>

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## Notes to Financial Statements

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endowments). SDRI has interpreted UPMIFA to permit spending from underwater

	Without Donor Restriction	With Donor Restriction
Endowment Net Assets, Beginning of Year	\$ -	\$ 4,026,624
Contributions	-	-
Investment Income	-	413,732
Draw per Spending Policy	-	(301,698)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 4,138,658</u>

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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	\$ 1,986,116
Education	42,888
Capital Campaign	1,368,230
Building and Equipment	14,972
	<u>\$ 3,412,206</u>

#### Time Restricted for Future Period:

Contributions Receivable without Donor Purpose Restrictions	\$ 30,000
Assets Held Under Split-Interest Agreements	160,257
Less Liabilities Under Split-Interest Agreements	(36,018)
Beneficial Interests in Charitable Trusts Held by Others	1,132,283
	<u>\$ 1,286,522</u>

Beneficial Interest in Perpetual Trust \$ 1,719,380

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## Notes to Financial Statements

Endowments:

Subject to Endowment Policy and Appropriation:

Research and Education

\$ 3,650,178

Internships

488,480

\$ 4,138,658

**Note 9: Board Designated Net Assets**

At December 31, 2021 the Board of Directors has designated \$3,789,933 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, 2021 were \$111,480.

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 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, 2021 SDRI held \$3,897,631 of cash deposits in excess of FDIC insurance limits.

# SANSUM DIABETES RESEARCH INSTITUTE

## Notes to Financial Statements

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**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, 2021 total compensation paid to the Board President for patient care services totaled \$10,288.

**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, 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 27, 2022, the date the financial statements were available to be issued. There were no subsequent events requiring disclosure.