



SANSUM DIABETES RESEARCH INSTITUTE

Audited Financial Statements December 31, 2024





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, 2024, and the related statements of activities and changes in net assets, 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, 2024, 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 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 26, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stoltey & Associates

Orcutt, California
July 22, 2025

SANSUM DIABETES RESEARCH INSTITUTE

STATEMENT OF FINANCIAL POSITION

December 31, 2024

(with comparative totals for 2023)

ASSETS	2024	2023
ASSETS		
Cash and Cash Equivalents	\$ 3,844,156	\$ 4,204,240
Operating Investments (Note 3)	1,672,903	1,078,468
Accounts Receivable	294,184	580,057
Contributions Receivable (Notes 2 & 3)	1,704,404	6,268,701
Other Receivable	32,959	31,890
Prepaid Expenses and Other Assets	71,230	48,302
Note Receivable (Note 14)	600,000	-
Right of Use Asset (Note 7)	182,726	-
Cash and Cash Equivalents Designated for Capital Improvements (Note 10)	3,013,660	-
Cash and Cash Equivalents Restricted for Capital Improvements (Note 10)	1,198,010	1,234,949
Cash and Cash Equivalents Restricted for Long-Term Use (Note 9)	213,775	204,731
Investments Designated for Long-Term Use (Notes 3 and 10)	3,679,617	3,379,833
Investments Restricted for Long-Term Use (Notes 3 and 9)	656,210	897,415
Cash Surrender Value of Life Insurance (Note 5)	132,845	129,286
Fixed Assets, Net (Note 6)	2,134,327	1,693,775
Assets Held Under Split-Interest Agreements (Note 3)	493,161	1,529,954
Beneficial Interests in Charitable Trusts Held by Others (Note 3)	1,161,793	1,056,552
Beneficial Interest in Perpetual Trust (Notes 3 and 9)	1,609,806	1,514,527
Subtotal	<u>22,695,766</u>	<u>23,852,680</u>
Endowment Assets (Notes 3, 8 and 9):		
Investments	<u>3,849,227</u>	<u>3,731,273</u>
Total Endowment Assets	<u>3,849,227</u>	<u>3,731,273</u>
Total Assets	<u>\$ 26,544,993</u>	<u>\$ 27,583,953</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 597,514	\$ 588,132
Accrued Expenses	481,217	375,571
Refundable Advances	200,000	-
Lease Obligations (Note 7)	190,910	-
Liabilities Under Split-Interest Agreements (Note 3)	7,132	460,266
Total Liabilities	<u>1,476,773</u>	<u>1,423,969</u>
NET ASSETS (Notes 9 and 10)		
Without Donor Restriction:		
Undesignated	5,533,518	4,515,366
Board Designated for Capital Improvement	3,013,660	-
Board Designated for Long-Term Use	3,679,617	3,379,833
Invested in Fixed Assets	2,134,327	1,693,775
Total Non-Endowment Net Assets Without Donor Restrictions	<u>14,361,122</u>	<u>9,588,974</u>
With Donor Restrictions:		
Purpose Restrictions	4,083,980	5,639,045
Time Restricted for Future Period	1,164,085	5,686,165
Beneficial Interest in Perpetual Trust	1,609,806	1,514,527
Total Non-Endowment Net Assets With Donor Restrictions	<u>6,857,871</u>	<u>12,839,737</u>
Endowment:		
Purpose Restrictions - Endowment	691,965	574,011
Perpetual in Nature - Endowment	3,157,262	3,157,262
Total Endowment	<u>3,849,227</u>	<u>3,731,273</u>
Total Net Assets With Donor Restrictions	<u>10,707,098</u>	<u>16,571,010</u>
Total Net Assets	<u>25,068,220</u>	<u>26,159,984</u>
Total Liabilities and Net Assets	<u>\$ 26,544,993</u>	<u>\$ 27,583,953</u>

See accompanying notes.

SANSUM DIABETES RESEARCH INSTITUTE
STATEMENT OF ACTIVITIES
December 31, 2024
(with Comparative Totals for 2023)

	2024			2023
	Without Donor Restriction	With Donor Restriction	Total	Total
OPERATING				
PUBLIC SUPPORT				
Special Events, Gross	\$ 64,969	\$ -	\$ 64,969	\$ 65,375
Less: Direct Costs	(157,255)	-	(157,255)	(108,384)
Special Events, Net	(92,286)	-	(92,286)	(43,009)
Contributions and Grants	1,326,424	634,629	1,961,053	6,343,020
Non-cash Contributions of Goods	-	-	-	23,988
Total Public Support	1,234,138	634,629	1,868,767	6,323,999
REVENUE				
Research Contracts	2,258,524	-	2,258,524	3,143,391
Patient Care Fees	49,965	-	49,965	51,650
Rental Income	20,808	-	20,808	71,665
Royalty Income	7,150	-	7,150	871,251
Other Revenue	3,962	-	3,962	13,082
Total Revenue	2,340,409	-	2,340,409	4,151,039
TOTAL Public Support and Revenue	3,574,547	634,629	4,209,176	10,475,038
Net Assets Released from Restriction	7,456,049	(7,456,049)	-	-
EXPENSES				
PROGRAM SERVICES	4,717,298	-	4,717,298	4,663,461
SUPPORTING SERVICES				
Management and General	1,237,683	-	1,237,683	1,074,758
Fundraising	629,726	-	629,726	689,177
Total Supporting Services	1,867,409	-	1,867,409	1,763,935
Total Operating Expenses	6,584,707	-	6,584,707	6,427,396
Change in Net Assets from Operating Activities	4,445,889	(6,821,420)	(2,375,531)	4,047,642
NONOPERATING				
REVENUE				
Investment Income	1,165,556	384,419	1,549,975	860,819
Loss on Disposal of Assets (Notes 6 and 14)	(555,779)	-	(555,779)	-
Trust Distributions	76,977	-	76,977	78,742
Change in Value of Interest in Split Interest Agreements	-	477,810	477,810	278,736
Change in Value of Beneficial Interest in Perpetual Trusts	-	95,279	95,279	129,835
Total Nonoperating Revenue	686,754	957,508	1,644,262	1,348,132
EXPENSES				
Depreciation	157,400	-	157,400	107,809
Capital Campaign	203,095	-	203,095	86,252
Total Nonoperating Expense	360,495	-	360,495	194,061
Change in Net Assets from Nonoperating Activities	326,259	957,508	1,283,767	1,154,071
Total Change in Net Assets	4,772,148	(5,863,912)	(1,091,764)	5,201,713
Net Assets, Beginning of Year	9,588,974	16,571,010	26,159,984	20,958,271
Net Assets, End of Year	\$ 14,361,122	\$ 10,707,098	\$ 25,068,220	\$ 26,159,984

See accompanying notes.

SANSUM DIABETES RESEARCH INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
December 31, 2024
(with Comparative Totals for 2023)

	Support Services			Total	Total
	Programs Services	Management & General	Fundraising	Expenses 2024	Expenses 2023
Compensation and Related Benefits					
Salaries	\$ 3,122,033	\$ 615,099	\$ 357,684	\$ 4,094,816	\$ 3,440,718
Payroll Taxes	235,635	45,397	26,770	307,802	255,441
Pension Expense	63,648	20,766	17,138	101,552	126,920
Employee Benefits	215,586	54,215	31,794	301,595	241,211
Total Compensation and Related Benefits	3,636,902	735,477	433,386	4,805,765	4,064,290
Other Operating Expenses					
Legal	-	18,154	-	18,154	11,412
Accounting	-	26,000	-	26,000	24,000
Outside Services	199,565	302,123	67,678	569,366	745,844
Communications	8,108	2,482	30,688	41,278	62,988
Office Expenses	63,820	33,401	17,466	114,687	95,793
Information Technology	136,160	37,918	44,084	218,162	230,759
Royalties	2,383	-	-	2,383	286,088
Occupancy	112,029	47,241	13,097	172,367	150,949
Travel	35,536	2,956	2,836	41,328	91,158
Conferences	80,113	2,460	13,100	95,673	39,749
Insurance	62,467	29,471	7,391	99,329	87,136
Subject Reimbursement	296,538	-	-	296,538	351,769
Lab Supplies	83,677	-	-	83,677	185,461
Total Operating Expenses	4,717,298	1,237,683	629,726	6,584,707	6,427,396
Nonoperating Expenses					
Depreciation	118,392	21,799	17,209	157,400	107,809
Capital Campaign	195,033	-	8,062	203,095	86,252
Total Nonoperating Expenses	313,425	21,799	25,271	360,495	194,061
Total Functional Expenses	<u>\$ 5,030,723</u>	<u>\$ 1,259,482</u>	<u>\$ 654,997</u>	<u>\$ 6,945,202</u>	<u>\$ 6,621,457</u>

See accompanying notes.

SANSUM DIABETES RESEARCH INSTITUTE
STATEMENT OF CASH FLOWS
December 31, 2024
(with Comparative Totals for 2023)

	2024	2023
Cash Flows From Operating Activities		
Change in Net Assets	\$ (1,091,764)	\$ 5,201,713
Adjustments to reconcile increase in Net Assets to Cash Provided by (Used by) operating activities:		
Depreciation	157,400	107,809
Loss (Gain) on Investments	(1,064,329)	(885,014)
Loss on Disposal of Assets	505,779	-
Loss on Sale of Assets Held For Sale	50,000	-
Change in Cash Surrender Value of Life Insurance	(3,559)	(3,056)
Change in Value of Assets Held Under Split-Interest Agreements	236,793	460,632
Change in Value of Beneficial Interest in Split-Interest Agreements	(105,241)	(122,160)
Change in Right of Use Assets and Lease Liability, Net	8,184	-
Change in Value of Beneficial Interest in Perpetual Trusts	(95,279)	(129,835)
Change in operating assets and liabilities:		
Accounts Receivable	285,873	87,090
Contributions Receivable	4,564,297	(3,666,479)
Other Receivable	(1,069)	(906)
Prepaid Expenses	(22,928)	(2,845)
Accounts Payable	9,382	451,465
Accrued Expenses	105,646	27,804
Refundable Advances	200,000	-
Deferred Revenue	-	(55)
Liabilities Under Split Interest Agreements	(453,134)	(271,555)
Net Cash From Operating Activities	<u>3,286,051</u>	<u>1,254,608</u>
Cash Flows from Investing Activities		
Purchase of Fixed Assets	(1,103,731)	(543,194)
Proceeds from Sale of Assets Held for Sale	150,000	-
Proceeds from Sale of Securities	4,044,261	2,014,260
Purchase of Securities	(3,750,900)	(1,672,563)
Net Cash From Investing Activities	<u>(660,370)</u>	<u>(201,497)</u>
Net Change in Cash and Cash Equivalents	2,625,681	1,053,111
Cash and Cash Equivalents at Beginning of Year	5,643,920	4,590,809
Cash and Cash Equivalents at End of Year	<u>\$ 8,269,601</u>	<u>\$ 5,643,920</u>
Cash and Cash Equivalents Held		
Cash Held for Operating Activities	\$ 3,844,156	\$ 4,204,240
Cash and Cash Equivalents Designated for Capital Improvement	3,013,660	-
Cash and Cash Equivalents Restricted for Capital Improvements	1,198,010	1,234,949
Cash and Cash Equivalents Restricted for Long-Term Use	213,775	204,731
Total Cash and Cash Equivalents Held	<u>\$ 8,269,601</u>	<u>\$ 5,643,920</u>
Non-Cash Transactions		
Non-Cash Contribution of In-Kind Goods	\$ -	\$ 11,994
Non-Cash Sale of Assets Resulting in Note Receivable	<u>\$ 600,000</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, 2024 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, 2024 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.

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, 2024 assets held under the contracts include a reserve of \$7,132 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, 2024 that SDRI expects to recognize as revenue in the next 3 years is \$189,311, with \$189,311 in 2025, \$0 in 2026 and \$0 in 2027.

The beginning and ending contract balances are as follows:

	<u>2024</u>	<u>2023</u>
Receivables	<u>\$ 294,184</u>	<u>\$ 580,057</u>

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 \$18,719 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 special event activities and is reported as special event direct costs in the statement of activities. No significant amount donated services were received during the year ended December 31, 2024.

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

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Notes to Financial Statements

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
- Fair value of trusts and split interest agreements

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Notes to Financial Statements

Comparative Financial Statements

The amounts shown for the year ended December 31, 2023 in the accompanying financial statements are included to provide a basis for comparison with 2024 and present summarized totals only. Accordingly, the 2023 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, 2023, from which the summarized information was derived.

Note 2: Contributions Receivable

Unconditional contributions receivable estimated to be collected at December 31, 2024 follow:

2025	\$	888,292
2026		385,500
2027		180,000
2028		100,000
2029		100,000
Thereafter		<u>200,000</u>
		1,853,792
Less discount on long-term contributions receivable		<u>(149,388)</u>
Contributions Receivable, Net	\$	<u><u>1,704,404</u></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
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

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Notes to Financial Statements

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, 2024:

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	Total	Level 1	Level 2	Level 3
Investments:				
Corporate Bonds	\$ 3,118,812	\$ 3,118,812	\$ -	\$ -
Mutual Funds – Equities	615,543	615,543	-	-
ETF - Equities	6,123,602	6,123,602	-	-
Total Investments	<u>\$ 9,857,957</u>	<u>\$ 9,857,957</u>	<u>-</u>	<u>-</u>
Contributions Receivable	<u>\$ 1,704,404</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,704,404</u>
Assets Held Under Split-Interest Agreements:				
Cash and Money Market Funds (at Cost)	\$ 2,675	\$ 2,675	\$ -	\$ -
U.S. Obligations	323,281	323,281	-	-
ETF – Equities	167,205	167,205	-	-
Total Assets Held Under Split-Interest Agreements	<u>\$ 493,161</u>	<u>\$ 493,161</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest in Charitable Trusts Held by Others	<u>\$ 1,161,793</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,161,793</u>
Beneficial Interest in Perpetual Trusts	<u>\$ 1,609,806</u>	<u>\$ 1,609,806</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities Under Split-Interest Agreements	<u>\$ 7,132</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,132</u>

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Notes to Financial Statements

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, 2024:

Contributions Receivable:	
Balance at Beginning of Year	\$ 6,268,701
Additions	1,080,000
Collections	(5,702,633)
Fair Value Adjustments	<u>58,336</u>
Balance at End of Year	<u>\$ 1,704,404</u>
Beneficial Interest in Trusts Held by Others:	
Balance at Beginning of Year	\$ 1,056,552
Fair Value Adjustment	<u>105,241</u>
Balance at End of Year	<u>\$ 1,161,793</u>
Liabilities Under Split Interest Agreements:	
Balance at Beginning of Year	\$ 460,266
Distribution	(84,125)
Fair Value Adjustment	<u>(369,009)</u>
Balance at End of Year	<u>\$ 7,132</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:

Financial Assets at December 31, 2024

Cash and Cash Equivalents	\$ 3,844,156
Operating Investments	1,672,903
Accounts Receivable	294,184
Contributions Receivable, net	888,292
Other Receivable	<u>32,959</u>
Total Financial Assets Available for Current Use	<u>\$ 6,732,494</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 \$3,679,617 at December 31, 2024. In addition, the Board has designated \$3,013,660 for capital improvements.

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Notes to Financial Statements

Note 5: Life Insurance

SDRI is the beneficiary of life insurance policies with total death benefits of \$157,737 and cash surrender value of \$132,845 as of December 31, 2024. The increase of cash surrender value of \$3,559 for the year ended December 31, 2024 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, 2024 are summarized by major classifications as follows:

Land	\$ 351,758
Buildings and Improvements	2,045,698
Furniture and Equipment	291,527
Construction in Process	<u>1,311,495</u>
	4,000,478
Less Accumulated Depreciation	<u>(1,866,151)</u>
Fixed Assets, Net	<u>\$ 2,134,327</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 February 2026. Construction in process is not subject to depreciation until placed into service.

As part of the renovation of SDRI's offices SDRI wrote off assets with book value of \$505,779 which is reported in the accompanying statement of activities as a loss on disposal of assets.

Depreciation expense for the years ended December 31, 2024 and 2023 were \$157,400 and \$107,809, respectively.

Note 7: Right of Use Asset, Liability Under Operating Lease and Lease Commitment

In April 2024, the Organization entered into an agreement to lease its temporary offices located on Hollister Ave. in Santa Barbara, California. The lease terminates March 2026. Per the terms of the lease, the organization pays a base rent of \$13,094 per month plus operating costs. The Organization negotiated free rent for the month of April 2024.

As of December 31, 2024, the right-of-use (ROU) asset had a balance of \$182,726 and the related lease obligation of \$190,910, as shown on the statement of financial position. The lease asset and liability were calculated utilizing the risk-free discount rate (4.29%).

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Notes to Financial Statements

Maturities of operating lease liabilities as of December 31, 2024:

Year ending December 31,

2025	\$ 157,132
2026	<u>39,283</u>
Total Lease Payments	196,415
Less Discount	<u>(5,505)</u>
Present Value Lease Liability	<u>\$ 190,910</u>

Rent expense for the year ended June 30, 2024 and 2023 was \$172,342 and \$80,370, respectively.

Note 8: 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, 2024, there were no such donor stipulations. As a result of this interpretation, SDRI retains in perpetuity (a) the original value of initial and subsequent gift amount (including contributions receivable at fair value donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by SDRI in a manner consistent with the standard of prudence prescribed by UPMIFA. SDRI considers the following factors in making a determination to appropriate or accumulate Donor-Restricted Endowment Funds:

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

Funds with Deficiencies

From time to time, certain Donor-Restricted Endowment Funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). SDRI has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. No endowment funds were underwater at December 31, 2024.

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Notes to Financial Statements

Changes in Endowment Net Assets for the year ended December 31, 2024 are as follows:

	Without Donor Restriction	With Donor Restriction
Endowment Net Assets, Beginning of Year	\$ -	\$ 3,731,273
Contributions	-	-
Investment Income	-	384,419
Draw per Spending Policy	-	(266,465)
Endowment Net Assets, End of Year	\$ -	\$ 3,849,227

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 year ended December 31, 2024 SDRI appropriated income earned from certain endowment fund to fund research and operations.

Note 9: Net Assets with Donor Restrictions

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

Purpose Restrictions:

Research	\$ 1,480,475
Education	159,951
Capital Campaign	2,430,617
Building and Equipment	12,937
	\$ 4,083,980

Time Restricted for Future Period:

Contributions Receivable without Donor Purpose Restrictions	\$ 2,292
Beneficial Interests in Charitable Trusts Held by Others	1,161,793
	\$ 1,164,085

Beneficial Interest in Perpetual Trust	\$ 1,609,806
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Endowments:

Subject to Endowment Policy and Appropriation:

Research and Education	\$ 3,348,228
Internships	500,999
	\$ 3,849,227

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Notes to Financial Statements

Note 10: Board Designated Net Assets

At December 31, 2024 the Board of Directors designated the following amounts:

Operating Reserve	\$ 3,679,617
Capital Improvements	<u>3,013,660</u>
Total Board Designations	<u>\$ 6,693,277</u>

Note 11: 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, 2024 were \$101,552.

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 \$23,000 employee deferral, \$7,500 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 12: 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, 2024 SDRI held \$5,564,827 of cash deposits in excess of FDIC insurance limits.

At December 31, 2024 unconditional contributions receivable from five donors represented approximately 81% of the unconditional contributions receivable.

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

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Notes to Financial Statements

Note 13: Construction Loan and Line of Credit

In the year ended December 31, 2024 SDRI entered into a non-revolving commercial construction loan agreement with American Riviera Bank. The loan allows for a maximum drawdown of \$6,180,000 over an 18-month period. The loan matures in 5 years. The interest rate is fixed as 7.5% for the 60-month repayment term. The loan allows interest only payments for 36 months, including the drawdown period, followed by principal and interest payments for months 37-60 with an amortization period of 25 years. The purpose of the loan is to finance the construction costs related to the building remodel described in Note 6 of these financial statements. As of December 31, 2024 SDRI had not drawn on the construction loan and the loan did not have a balance.

In addition, SDRI has entered into a \$3,000,000 line of credit with American Riviera Bank. The line of credit matures November 2027 and is subject to a variable interest rate based on the prime rate known as the Wall Street Journal Prime Rate. All advances and unpaid interest are to be repaid November 2027. The line of credit is secured by deposit accounts, equipment and general intangibles of SDRI. As of December 31, 2024 SDRI had not drawn on the line of credit and the loan did not have a balance.

Note 14: Note Receivable

In December 2024, SDRI sold commercial real property that was donated to SDRI in 2022, for a total sale price of \$750,000. In connection with this sale, SDRI received cash proceeds of \$150,000, and provided seller financing to the Buyer in the amount of \$600,000. This financing is evidenced by a promissory note and secured by a deed of trust on the property and is recorded as a Note Receivable on SDRI's Statement of Financial Position. The note carries an interest rate of 5%, with interest-only monthly payments beginning August 1, 2025. The note matures December 13, 2027, at which time all outstanding principal, accrued and unpaid interest, and all other amounts outstanding are due and payable. SDRI also recognized a loss on the sale of \$50,000, based on the difference between the sale price and the carrying value of the asset.

Note 15: Subsequent Events

Management has evaluated subsequent events through July 22, 2025, the date the financial statements were available to be issued. There were no subsequent events requiring disclosure.