WILLIAM SANSUM DIABETES CENTER

FINANCIAL STATEMENTS

DECEMBER 31, 2016

WILLIAM SANSUM DIABETES CENTER
TABLE OF CONTENTS
December 31, 2016

DAMITZ
BROOKS
NIGHTINGALE
TURNER
MORRISSET

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
William Sansum Diabetes Center

We have audited the accompanying financial statements of William Sansum Diabetes Center (the Center) which comprise the statement of financial position as of December 31, 2016, and the related statements of activity, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of William Sansum Diabetes Center as of December 31, 2016, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited William Sansum Diabetes Center's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 26, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Damitz, Brooks, Nightingale, Turner & Morrisset

Damitz, Brooks, Nightingale,
Turner & Morrisset
August 25, 2017

WILLIAM SANSUM DIABETES CENTER
Statement of Financial Position
December 31, 2016
(With Summarized Comparative Totals for the Year 2015)

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	**Total 2016**	**Total 2015**
Cash and cash equivalents	$ 361,144	$ -	$ -	$ 361,144	$ 216,670
Accounts receivable	669,219	-	-	669,219	333,940
Bequests and pledges receivable, net	-	1,656,090	-	1,656,090	1,421,735
Investment income receivable	27,910	-	-	27,910	41,017
Prepaid expenses and deposits	42,959	-	-	42,959	27,951
Other assets	-	20,346	-	20,346	-
	1,101,232	1,676,436	-	2,777,668	2,041,313
Investments-					
Marketable securities					
Cash and cash equivalents held for investment	899,473	-	-	899,473	1,690,053
Annuity funds	168,008	-	-	168,008	174,655
Other	1,544,760	753,841	3,474,598	5,773,199	5,887,864
Marketable securities held in trust					
Assets held in split interest trusts	-	137,782	-	137,782	138,210
Non-trustee remainder interests in split interest trusts, net	-	208,902	3,679	212,581	192,830
Beneficial interest in perpetual trust	-	-	1,578,816	1,578,816	1,577,369
Cash surrender value of life insurance	110,176	-	-	110,176	107,667
	2,722,417	1,100,525	5,057,093	8,880,035	9,768,648
Property and equipment, net	1,722,241	-	-	1,722,241	1,823,434
	$ 5,545,890	$ 2,776,961	$ 5,057,093	$ 13,379,944	$ 13,633,395
Liabilities and Net Assets					
Liabilities					
Accounts payable	$ 57,263	$ -	$ -	$ 57,263	$ 59,512
Accrued liabilities	287,259	-	-	287,259	206,921
Annuities payable	74,669	-	-	74,669	128,542
Present value of future payments on split-interest trusts	-	39,076	-	39,076	47,118
Total liabilities	419,191	39,076	-	458,267	442,093
Net Assets					
Unrestricted					
Board designated	2,085,330	-	-	2,085,330	1,998,786
Other unrestricted net assets	3,041,369	-	-	3,041,369	3,515,618
Temporarily restricted	-	2,737,885	-	2,737,885	2,621,133
Permanently restricted	-	-	5,057,093	5,057,093	5,055,765
Total net assets	5,126,699	2,737,885	5,057,093	12,921,677	13,191,302
	$ 5,545,890	$ 2,776,961	$ 5,057,093	$ 13,379,944	$ 13,633,395

WILLIAM SANSUM DIABETES CENTER

Statement of Activity

Year Ended December 31, 2016

(With Summarized Comparative Totals for the Year 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
Revenues, Gains (Losses), and Other Support					
Contributions	$ 774,260	$ 123,998	$ -	$ 898,258	$ 419,920
Bequests	-	286,156	-	286,156	1,043,500
Annuities and actuarial adjustments	43,002	-	-	43,002	187,291
Clinical studies	898,158	-	-	898,158	432,978
Research grants	103,429	300,492	-	403,921	599,053
Rental income	103,200	-	-	103,200	98,448
Investment income	272,394	223,635	-	496,029	206,107
Change in the value of charitable trusts	-	27,484	(119)	27,365	21,763
Change in the value of beneficial interest in perpetual trust	-	-	1,447	1,447	(85,681)
Special events	126,820	-	-	126,820	-
Patient care fees	26,848	-	-	26,848	24,668
Other	57,894	-	-	57,894	153,245
Net assets released from restrictions	845,013	(845,013)	-	-	-
Total revenues, gains, and other support	3,251,018	116,752	1,328	3,369,098	3,101,292
Expenses					
Research	2,462,775	-	-	2,462,775	2,353,949
Management and general	723,008	-	-	723,008	1,007,955
Annuity program	395	-	-	395	7,168
Fundraising	389,420	-	-	389,420	446,972
Special events	63,125	-	-	63,125	-
Total expenses	3,638,723	-	-	3,638,723	3,816,044
Increase (decrease) in net assets	(387,705)	116,752	1,328	(269,625)	(714,752)
Net assets, beginning of year	5,514,404	2,621,133	5,055,765	13,191,302	13,906,054
Net assets, end of year	$ 5,126,699	$ 2,737,885	$ 5,057,093	$ 12,921,677	$ 13,191,302

The accompanying notes are an integral part of these financial statements.

WILLIAM SANSUM DIABETES CENTER
Statement of Functional Expenses
Year Ended December 31, 2016
(With Summarized Comparative Totals for the Year 2015)

	Program Services	Supporting Services			Total	
	Research and Education	Management and General	Annuity Program	Special Events and Fundraising	2016	2015
Salaries	$ 1,693,408	$ 296,059	$ -	$ 284,869	$ 2,274,336	$ 2,137,580
Payroll taxes and benefits	283,280	53,332	-	48,334	384,946	469,813
Total salaries and benefits	1,976,688	349,391	-	333,203	2,659,282	2,607,393
Outside services	105,092	105,092	-	18,277	228,461	368,731
Honoraria	-	-	-	-	-	750
Clinical Research	82,915	-	-	-	82,915	199,760
Supplies	83,797	13,846	-	3,852	101,495	72,645
Printing and postage	3,543	1,869	-	8,636	14,048	18,311
Dues and publications	11,734	3,630	-	8,719	24,083	8,336
Travel and meetings	30,459	18,560	-	3,083	52,102	39,327
Insurance	27,543	23,508	-	1,891	52,942	54,097
Occupancy	35,724	30,490	-	2,453	68,667	61,842
Telephone	10,006	8,540	-	687	19,233	9,900
Repairs and maintenance	3,115	34,613	-	-	37,728	38,103
Professional services	2,430	46,300	-	-	48,730	42,739
Investment management	653	18,028	363	1,093	20,137	32,523
Depreciation	79,728	68,047	-	5,475	153,250	159,922
Special events	-	-	-	63,125	63,125	-
Bad Debts	-	-	-	-	-	84,198
Miscellaneous	9,348	1,094	32	2,051	12,525	17,467
	$ 2,462,775	$ 723,008	$ 395	$ 452,545	$ 3,638,723	$ 3,816,044

The accompanying notes are an integral part of these financial statements.

WILLIAM SANSUM DIABETES CENTER
Statement of Cash Flows
Year Ended December 31, 2016
(With Summarized Comparative Totals for the Year 2015)

	2016	2015
Cash flows from operating activities		
Decrease in net assets	$ (269,626)	$ (714,752)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	153,250	159,922
Permanently restricted contribution revenue	-	(15,000)
Net realized gain on investments	(137,999)	(412,142)
Unrealized (gain) loss on investments	(109,092)	498,921
Change in remainder interests in trusts	(19,323)	(8,200)
Change in present value of future payments on split-interest trusts	(8,042)	(13,563)
Unrealized gain on life insurance policies	(2,645)	(3,201)
Earned portion of employee note receivable	-	90,000
Change in cash and cash equivalents held for investment	790,580	(834,658)
Change in beneficial interest in perpetual trusts	(1,447)	85,681
(Increase) decrease in:		
Accounts receivable	(335,279)	70,853
Bequests and pledges receivable	(234,355)	(1,023,666)
Investment income receivable	13,107	758
Prepaid expenses and deposits	(15,008)	(8,438)
Increase (decrease) in:		
Accounts payable	(2,249)	35,744
Accrued liabilities	80,338	29,254
Annuities payable	(53,873)	(235,997)
Net cash used by operating activities	(151,663)	(2,298,484)
Cash flows from investing activities		
Purchase of property and equipment	(52,056)	(20,893)
Purchase of investments	(196,596)	-
Library development	(2,645)	-
Website development	(17,701)	-
Proceeds from sales of investments	565,135	1,700,349
Net cash provided by investing activities	296,137	1,679,456
Cash flows from financing activities		
Permanently restricted contributions received in cash	-	15,000
Net cash provided by financing activities	-	15,000
Net increase (decrease) in cash and cash equivalents	144,474	(604,028)
Cash and cash equivalents, beginning of year	216,670	820,698
Cash and cash equivalents, end of year	$ 361,144	$ 216,670

The accompanying notes are an integral part of these financial statements.

WILLIAM SANSUM DIABETES CENTER
Notes to Financial Statements
December 31, 2016
(With Summarized Comparative Totals for 2015)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of William Sansum Diabetes Center (the Center) is presented to assist in understanding the Center's financial statements. The financial statements and notes are representations of the Center's 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.

Nature of Activities

The Center is a non-profit charitable corporation and has been at the forefront of helping to improve the lives of people living with diabetes since its creation in 1944 through research education and care. William Sansum, MD was the first physician in the United States to manufacture and administer insulin to a patient with diabetes in 1922. Today the Center has an established world reputation in the field of research, artificial pancreas and diabetes in pregnancy. The Center's office and research facilities are located in Santa Barbara, California.

Financial Statement Presentation

Information regarding the Center's financial position and activities is reported according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets generally result from unrestricted contributions and investment income less expenses incurred in providing services, fundraising and other administrative expenses.

Temporarily restricted net assets are classified as such based on donor stipulations that they be used in a later period or for a specific purpose. They also include unrestricted investment income on permanently restricted assets where the income has not yet been appropriated for expenditure. When a restriction expires or is met, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying statement of activities as net assets released from restriction.

Permanently restricted net assets consist of assets where the donor has imposed permanent restrictions on use of the principal of assets donated. The unrealized gains and investment income on funds not restricted by the donor are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA. (Note 9)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 funds and excludes cash and cash equivalents held for investment. Cash equivalents classified as investments include money market funds and certificates of deposit.

Contributed Services

During the years ended December 31, 2016 and 2015, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. Although many individuals volunteer their time and perform a variety of tasks that assist the Center in various activities these services do not meet the GAAP criteria for recognition as contributed services. The Center receives approximately 1,200 volunteer hours per year.

Prior-Year Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but are not presented by net assets class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended December 31, 2015 from which the summarized information was derived.

Accounts Receivable

The Center has made no provision for an allowance for doubtful accounts as of December 31, 2016 and 2015 based on management's analysis of the potential credit risk of funding agencies, historical trends, and other information. The Center does not require collateral from its funding agencies.

Contributions and Bequests and Pledges Receivable

Contributions are recorded when received. Bequests and pledges receivable are measured at fair value on the date a written unconditional promise to give is received from the donor. On this date, the fair value is measured using an income approach which incorporates inputs including estimated credit risk, estimated timing of cash receipts, and an appropriate present value discount factor.

Revenue Recognition – Clinical Studies

The Center recognizes revenues and related costs using the percentage-of-completion method measured by labor and direct costs incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Investments

In accordance with GAAP, the Center accounts for its marketable equity securities at fair value. Information about the unrealized gains is presented in Note 3. Information about fair value of investments is discussed in Note 4.

Fair Value Measurements

The Center follows Accounting Standard Codification (ASC) No. 820, *Fair Value Measurements and Disclosures,* issued by the Financial Accounting Standards Board (FASB). This standard defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. Pursuant to ASC No. 820, assets and liabilities recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure fair value. ASC No. 820 establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment, estimation, or other unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis.

Cash: Valued at face value. (Level 1)

Cash equivalents, certificates of deposit, U.S. government obligations and corporate bonds: Valued utilizing benchmark yields, reported trades or broker dealer quotes. (Level 2)

Equity securities, mutual and exchange traded funds: Valued utilizing quoted prices available in active markets for identical investments as of the reporting date. (Level 1)

Split-interest trusts future payments: Valued using life expectancy and discount factors obtained from external sources including the Internal Revenue Service. (Level 2)

Life insurance policies: Valued based on policy’s cash surrender value. Cash surrender values are determined using unobservable inputs. (Level 3)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Annuities payable: Valued using the reasonably commensurate value factors for single life annuities provided by the California Department of Insurance. (Level 2)

Beneficial interest in perpetual trust: Valued based on the assets held by the trust utilizing quoted prices available in active markets for identical investments as of the reporting date. These assets consist of cash and cash equivalents, bonds, mutual funds, and equity securities. The Center does not have the ability to control or direct the assets held by the trust and the interest in the trust is nonredeemable. (Level 3)

Property and Equipment

Property and equipment are stated at cost or, if acquired by gift, at the fair market value at the date of donation. Expenditures for building improvements and major renewals in excess of $500 that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

	Years
Specialized equipment	2
Buildings and improvements	15-40
Furniture and equipment	4-10

Functional Expenses

Direct expenses are charged to programs or supporting services in general categories based on specific identification. Overhead costs are allocated to programs or supporting services based on the relative ratio of square footage charged to each respective category.

Tax Exempt Status

The Center is an exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Revenue and Taxation Code, and is considered a public charity.

Uncertain Tax Positions

The Center's IRS Form 990 is subject to review and examination by Federal and state authorities. The Center is not aware of any activities that would jeopardize its tax-exempt status. The Center is not aware of any activities that are subject to tax on unrelated business income, excise or other taxes.

Use of Estimates

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Reclassifications

Certain items in the 2015 financial statements were reclassified in order to conform to the 2016 presentation.

Subsequent Events

Management has evaluated subsequent events through August 25, 2017, the date that the financial statements were available to be issued.

2. BEQUESTS AND PLEDGES RECEIVABLE

Unconditional promises to give are included in the financial statements as bequests and pledges receivable and contributions revenue of the appropriate net asset category. Future receipt of bequests and pledges receivable are expected to be collected each respective year as follows:

2017	1,308,829
2018	49,075
2019	13,925
2020	4,083
Thereafter	293,000
	1,668,912
Less present value discount	(12,822)
	$1,656,090

3. INVESTMENTS

As of December 31, 2016 and 2015, unrestricted, temporarily restricted and permanently restricted investments consist of the following:

December 31, 2016	Cost	Fair Value	Excess (Deficit) of Fair Value Over Cost
Cash and cash equivalents	$ 897,039	$ 899,473	$ 2,434
U.S. equity securities, mutual & exchange-traded funds	2,212,056	3,719,938	1,507,882
U.S. government obligations	92,683	98,741	6,058
U.S. corporate bonds	2,229,883	2,122,528	(107,355)
	$ 5,431,661	$ 6,840,680	$ 1,409,019

3. INVESTMENTS (Cont.)

December 31, 2015	Cost	Fair Value	Excess (Deficit) of Fair Value Over Cost
Cash and cash equivalents	$ 1,687,797	$ 1,690,053	$ 2,256
U.S. equity securities, mutual & exchange-traded funds	2,453,218	3,813,110	1,359,892
U.S. government obligations	116,805	119,070	2,265
U.S. corporate bonds	2,194,825	2,130,339	(64,486)
	$ 6,452,645	$ 7,752,572	$ 1,299,927

Investment income as of December 31, 2016 and 2015 consists of the following:

	2016	2015
Interest and dividends	$ 164,623	$ 208,152
Income from perpetual trust	81,670	81,533
Change in cash surrender value of life insurance	2,645	3,201
Net realized gain	137,999	412,142
Net change in unrealized gain (loss)	109,092	(498,921)
Total investment income	$ 496,029	$ 206,107

4. FAIR VALUE MEASUREMENTS

The following sets forth by level, within the fair value hierarchy, the Center's assets and liabilities at fair value as of December 31, 2016 and 2015:

December 31, 2016	Fair Value (Level 1)	Fair Value (Level 2)	Fair Value (Level 3)
Assets			
Investments			
Cash and cash equivalents	$ 194,595	$ 704,878	$ -
U.S. equity securities, mutual & exchange-traded funds	3,719,938	-	-
U.S. government obligations	-	98,741	-
U.S. corporate bonds	-	2,122,528	-
	3,914,533	2,926,147	-

4. FAIR VALUE MEASUREMENTS (Cont.)

Other Assets			
Cash – operating	361,144	-	-
Split interest trusts:			
Cash and cash equivalents	16,250	18,904	-
U.S. corporate bonds	-	268,149	-
Equities and mutual funds	361,972	-	-
Beneficial interest in perpetual trust	-	-	1,578,816
Life insurance policies	-	-	110,176
	739,366	287,053	1,688,992
Total Assets	$ 4,653,899	$ 3,213,200	$ 1,688,992
Liabilities			
Split interest trusts – trustee	$ -	$ 39,076	$ -
Split interest trusts – non-trustee	-	314,912	-
Annuities payable	-	74,669	-
Total Liabilities	$ -	$ 428,657	$ -

December 31, 2015	Fair Value (Level 1)	Fair Value (Level 2)	Fair Value (Level 3)
Assets			
Investments			
Cash and cash equivalents	$ 156,995	$ 1,553,058	$ -
U.S. equity securities, mutual & exchange-traded funds	3,813,110	-	-
U.S. government obligations	-	119,070	-
U.S. corporate bonds	-	2,130,339	-
	3,970,105	3,782,467	-
Other Assets			
Cash – operating	216,670	-	-
Split interest trusts:			
Cash and cash equivalents	15,048	13,549	-
U.S. corporate bonds	-	273,135	-
Equities and mutual funds	396,221	-	-
Beneficial interest in perpetual trust	-	-	1,577,369
Life insurance policies	-	-	107,667
	627,939	286,684	1,685,036
Total Assets	$ 4,598,044	$ 4,069,151	$ 1,685,036

4. FAIR VALUE MEASUREMENTS (Cont.)

Liabilities			
Split interest trusts – trustee	$ -	$ 47,118	$ -
Split interest trusts – non-trustee	-	366,913	-
Annuities payable	-	128,542	-
Total Liabilities	$ -	$ 542,573	$ -

Level 3 Activity

The table below sets forth a summary of changes in the fair value of the Center's level 3 assets for the year ended December 31, 2016.

	Cash Surrender Value of Life Insurance
Balance, beginning of year	$ 107,667
Realized loss	(136)
Increase in cash surrender value	2,645
Balance, end of year	$ 110,176

	Beneficial Interest in Perpetual Trust
Balance, beginning of year	$ 1,577,369
Unrealized gain	83,117
Distributions	(81,670)
Balance, end of year	$ 1,578,816

The table below sets forth a summary of changes in the fair value of the Center's level 3 assets for the years ended December 31, 2015.

	Cash Surrender Value of Life Insurance
Balance, beginning of year	$ 104,446
Increase in cash surrender value	3,201
Balance, end of year	$ 107,667

	Beneficial Interest in Perpetual Trust
Balance, beginning of year	$ 1,663,050
Unrealized loss	(4,148)
Distributions	(81,533)
Balance, end of year	$ 1,577,369

5. SPLIT INTEREST TRUST AGREEMENTS

The Center has a remainder interest in several charitable trusts which have been established by donors to provide income, generally for life, to designated beneficiaries. The remainder of the trust assets at maturity will be distributed to the Center and other remainder beneficiaries for the purposes designated in the trust agreements. Each year, beneficiaries receive trust income or a percentage of the trust's fair market value. The trusts are separate legal entities created under the provisions of Section 664 of the IRC.

If the Center is the trustee, the fair market value of the trust is recorded in the Center's statement of financial position and a corresponding liability is recorded for the net present value of the required payments as specified in the agreement. A contribution is recorded for the difference between the two amounts in the year received. At December 31, 2016, the fair market value of the trusts was $137,782 with a corresponding liability of $39,076. At December 31, 2015, the fair market value of these trusts was $138,210 with a corresponding liability of $47,118.

If the Center is not the trustee, the interest in the trust is recorded as the difference between the fair market value of the assets of the trust and the present value of required payments. At December 31, 2016, the net interest of the trusts was $212,580, which includes the fair market value of $527,492 and the corresponding liability of $314,911. At December 31, 2015, the net interest of these trusts was $192,830, which includes the fair market value of $559,743 and the corresponding liability of $366,913.

Any change in subsequent years in the fair market value of the trust assets or the required payment liability is recorded in the statement of activities as a change in the value of charitable trusts.

Trust assets and liabilities are stated at fair value. (Notes 1 and 4)

6. BENEFICIAL INTEREST IN PERPETUAL TRUST

The Center is the beneficiary of an interest in a perpetual trust. The Center is the sole recipient of the investment income from the trust. The income will be 5% to 8% of the average of the previous three years' fair market value of trust assets at December 31, paid at the trustee's discretion either annually or quarterly. The payments are restricted for research and education. The estimated fair value of the interest in the perpetual trust based on the fair market value of assets held in the trust was $1,578,816 and $1,577,369 at December 31, 2016 and 2015, respectively.

7. LIFE INSURANCE

The Center is the beneficiary of life insurance policies with total death benefits of $136,793 and a cash surrender value of $110,176 and $107,667 as of December 31, 2016 and 2015, respectively. The increase of cash surrender value of $2,645 and $3,201 for the years ended December 31, 2016 and 2015, respectively, have been recorded in investment income in the accompanying statement of activity.

8. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 and 2015 are summarized by major classifications as follows:

	2016	2015
Land	$ 351,758	$ 351,758
Buildings and improvements	3,612,744	3,592,990
Furniture and equipment	1,485,724	1,453,421
Artwork	6,647	6,647
Specialized equipment	18,585	18,585
	5,475,458	5,423,401
	(3,753,217)	(3,599,967)
	$ 1,722,241	$ 1,823,434

Depreciation expense for the years ended December 31, 2016 and 2015 was $153,250 and $159,922, respectively.

9. ENDOWMENT FUNDS

Endowment funds and related income restrictions are as follows at December 31,

2016

Income Restriction	Unrestricted	Temporarily Restricted	Permanently Restricted
None	$ -	$ 65,394	$ 660,636
Education and research	-	220,332	4,113,957
Internship	-	45,900	282,500
	$ -	$ 331,626	$ 5,057,093

2015

Income Restriction	Unrestricted	Temporarily Restricted	Permanently Restricted
None	$ -	$ 74,491	$ 660,636
Education and research	-	364,727	4,097,629
Internship	-	105,965	297,500
	$ -	$ 545,183	$ 5,055,765

9. ENDOWMENT FUNDS (Cont.)

The Board of Trustees of the Center has interpreted the 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. As a result of this interpretation, the Center classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The unrealized gains and endowment investment income on funds not restricted by the donor are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considered the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Center and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Center
(7) The investment policies of the Center

Endowment net asset composition by type of fund as of December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted - endowment funds	$ -	$ 331,626	$ 5,057,093	$ 5,388,719

Endowment net asset composition by type of fund as of December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted - endowment funds	$ -	$ 545,183	$ 5,055,765	$ 5,600,948

9. ENDOWMENT FUNDS (Cont.)

Changes in endowment net assets for the year ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets Beginning of year	$ -	$ 545,183	$ 5,055,765	$ 5,600,948
Investment return:				
Investment income	-	90,703	-	90,703
Net gain/(loss) (realized and unrealized)	-	132,932	1,328	134,260
Total investment return	-	223,635	1,328	224,963
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	(437,192)	-	(437,192)
Endowment net assets End of year	$ -	$ 331,626	$ 5,057,093	$ 5,388,719

Changes in endowment net assets for the year ended December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets Beginning of year	$ -	$ 1,514,686	$ 5,126,698	$ 6,641,384
Investment return:				
Investment income	-	90,301	-	90,301
Net gain/(loss) (realized and unrealized)	-	(38,865)	(85,933)	(124,798)
Total investment return	-	51,436	(85,933)	(34,497)
Contributions	-	15,000	15,000	30,000
Appropriation of endowment assets for expenditure	-	(1,035,939)	-	(1,035,939)
Endowment net assets End of year	$ -	$ 545,183	$ 5,055,765	$ 5,600,948

9. ENDOWMENT FUNDS (Cont.)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Center to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2016 or 2015.

Return Objectives and Risk Parameters

The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested approximately 60% in equities and 40% in fixed income securities. The equity investments are either exchange traded funds or index mutual funds. The fixed income investments are intermediate term and include U.S. Government obligations as well as U.S. corporations rated not less than ‘A’ by recognized rating agencies. The Center expects its endowment funds, over time, to provide an average rate of return of approximately 6% percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Center has a policy of appropriating for distribution each year a prudent portion of earnings from endowment assets. In establishing this policy, the Center considered the long-term expected return on its endowment. Accordingly, over the long term, the Center expects its spending policy to allow the Center to conduct diabetes research. This is consistent with the Center'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, 2016 and 2015 the Center appropriated income earned from certain endowment funds that had accumulated for the past eight years. The income was used to fund research and operations.

10. BOARD DESIGNATED NET ASSETS

The Board has designated unrestricted net assets to be expended for the following purposes at December 31:

	2016	2015
Board designated		
Operating reserve	$ 2,085,330	$ 1,998,786

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31:

	2016	2015
Portion of income from endowment funds subject to a time restriction under UPMIFA	$ 65,336	$ 74,491
Portion of income from endowment funds subject to a time restriction & a purpose restriction under UPMIFA-research, education & internship	266,232	470,692
Operations – unrestricted upon collection of bequests & other receivables	1,656,090	1,421,735
Research, education & internship activities	429,682	361,154
Present value of remainder interests in trusts	307,608	280,124
Equipment purchases	12,937	12,937
	$ 2,737,885	$ 2,621,133

12. PERMANENTLY RESTRICTED NET ASSETS

Certain net assets are permanently restricted, with income thereon to be expended for the following purposes at December 31:

Donor	Income Restriction	2016	2015
Various	Unrestricted	$ 660,636	$ 660,636
Burtness	Diabetes research	100,000	100,000
Burtness	Internship	25,000	25,000
Kroc	Education	50,000	50,000
Demott	Internship	10,000	10,000
Parsons	Internship	20,000	20,000
Close	Internship	20,000	20,000
Barker	Internship	222,500	222,500
McOmie	General research	2,370,141	2,370,260
Turner perpetual interest	General research & education	1,578,816	1,557,369
		$ 5,057,093	$ 5,055,765

13. EMPLOYEE BENEFITS

The Center maintains a defined contribution retirement plan for eligible employees with at least one year of employment. The plan is a qualified retirement plan under IRC Section 401(a). Contributions to the plan by the Center are discretionary. Contributions to the plan for the years ended December 31, 2016 and 2015 were $74,788 and $58,145, respectively.

The Center 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. Employees are eligible to participate as of their hire date.

The Center pays all administrative costs of the above plans.

14. CUSTOMER AND CREDIT RISK CONCENTRATIONS

Financial instruments that potentially subject the Center to credit risk consist principally of cash, cash held for investment, and accounts receivable.

The Center maintains bank accounts at three financial institutions. Deposits at each institution 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. The Center's uninsured cash balances totaled approximately $406,900 at December 31, 2016.

One funding agency accounted for 48% of the outstanding balance in accounts receivable as of December 31, 2016 and 52% as of December 31, 2015.

15. SUBSEQUENT EVENT

In May 2017, the Center received a pledge from a foundation in the amount of $3,000,000 for the naming of the laboratories. The pledge is payable in three $1,000,000 annual installments commencing in December 2017.