

Sanford Burnham Prebys Medical Discovery Institute

Financial Statements as of and for the Years Ended
June 30, 2016 and 2015, Supplemental Combining
Information as of and for the Year Ended June 30, 2016,
Supplemental Schedules for the Year Ended June 30,
2016, Reports on Compliance with Title 2 U.S. Code of
Federal Regulations Part 200 and State of Florida Rules
of the Auditor General Chapter 10.650, and Independent
Auditors' Reports

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

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INDEPENDENT AUDITORS' REPORT

To The Board of Trustees of
Sanford Burnham Prebys Medical Discovery Institute:

Report on the Financial Statements

We have audited the accompanying financial statements of Sanford Burnham Prebys Medical Discovery Institute (the "Institute"), formerly Sanford Burnham Medical Research Institute, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Institute'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 presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a 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 the Institute as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses for the year ended June 30, 2016, and the schedule of expenditures of federal awards and Florida state financial assistance for the year ended June 30, 2016, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and State of Florida Rules of the Auditor General Chapter 10.650, *Florida Single Audit Act Audits of Non-Profit and For-Profit Organizations*, respectively, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental combining information as of and for the year ended June 30, 2016, listed in the table of contents is presented for the purpose of additional analysis of the financial statements rather than to present the financial position and changes in net assets of the individual divisions of the Institute, and is not a required part of the financial statements. This supplemental combining information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental combining information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016, on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control over financial reporting and compliance.

Deloitte & Touche LLP

October 24, 2016

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 27,624,000	\$ 31,891,000
RESTRICTED CASH AND CASH EQUIVALENTS		750,000
SHORT-TERM INVESTMENTS	254,364,000	146,057,000
GRANTS RECEIVABLE	6,397,000	13,667,000
PREPAID AND OTHER ASSETS AND RECEIVABLES—Net	11,120,000	11,880,000
USE OF LONG-LIVED ASSETS	2,649,000	2,818,000
PLEDGES RECEIVABLE—Net	54,367,000	54,396,000
PROPERTY—Net	139,164,000	139,453,000
SECURED LOAN RECEIVABLE		3,958,000
LONG-TERM INVESTMENTS	<u>21,373,000</u>	<u>20,863,000</u>
TOTAL	<u>\$517,058,000</u>	<u>\$425,733,000</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable, accrued expenses, and other liabilities	\$ 18,662,000	\$ 21,187,000
Deferred revenue	124,792,000	7,053,000
Debt	<u>64,408,000</u>	<u>65,162,000</u>
Total liabilities	<u>207,862,000</u>	<u>93,402,000</u>
COMMITMENTS (Note 9)		
NET ASSETS:		
Unrestricted	138,988,000	138,824,000
Temporarily restricted	156,181,000	179,492,000
Permanently restricted	<u>14,027,000</u>	<u>14,015,000</u>
Total net assets	<u>309,196,000</u>	<u>332,331,000</u>
TOTAL	<u>\$517,058,000</u>	<u>\$425,733,000</u>

See notes to financial statements.

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016, WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Summarized
REVENUES:					
Federal grants and contracts	\$ 61,815,000	\$ -	\$ -	\$ 61,815,000	\$ 73,526,000
Private and other government grants	18,351,000			18,351,000	24,629,000
Contributions	2,723,000	31,255,000	12,000	33,990,000	147,885,000
Investment returns designated for current operations	2,161,000	583,000		2,744,000	1,717,000
Royalties, rent revenue, and other	5,156,000			5,156,000	6,990,000
Net assets released from restrictions	<u>54,716,000</u>	<u>(54,716,000)</u>			
Total revenues	<u>144,922,000</u>	<u>(22,878,000)</u>	<u>12,000</u>	<u>122,056,000</u>	<u>254,747,000</u>
EXPENSES:					
Research	117,407,000			117,407,000	124,581,000
General and administrative	23,112,000			23,112,000	25,273,000
Fund-raising	<u>1,830,000</u>			<u>1,830,000</u>	<u>2,048,000</u>
Total expenses	<u>142,349,000</u>	<u>-</u>	<u>-</u>	<u>142,349,000</u>	<u>151,902,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	2,573,000	(22,878,000)	12,000	(20,293,000)	102,845,000
INVESTMENT RETURN REDUCED BY THE PORTION OF CUMULATIVE NET APPRECIATION DESIGNATED FOR CURRENT OPERATIONS	<u>(2,409,000)</u>	<u>(433,000)</u>		<u>(2,842,000)</u>	<u>(2,222,000)</u>
CHANGE IN NET ASSETS	164,000	(23,311,000)	12,000	(23,135,000)	100,623,000
NET ASSETS—Beginning of year	<u>138,824,000</u>	<u>179,492,000</u>	<u>14,015,000</u>	<u>332,331,000</u>	<u>231,708,000</u>
NET ASSETS—End of year	<u>\$ 138,988,000</u>	<u>\$ 156,181,000</u>	<u>\$ 14,027,000</u>	<u>\$ 309,196,000</u>	<u>\$ 332,331,000</u>

See notes to financial statements.

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Federal grants and contracts	\$ 73,526,000	\$ -	\$ -	\$ 73,526,000
Private and other government grants	24,629,000			24,629,000
Contributions	3,005,000	142,898,000	1,982,000	147,885,000
Investment returns designated for current operations	1,240,000	477,000		1,717,000
Royalties, rent revenue, and other	6,990,000			6,990,000
Net assets released from restrictions	<u>98,112,000</u>	<u>(98,112,000)</u>	<u> </u>	<u> </u>
Total revenues	<u>207,502,000</u>	<u>45,263,000</u>	<u>1,982,000</u>	<u>254,747,000</u>
EXPENSES:				
Research	124,581,000			124,581,000
General and administrative	25,273,000			25,273,000
Fund-raising	<u>2,048,000</u>	<u> </u>	<u> </u>	<u>2,048,000</u>
Total expenses	<u>151,902,000</u>	<u> </u>	<u> </u>	<u>151,902,000</u>
EXCESS OF REVENUES OVER EXPENSES	55,600,000	45,263,000	1,982,000	102,845,000
INVESTMENT RETURN REDUCED BY THE PORTION OF CUMULATIVE NET APPRECIATION DESIGNATED FOR CURRENT OPERATIONS				
	<u>(1,634,000)</u>	<u>(588,000)</u>	<u> </u>	<u>(2,222,000)</u>
CHANGE IN NET ASSETS	53,966,000	44,675,000	1,982,000	100,623,000
NET ASSETS—Beginning of year	<u>84,858,000</u>	<u>134,817,000</u>	<u>12,033,000</u>	<u>231,708,000</u>
NET ASSETS—End of year	<u>\$ 138,824,000</u>	<u>\$ 179,492,000</u>	<u>\$ 14,015,000</u>	<u>\$ 332,331,000</u>

See notes to financial statements.

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (23,135,000)	\$ 100,623,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized losses on investments	2,865,000	2,156,000
Realized/unrealized loss on interest rate swap	362,000	27,000
Depreciation and amortization	14,668,000	15,181,000
Accretion of debt premium	(844,000)	(54,000)
Pledges restricted for endowment		(1,982,000)
Contributions restricted for property acquisition	(265,000)	(3,258,000)
Provision for doubtful pledges		3,322,000
Gifts in kind		(33,000)
Changes in assets and liabilities:		
Grants receivable	7,270,000	(1,103,000)
Prepaid and other assets and receivables	948,000	(1,229,000)
Pledges receivable	(216,000)	(49,243,000)
Accounts payable, accrued expenses, and other liabilities	(5,836,000)	2,980,000
Deferred revenue	<u>117,739,000</u>	<u>(13,277,000)</u>
Net cash provided by operating activities	<u>113,556,000</u>	<u>54,110,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(594,381,000)	(61,921,000)
Proceeds from sales of investments	482,699,000	15,464,000
Decrease (increase) in restricted cash and cash equivalents	750,000	(40,000)
Purchases of property, plant, and equipment	<u>(9,473,000)</u>	<u>(7,195,000)</u>
Net cash used in investing activities	<u>(120,405,000)</u>	<u>(53,692,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(66,465,000)	(2,145,000)
Proceeds from issuance of debt	69,089,000	
Payment of debt issuance costs	(552,000)	
Cash received restricted for endowment	510,000	500,000
Cash received restricted for property acquisition		<u>3,228,000</u>
Net cash provided by financing activities	<u>2,582,000</u>	<u>1,583,000</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,267,000)	2,001,000
CASH AND CASH EQUIVALENTS—Beginning of year	<u>31,891,000</u>	<u>29,890,000</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 27,624,000</u>	<u>\$ 31,891,000</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—		
Cash paid during the year for interest	<u>\$ 5,305,000</u>	<u>\$ 3,355,000</u>
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Fixed asset acquisitions included in accounts payable	<u>\$ 3,743,000</u>	<u>\$ 794,000</u>
Pledged contribution restricted for endowment	<u>\$ -</u>	<u>\$ 1,492,000</u>

See notes to financial statements.