

Sanford Burnham Prebys Medical Discovery Institute

Financial Statements as of and for the Years Ended
June 30, 2017 and 2016, Supplemental Combining
Information as of and for the Year Ended June 30, 2017,
Supplemental Schedules for the Year Ended June 30,
2017, 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"), which comprise the statements of financial position as of June 30, 2017 and 2016, 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.

Auditors' 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 audits 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, 2017 and 2016, 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

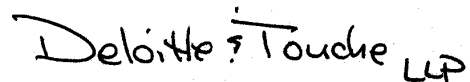
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards and Florida State financial assistance for the year ended June 30, 2017, 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, is 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 schedule of functional expenses for the year ended June 30, 2017, and the supplemental combining information as of and for the year ended June 30, 2017, listed in the table of contents are presented for the purpose of additional analysis, and are 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 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 26, 2017, 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.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, slightly slanted style.

October 26, 2017

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 25,974,000	\$ 27,624,000
GRANTS RECEIVABLE	8,719,000	6,397,000
PREPAID AND OTHER ASSETS AND RECEIVABLES—Net	10,187,000	11,120,000
USE OF LONG-LIVED ASSETS	2,480,000	2,649,000
PLEDGES RECEIVABLE—Net	27,790,000	54,367,000
INVESTMENTS	272,400,000	275,737,000
PROPERTY—Net	<u>134,502,000</u>	<u>139,164,000</u>
TOTAL	<u>\$ 482,052,000</u>	<u>\$ 517,058,000</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable, accrued expenses, and other liabilities	\$ 16,962,000	\$ 18,662,000
Deferred revenue	96,699,000	124,792,000
Debt	<u>61,201,000</u>	<u>64,408,000</u>
Total liabilities	<u>174,862,000</u>	<u>207,862,000</u>
COMMITMENTS (Note 9)		
NET ASSETS:		
Unrestricted	180,036,000	138,988,000
Temporarily restricted	113,100,000	156,181,000
Permanently restricted	<u>14,054,000</u>	<u>14,027,000</u>
Total net assets	<u>307,190,000</u>	<u>309,196,000</u>
TOTAL	<u>\$ 482,052,000</u>	<u>\$ 517,058,000</u>

See notes to financial statements.

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017, WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Summarized
REVENUES:					
Federal grants and contracts	\$ 66,416,000	\$ -	\$ -	\$ 66,416,000	\$ 61,815,000
Private and other government grants	25,321,000			25,321,000	18,351,000
Contributions	2,752,000	28,883,000	27,000	31,662,000	33,990,000
Investment returns designated for current operations	3,484,000	524,000		4,008,000	2,744,000
Royalties, rent revenue, and other	5,150,000			5,150,000	5,156,000
Net assets released from restrictions	<u>73,334,000</u>	<u>(73,334,000)</u>		<u>-</u>	
Total revenues	<u>176,457,000</u>	<u>(43,927,000)</u>	<u>27,000</u>	<u>132,557,000</u>	<u>122,056,000</u>
EXPENSES:					
Research	119,850,000			119,850,000	117,407,000
General and administrative	25,405,000			25,405,000	23,112,000
Fund-raising	<u>1,575,000</u>			<u>1,575,000</u>	<u>1,830,000</u>
Total expenses	<u>146,830,000</u>	<u>-</u>	<u>-</u>	<u>146,830,000</u>	<u>142,349,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	29,627,000	(43,927,000)	27,000	(14,273,000)	(20,293,000)
INVESTMENT RETURN REDUCED BY THE PORTION OF CUMULATIVE NET APPRECIATION DESIGNATED FOR CURRENT OPERATIONS	<u>11,421,000</u>	<u>846,000</u>		<u>12,267,000</u>	<u>(2,842,000)</u>
CHANGE IN NET ASSETS	41,048,000	(43,081,000)	27,000	(2,006,000)	(23,135,000)
NET ASSETS—Beginning 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>
NET ASSETS—End of year	<u>\$ 180,036,000</u>	<u>\$ 113,100,000</u>	<u>\$ 14,054,000</u>	<u>\$ 307,190,000</u>	<u>\$ 309,196,000</u>

See notes to financial statements.

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Federal grants and contracts	\$ 61,815,000	\$ -	\$ -	\$ 61,815,000
Private and other government grants	18,351,000			18,351,000
Contributions	2,723,000	31,255,000	12,000	33,990,000
Investment returns designated for current operations	2,161,000	583,000		2,744,000
Royalties, rent revenue, and other	5,156,000			5,156,000
Net assets released from restrictions	<u>54,716,000</u>	<u>(54,716,000)</u>		<u>-</u>
Total revenues	<u>144,922,000</u>	<u>(22,878,000)</u>	<u>12,000</u>	<u>122,056,000</u>
EXPENSES:				
Research	117,407,000			117,407,000
General and administrative	23,112,000			23,112,000
Fund-raising	<u>1,830,000</u>			<u>1,830,000</u>
Total expenses	<u>142,349,000</u>	<u>-</u>	<u>-</u>	<u>142,349,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	2,573,000	(22,878,000)	12,000	(20,293,000)
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>
CHANGE IN NET ASSETS	164,000	(23,311,000)	12,000	(23,135,000)
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>
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>

See notes to financial statements.

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (2,006,000)	\$ (23,135,000)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized/unrealized (gains) losses on investments	(13,146,000)	2,865,000
Realized/unrealized loss on interest rate swap		362,000
Depreciation and amortization	13,406,000	14,668,000
Accretion of debt premium	(402,000)	(844,000)
Contributions restricted for property acquisition	(237,000)	(265,000)
Provision for doubtful pledges	(1,891,000)	
Changes in assets and liabilities:		
Grants receivable	(2,322,000)	7,270,000
Prepaid and other assets and receivables	933,000	948,000
Pledges receivable	28,174,000	(216,000)
Accounts payable, accrued expenses, and other liabilities	1,858,000	(5,836,000)
Deferred revenue	<u>(28,093,000)</u>	<u>117,739,000</u>
Net cash (used in) provided by operating activities	<u>(3,726,000)</u>	<u>113,556,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(191,930,000)	(594,381,000)
Proceeds from sales of investments	208,413,000	482,699,000
Decrease in restricted cash and cash equivalents		750,000
Purchases of property, plant, and equipment	<u>(12,023,000)</u>	<u>(9,473,000)</u>
Net cash provided by (used in) in investing activities	<u>4,460,000</u>	<u>(120,405,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(2,915,000)	(66,465,000)
Proceeds from issuance of debt		69,089,000
Payment of debt issuance costs		(552,000)
Cash received restricted for endowment	<u>531,000</u>	<u>510,000</u>
Net cash (used in) provided by financing activities	<u>(2,384,000)</u>	<u>2,582,000</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,650,000)	(4,267,000)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>27,624,000</u>	<u>31,891,000</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 25,974,000</u>	<u>\$ 27,624,000</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid during the year for interest		
	<u>\$ 2,442,000</u>	<u>\$ 5,305,000</u>
NONCASH INVESTING AND FINANCING ACTIVITIES—Fixed asset acquisitions included in accounts payable		
	<u>\$ 185,000</u>	<u>\$ 3,743,000</u>

See notes to financial statements.

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1. SIGNIFICANT ACCOUNTING POLICIES

General—Sanford Burnham Prebys Medical Discovery Institute (the “Institute”), formerly Sanford Burnham Medical Research Institute, conducts basic biomedical research and is funded primarily by grants from agencies of the U.S. government. The Institute is a California not-for-profit public benefit corporation, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Funding—Grant applications are submitted to various federal and nonfederal agencies. Those applications that are funded are typically awarded for a four-year period, with the amount awarded negotiated in advance. Grant revenue is recognized as unrestricted revenue when the research costs are incurred. Unspent grant funds received in advance of the related expenditure are reported as deferred revenue.

The Institute established an operating division at Lake Nona in Orlando, Florida in 2007. Funding is provided by a \$155 million grant, plus interest, from the State of Florida to be disbursed in varying amounts ranging from \$4.4 million to \$45.4 million per year over a 10-year period commencing in March 2007, conditioned on compliance with certain covenants and conditions. This grant was accounted for as a contribution under accounting principles generally accepted in the United States of America (GAAP). Grant funds from the State of Florida are reported as temporarily restricted revenue with a corresponding release from restriction when expended. Unspent grant funds from the State of Florida are reflected as temporarily restricted net assets until spent.

Certain local governments and private entities (the “Funding Parties”) agreed to provide temporary space, land, and up to \$81 million in funding for the development of the Institute’s temporary and permanent facilities, including future improvements, located in the Lake Nona area of the city of Orlando. During fiscal year 2009, \$76.8 million was recognized as temporarily restricted revenue related to the permanent facilities and is being recognized as unrestricted revenue ratably over the life of the 25-year land lease, with 15 years remaining as of June 30, 2017.

The grant for the use of the land for the Lake Nona permanent site was reflected as use of long-lived assets and deferred revenue (until resolution of uncertainties about the project were resolved), which are amortized, ratably, over the life of the 25-year lease and reflected as unrestricted expense and revenue. The Funding Parties hold a joint leasehold mortgage in the permanent site, ground lease, and permanent facility. During fiscal year 2009, with the occupancy of the building, deferred revenue of \$3,874,000 was recognized as temporarily restricted revenue and is being recognized as unrestricted revenue ratably over the remaining life of the lease. As of June 30, 2017 and 2016, \$2,480,000 and \$2,649,000, respectively, remained in temporarily restricted net assets.

The Institute received a contribution to fund joint scientific faculty and research and equipment at Lake Nona totaling \$27 million. During fiscal year 2009, the agreement was amended to revise the payment terms and allow the Institute greater flexibility related to use of the funds. The payment of the remaining funds will continue through fiscal year 2022 with \$1.75 million

being paid each year except for the last year when \$1.25 million will be paid. Receipts under this revised agreement are recorded as unrestricted revenue as conditions are met and funds become receivable. In fiscal years 2017 and 2016, certain conditions were met and \$1.75 million was received and recognized as revenue in each year.

Contributions—Contributions are recorded as revenue at their present value when unconditionally pledged or when received, whichever is earlier. The discounted values of recorded pledges are accreted to their full values, using a risk-free interest rate, during the period beginning when the pledge is made until the time it is expected to be paid.

Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as either temporarily or permanently restricted, depending on the nature of the donor's restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions, whose restrictions are met in the same reporting period, are reported as temporarily restricted contributions with a corresponding release from restrictions.

When an expense is incurred for which both restricted and unrestricted net assets are available, it is the Institute's policy to first exhaust restricted resources and then apply unrestricted resources.

The Institute reports gifts of equipment as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Institute reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash and Cash Equivalents—Cash and cash equivalents represent the Institute's working capital and include cash on hand and other highly liquid investments having an original maturity of less than three months. Cash and cash equivalents may include cash in bank accounts and investments in money market funds.

Prepaid and Other Assets and Receivables—Included in prepaid and other assets and receivables is \$2,248,000 and \$2,668,000 as of June 30, 2017 and 2016, respectively, for loans to employees for housing relocation. These loans are secured by deeds of trust and incur interest at rates ranging from 0% to 2%. For each loan with a below-market interest rate, the Institute uses an imputed interest rate and records employee benefit expense and interest revenue over the life of the loan.

Use of Long-Lived Assets—Use of long-lived assets relates to the fair value of land provided to the Institute for its permanent facility to use to conduct research at its operating division in Florida. Use of the land is amortized over the term of the agreement of 25 years.

Pledges Receivable—The Institute records pledges receivable, net of allowances for uncollectible amounts, when there is sufficient evidence in the form of verifiable documentation that an unconditional promise was made. The Institute discounts pledges that are expected to be collected after one year, using the risk-free rate of return at the time of the pledge. The discount is recognized as contribution revenue in future years, as the discount is amortized using an effective yield over the duration of the pledges. The provision for uncollectible amounts, if any, is calculated based on specific identification of potentially uncollectible pledges.

Investments—Investments are carried at fair value, which is generally determined by management based on quoted market prices provided by independent outside valuation services.

Investments for which readily determinable market values do not exist are recorded at estimated fair value as determined by the Institute, with the assistance of fund managers, the general partners, or third-party service providers, using methods and assumptions the Institute considers appropriate based on its understanding of the underlying characteristics of the investments.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of volatility associated with certain investment securities, it is probable that changes in the values of investment securities will occur from time to time and such changes could materially affect the amounts reported in the accompanying statements of financial position.

Property and Depreciation—Purchased property is recorded at cost. Donated property is recorded at fair value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Buildings and improvements	7–50
Furniture and equipment	3–5

The Institute, using its best estimates based on reasonable and supportable assumptions and projections, reviews long-lived assets for impairment in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360, *Property, Plant, and Equipment*. As of June 30, 2017, no impairment adjustments were required to be reported under FASB ASC 360.

Deferred Rent—The Institute has various lease agreements in place, which have resulted in a deferred rent balance related to a free rent period of \$1,477,000 and \$1,630,000 as of June 30, 2017 and 2016, respectively. Deferred rent is included in accounts payable, accrued expenses, and other liabilities.

Deferred Revenue—The Institute records advance payments on conditional pledges, grants, and contracts to be spent in future years as deferred revenue. See Notes 4 and 6.

Spending-Rate Policy—The Institute utilizes a spending-rate policy and formula under which the Board of Trustees (the “Board”) designates a predetermined portion of the Institute’s long-term investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. Under the Institute’s

spending-rate policy, 5% of the average of the market value as of December 31 of the previous three years is appropriated. Accordingly, the Institute has presented its investment return separated between the amount designated for current operations and the amount in excess of (or less than) the amount designated for current operations. Management believes that this presentation better presents the Institute's change in net assets and results of operations, as permitted by ASC 958-320, *Not-for-Profit Entities—Investments*, and emphasizes the Institute's use of a prudent approach to determining the portion of cumulative investment returns that can be used to support operations.

Use of Estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements—In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. This standard supersedes most other revenue recognition guidance, including industry-specific guidance. ASU No. 2014-09 is effective for accounting periods beginning after December 15, 2017. ASU No. 2015-14 deferred the effective date of this statement to accounting periods beginning after December 15, 2018. Management of the Institute is in the process of evaluating the impact that the adoption of ASU No. 2014-09, as amended, will have on the financial statements.

In May 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The ASU removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value per share as a practical expedient provided by FASB ASC 820, *Fair Value Measurement*. Disclosures about investments in certain entities that calculate net asset value per share are limited under this ASU to investments for which the entity has elected to estimate the fair value using the net asset value practical expedient. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Management has elected to early adopt this standard as reflected in Note 2 to the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The ASU requires lessees to recognize assets and liabilities arising from leases on the balance sheet. Under the ASU, a lessee should recognize in the statements of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management of the Institute is in the process of evaluating the impact that the adoption of ASU No. 2016-02 will have on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities—Presentation of Financial Statements for Not-for-Profit Entities*. The ASU makes several improvements to current reporting requirements to provide more useful information to donors, grantors, creditors, and other users of the financial statements. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. Management of the Institute is in the process of evaluating the impact that the adoption of ASU No. 2016-14 will have on the financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments*. The ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice of how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. Management of the Institute is in the process of evaluating the impact that the adoption of ASU No. 2016-15 will have on the financial statements.

Subsequent Events—In accordance with ASC 855, *Subsequent Events*, the Institute evaluated subsequent events through October 26, 2017, the date the financial statements were available to be issued.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820, *Fair Value Measurements and Disclosures*, defines “fair value” as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2—Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data as of the reporting date.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

The Institute’s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The following is a general description of the valuation methodologies used for financial assets and liabilities measured at fair value, including the general classification of such assets and liabilities pursuant to the valuation hierarchy:

Marketable Securities—Marketable securities include cash and cash equivalents, U.S. Treasury notes, listed equity and bond market mutual funds, and exchange-traded equity securities held in professionally managed separate accounts, with valuation based upon quoted prices in active markets. Each of the mutual and managed funds are invested in a diverse portfolio of underlying investments, including U.S. securities, global securities, commercial paper, U.S. Treasuries, and U.S. government securities. The valuation methodologies used for financial assets measured at fair value for fixed-income and equity securities (including both mutual and managed funds) are based on Level 1 inputs determined by quoted prices in active markets.

In addition, marketable securities include corporate bond funds. Fair value for these funds is primarily determined by over-the-counter secondary market broker quotes, which are observable market inputs. These securities are classified as Level 2.

Investments Valued at NAV—Investments valued using Net Asset Value (NAV) practical expedient include total return hedge funds, absolute return hedge funds, and private equity limited partnerships (LPs).

The underlying investments in the hedge funds consist of equity futures contracts, asset-backed securities, and exchange-traded funds with varying redemption terms and conditions and are valued using the net asset value per share. These have an initial lockup period of one year, and offer a quarterly redemption frequency with a 60-day notice period.

The private equity fund is a long-term fund-of-funds investment that consists of a variety of partnership vehicles, including venture capital; buyout; debt funds; real estate; and mining, energy, and infrastructure funds. Private equity is implemented via LP by a professional manager that invests capital over a four- to five-year period and distributes capital over a three- to 10-year period. The Institute has an unfunded commitment of \$5.9 million as of June 30, 2017.

Certain of the Institute's assets and liabilities are reported at fair value in the accompanying statements of financial position. Fair value measurement information for assets accounted for at fair value on a recurring basis as of June 30, 2017, is as follows:

	<u>Fair Value Measurements Using</u>		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Investments in the fair value hierarchy:			
Marketable Securities:			
Cash and cash equivalents	\$ 28,653,000	\$ -	\$ 28,653,000
U.S. government obligations	46,085,000		46,085,000
Corporate bond funds		44,076,000	44,076,000
Fixed income securities—mutual and managed funds	34,870,000		34,870,000
Equity securities:			
Mutual and managed funds	92,605,000		92,605,000
Commodities funds	8,225,000		8,225,000
Real estate funds	<u>2,329,000</u>		<u>2,329,000</u>
Total investments in the hierarchy	<u>212,767,000</u>	<u>44,076,000</u>	<u>256,843,000</u>
Investments valued at NAV:			
Absolute return hedge funds			4,579,000
Total return hedge funds			10,846,000
Private equity LPs			<u>132,000</u>
			<u>15,557,000</u>
Total	<u>\$ 212,767,000</u>	<u>\$ 44,076,000</u>	<u>\$ 272,400,000</u>

Fair value measurement information for assets accounted for at fair value on a recurring basis as of June 30, 2016, is as follows:

	<u>Fair Value Measurements Using</u>		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Investments in the fair value hierarchy:			
Marketable Securities:			
Cash and cash equivalents	\$ 46,499,000	\$ -	\$ 46,499,000
U.S. government obligations	98,776,000		98,776,000
Corporate bond funds		5,708,000	5,708,000
Fixed income securities—mutual and managed funds	35,764,000		35,764,000
Equity securities:			
Mutual and managed funds	65,650,000		65,650,000
Commodities funds	9,913,000		9,913,000
Real estate funds	<u>1,627,000</u>		<u>1,627,000</u>
Total investments in the hierarchy	<u>258,229,000</u>	<u>5,708,000</u>	<u>263,937,000</u>
Investments valued at NAV:			
Absolute return hedge funds			3,500,000
Total return hedge funds			<u>8,300,000</u>
Total investments valued at NAV			<u>11,800,000</u>
Total	<u>\$ 258,229,000</u>	<u>\$ 5,708,000</u>	<u>\$ 275,737,000</u>

There were no transfers in or out of Levels 1, 2, or 3 during the years ended June 30, 2017 and 2016.

The estimated fair values of cash and cash equivalents, receivables, accounts payable, accrued expenses, and other liabilities approximate their individual carrying amounts due to the short-term nature of these instruments.

3. INVESTMENTS

The Institute's investment portfolio is managed by independent professional investment managers subject to oversight by a committee of the Board. Certain of these managers are authorized to invest a limited portion of the Institute's portfolio in alternative investments to increase portfolio diversification and return and to reduce volatility.

Investments as of June 30, 2017 and 2016, are summarized as follows:

	2017	2016
Cash and cash equivalents	\$ 28,653,000	\$ 46,499,000
U.S. government obligations	46,085,000	98,776,000
Corporate bond funds	44,076,000	5,708,000
Fixed income securities—mutual and managed funds	34,870,000	35,764,000
Equity securities:		
Mutual and managed funds	92,605,000	65,650,000
Commodities funds	8,225,000	9,913,000
Real estate funds	2,329,000	1,627,000
Growth assets:		
Absolute return hedge funds	4,579,000	3,500,000
Total return hedge funds	10,846,000	8,300,000
Private equity LPs	<u>132,000</u>	<u> </u>
 Total investments	 <u>\$ 272,400,000</u>	 <u>\$275,737,000</u>

Investments above include investments of \$9,409,000 and \$8,709,000 as of June 30, 2017 and 2016, respectively, that the Board of the Institute designated as quasi-endowment.

State Law allows the Board to appropriate so much of the net appreciation as is prudent considering the Institute's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Under the Institute's endowment spending policy, effective fiscal year 2010, 5% of the average of the fair value at December 31 of the previous three years is appropriated to support current operations. The following schedule summarizes the investment return and its classification in the statements of activities.

Investment return for the years ended June 30, 2017 and 2016, is composed of the following:

	2017		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 2,774,000	\$ 370,000	\$ 3,144,000
Net realized and unrealized gains	12,131,000	1,015,000	13,146,000
Management fees	<u> </u>	<u>(15,000)</u>	<u>(15,000)</u>
 Total investment return	 14,905,000	 1,370,000	 16,275,000
 Investment returns designated for current operations	 <u>(3,484,000)</u>	 <u>(524,000)</u>	 <u>(4,008,000)</u>
 Investment return reduced by the portion of cumulative net appreciation designated for current operations	 <u>\$11,421,000</u>	 <u>\$ 846,000</u>	 <u>\$12,267,000</u>

	2016		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 2,462,000	\$ 324,000	\$ 2,786,000
Net realized and unrealized losses	(2,709,000)	(156,000)	(2,865,000)
Management fees	<u>(1,000)</u>	<u>(18,000)</u>	<u>(19,000)</u>
 Total investment return	 (248,000)	 150,000	 (98,000)
 Investment returns designated for current operations	 <u>(2,161,000)</u>	 <u>(583,000)</u>	 <u>(2,744,000)</u>
 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>

4. PLEDGES RECEIVABLE

Pledges receivable as of June 30, 2017 and 2016, are as follows:

	2017	2016
Gross amounts due in:		
Less than one year	\$ 27,203,000	\$ 27,230,000
One to five years	2,945,000	27,896,000
More than five years	<u> </u>	<u>2,000</u>
 Gross pledges receivable	 30,148,000	 55,128,000
 Less present value discount	 (570,000)	 (761,000)
Less allowance for uncollectible pledges	<u>(1,788,000)</u>	<u> </u>
 Total	 <u>\$ 27,790,000</u>	 <u>\$ 54,367,000</u>

Discount rates ranged from 0.75% to 2% for both 2017 and 2016.

Pledges receivable, net of present value discount, include permanently restricted pledges of \$510,000 and \$1,014,000 as of June 30, 2017 and 2016, respectively.

The Institute received contributions from trustees of \$696,000 and \$3,529,400 for the years ended June 30, 2017 and 2016, respectively.

During the year ended June 30, 2014, the Institute received a conditional pledge of \$275,000,000, payable over a period of 10 years, from a donor. The pledge was amended in December 2015 to eliminate certain conditions that both the Institute and donor agreed would not occur, which resulted in a \$75,000,000 reduction of the original conditional pledge. The amendment also included prepayment terms for the outstanding amount of the pledge. The Institute received prepayment in full satisfaction of the terms of the pledge

in January 2016; \$113,523,000 of the prepayment was recorded as deferred revenue relating to future annual milestones. All related investment earnings on the deferred balance is recorded as deferred revenue.

This conditional pledge is restricted for various uses and is contingent upon the Institute meeting certain periodic milestones and taking certain actions throughout the term of the pledge, some of which may or may not occur. Due to the conditional nature of this pledge, revenue is only recorded to the extent such milestones are met or actions are taken and approved by the donor. During the years ended June 30, 2017 and 2016, \$26,204,000 and \$28,911,000, respectively, was recorded as temporarily restricted revenue because the required milestones were met. For the years ended June 30, 2017 and 2016, \$31,584,000 and \$27,939,000, respectively, of the temporarily restricted revenue was released from restriction because it was used for the purposes intended by the donor. As of June 30, 2017 and 2016, \$11,878,000 and \$17,258,000, respectively, relating to the conditional pledge remained in temporarily restricted net assets.

As of June 30, 2017 and 2016, the deferred revenue balance related to the 2014 pledge is as follows:

	2017	2016
Beginning balance	\$ 114,475,000	\$ -
Payments received	-	142,434,000
Investment earnings	1,652,000	952,000
Temporarily restricted contributions recorded as milestones were met during the fiscal year	<u>(26,204,000)</u>	<u>(28,911,000)</u>
Ending balance	<u>\$ 89,923,000</u>	<u>\$ 114,475,000</u>

The Institute is named as the beneficiary in various revocable trusts and wills. The contribution revenue will be recognized when the agreements become irrevocable or when the assets are distributed to the Institute for its unconditional use, whichever occurs first.

5. PROPERTY

The carrying value and related accumulated depreciation of property as of June 30, 2017 and 2016, are as follows:

	2017	2016
Land	\$ 25,793,000	\$ 25,793,000
Buildings and building improvements	166,576,000	165,328,000
Furniture and equipment	113,578,000	110,505,000
Construction in progress	<u>548,000</u>	<u>745,000</u>
Total	306,495,000	302,371,000
Less accumulated depreciation	<u>171,993,000</u>	<u>163,207,000</u>
Property—net	<u>\$ 134,502,000</u>	<u>\$ 139,164,000</u>

Depreciation expense was \$13,128,000 and \$12,711,000 for the years ended June 30, 2017 and 2016, respectively.

6. DEFERRED REVENUE

Deferred revenue as of June 30, 2017 and 2016, consisted of the following:

	2017	2016
Conditional contribution	\$ 89,923,000	\$ 114,475,000
Deferred grant revenue	4,379,000	8,471,000
Other	<u>2,397,000</u>	<u>1,846,000</u>
Total	<u>\$ 96,699,000</u>	<u>\$ 124,792,000</u>

7. DEBT

In 2009, the Institute entered into an asset acquisition transaction with another not-for-profit organization. The Institute acquired certain property and equipment out of the other organization's bankruptcy and assumed the other organization's Variable Rate Demand Revenue Certificates of Participation (the "Certificates") issued through the County of San Diego in the aggregate outstanding principal amount of \$21,360,000 at the date of the transaction.

In November 2012, the Institute borrowed \$18,885,000 through the issuance of a direct purchase tax-exempt loan (the "2012 Loan"). Proceeds from the issuance of the 2012 Loan were used to refinance the outstanding balance of the Certificates of \$18,885,000. The 2012 Loan was paid in full from the proceeds of the October 2015 bond refinance discussed further in this note.

During the year ended June 30, 2006, the Institute borrowed \$59,405,000 through the issuance of tax-exempt serial and term COPs sponsored by the County of San Diego (the "2006 COPs"). Proceeds from the issuance of the COPs were used to defease the 1999 COPs

sponsored by the County of San Diego and to finance certain new capital improvements and equipment purchases. The 2006 COPs were defeased through the October 2015 bond refinance discussed further in this note.

In October 2015, the Institute borrowed \$55,585,000 through the issuance of tax-exempt Limited Revenue Obligations Series 2015A (the "2015A Obligations") and a \$3,475,000 taxable Revenue Obligations Series 2015B (the "2015B Obligations") sponsored by the County of San Diego. The 2015A Obligations' proceeds together with the debt service reserve fund were used to refinance the \$47,500,000 outstanding aggregate principal amount of the 2006 COPs and the \$16,705,000 outstanding principal amount of the 2012 Loan. The 2015B Obligations were used to fund the early termination amount of the swap agreement, as described below. The 2015A Obligations mature in 2031, with principal due in varying annual installments; interest is payable on a semiannual basis at rates ranging from 2% to 5%. The 2015B Obligations mature in 2020, with principal due in varying annual installments; interest is payable on a semiannual basis at rates ranging from 1% to 2.625%. The 2015A Obligations were sold at a premium of \$6,378,000, which is being amortized over the life of the 2015A Obligations. As of June 30, 2017 and 2016, the unamortized premium was \$5,705,000 and \$6,130,000, respectively.

The 2015A and 2015B Obligations are collateralized by a pledge of the Institute's revenues and are subject to compliance with certain debt covenants, including restrictions on the issuance of parity debt.

The estimated fair value of the Institute's debt, calculated using market-observable interest rates (Level 2 inputs), as of June 30, 2017 and 2016, is \$62,598,000 and \$68,995,000, respectively.

Total interest expense incurred for the years ended June 30, 2017 and 2016, was \$2,163,000 and \$4,815,000, respectively.

In accordance with ASU No. 2015-03, deferred financing costs have been reclassified from an asset to offset the associated debt. Deferred issuance costs of \$377,000 and \$488,000 are included in debt in the statements of financial position as of June 30, 2017 and 2016, respectively.

Scheduled principal repayments on debt as of June 30, 2017, are as follows:

Years Ending June 30	
2018	\$ 3,005,000
2019	3,125,000
2020	3,260,000
2021	3,370,000
2022	3,495,000
Thereafter	<u>39,890,000</u>
Total	<u>56,145,000</u>
Unamortized premium offset by debt issuance costs	<u>5,056,000</u>
Total	<u><u>\$ 61,201,000</u></u>

Interest Rate Swap Agreement—In connection with the assumption of the Certificates, the Institute assumed an interest rate swap agreement covering the outstanding principal amount of the Certificates through November 2030. Under this agreement, the Institute received payments from the counterparty based on London InterBank Offered Rate and paid the counterparty a fixed rate of interest of 3.43%.

The taxable proceeds from the 2015B Obligations funded the early termination of the swap agreement for \$2,894,000 in October 2015 and represent the net present value of the difference between the obligation under the contracted rate of interest and that of the then-current rate for a similar contract.

In accordance with ASC 815, *Derivatives and Hedging*, the Institute’s interest rate swap agreement was reported at fair value in the statement of financial position as of June 30, 2016. The unrealized and realized loss on the fair value of the interest rate swap agreement was included in general and administrative expenses in the accompanying statements of activities.

8. NET ASSETS

Temporarily restricted net assets as of June 30, 2017 and 2016, include net assets restricted for use in future periods, campus-specific use, or for designated research purposes as follows:

	2017	2016
Restricted for future periods	\$ 29,040,000	\$ 53,295,000
Restricted for Sanford Burnham Prebys Medical Discovery Institute at Lake Nona	62,124,000	75,557,000
Restricted for research purposes	<u>21,936,000</u>	<u>27,329,000</u>
Total	<u>\$ 113,100,000</u>	<u>\$ 156,181,000</u>

Permanently restricted net assets of \$14,054,000 and \$14,027,000 as of June 30, 2017 and 2016, respectively, represent investments to be held in perpetuity either as a result of explicit donor stipulation or by the State Prudent Management of Institutional Funds Act (SPMIFA). The income from the investments is expendable to support research or the Institute’s operations in accordance with the donors’ wishes.

Endowment—The Institute’s endowment consists of 14 individual funds established for various purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Institute has interpreted SPMIFA 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 Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is 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 SPMIFA. In accordance with SPMIFA, the organization 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 the organization and the donor-restricted endowment 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 the organization
- The investment policies of the organization

The endowment net assets composition by type of fund as of June 30, 2017 and 2016, is as follows:

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 3,821,000	\$1,908,000	\$13,544,000	\$19,273,000
Board-designated endowment funds	<u>9,409,000</u>	<u> </u>	<u> </u>	<u>9,409,000</u>
Total funds	<u>\$13,230,000</u>	<u>\$1,908,000</u>	<u>\$13,544,000</u>	<u>\$28,682,000</u>
2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 3,235,000	\$1,030,000	\$13,013,000	\$17,278,000
Board-designated endowment funds	<u>8,709,000</u>	<u> </u>	<u> </u>	<u>8,709,000</u>
Total funds	<u>\$11,944,000</u>	<u>\$1,030,000</u>	<u>\$13,013,000</u>	<u>\$25,987,000</u>

Unrestricted endowment funds of \$3,821,000 and \$3,235,000 as of June 30, 2017 and 2016, respectively, relate to earnings on donor-restricted endowments in excess of the Institute's spending-rate policy.

The changes in endowment net assets for the years ended June 30, 2017 and 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—July 1, 2015	<u>\$ 12,734,000</u>	<u>\$ 1,457,000</u>	<u>\$ 12,503,000</u>	<u>\$ 26,694,000</u>
Investment return:				
Investment income	347,000	202,000		549,000
Unrealized loss	(2,337,000)	(1,196,000)		(3,533,000)
Realized gain	<u>1,989,000</u>	<u>992,000</u>		<u>2,981,000</u>
Total investment return	<u>(1,000)</u>	<u>(2,000)</u>	<u>-</u>	<u>(3,000)</u>
Payments received on contributions receivable			<u>510,000</u>	<u>510,000</u>
Appropriation of endowment assets for expenditure	<u>(789,000)</u>	<u>(425,000)</u>		<u>(1,214,000)</u>
Endowment net assets—June 30, 2016	<u>11,944,000</u>	<u>1,030,000</u>	<u>13,013,000</u>	<u>25,987,000</u>
Investment return:				
Investment income	358,000	223,000		581,000
Unrealized gain	1,392,000	880,000		2,272,000
Realized gain	<u>340,000</u>	<u>203,000</u>		<u>543,000</u>
Total investment return	<u>2,090,000</u>	<u>1,306,000</u>	<u>-</u>	<u>3,396,000</u>
Payments received on contributions receivable			<u>531,000</u>	<u>531,000</u>
Appropriation of endowment assets for expenditure	<u>(804,000)</u>	<u>(428,000)</u>		<u>(1,232,000)</u>
Endowment net assets—June 30, 2017	<u>\$ 13,230,000</u>	<u>\$ 1,908,000</u>	<u>\$ 13,544,000</u>	<u>\$ 28,682,000</u>

See Note 4 for permanently restricted pledges receivable as of June 30, 2016. These pledges receivable are not included in the above schedule of endowment net assets.

The description of the amounts classified as permanently restricted net assets as of June 30, 2017 and 2016, is as follows:

	2017	2016
Permanently restricted net assets—the portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA	<u>\$ 13,544,000</u>	<u>\$ 13,013,000</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 13,544,000</u>	<u>\$ 13,013,000</u>
Temporarily restricted net assets—the portion of perpetual endowment funds subject to a time restriction under SPMIFA—with purpose restrictions	<u>\$ 1,908,000</u>	<u>\$ 1,030,000</u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ 1,908,000</u>	<u>\$ 1,030,000</u>

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 SPMIFA requires the Institute to retain them as a fund of perpetual duration. These deficiencies may result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions or continued appropriation for certain programs that were deemed prudent by the Board. In accordance with GAAP, deficiencies of this nature, if any, are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2017 or 2016.

The Institute 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. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of certain appropriate indices while assuming commensurate risk. Based upon its investment approach and asset allocation strategy, the Institute expects its endowment funds, over time, to generate returns that will support a spending rate of 5% annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Institute relies on a total return and preservation of capital strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Institute targets a diversified asset allocation to achieve its long-term rate-of-return objectives within prudent risk constraints. The finance committee of the Board maintains the Institute's asset allocation.

9. COMMITMENTS

Operating Leases—The Institute has entered into operating leases for equipment and facilities space. The lease agreements expire on various dates through December 2022. Future minimum payments due under the noncancelable operating leases with remaining terms in excess of one year as of June 30, 2017, are as follows:

Years Ending June 30

2018	\$ 4,785,000
2019	4,865,000
2020	4,400,000
2021	2,894,000
2022	<u>329,000</u>
Total	<u>\$ 17,273,000</u>

Rent expense totaled \$4,747,000 and \$4,696,000 for the years ended June 30, 2017 and 2016, respectively.

Pension Plan—The Institute has a defined contribution pension plan. For eligible employees, the Institute matches an employee's contribution after one year of continuous service to a maximum of 10% of the employee's annual salary if the employee's contributions are at least 5% of annual salary. The Institute's contributions expense related to this plan for fiscal years 2017 and 2016 was \$4,064,000 and \$3,942,000, respectively.

Deferred Compensation Plan—The Institute has a deferred compensation plan under which eligible employees may elect salary deferrals to be made to the plan up to the maximum amount permitted by law. The Institute may make elective contributions and/or matching contributions at the sole discretion of the Board. No elective contributions were made in fiscal years 2017 and 2016. Plan assets and the related liabilities to participants are included in prepaid and other assets and receivables, and in accounts payable, accrued expenses, and other liabilities, respectively, in the accompanying statements of financial position and totaled \$3,451,000 and \$2,803,000 as of June 30, 2017 and 2016, respectively.

Additionally, the Institute has an unfunded, nonqualified deferred compensation plan for certain employees. The amount of the employer contribution, if any, is determined by the Board. The Institute's contributions expense related to this plan was \$467,000 and \$521,000 for fiscal years 2017 and 2016, respectively.

Legal—The Institute is, from time to time, a party to certain legal actions arising in the ordinary course of business. In the opinion of management, liabilities, if any, under these actions will not result in material charges against net assets.

Guarantees and Indemnities—From time to time, the Institute enters into certain types of contracts that contingently require the Institute to indemnify parties against third-party claims. These contracts primarily relate to (i) certain technology transfer/license agreements, under which the Institute may be required to indemnify licensees; (ii) certain real estate leases, under which the Institute may be required to indemnify property owners for environmental or other liabilities and other claims arising from the Institute's use of the premises; and (iii) certain agreements with the Institute's officers, directors, and employees, under which the

Institute may be required to indemnify such persons for liabilities arising out of their employment relationship.

The terms of such obligations vary by contract and, in most instances, a specific or maximum dollar amount is not explicitly stated therein. Generally, amounts under these contracts cannot be reasonably estimated until a specific claim is asserted. Consequently, no liabilities have been recorded for these obligations in the Institute's statements of financial position for any of the periods presented.

Future Operations—Subsequent to June 30, 2017, the Institute is pursuing an arrangement whereby the Institute would make a contribution of the assets at its Florida location, including the related fixed assets, leasehold interest in land, and other assets totaling approximately \$96 million in net book value at June 30, 2017 (collectively, the "Florida Assets"), to an unrelated entity (the "Beneficiary") to pursue biomedical research at the site. The consummation of the arrangement is contingent upon several obligations (including several governmental approvals) being met to the mutual satisfaction of both the Institute and the Beneficiary; and if such obligations are not so satisfied, then either party may choose not to pursue the arrangement. If the obligations are satisfied, then such arrangement is expected to be consummated during fiscal year 2018.

The Florida Assets were not classified separately as held for sale in the accompanying financial statements as they did not meet the criteria for reporting the Florida operations as discontinued operations pursuant to FASB ASC 205-20, *Presentation of Financial Statements—Discontinued Operations*, as of June 30, 2017.

10. INCOME TAXES

The Institute has no material deferred tax assets or deferred tax liabilities recorded as of June 30, 2017 and 2016.

The Institute did not recognize a change in liability for unrecognized tax benefits (the difference between a tax position taken, or expected to be taken, in a tax return and the benefit recognized and measured in the financial statements). There were no liabilities for unrecognized tax benefits at June 30, 2017 and 2016.

11. OTHER RELATED-PARTY DISCLOSURES

For the years ended June 30, 2017 and 2016, the Institute made payments of \$1,570,000 and \$1,896,000, respectively, to vendors of goods, services, and equipment at which officers or trustees of the Institute served as directors.

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**SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES,
SUPPLEMENTAL COMBINING INFORMATION, AND SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS AND FLORIDA STATE
FINANCIAL ASSISTANCE**

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2017

	Research	General and Administrative	Fund-Raising	Total Expenses
Salaries and wages	\$ 49,175,000	\$12,512,000	\$ 801,000	\$ 62,488,000
Fringe benefits	13,220,000	3,423,000	210,000	16,853,000
Operations and maintenance	12,213,000	1,485,000	87,000	13,785,000
Research supplies and services	13,129,000			13,129,000
Depreciation	11,844,000	1,226,000	58,000	13,128,000
Equipment and minor equipment	6,435,000	71,000	13,000	6,519,000
Professional fees and services	1,703,000	3,022,000	88,000	4,813,000
Consortiums	4,568,000			4,568,000
Other supplies and services	2,785,000	408,000	78,000	3,271,000
Interest	1,962,000	183,000	18,000	2,163,000
Provision for doubtful receivables		1,891,000		1,891,000
Printing and publications	1,088,000	312,000	21,000	1,421,000
Conferences and meetings	877,000	284,000	31,000	1,192,000
Miscellaneous	122,000	425,000	152,000	699,000
Travel	458,000	93,000	4,000	555,000
Recruitment and relocation	190,000	60,000		250,000
Postage and shipping	<u>81,000</u>	<u>10,000</u>	<u>14,000</u>	<u>105,000</u>
Total	<u>\$119,850,000</u>	<u>\$25,405,000</u>	<u>\$1,575,000</u>	<u>\$146,830,000</u>

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION INFORMATION AS OF JUNE 30, 2017

	Florida	California	Eliminations	Total
ASSETS				
CASH AND CASH EQUIVALENTS	\$ 21,488,000	\$ 4,486,000	\$ -	\$ 25,974,000
GRANTS RECEIVABLE	2,649,000	6,070,000		8,719,000
PREPAID AND OTHER ASSETS AND RECEIVABLES—Net	1,734,000	8,453,000		10,187,000
USE OF LONG-LIVED ASSETS	2,480,000			2,480,000
PLEDGES RECEIVABLE—Net	529,000	27,261,000		27,790,000
INTERCOMPANY RECEIVABLE—Net	765,000		(765,000)	-
INVESTMENTS	12,419,000	259,981,000		272,400,000
PROPERTY—Net	<u>69,562,000</u>	<u>64,940,000</u>	<u> </u>	<u>134,502,000</u>
TOTAL	<u>\$ 111,626,000</u>	<u>\$ 371,191,000</u>	<u>\$ (765,000)</u>	<u>\$ 482,052,000</u>
 LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable, accrued expenses, and other liabilities	\$ 1,699,000	\$ 15,263,000	\$ -	\$ 16,962,000
Intercompany payable—net		765,000	(765,000)	-
Deferred revenue	946,000	95,753,000		96,699,000
Debt		<u>61,201,000</u>		<u>61,201,000</u>
Total liabilities	<u>2,645,000</u>	<u>172,982,000</u>	<u>(765,000)</u>	<u>174,862,000</u>
 NET ASSETS:				
Unrestricted	46,075,000	133,961,000		180,036,000
Temporarily restricted	62,906,000	50,194,000		113,100,000
Permanently restricted		<u>14,054,000</u>		<u>14,054,000</u>
Total net assets	<u>108,981,000</u>	<u>198,209,000</u>	<u>-</u>	<u>307,190,000</u>
TOTAL	<u>\$ 111,626,000</u>	<u>\$ 371,191,000</u>	<u>\$ (765,000)</u>	<u>\$ 482,052,000</u>

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

**SUPPLEMENTAL COMBINING STATEMENT OF ACTIVITIES INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

	Florida				California				2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
REVENUES:									
Federal grants and contracts	\$ 9,351,000	\$ -	\$ -	\$ 9,351,000	\$ 57,065,000	\$ -	\$ -	\$ 57,065,000	\$ 66,416,000
Private and other government grants	8,518,000			8,518,000	16,803,000			16,803,000	25,321,000
Contributions	1,751,000	951,000		2,702,000	1,001,000	27,932,000	27,000	28,960,000	31,662,000
Investment returns designated for current operations	68,000	95,000		163,000	3,416,000	429,000		3,845,000	4,008,000
Royalties, rent revenue, and other	1,217,000			1,217,000	3,933,000			3,933,000	5,150,000
Net assets released from restrictions	14,253,000	(14,253,000)		-	59,081,000	(59,081,000)		-	-
Total revenues	35,158,000	(13,207,000)	-	21,951,000	141,299,000	(30,720,000)	27,000	110,606,000	132,557,000
EXPENSES:									
Research	30,486,000			30,486,000	89,364,000			89,364,000	119,850,000
General and administrative	7,054,000			7,054,000	18,351,000			18,351,000	25,405,000
Fund-raising	87,000			87,000	1,488,000			1,488,000	1,575,000
Total expenses	37,627,000	-	-	37,627,000	109,203,000	-	-	109,203,000	146,830,000
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(2,469,000)	(13,207,000)	-	(15,676,000)	32,096,000	(30,720,000)	27,000	1,403,000	(14,273,000)
INVESTMENT RETURN REDUCED BY THE PORTION OF CUMULATIVE NET APPRECIATION DESIGNATED FOR CURRENT OPERATIONS				-	11,421,000	846,000		12,267,000	12,267,000
CHANGE IN NET ASSETS	(2,469,000)	(13,207,000)	-	(15,676,000)	43,517,000	(29,874,000)	27,000	13,670,000	(2,006,000)
NET ASSETS—Beginning of year	48,544,000	76,113,000		124,657,000	90,444,000	80,068,000	14,027,000	184,539,000	309,196,000
NET ASSETS—End of year	\$46,075,000	\$62,906,000	\$ -	\$ 108,981,000	\$ 133,961,000	\$ 50,194,000	\$ 14,054,000	\$ 198,209,000	\$ 307,190,000

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND FLORIDA STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2017

Program Title/Federal Grantor/Pass-Through Grantor	CFDA Number	Pass-Through Grant or Contract Number	Expenditures
RESEARCH AND DEVELOPMENT			
U.S. Department of Health and Human Services:			
National Institutes of Health:			
Direct Program (\$4,550,730 passed through to other organizations)	93.RD		<u>\$ 53,609,709</u>
Passed through from other organizations:			
Adventist Health System Sunbelt	93.866	K01 AG044437	36,599
Duke University	93.866	R01 AG046171	31,301
Duke University	93.866	RF1 AG051550	28,426
Emory University	93.837	R01 HL130915	123,842
EnduRx Pharmaceuticals	93.395	R44 CA183287	110,206
Florida Hospital-TRIMD	93.847	R01 DK107009	310,883
Georgia State University Research Foundation	93.855	R01 AI125453	16,918
J. Craig Ventor Institute	93.855	R01 AI125609	266,282
John Hopkins University	93.242	U19 MH106434	267,084
Leidos Biomedical Research, Inc.	93.RD	29XS123	1,146
Leidos Biomedical Research, Inc.	93.RD	16X113	746,137
Mayo Clinic	93.853	R01 NS083937	92,785
Mayo Clinic	93.395	R01 CA193382	211,674
Mayo Clinic	93.395	R01 CA201226	223,314
Mayo Clinic	93.853	R01 NS092955	115,484
Mayo Clinic	93.310	R01 DK103850	189,394
Michigan State University	93.859	R01 GM122085	219,457
Mount Sinai School of Medicine	93.855	U19 AI106754	756,131
Mount Sinai School of Medicine	93.855	U19 AI118610	260,572
Mount Sinai School of Medicine	93.233	R01 HL128072	122,651
Northwestern University	93.279	R01 DA033773	31,457
Northwestern University	93.RD	HHSN272201200026C	392,925
OyaGen Inc.	93.859	R01 GM110119	180,439
OyaGen Inc.	93.855	R21 AI122845	109,861
Rush University Medical Center	93.847	R01 DK106512	203,547
San Diego Biomedical Research	93.396	R01 CA185349	17,185
San Diego State University Research Foundation	93.866	R21 AG049454	55,815
The Scripps Research Institute	93.855	UM1 AI100663	425,707
The Scripps Research Institute	93.859	R01 GM115170	146,915
The Scripps Research Institute	93.855	R21 AI128556	19,859
Translational Genomics Research	93.394	U01 CA168397	334,884
Translational Genomics Research	93.395	R01 CA177796	24,595
University of California, Davis	93.859	R01 GM079383	153,844
University of California, Irvine	93.242	R21 MH109036	29,525
University of California, Los Angeles	93.393	P01 CA177322	542,825
University of California, Los Angeles	93.866	R01 AG056114	25,151
University of California, San Diego	93.279	P50 DA026306	363,860
University of California, San Diego	93.242	R01 MH087989	17,343
University of California, San Diego	93.859	P50 GM085764	297,310
University of California, San Diego	93.846	P30 AR061303	24,259
University of California, San Diego	93.121	R01 DE022757	294,838

(Continued)

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND FLORIDA STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2017

Program Title/Federal Grantor/Pass-Through Grantor	CFDA Number	Pass-Through Grant or Contract Number	Expenditures
RESEARCH AND DEVELOPMENT (Continued)			
Passed through from other organizations (continued):			
University of California, San Diego	93.242	P30 MH062512	\$ 30,305
University of California, San Diego	93.846	R01 AR064202	52,976
University of California, San Diego	93.855	R01 AI104916	101,855
University of California, San Diego	93.286	P41 EB0002031	59,758
University of California, San Diego	93.350	UL1 TR001442	28,383
University of California, San Diego	93.395	R01 CA201303	261,702
University of California, San Diego	93.866	P50 AG005131	160,831
University of California, San Diego	93.396	R01 CA211794	59,018
University of California, San Diego	93.310	U01 MH098977	88,577
University of California, San Diego	93.855	P30 AI036214	8,038
University of California, San Diego	93.847	R01 DK106233	298,929
University of Colorado, Denver	93.847	R01 DK105010	252,451
University of Colorado, Denver	93.853	R01 NS086956	43,019
University of Connecticut	93.395	R01 CA190617	45,127
University of Florida	93.310	U24 DK097209	168,133
University of Florida	93.121	R01 DE023641	(735)
University of Massachusetts	93.859	R01 GM110288	25,601
University of Miami	93.855	R01 AI130009	27,583
University of Michigan	93.121	R01 DE025827	78,197
University of New Mexico	93.859	P50 GM085273	(398)
University of Texas MD Anderson Cancer Center	93.395	R01 CA172670	131,131
University of Texas MD Anderson Cancer Center	93.394	R01 CA184843	19,101
University Pennsylvania	93.866	P01 AG031862	43,119
Vala Sciences, Inc.	93.113	R44 ES023521	183,675
Vascular Biosciences	93.RD	HHSN268201400006C	84,810
Vivoscript, Inc.	93.859	R41 GM113529	40,738
Washington University	93.855	R01 AI104972	<u>279,936</u>
Total passed through from other organizations			<u>10,394,290</u>
Total U.S. Department of Health and Human Services			<u>64,003,999</u>
U.S. Department of Energy:			
Passed through from other organizations:			
Battelle, Pacific North West	81.RD	DE-AC05-76RL01830	3,715
Defense Advanced Research Projects Agency:			
University of California, San Diego	12.91	HR0011-13-2-0017	149,306
National Science Foundation:			
Direct Program	47.041	CBET-1403535	90,826
Passed through from other organizations—AivoCode, LLP	47.041	1548490	<u>3,860</u>
Total National Science Foundation			<u>94,686</u>

(Continued)

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND FLORIDA STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2017

Program Title/Federal Grantor/Pass-Through Grantor	CFDA Number	Pass-Through Grant or Contract Number	Expenditures
RESEARCH AND DEVELOPMENT (Continued)			
U.S. Department of Defense:			
U.S. Air Force Research Laboratory Direct Program	12.800	FA8650-13-2-6453	\$ 115,200
U.S. Army Medical Research Acquisition Activity Direct Program	12.420	W81XWH	<u>1,807,353</u>
Total U.S. Department of Defense			<u>1,922,553</u>
Environmental Protection Agency— Direct Program	66.509	RD-83555201	<u>66,699</u>
Total Environmental Protection Agency			<u>66,699</u>
National Aeronautics and Space Administration— Direct Program	43.007	NNX13AN38G	<u>175,128</u>
Total National Aeronautics and Space Administration			<u>175,128</u>
Total Research and Development			<u>66,416,086</u>
	CSFA Number		
EXPENDITURES OF FLORIDA STATE FINANCIAL ASSISTANCE:			
Department of Economic Opportunities	31.054	OT07-030	<u>9,712,207</u>
Florida Department of Health:			
Bankhead-Coley Cancer Research Program	64.078	5BC08	220,225
Florida Translational Research Program	64.129	COHG8	5,600,000
James and Esther King Biomedical Research Program	64.041	6JK07	<u>65,984</u>
Total Florida Department of Health			<u>5,886,209</u>
Total Expenditures of Florida State Financial Assistance			<u>15,598,416</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS AND FLORIDA STATE FINANCIAL ASSISTANCE			<u>\$ 82,014,502</u>

(Concluded)

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND FLORIDA STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The accompanying schedule of expenditures of federal awards and Florida state financial assistance (the “Schedule”) has been prepared from the Sanford Burnham Prebys Medical Discovery Institute’s (the “Institute”) accounting records and is presented on the accrual basis of accounting.

The information in the Schedule is presented in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State of Florida Rules of the Auditor General Chapter 10.650, *Florida Single Audit Act Audits of Non-Profit and For-Profit Organizations*. The Schedule presents only a selected portion of the activities of the Institute and is not intended to, and does not, present either the financial position or changes in net assets of the Institute. The Schedule includes only State of Florida financial assistance projects that are required to be reported.

2. CREDIT BALANCES

The credit balances in the Schedule relate to funds that were expended in prior years and reversed in fiscal year 2017.

* * * * *

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the 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, the financial statements of Sanford Burnham Prebys Medical Discovery Institute (the "Institute"), which comprise the statement of financial position as of June 30, 2017, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 26, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

October 26, 2017



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECT AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND STATE OF FLORIDA RULES OF THE AUDITOR GENERAL CHAPTER 10.650

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

Report on Compliance for Major Federal Program and State Financial Assistance Project

We have audited Sanford Burnham Prebys Medical Discovery Institute's (the "Institute") compliance with the types of compliance requirements described in the OMB *Circular Compliance Supplement* and the requirements described in the *Florida Single Audit Act Executive Office of the Governor's State Projects Compliance Supplement* that could have a direct and material effect on the Institute's major federal program and state financial assistance project for the year ended June 30, 2017. The Institute's major federal program and state financial assistance project are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program and state financial assistance project.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Institute's major federal program and state financial assistance project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"); and State of Florida Rules of Auditor General Chapter 10.650, *Florida Single Audit Act Audits of Non-Profit and For-Profit Organizations*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program and state financial assistance project. However, our audit does not provide a legal determination of the Institute's compliance.

Opinion on Major Federal Program and State Financial Assistance Project

In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program and state financial assistance project for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program or state financial assistance project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and state financial assistance project and to test and report on internal control over compliance in accordance with the Uniform Guidance and State of Florida Rules of the Auditor General Chapter 10.650, *Florida Single Audit Act Audits of Non-Profit and For-Profit Organizations*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state financial assistance project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state financial assistance project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or state financial assistance project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and State of Florida Rules of the Auditor General Chapter 10.650, *Florida Single Audit Act Audits of Non-Profit and For-Profit Organizations*. Accordingly, this report is not suitable for any other purpose.

Deloitte & Touche LLP

October 26, 2017

SANFORD BURNHAM PREBYS MEDICAL DISCOVERY INSTITUTE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

1. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards and State Financial Assistance

Internal control over major program and project:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weakness(es)?	None reported
Type of auditors' report issued on compliance for the major program and project:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance (Section 516(a)) and Chapter 10.654(1)(h)4?	No
Major federal program:	Research and Development
Major state project:	Department of Economic Opportunities
Dollar threshold used to distinguish Type A and Type B federal programs:	\$1,992,483
Dollar threshold used to distinguish Type A and Type B state projects:	\$467,952
Auditee qualified as a low-risk auditee?	Yes

2. FINANCIAL STATEMENT FINDINGS

The audit disclosed no findings that are required to be reported.

3. FEDERAL AWARD AND STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

The audit disclosed no federal award or state project findings or questioned costs in fiscal year 2017.

4. OTHER MATTERS

A management letter was not issued, as there were no findings required to be reported in a management letter in accordance with State of Florida Rules of the Auditor General Chapter 10.650, *Rules of the Florida Auditor General*.

As required by Section 215.97(2)(e), Florida Statutes, and Chapters 10.654(1)(i) and 10.656(3)(d)5, *Rules of the Auditor General*, a summary schedule of prior-year audit findings is not necessary because there were no prior-year audit findings.

* * * * *