REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS

THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

June 30, 2020 and 2019

MOSSADAMS

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Report of Independent Auditors

To the Board of Trustees
The Salk Institute for Biological Studies

Report on the Financial Statements

We have audited the accompanying financial statements of The Salk Institute for Biological Studies, which comprise the statements of financial position as of June 30, 2020 and 2019, 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. 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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 Salk Institute for Biological Studies as of June 30, 2020 and 2019, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Diego, California
October 12, 2020

(In Thousands)

	June 30, 2020	June 30, 2019
ASSETS		
Cash and cash equivalents	$ 18,295	$ 16,270
Receivables and other assets, net	18,598	19,199
Contributions receivable, net	16,249	53,449
Funds held by trustee	7,317	7,162
Investments	470,510	410,539
Assigned interest in limited partnership units	28,955	-
Property, net	66,880	70,826
Total assets	$ 626,804	$ 577,445
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 24,073	$ 19,964
Unexpended advances	28,912	30,818
Retirement obligations	5,849	5,313
Debt	64,550	63,933
Total liabilities	123,384	120,028
Commitments and Contingencies (Note 12)		
Net Assets		
Without donor restrictions	88,834	88,340
With donor restrictions	414,586	369,077
Total net assets	503,420	457,417
Total liabilities and net assets	$ 626,804	$ 577,445

The Salk Institute for Biological Studies
Statement of Activities
(In Thousands)

	Year Ended June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Grants	$ 97,845	$ -	$ 97,845
Contributions	3,681	57,970	61,651
Other	4,381	-	4,381
Investment return designated for current operations	7,199	10,509	17,708
Net assets released from restrictions	28,557	(28,557)	-
Total revenues, gains, and other support	141,663	39,922	181,585
EXPENSES			
Research	122,009	-	122,009
Management and general	16,277	-	16,277
Fundraising	4,912	-	4,912
Total expenses	143,198	-	143,198
EXCESS (DEFICIENCY) OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES	(1,535)	39,922	38,387
INVESTMENT GAIN IN EXCESS OF AMOUNT DESIGNATED FOR CURRENT OPERATIONS UNDER SPENDING POLICY	2,633	5,587	8,220
POST-RETIREMENT BENEFIT CHANGES OTHER THAN NET PERIODIC BENEFIT COST	(604)	-	(604)
CHANGE IN NET ASSETS	494	45,509	46,003
NET ASSETS			
Beginning of year	88,340	369,077	457,417
End of year	$ 88,834	$ 414,586	$ 503,420

See accompanying notes.

(In Thousands)

	Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Grants	$ 97,913	$ -	$ 97,913
Contributions	2,479	64,569	67,048
Other	2,588	-	2,588
Investment return designated for current operations	6,915	9,599	16,514
Net assets released from restrictions	26,387	(26,387)	-
Total revenues, gains, and other support	136,282	47,781	184,063
EXPENSES			
Research	115,659	-	115,659
Management and general	15,838	-	15,838
Fundraising	5,835	-	5,835
Total expenses	137,332	-	137,332
EXCESS (DEFICIENCY) OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES	(1,050)	47,781	46,731
INVESTMENT GAIN IN EXCESS OF AMOUNT DESIGNATED FOR CURRENT OPERATIONS UNDER SPENDING POLICY	2,765	3,949	6,714
POST-RETIREMENT BENEFIT CHANGES OTHER THAN NET PERIODIC BENEFIT COST	543	-	543
CHANGE IN NET ASSETS	2,258	51,730	53,988
NET ASSETS			
Beginning of year	86,082	317,347	403,429
End of year	$ 88,340	$ 369,077	$ 457,417

See accompanying notes.

The Salk Institute for Biological Studies
Statements of Cash Flows (In Thousands)

	Years Ended June 30, 2020	Years Ended June 30, 2019
OPERATING ACTIVITIES		
Change in net assets	$ 46,003	$ 53,988
Adjustments to reconcile change in net assets to net cash (used in) operating activities		
Depreciation and amortization	10,875	10,526
Contribution of property	(847)	
Contributions restricted for investment in perpetuity	(5,854)	(4,594)
Contribution of assigned interest in limited partnership units	(28,955)	-
Net gain on investments and funds held by trustee	(27,018)	(21,417)
Changes in assets and liabilities		
Receivables and other assets	601	(1,266)
Contributions receivable	(715)	(42,502)
Accounts payable and accrued expenses	4,109	(601)
Unexpended advances	(1,906)	5,015
Retirement obligations	536	(655)
Net cash used in operating activities	(3,171)	(1,506)
INVESTING ACTIVITIES		
Purchases of property	(6,032)	(8,908)
Purchases of investments and funds held by trustee	(164,370)	(153,923)
Proceeds from sales of investments and funds held by trustee	131,262	154,954
Net cash used in investing activities	(39,140)	(7,877)
FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment in perpetuity	43,769	7,151
Debt proceeds	2,149	200
Loan issue costs	-	(324)
Principal payments on debt	(1,582)	(1,533)
Net cash provided by financing activities	44,336	5,494
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,025	(3,889)
CASH AND CASH EQUIVALENTS		
Beginning of year	16,270	20,159
End of year	$ 18,295	$ 16,270
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	$ 2,364	$ 2,390

See accompanying notes.

Note 1 – Nature of the Institute

The Salk Institute for Biological Studies, San Diego, California (the "Institute") conducts basic biomedical research funded primarily with grants and contributions from agencies of the United States government, foundations, and the general public.

The Institute is a California not-for-profit public benefit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. Income determined to be unrelated business income is taxable.

Note 2 – Significant Accounting Policies

General – The financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Net assets and activities are presented based on related donor restrictions or lack of such restrictions. Net assets without donor restrictions represent expendable funds available for operations, which are not otherwise limited by donor restrictions. Net assets with donor restrictions consist of contributed funds whose use is limited by donor-imposed restrictions that either expire by passage of time or can be fulfilled and removed by actions of the Institute pursuant to the stipulations. Also included in this category are net assets subject to irrevocable donor restrictions requiring the assets be maintained in perpetuity, usually for the purpose of generating investment income to fund research and other activities.

The costs of providing program services and other activities are summarized on a functional basis in the statements of activities and, accordingly, certain costs have been allocated among the activities benefited (Note 11).

Revenue Recognition:

Grants – Grant revenue includes support under agreements with governmental and private sources, which are generally considered non-exchange transactions. Grants that are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses are accounted for as conditional gifts. Grant revenue is recognized when conditions under the agreements are met, typically when qualifying expenses are incurred. Unspent grant funds received in advance of the related expenditures are reported as unexpended advances. Reimbursement for indirect expenses on certain research grants is based on specified rates applied to allowable direct expenses.

Contributions – Contributions are recorded as revenue at fair value when unconditionally pledged or when received, whichever is earlier. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as contributions with donor restrictions. When a donor restriction expires or is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Note 2 – Significant Accounting Policies (continued)

Contributions (continued) – Contributions of equipment or other long-lived assets are recognized when unconditionally pledged or received, whichever is earlier, and recorded at the fair value of the contributed asset at the time of donation. If donors stipulate how long the assets must be used, the gifts are recorded as contributions with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as contributions without donor restrictions.

Cash and cash equivalents – Cash and cash equivalents are defined as cash on hand and in banks, plus highly liquid investments, which fund the daily operating activities of the Institute and have a maturity, at the date of purchase, of three months or less. Cash and cash equivalents held within the investment portfolio as part of the Institute's investment strategy are included in investments on the statements of financial position.

Receivables and other assets – Receivables and other assets include amounts billed and unbilled on grants and other agreements through June 30. An allowance for estimated uncollectible accounts is recorded based on past experience and an analysis of current receivable balances. Accounts are written off against the allowance when deemed uncollectible. Management has determined that an allowance of $15 and $6 is necessary at June 30, 2020 and 2019, respectively.

Also included in receivables and other assets is the Institute's beneficial interest in split-interest agreements which provide for the payment of distributions to the donor or other designated beneficiaries over the split-interest agreement's term (usually the beneficiary's lifetime). At the end of a split-interest agreement's term, the remaining assets are available for use by the Institute for the purpose specified by the donor. The portion of the assets attributable to the fair value of the future benefits to be received by the Institute is recorded on the statement of activities as contribution revenue with donor restrictions in the year the split-interest agreement is established. The fair value of the Institute's beneficial interest in split-interest agreements totaled $2,446 and $1,749 at June 30, 2020 and 2019, respectively.

Contributions receivable – Contributions receivable consists of unconditional promises to give. Unconditional promises to give that are expected to be collected in future years are recorded at fair value when the promise is made, based on a discounted cash flow model. The discounts on these amounts are computed using risk-free rates established at the time those promises are received. The discount rates for the contributions receivable range from 1.125 percent to 2.854 percent as of June 30, 2020. Amortization of the discounts is included in contributions. Conditional promises to give are not recorded as revenue until the conditions are substantially met. An allowance for estimated uncollectible contributions receivable is recorded based on management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Accounts are written off against the allowance when deemed uncollectible. Management has determined that an allowance for uncollectible contributions receivable of $1,910 and $1,972 is necessary as of June 30, 2020 and 2019, respectively.

Note 2 – Significant Accounting Policies (continued)

Investments – Investments in marketable securities are carried at their fair values based on quoted prices in an active market. Alternative investments for which quoted market prices are not available are valued at fair value by third-party fund managers or the general partners of the related investment partnerships, based on factors deemed relevant by the third-party fund managers or the general partners including, but not limited to, market conditions, purchase price, estimated liquidation value, restrictions on transfer, and meaningful third-party transactions in the private market. The Institute's Finance Department, under the supervision of the Chief Financial Officer, determines the investment fair value measurement policies and procedures in consultation with the Institute's independent professional investment manager. These policies and procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and other third-party information. The Institute reviews and evaluates the values provided by third-party fund managers and general partners and agrees with the valuation methods and assumptions used in determining the fair value of alternative investments. For these investments, the Institute uses the net asset value (NAV) provided by the investment fund managers to evaluate the fair value of the investments (see Notes 5 and 10). The NAV may be adjusted based on liquidity factors or other information about the investments that management considers significant to the valuation of the investments.

Realized and unrealized gains and losses are included in investment return in the change in net assets on the accompanying statements of activities by donor restriction or without donor restriction.

Funds held by trustee – Funds held by trustee include $7,317 and $7,162 at June 30, 2020 and 2019, respectively, held primarily in mutual funds in a rabbi trust to pay the benefits provided by the Institute's retiree health plan (Note 9). Funds held by trustee held in fixed income, global equity, and large cap equity mutual funds are carried at their fair value based on quoted prices in an active market.

Assigned interest in limited partnership units – During the year ended June 30, 2020, the Institute received a bequest in the form of an assigned interest in limited partnership units which was recorded at fair value at the date of receipt. Distributions from the partnership are available for general operations. The limited partnership units subject to the Institute's assigned interest represent less than a 20 percent ownership in the partnership. In future years, in the absence of a readily determinable fair value, the Institute will use the measurement alternative of cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar assets of the partnership. The asset will be evaluated for impairment annually.

Property – Property, including land, buildings, and equipment, is carried at cost. The Institute capitalizes acquisitions of property of $5 or more. Depreciation and amortization are recorded using the straight-line method over estimated useful lives of the assets ranging from 3 to 50 years.

Note 2 – Significant Accounting Policies (continued)

Impairment of long-lived assets – The Institute evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down will be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

Endowments – The Institute's endowment consists of over 100 individual funds established to support research and operations. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees (the "Board") to function as endowments. 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 classifies as net assets with donor restrictions (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. In accordance with the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and activities supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Institute's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is a total return, over rolling ten-year periods, which exceeds biomedical research inflation by an average of 5 percent per year. 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 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 with a bias toward equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Note 2 – Significant Accounting Policies (continued)

The Institute has a policy of appropriating for distribution each year a percentage of its endowment funds' average fair value over the prior 12 quarters. The percentage distribution is determined annually by the Board in the budget approval process and was 5 percent for each of the years ended June 30, 2020 and 2019. In establishing this policy, the Institute considered the long-term expected return on its endowment. Accordingly, over the long-term, the Institute expects the current spending policy to allow its endowment to grow at an average of the biomedical research inflation rate annually. This is consistent with the Institute's objective to maintain the purchasing power of the endowment assets with the goal of meeting current and future cash flow requirements, as well as to provide additional real growth through new gifts.

Use of estimates – The preparation of financial statements in accordance with U.S. 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.

Risks and uncertainties – The Institute invests in various types of securities which are exposed to various risks such as interest rate, market, currency, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near-term and such changes could materially affect the amounts reported in the statement of financial position.

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency stemming from a new strain of coronavirus that was spreading globally (the "COVID-19 outbreak"). On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, triggering volatility in financial markets and a significant negative impact on the global economy. The value of the Institute's investments will fluctuate in response to changing market conditions, and the amount of losses that could be recognized in subsequent periods, if any, cannot be determined. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. The Institute recognizes in the financial statements the effects of all significant subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Institute's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

The Institute has evaluated subsequent events through October 12, 2020, which is the date the financial statements were available to be issued.

(In Thousands)

Note 2 – Significant Accounting Policies (continued)

Recently adopted accounting standard – In June 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard clarifies the definition of an exchange transaction and the criteria for evaluating whether contributions are unconditional or conditional. Effective July 1, 2019, the Institute adopted ASU 2018-08 using the modified prospective transition method. During the year ended June 30, 2020, $3,885 of contribution revenue was recognized that was included in the June 30, 2019 unexpended advances balance.

Note 3 – Liquidity and Availability of Financial Assets

As of June 30, 2020 and 2019, the financial assets and liquidity resources available within one year for general expenditure were as follows:

	2020	2019
Financial assets		
Cash and cash equivalents	$ 18,295	$ 16,270
Receivables and other assets, net	10,139	10,691
Board-designated endowments	5,168	4,575
Investment income appropriations without donor-imposed restrictions	12,031	9,880
Total financial assets available within one year	45,633	41,416
Liquidity resources		
Bank line of credit	15,000	5,000
Total financial assets and liquidity resources available within one year	$ 60,633	$ 46,416

The Institute's cash flows have seasonal variations during the year attributable to a concentration of contributions received at calendar and fiscal year-end. To manage liquidity, the Institute invests excess cash in short-term treasury instruments. In the event of an unanticipated liquidity need, the Institute has a committed line of credit in the amount of $15,000 (also see Note 12).

As discussed in Note 2, the Institute's endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. Although the Institute does not intend to spend funds functioning as endowments other than amounts appropriated for general expenditure, amounts from its Board-designated endowments could be made available if necessary.

(In Thousands)

Note 4 – Contributions Receivable

Contributions receivable are summarized as follows at June 30:

	2020	2019
Contributions receivable to be paid in		
Less than one year	$ 9,196	$ 43,084
One to five years	9,085	12,589
More than five years	500	750
	18,781	56,423
Less		
Unamortized discount	(622)	(1,002)
Reserve for uncollectible pledges	(1,910)	(1,972)
Total contributions receivable, net	$ 16,249	$ 53,449

At June 30, 2020 and 2019, net contributions receivable of $8,158 and $9,448, respectively, are from members of the Board. In addition, at June 30, 2020, the Institute has received $276,716 of promises to give that are generally conditional upon incurring qualifying expenses. These amounts will primarily be recognized as grants revenue in the periods in which the conditions are fulfilled.

Note 5 – Investments

The Institute's portfolio is managed by an independent professional investment manager subject to direction and oversight by a committee of the Board. The manager is authorized to invest in alternative investments to increase portfolio diversification and return and to reduce volatility. Investment return is presented net of investment advisory fees.

Investments include endowment funds and general funds of the Institute. The Board has designated a portion of the Institute's cumulative investment return on general funds to be used for support of current operations. Under the Institute's spending policy, the Board determines annually a percentage of the average of the fair value of the Institute's general fund investment balances for the previous 12 quarters for appropriation to support current operations. The spending rate was 5 percent in 2020 and 2019.

(In Thousands)

Note 5 – Investments (continued)

Investments are summarized as follows at June 30:

	2020	2019
Marketable securities		
Cash and cash equivalents	$ 24,008	$ 10,067
U.S. Treasury securities	15,195	40,563
Commodities - allocated gold	24,741	-
Equity securities	14,655	35,392
Mutual funds - emerging markets	-	8,244
Total marketable securities	78,599	94,266
Alternative investments		
Global equity funds	100,396	108,201
Private equity funds	53,125	35,318
Global multi-strategy funds	51,139	41,040
Long/short equity funds	46,782	16,388
Fixed income funds	42,070	34,789
Emerging markets funds	38,014	37,588
Long only equity funds	30,154	18,098
Real assets funds	20,785	15,244
Distressed securities funds	9,446	9,607
Total alternative investments	391,911	316,273
Total investments	$ 470,510	$ 410,539

Note 5 – Investments (continued)

Alternative investments – Alternative investments are generally less liquid than the Institute's other investments and invest primarily in the following:

Global equity funds – shares of companies listed on stock exchanges worldwide.

Private equity funds – pooled investment vehicles which purchase minority or majority interests in operating businesses in a wide range of sectors including software, technology, media, telecom, financial services, consumer, healthcare, biotechnology, pharmaceutical, medical devices, and industrials.

Global multi-strategy funds – performing debt, distressed debt, hedge/arbitrage positions, merger arbitrage, equity-oriented positions, basis trading, portfolio volatility protection positions, commodities, and real estate.

Long/short equity funds – global investments in equities, commodities, currencies, and derivatives on both the long and short side.

Fixed income funds – investment-grade debt and fixed income securities, fixed- and floating-rate debt securities, and debt obligations of governments or government-related issuers worldwide.

Emerging markets funds – financial markets of developing countries.

Long only equity funds – long only investments in publicly traded equity securities and derivatives.

Real assets funds – investments in global agriculture and timber, North American oil and gas, and a broad range of real estate in the U.S., Europe, and Asia.

Distressed securities funds – distressed debt and mortgage investments, distressed securities, undervalued securities, private investments, debt and equity securities of companies involved in or affected by the real estate and mortgage crisis, and fixed income securities, including commercial bank loan debt.

The fair values of the alternative investments have been estimated using the NAV of the Institute's ownership interest in the funds or the Institute's share of partners' capital.

(In Thousands)

Note 5 – Investments (continued)

The nature and risks of the alternative investments as of June 30, 2020, are summarized as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (if eligible)	Redemption Notice Period	Additional Redemption Terms and Restrictions (if any)
Global equity funds	$ 100,396	$ -	weekly, bi-monthly, monthly	3-60 days	Generally, subject to the suspension of redemption rights if in the best interest of the fund. Redemptions subject to redemption fees, early redemption penalties, anti-dilution levies, up to a 5-year rolling lock up, and/or up to a 25% fund level gate.
Private equity funds					
Active	52,849	49,537	n/a	n/a	Not eligible for redemption. $1,809 in funds for which there is no limit on the remaining life. $51,040 in funds with remaining lives of 7 to 23 years.
Liquidating	276	515	n/a	n/a	Not eligible for redemption.
Global multi-strategy funds	51,139	-	biannually, quarterly	60 days	Generally, subject to the suspension of redemption rights if in the best interest of the fund. Redemptions subject to a 2-year lock up for each contribution, 50% of the account balance, a 10% fund level gate, and/or a 25% investor level gate per quarter.
Long/short equity funds					
Active	46,689	-	monthly, quarterly	45-90 days	Generally, subject to the suspension of redemption rights if in the best interest of the fund. $9,746 in a fund for which redemptions are subject to a 12-month lock-up period and an early redemption fee.
Liquidating	93	-	n/a	n/a	Not eligible for redemption.
Fixed income funds					
Active	21,869	-	daily	2 days	Subject to the suspension of redemption rights if in the best interest of the fund and a 25% fund level gate.
Non-redeemable	20,201	9,921	n/a	n/a	Not eligible for redemption. Remaining lives of the funds 6 to 14 years.
Emerging markets funds	38,014	-	quarterly	45-90 days	Generally, subject to the suspension of redemption rights if in the best interest of the fund. $14,046 in a fund for which redemptions are subject to a 20% master fund level gate.
Long only equity funds	30,154	-	monthly, quarterly	30-45 days	Generally subject to the suspension of redemption rights if in the best interest of the fund. $15,745 in a fund for which redemptions are subject to a 25% fund level gate.
Real assets funds	20,785	19,396	n/a	n/a	Not eligible for redemption. $2,124 in a fund for which there is no limit on the remaining life. $18,661 in funds with remaining lives of 3 to 16 years.
Distressed securities funds					
Active	110	-	biennially	60 days	Generally, subject to the suspension of redemption rights if in the best interest of the fund.
Non-redeemable	8,894	7,235	n/a	n/a	Not eligible for redemption. Remaining lives of funds 2 to 8 years.
Liquidating	442	-	n/a	n/a	Distributions may extend through February 1, 2025.
	$ 391,911	$ 86,604			

(In Thousands)

Note 5 – Investments (continued)

The composition of investment return includes the following for the years ended June 30:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	$ 542	$ 635	$ 1,177
Net gain	9,290	15,461	24,751
Investment return	9,832	16,096	25,928
Investment return designated for current operations	7,199	10,509	17,708
Investment gain in excess of amounts designated for current operations	$ 2,633	$ 5,587	$ 8,220

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	$ 1,900	$ 2,152	$ 4,052
Net gain	7,780	11,396	19,176
Investment return	9,680	13,548	23,228
Investment return designated for current operations	6,915	9,599	16,514
Investment gain in excess of amounts designated for current operations	$ 2,765	$ 3,949	$ 6,714

(In Thousands)

Note 6 – Property

Property is summarized as follows at June 30:

	2020	2019
Land	$ 1,154	$ 1,154
Buildings and improvements	163,286	160,884
Laboratory equipment	75,500	71,727
Other equipment	15,840	14,835
Construction in progress	784	2,204
	256,564	250,804
Less accumulated depreciation and amortization	(189,684)	(179,978)
Total property, net	$ 66,880	$ 70,826

Included in total expenses is depreciation expense of $10,825 and $10,489 for the years ended June 30, 2020 and 2019, respectively.

(In Thousands)

Note 7 – Debt

The Institute issued debt to fund the construction, renovation, and equipping of various facilities on its campus. The outstanding debt at June 30 is comprised of the following:

Debt Issue	Purpose	Terms	Total Debt Issue	Outstanding Balance 2020	Outstanding Balance 2019
2014 tax-exempt direct placement loan through the California Statewide Communities Development Authority ("2014 Loan")	Renovation, restoration, improvement, and equipping of the Institute's campus facilities; refinance the 2005 bonds that had been issued to refinance the 1994 bonds that funded the construction of the research buildings expansion project.	Funds drawn monthly as needed for loan purposes through December 31, 2017; final maturity on July 1, 2044; 3.4 percent fixed interest rate.	$ 31,190	$ 28,393	$ 29,243
2018 taxable direct placement loan ("2018 Loan")	Refinance 2010 Certificates of Participation that had been issued to refinance the 2000 Certificates of Participation that funded the construction of a new research facility.	Repayment at level debt service with the 2014 Loan, with final maturity on July 1, 2040; 3.75 percent fixed interest rate.	36,360	34,918	35,650
2019 state tax-exempt direct placement loan through the California Statewide Communities Development Authority ("2019 Loan")	Renovation, restoration, improvement, and equipping of the Institute's campus facilities.	Funds may be drawn monthly as needed for loan purposes through May 31, 2021; repayment at level debt service with the 2014 Loan and the 2018 Loan, with final maturity on June 1, 2043; 4.235 percent fixed interest rate.	20,000	2,349	200
	Subtotal			65,660	65,093
	Unamortized costs of issuance			(1,110)	(1,160)
	Total debt			$ 64,550	$ 63,933

Issuance costs related to the Institute's debt are being amortized over the lives of the respective debt instruments. Amortization expense related to the issuance costs was $50 and $37 for the years ended June 30, 2020 and 2019, respectively.

After full funding of the 2019 Loan, the future annual principal payments under the Loans are as follows:

Years ending June 30,	
2021	$ 1,647
2022	2,274
2023	2,362
2024	2,445
2025	2,547
Thereafter	72,036
Total	$ 83,311

(In Thousands)

Note 7 – Debt (continued)

The Institute's debt is collateralized by the revenue of the Institute and further secured by a deed of trust on the Institute's main campus. Interest expense related to the Institute's debt was $2,362 and $2,390 for the years ended June 30, 2020 and 2019, respectively. Under the terms of the Institute's debt, the Institute is subject to compliance with certain covenants, including restrictions on additional indebtedness.

Note 8 – Net Assets

Net assets at June 30 are summarized as follows:

	2020	2019
Without Donor Restrictions	$ 88,834	$ 88,340
With Donor Restrictions		
Subject to expenditure for specified purpose		
Research	160,117	124,612
Appreciation on general use endowments	14,966	11,064
Subject to the Institute's spending policy and appropriation		
Investment in perpetuity		
Research	137,886	135,548
General use	101,617	97,853
Total with donor restrictions	414,586	369,077
Total net assets	$ 503,420	$ 457,417

Net assets were released from restrictions by satisfying donor restrictions for the following purposes during the years ended June 30:

	2020	2019
Research	$ 25,876	$ 24,222
General use	2,681	2,165
Total releases from restriction	$ 28,557	$ 26,387

(In Thousands)

Note 8 – Net Assets (continued)

The Institute's Board has designated, from net assets without donor restrictions, net assets for the following purposes:

	2020	2019
Board-designated endowment net assets		
Research	$ 1,854	$ 1,813
General use	3,314	2,762
Total board-designated endowment net assets	$ 5,168	$ 4,575

The changes in the Institute's Board-designated and donor-restricted endowment net assets are as follows for the years ended June 30:

		With Donor Restrictions			
	Without Donor Restrictions	Accumulated Endowment Earnings	Original Gift Amount	Total With Donor Restrictions	Total
Endowment net assets at July 1, 2018	$ 4,087	$ 44,582	$ 191,387	$ 235,969	$ 240,056
Investment return					
Interest and dividends	38	2,152	-	2,152	2,190
Net gains	196	11,428	-	11,428	11,624
Total investment return	234	13,580	-	13,580	13,814
Contributions	-	-	42,014	42,014	42,014
Amounts appropriated for expenditure	(156)	(9,303)	-	(9,303)	(9,459)
Board designations of net assets	410	-	-	-	410
Endowment net assets at June 30, 2019	4,575	48,859	233,401	282,260	286,835
Investment return:					
Interest and dividends	12	635	-	635	647
Net gains	268	15,344	-	15,344	15,612
Total investment return	280	15,979	-	15,979	16,259
Contributions	-	-	6,102	6,102	6,102
Amounts appropriated for expenditure	(165)	(10,343)	-	(10,343)	(10,508)
Board designations of net assets	478	-	-	-	478
Endowment net assets at June 30, 2020	$ 5,168	$ 54,495	$ 239,503	$ 293,998	$ 299,166

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Institute to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no deficiencies as of June 30, 2020 or 2019.

(In Thousands)

Note 9 – Employee Benefit Plans

Retirement plan – The Institute has an employee retirement plan (the "Retirement Plan") for certain of its employees. The Retirement Plan is a defined-contribution plan under which the Institute contributes a percentage of the participant's annual compensation. The Institute's contributions are made in accordance with Section 403(b) of the Internal Revenue Code. Total contributions expense related to the Retirement Plan was $4,432 and $4,017 for the years ended June 30, 2020 and 2019, respectively.

Retiree health benefits plan – The Institute sponsors a defined-benefit plan (the "Health Benefits Plan") that provides for retirees' health and related benefits. Employees hired prior to June 30, 1993, may become eligible for these post-retirement benefits upon attainment of age 60 with 10 years of service. The Health Benefits Plan includes cost-sharing features such as deductibles, coinsurance, and contributions, which can be adjusted annually, and the Institute's policy is to pay these benefits through a rabbi trust. The Institute uses a June 30 measurement date for the Health Benefits Plan.

The changes in the accumulated post-retirement benefit obligation at June 30 for the Health Benefits Plan are as follows:

	2020	2019
Benefit obligation, beginning of year	$ 5,313	$ 5,968
Service cost	30	25
Interest cost	172	190
Actuarial loss/(gain)	496	(691)
Benefits paid	(162)	(179)
Benefit obligation, end of year	$ 5,849	$ 5,313
Funded status of plan, end of year	$ (5,849)	$ (5,313)
Rabbi trust investments, end of year	$ 7,304	$ 7,162

For the years ended June 30, the components of the net periodic post-retirement benefit cost are:

	2020	2019
Service cost	$ 30	$ 25
Interest cost	172	190
Amortization of net gain	(108)	(148)
Net periodic post-retirement benefit cost	$ 94	$ 67

(In Thousands)

Note 9 – Employee Benefit Plans (continued)

The deferred actuarial gains are not reflected in net periodic post-retirement benefit cost and are included in net assets without donor restrictions at June 30. The changes in the deferred actuarial gains are as follows:

	2020	2019
Balance, beginning of year	$ 2,162	$ 1,619
Actuarial (loss)/gain	(496)	691
Amortization	(108)	(148)
Balance, end of year	$ 1,558	$ 2,162

The net actuarial gains included in net assets without donor restrictions at June 30, 2020, that are expected to be recognized in net periodic post-retirement benefit cost during the year ended June 30, 2021, are $64.

The benefits expected to be paid from the Health Benefits Plan in each of the next five years and in the aggregate for the following five years are as follows:

Years ending June 30,	
2021	$ 362
2022	352
2023	335
2024	328
2025	320
2026-2030	1,464
Total	$ 3,161

Contributions to the Health Benefits Plan are expected to equal benefit payments. For the years ended June 30, 2020 and 2019, employer contributions were $162 and $179, respectively, and participant contributions were $200 and $190, respectively.

The Health Benefits Plan's weighted-average assumptions used to determine net periodic post-retirement benefit cost for the years ended June 30 were as follows:

	2020	2019
Discount rate	3.35%	4.05%
Rate of compensation increase	5.00%	5.00%

Note 9 – Employee Benefit Plans (continued)

The amounts reported are affected by the healthcare trend assumptions. The assumed healthcare cost trend rate used in measuring the accumulated benefit obligation was 5.00 percent and 6.25 percent for 2020 and 2019, respectively, and is assumed to decrease gradually to 4.00 percent in 2098 and remain at that level thereafter. If the healthcare cost trend assumptions were increased by 1 percent, the accumulated post-retirement benefit obligation at June 30, 2020 and 2019, would be increased by approximately $17 and $20, respectively. The effect of this change would increase the aggregate of the service and interest cost components of the net periodic post-retirement benefit cost by approximately $1 for the years ended June 30, 2020 and 2019. If the healthcare cost trend assumptions were decreased by 1 percent, the accumulated post-retirement benefit obligation as of June 30, 2020 and 2019, would be decreased by approximately $20 and $18, respectively. The effect of this change would reduce the aggregate of the service and interest cost components of the net periodic post-retirement benefit cost by approximately $1 for the years ended June 30, 2020 and 2019.

Self-insured health plan – The Institute self-insures hospitalization and medical coverage under two of the health plans offered to its employees. The Institute limits its losses through the use of a stop-loss policy with a deductible of $175 per covered participant and a maximum liability of 125 percent of the estimated aggregate claims.

Note 10 – Fair Value of Financial Instruments

Authoritative guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date and establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability, directly or indirectly, including inputs in markets that are not considered to be active; and

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.

Transfers between levels are recognized as of the beginning of the reporting period in which the transfer occurs.

(In Thousands)

Note 10 – Fair Value of Financial Instruments (continued)

The following table presents information about each major category of the Institute's financial assets measured at fair value on a recurring basis at June 30, 2020:

	Fair Value Measurement at June 30, 2020			
	Level 1	Level 2	Level 3	Total
Marketable securities				
Cash and cash equivalents	$ 24,730	$ -	$ -	$ 24,730
U.S. Treasury securities	15,195	-	-	15,195
Commodities - allocated gold	24,741	-	-	24,741
Equity securities				
Information technology	10,911	-	-	10,911
Industrial	3,353	-	-	3,353
Other	391	-	-	391
Total equity securities	14,655	-	-	14,655
Mutual funds				
Large cap equity	2,890			2,890
Fixed income	1,892			1,892
Global equity	1,813	-	-	1,813
Total mutual funds	6,595	-	-	6,595
Total marketable securities	85,916	-	-	85,916
Beneficial interest in split-interest agreements	-	-	2,446	2,446
	$ 85,916	$ -	$ 2,446	88,362
Investments measured at net asset value				
Alternative investments				
Global equity funds				100,396
Private equity funds				53,125
Global multi-strategy funds				51,139
Long/short equity funds				46,782
Fixed income funds				42,070
Emerging markets funds				38,014
Long only equity funds				30,154
Real assets funds				20,785
Distressed securities funds				9,446
Total investments measured at net asset value				391,911
				$ 480,273

(In Thousands)

Note 10 – Fair Value of Financial Instruments (continued)

The following table presents information about each major category of the Institute's financial assets measured at fair value on a recurring basis at June 30, 2019:

	Fair Value Measurement at June 30, 2019			
	Level 1	Level 2	Level 3	Total
Marketable securities				
Cash and cash equivalents	$ 10,637	$ -	$ -	$ 10,637
U.S. Treasury securities	40,563	-	-	40,563
Equity securities				
Information technology	13,139	-	-	13,139
Consumer products	9,042	-	-	9,042
Industrial	6,680	-	-	6,680
Financial	5,322	-	-	5,322
Other	1,209	-	-	1,209
Total equity securities	35,392	-	-	35,392
Mutual funds				
Emerging markets	8,244	-	-	8,244
Large cap equity	2,768	-	-	2,768
Global equity	1,938	-	-	1,938
Fixed income	1,886	-	-	1,886
Total mutual funds	14,836	-	-	14,836
Total marketable securities	101,428	-	-	101,428
Beneficial interest in split-interest agreements	-	-	1,749	1,749
	$ 101,428	$ -	$ 1,749	103,177
Investments measured at net asset value				
Alternative investments				
Global equity funds				108,201
Fixed income funds				41,040
Emerging markets funds				37,588
Global multi-strategy funds				35,318
Long only equity funds				34,789
Private equity funds				18,098
Distressed securities funds				16,388
Long/short equity funds				15,244
Real assets funds				9,607
Total investments measured at net asset value				316,273
				$ 419,450

(In Thousands)

Note 10 – Fair Value of Financial Instruments (continued)

The change in the fair value of the Institute's Level 3 classified assets, the beneficial interest in split-interest agreements, was $697 and $14 for the years ended June 30, 2020 and 2019, respectively. The change in the value of the beneficial interest in split-interest agreements is included in contributions on the statements of activities.

The following table presents information about significant unobservable inputs for Level 3 assets and liabilities:

Asset/Liability	Fair Value as of June 30, 2020	Valuation Technique	Unobservable Input(s)	Rate (Wtd. Avg.)
Beneficial interest in split-interest agreements	$ 2,446	Discounted cash flow	Discount rate Mortality tables	0.6% (0.6%)

Increases (decreases) in the discount rate or life expectancy based on mortality tables would result in decreases (increases) in the fair value of the beneficial interest in split-interest agreements. An increase (decrease) in the fair value of the assets in the related trust or the increase in the Institute's percentage ownership will increase (reduce) the fair value of the Institute's beneficial interest in the split-interest agreement.

In determining the reasonableness of the methodology used to determine the fair value of the beneficial interest in split-interest agreements, the Finance Department, under the supervision of the Chief Financial Officer, evaluates a variety of factors including a review of existing agreements, economic conditions, and industry and market developments at least annually. Certain unobservable inputs are assessed through review of contract terms (e.g., duration or payout data), while others are substantiated utilizing available market data (e.g., discount rates and mortality tables).

(In Thousands)

Note 11 – Classification of Expenses

The costs of providing program services and other activities are summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among research and supporting services benefited. Such allocations were determined by management using a variety of cost allocation techniques such as square footage, full-time equivalent, and estimated time and effort.

Expenses for the years ended June 30, 2020 and 2019, consist of the following:

	2020			
	Research	Management & General	Fundraising	Total
Salaries and wages	$ 54,478	$ 7,926	$ 2,986	$ 65,390
Employee benefits	14,553	2,174	803	17,530
Research supplies	15,351	-	-	15,351
Graduate program and outside services	10,467	863	552	11,882
Scientific subcontracts	7,015	-	-	7,015
Depreciation and amortization	9,914	829	132	10,875
Occupancy	5,604	1,199	145	6,948
Information technology	2,248	789	156	3,193
Professional fees	420	1,223	27	1,670
Other	1,959	1,274	111	3,344
Total expenses	$ 122,009	$ 16,277	$ 4,912	$ 143,198

	2019			
	Research	Management & General	Fundraising	Total
Salaries and wages	$ 49,406	$ 7,055	$ 3,319	$ 59,780
Employee benefits	13,267	1,697	923	15,887
Research supplies	17,720	-	-	17,720
Graduate program and outside services	11,144	898	616	12,658
Scientific subcontracts	4,844	-	-	4,844
Depreciation and amortization	9,516	854	156	10,526
Occupancy	5,798	1,116	153	7,067
Information technology	1,451	328	151	1,930
Professional fees	425	2,181	25	2,631
Other	2,088	1,709	492	4,289
Total expenses	$ 115,659	$ 15,838	$ 5,835	$ 137,332

(In Thousands)

Note 12 – Commitments and Contingencies

Commitments – At June 30, 2020, contractual commitments on purchases pending or in process are $11,789.

Leases – The Institute has entered into operating leases for building space that expire through September 2027. Rent expense totaled $666 and $672 for the years ended June 30, 2020 and 2019, respectively. Future minimum rental payments required under non-cancelable operating leases that have remaining lease terms in excess of one year as of June 30, 2020, are as follows:

Years ending June 30,	
2021	$ 903
2022	1,292
2023	1,304
2024	1,343
2025	1,362
Thereafter	2,528
	$ 8,732

Line of credit – The Institute has an unsecured line of credit loan agreement with a bank providing up to $15,000 for general working capital purposes. The agreement expires on April 10, 2021, and provides for monthly interest at the prime rate (3.25 percent on June 30, 2020) on the outstanding balance. At June 30, 2020, the Institute had no balance outstanding on the line of credit.

Grants – The Institute has grants with various organizations and government agencies which are subject to audit. Management believes that any liability which may result from these audits would not be material.

Income taxes – The Institute has no unrecognized tax benefits as of June 30, 2020 and 2019.

Legal – The Institute is party to certain legal actions arising in the ordinary course of business. In the opinion of management, additional 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; and (ii) 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 those 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 at June 30, 2020 and 2019.

Note 13 – Concentrations of Credit Risk

Cash in bank deposit accounts and the investment portfolio exceeds federally-insured deposit limits. No losses have been experienced related to cash in such accounts.

The Institute receives funds under various research grants from federal and non-federal agencies. Funding from the National Institutes of Health represents approximately 63.5 percent and 62.5 percent of total grant revenue for the years ended June 30, 2020 and 2019, respectively.