REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS

THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

June 30, 2022 and 2021

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Report of Independent Auditors

Board of Trustees
The Salk Institute for Biological Studies

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Salk Institute for Biological Studies, which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Salk Institute for Biological Studies as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Salk Institute for Biological Studies and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Salk Institute for Biological Studies' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Salk Institute for Biological Studies' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Salk Institute for Biological Studies' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Moss Adams LLP

San Diego, California
October 14, 2022

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(In Thousands)

	June 30, 2022	June 30, 2021
ASSETS		
Cash and cash equivalents	$ 21,510	$ 30,566
Receivables and other assets, net	26,186	28,862
Contributions receivable, net	16,843	20,637
Funds held by trustee	6,238	9,275
Investments	574,655	614,459
Assigned interest in limited partnership units	28,955	28,955
Cash restricted to building project	12,216	-
Property, net	73,224	70,180
Total assets	$ 759,827	$ 802,934
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 42,760	$ 40,270
Unexpended advances	29,265	22,799
Retirement obligations	4,966	6,202
Debt	67,387	64,113
Total liabilities	144,378	133,384
Commitments and Contingencies (Note 12)		
Net Assets		
Without donor restrictions	113,953	135,380
With donor restrictions	501,496	534,170
Total net assets	615,449	669,550
Total liabilities and net assets	$ 759,827	$ 802,934

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

	Year Ended June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Grants	$ 103,005	$ -	$ 103,005
Contributions	1,921	32,345	34,266
Other	7,295	-	7,295
Investment return designated for current operations	8,235	14,439	22,674
Net assets released from restrictions	41,107	(41,107)	-
Total revenues, gains, and other support	161,563	5,677	167,240
EXPENSES			
Research	135,054	-	135,054
Management and general	18,410	-	18,410
Fundraising	6,014	-	6,014
Total expenses	159,478	-	159,478
EXCESS OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES	2,085	5,677	7,762
INVESTMENT LOSS IN EXCESS OF AMOUNT DESIGNATED FOR CURRENT OPERATIONS UNDER SPENDING POLICY	(24,759)	(38,351)	(63,110)
POST-RETIREMENT BENEFIT CHANGES OTHER THAN NET PERIODIC BENEFIT COST	1,247	-	1,247
CHANGE IN NET ASSETS	(21,427)	(32,674)	(54,101)
NET ASSETS			
Beginning of year	135,380	534,170	669,550
End of year	$ 113,953	$ 501,496	$ 615,449

See accompanying notes.

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

	Year Ended June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Grants	$ 106,748	$ -	$ 106,748
Contributions	3,315	66,040	69,355
Other	6,269	-	6,269
Investment return designated for current operations	7,739	12,616	20,355
Net assets released from restrictions	25,783	(25,783)	-
Total revenues, gains, and other support	149,854	52,873	202,727
EXPENSES			
Research	124,553	-	124,553
Management and general	16,111	-	16,111
Fundraising	5,291	-	5,291
Total expenses	145,955	-	145,955
EXCESS OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES	3,899	52,873	56,772
INVESTMENT GAIN IN EXCESS OF AMOUNT DESIGNATED FOR CURRENT OPERATIONS UNDER SPENDING POLICY	44,085	66,711	110,796
POST-RETIREMENT BENEFIT CHANGES OTHER THAN NET PERIODIC BENEFIT COST	(362)	-	(362)
LOSS ON EXTINGUISHMENT OF DEBT	(1,076)	-	(1,076)
CHANGE IN NET ASSETS	46,546	119,584	166,130
NET ASSETS			
Beginning of year	88,834	414,586	503,420
End of year	$ 135,380	$ 534,170	$ 669,550

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

	Years Ended June 30, 2022	2021
OPERATING ACTIVITIES		
Change in net assets	$ (54,101)	$ 166,130
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	11,792	11,306
Contribution of property	-	(688)
Contributions restricted for long-term assets	(20,659)	(3,952)
Net loss (gain) on investments and funds held by trustee	41,261	(133,697)
Loss on extinguishment of debt	-	1,076
Changes in assets and liabilities		
Receivables and other assets	2,676	(5,699)
Contributions receivable	(1,198)	(10,280)
Accounts payable and accrued expenses	2,490	11,632
Unexpended advances	6,466	(6,113)
Retirement obligations	(1,236)	353
Net cash (used in) provided by operating activities	(12,509)	30,068
INVESTING ACTIVITIES		
Purchases of property	(14,815)	(13,877)
Purchases of investments and funds held by trustee	(93,997)	(83,815)
Proceeds from sales of investments and funds held by trustee	95,578	71,605
Net cash used in investing activities	(13,234)	(26,087)
FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Investment in perpetuity	6,216	8,641
Investment in plant	19,435	1,203
Debt proceeds	4,557	65,089
Repayment of debt	-	(64,425)
Scheduled principal payments on debt	(1,305)	(1,567)
Loan issue costs	-	(651)
Net cash provided by financing activities	28,903	8,290
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	3,160	12,271
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
Beginning of year	30,566	18,295
End of year	$ 33,726	$ 30,566
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	$ 2,214	$ 2,305

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.

(In Thousands)

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, cash equivalents, and restricted cash – 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 restricted to the building project is excluded from this definition and is required to be held in a separate bank account by the donor(s). 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.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position to the sum of the corresponding amounts within the statements of cash flows:

	June 30, 2022	June 30, 2021
Cash and cash equivalents	$ 21,510	$ 30,566
Cash restricted to the building project	12,216	-
Total cash, cash equivalents, and restricted cash	$ 33,726	$ 30,566

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 is necessary at June 30, 2022 and 2021.

Receivables and other assets include investments held under a nonqualified deferred compensation plan for certain eligible employees. The fair value of the investments totaled $6,086 and $6,545 at June 30, 2022 and 2021, respectively. The related liability is included in accounts payable and accrued expenses on the statements of financial position.

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 $1,732 and $2,648 at June 30, 2022 and 2021, respectively.

Note 2 – Significant Accounting Policies (continued)

Contributions receivable – Contributions receivable consist 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 1.11 percent to 3.25 percent as of June 30, 2022 and 2021. Amortization of the discounts is included in contributions. Conditional promises to give are not recorded as revenue until the conditions are 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 $300 is necessary as of June 30, 2022 and 2021.

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 $6,238 and $9,275 at June 30, 2022 and 2021, 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.

Note 2 – Significant Accounting Policies (continued)

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. The asset is evaluated for impairment annually. In the absence of a readily determinable fair value, the Institute uses 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.

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.

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 130 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. 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.

Note 2 – Significant Accounting Policies (continued)

Endowments (continued) – 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.

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, 2022 and 2021. 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.

Reclassifications – Certain reclassifications have been made to the 2021 amounts in order to conform to the presentation for the year ended June 30, 2022, with no impact to net assets.

(In Thousands)

Note 2 – Significant Accounting Policies (continued)

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 14, 2022, which is the date the financial statements were available to be issued.

Recently issued accounting standard – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. This standard requires statement of financial position recognition of leases and note disclosure of certain information about lease arrangements. Management is currently evaluating the impact this will have on the Institute's future financial statements.

Note 3 – Liquidity and Availability of Financial Assets

As of June 30, 2022 and 2021, the financial assets and liquidity resources available within one year for general expenditure were as follows:

	2022	2021
Financial assets		
Cash and cash equivalents	$ 21,510	$ 30,566
Receivables and other assets, net	10,563	12,812
Short-term investments	36,588	-
Board-designated endowments	6,608	6,978
Investment income appropriations without donor-imposed restrictions	15,318	13,692
Total financial assets available within one year	90,587	64,048
Liquidity resources		
Bank line of credit	10,000	10,000
Total financial assets and liquidity resources available within one year	$ 100,587	$ 74,048

(In Thousands)

Note 3 – Liquidity and Availability of Financial Assets (continued)

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 investments including U.S. Treasury securities, U.S. Government agencies notes and bonds, and corporate bonds. In the event of an unanticipated liquidity need, the Institute has a committed line of credit in the amount of $10,000 (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.

Note 4 – Contributions Receivable

Contributions receivable are summarized as follows at June 30:

	2022	2021
Contributions receivable to be paid in		
Less than one year	$ 8,028	$ 8,924
One to five years	9,768	12,372
More than five years	-	250
	17,796	21,546
Less		
Unamortized discount	(653)	(609)
Reserve for uncollectible pledges	(300)	(300)
Total contributions receivable, net	$ 16,843	$ 20,637

At June 30, 2022 and 2021, net contributions receivable of $9,512 and $8,187, respectively, are from members of the Board.

At June 30, 2022, the Institute has received $255,249 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.

(In Thousands)

Note 5 – Investments

Investments consist of the endowment portfolio, which includes general funds of the Institute, and short-term investments. The Institute's endowment 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.

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 2022 and 2021.

During fiscal year 2022, the Institute began using short-term investments to manage liquidity surrounding large gifts received that are expected to be spent in the next six months to two years.

Investments are summarized as follows at June 30:

	2022			
	Short-term Investments	Endowment Portfolio	Total	2021
Marketable securities				
Cash and cash equivalents	$ -	$ 12,493	$ 12,493	$ 21,699
U.S. Treasury securities	8,196	-	8,196	33,992
Commodities – allocated gold	-	25,425	25,425	24,672
U.S. Government agencies notes and bonds	892	-	892	-
Bonds	27,500	-	27,500	-
Equity securities	-	85	85	22,106
Total marketable securities	36,588	38,003	74,591	102,469
Alternative investments				
Global equity funds	-	142,083	142,083	134,572
Private equity funds	-	136,756	136,756	111,654
Global multi-strategy funds	-	59,533	59,533	56,540
Real assets funds	-	44,504	44,504	32,227
Emerging markets funds	-	39,883	39,883	49,306
Long/short equity funds	-	27,157	27,157	35,227
Long only equity funds	-	25,873	25,873	37,952
Fixed income funds	-	18,532	18,532	41,208
Distressed securities funds	-	4,752	4,752	10,304
Other funds	-	991	991	3,000
Total alternative investments	-	500,064	500,064	511,990
Total investments	$ 36,588	$ 538,067	$ 574,655	$ 614,459

Note 5 – Investments (continued)

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

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, insurance, and industrials.

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

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

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.

Emerging markets funds – pooled investment vehicles that invest in equity of companies located in developing countries.

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

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

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.

Distressed securities funds – investments in distressed debt and securities.

Other funds – pooled investment vehicle investing in digital assets.

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, 2022, 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	$ 142,083	$ 3,393	weekly, bi-monthly, monthly, quarterly, semi-annually	3–120 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, up to a 25% fund level gate, and/or a 50% share class gate.
Private equity funds					
Active	136,578	59,955	n/a	n/a	Not eligible for redemption. $4,128 in funds for which there is no limit on the remaining life. $132,450 in funds with remaining lives of 5 to 21 years.
Liquidating	178	115	n/a	n/a	Not eligible for redemption.
Global multi-strategy funds	59,533	-	quarterly, semi-annually	60 days	Generally, subject to the suspension of redemption rights if in the best interest of the fund. Redemptions subject to 50% of the account balance, a 10% fund level gate, and/or a 25% investor level gate per quarter.
Real assets funds					
Active	11,500	-	monthly	2 days	Fund subject to a share repurchase (redemption) plan, a 1 year soft lock with a 2% early redemption penalty, and a fund level gate of 2% monthly and 5% quarterly.
Non-redeemable	33,004	7,860	n/a	n/a	Not eligible for redemption. $3,153 in a fund for which there is no limit on the remaining life. $29,851 in funds with remaining lives of 2 to 14 years.
Emerging markets funds	39,883	-	quarterly	45–90 days	Generally, subject to the suspension of redemption rights if in the best interest of the fund. $15,659 in a fund for which redemptions are subject to a 20% master fund level gate. $10,962 in a fund subject to a redemption minimum of $1M and maximum of 17% of the shareholding per 6 month period.
Long/short equity funds	27,157	-	quarterly, semi-annually	45–90 days	Generally, subject to the suspension of redemption rights if in the best interest of the fund. $8,621 in a fund subject to a 5% audit holdback and a 25% investor level gate. $11,945 in a fund subject to a partial redemption minimum.
Long only equity funds	25,873	-	monthly, quarterly	30–45 days	Generally subject to the suspension of redemption rights if in the best interest of the fund. $10,806 in a fund for which redemptions are subject to a 25% fund level gate.
Fixed income funds					
Active	171	-	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	18,361	11,052	n/a	n/a	Not eligible for redemption. Remaining lives of the funds 4 to 13 years.
Distressed securities funds					
Non-redeemable	4,659	5,106	n/a	n/a	Not eligible for redemption. Remaining lives of funds 1 to 6 years.
Liquidating	93	-	n/a	n/a	Distributions to be completed on or before 02/01/2023.
Other funds	991	-	semi-annually	120 days	Redemptions subject to a 2-year lock-up period.
	$ 500,064	$ 87,481			

(In Thousands)

Note 5 – Investments (continued)

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

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	$ 1,000	$ 2,263	$ 3,263
Net losses	(17,524)	(26,175)	(43,699)
Investment return	(16,524)	(23,912)	(40,436)
Investment return designated for current operations	8,235	14,439	22,674
Investment gain in excess of amounts designated for current operations	$ (24,759)	$ (38,351)	$ (63,110)

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	$ 608	$ 985	$ 1,593
Net gain	51,216	78,342	129,558
Investment return	51,824	79,327	131,151
Investment return designated for current operations	7,739	12,616	20,355
Investment gain in excess of amounts designated for current operations	$ 44,085	$ 66,711	$ 110,796

(In Thousands)

Note 6 – Property

Property is summarized as follows at June 30:

	2022	2021
Land	$ 1,154	$ 1,154
Buildings and improvements	166,715	164,451
Laboratory equipment	86,864	83,115
Other equipment	16,720	16,318
Construction in progress	11,432	5,690
	282,885	270,728
Less accumulated depreciation and amortization	(209,661)	(200,548)
Total property, net	$ 73,224	$ 70,180

Included in total expenses is depreciation expense of $11,770 and $11,265 for the years ended June 30, 2022 and 2021, respectively.

(In Thousands)

Note 7 – Debt

In March 2021, the Institute and a bank completed a $98,000 state tax-exempt direct placement loan through the California Statewide Communities Development Authority ("2021 Loan") to be used for the refinancing of the 2014, 2018, and 2019 loans, for the renovation, restoration, and equipping of the Institute campus facilities, and for other general purposes. The 2014, 2018, and 2019 loans were issued primarily to fund the research buildings expansion project, a new research facility, and the renewal and expansion of the central plant and electrical distribution infrastructure. The 2021 Loan provides for monthly draws through February 28, 2023, as funds are required for loan purposes and for level debt service at a fixed interest rate of 3.25 percent with a final maturity of March 1, 2051. The outstanding balance of the 2021 Loan was $68,009 and $64,757 at June 30, 2022 and 2021, respectively.

Issuance costs related to the Institute's debt are being amortized over the life of the loan. Unamortized costs of issuance were $622 and $644 at June 30, 2022 and 2021, respectively. Amortization expense related to the issuance costs was $22 and $41 for the years ended June 30, 2022 and 2021, respectively.

After full funding of the 2021 Loan, the future annual principal payments under the 2021 Loan are as follows:

Years Ending June 30,	
2023	$ 2,031
2024	2,099
2025	2,177
2026	2,250
2027	2,325
Thereafter	85,514
Total	$ 96,396

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. Under the terms of the Institute's debt, the Institute is subject to compliance with certain covenants, including restrictions on additional indebtedness.

Interest expense related to the Institute's debt was $2,137 and $2,300 for the years ended June 30, 2022 and 2021, respectively.

(In Thousands)

Note 8 – Net Assets

Net assets at June 30 are summarized as follows:

	2022	2021
Without Donor Restrictions	$113,953	$ 135,380
With Donor Restrictions		
Subject to expenditure for specified purpose		
Research	167,213	208,240
Appreciation on general use endowments	27,198	41,972
Building project	22,945	1,203
Assigned interest in limited partnership units (Note 2)	28,955	28,955
Subject to the Institute's spending policy and appropriation		
Investment in perpetuity		
Research	152,993	151,852
General use	102,192	101,948
Total with donor restrictions	501,496	534,170
Total net assets	$ 615,449	$ 669,550

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

	2022	2021
Research	$ 35,388	$ 21,231
General use	5,719	4,552
Total releases from restriction	$ 41,107	$ 25,783

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

	2022	2021
Board-designated endowment net assets		
Research	$ 2,055	$ 2,293
General use	4,553	4,825
Total board-designated endowment net assets	$ 6,608	$ 7,118

(In Thousands)

Note 8 – Net Assets (continued)

The changes in the Institute's Board-designated and donor-restricted endowment net assets are as follows for the years ended June 30, 2022 and 2021:

		With Donor Restrictions			
	Without Donor Restrictions	Accumulated Endowment Earnings	Original Gift Amount	Total With Donor Restrictions	Total
Endowment net assets at July 1, 2020	$ 5,168	$ 54,495	$ 239,503	$ 293,998	$ 299,166
Investment return					
Interest and dividends	19	985	-	985	1,004
Net gains	1,501	78,301	-	78,301	79,802
Total investment return	1,520	79,286	-	79,286	80,806
Contributions	-	-	14,297	14,297	14,297
Amounts appropriated for expenditure	(200)	(12,312)	-	(12,312)	(12,512)
Board designations of net assets	630	-	-	-	630
Endowment net assets at June 30, 2021	7,118	121,469	253,800	375,269	382,387
Investment return					
Interest and dividends	44	2,255	-	2,255	2,299
Net losses	(523)	(26,241)	-	(26,241)	(26,764)
Total investment return	(479)	(23,986)	-	(23,986)	(24,465)
Contributions	-	-	1,384	1,384	1,384
Amounts appropriated for expenditure	(250)	(14,063)	-	(14,063)	(14,313)
Board designations of net assets	219	-	-	-	219
Endowment net assets at June 30, 2022	$ 6,608	$ 83,420	$ 255,184	$ 338,604	$ 345,212

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 deficiencies of $144 and $0 as of June 30, 2022 and 2021, respectively.

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 $4,683 and $4,617 for the years ended June 30, 2022 and 2021, respectively.

(In Thousands)

Note 9 – Employee Benefit Plans (continued)

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:

	2022	2021
Benefit obligation, beginning of year	$ 6,202	$ 5,849
Service cost	41	46
Interest cost	148	151
Actuarial (gain)/loss	(1,299)	332
Benefits paid	(126)	(176)
Benefit obligation, end of year	$ 4,966	$ 6,202
Funded status of plan, end of year	$ (4,966)	$ (6,202)
Rabbi trust investments, end of year	$ 6,238	$ 9,244

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

	2022	2021
Service cost	$ 41	$ 46
Interest cost	148	151
Amortization of net gain	(51)	(30)
Net periodic post-retirement benefit cost	$ 138	$ 167

(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:

	2022	2021
Balance, beginning of year	$ 1,196	$ 1,558
Actuarial gain/(loss)	1,299	(332)
Amortization	(51)	(30)
Balance, end of year	$ 2,444	$ 1,196

The net actuarial gains included in net assets without donor restrictions at June 30, 2022, that are expected to be recognized in net periodic post-retirement benefit cost during the year ended June 30, 2023, are $111.

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,	
2023	$ 372
2024	354
2025	348
2026	341
2027	322
Thereafter	1,520
Total	$ 3,257

Contributions to the Health Benefits Plan are expected to equal benefit payments. For the years ended June 30, 2022 and 2021, employer contributions were $126 and $176, respectively, and participant contributions were $214 and $179, 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:

	2022	2021
Discount rate	2.60%	2.50%
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 3.90 percent and 0 percent for 2022 and 2021, respectively, and is assumed to fluctuate to 3.70 percent through 2100 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, 2022 and 2021, would be increased by approximately $38 and $93, 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 $2 and $3 for the years ended June 30, 2022 and 2021, respectively. If the healthcare cost trend assumptions were decreased by 1 percent, the accumulated post-retirement benefit obligation as of June 30, 2022 and 2021, would be decreased by approximately $32 and $78, 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 $2 and $3 for the years ended June 30, 2022 and 2021, respectively.

Health plans – Through December 31, 2021, the Institute self-insured hospitalization and medical coverage under two of the health plans offered to its employees. While self-insured, the Institute limited 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. Effective January 1, 2022, these two health plans transitioned to fully insured plans. Upon returning to a fully insured plan, the Institute implemented a terminal liability option to extend stop-loss coverage for six months. In the opinion of management, the runout claim liability on the self-insured plans at June 30, 2022, if any, is not expected to be material.

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.

(In Thousands)

Note 10 – Fair Value of Financial Instruments (continued)

The following tables present information about each major category of the Institute's financial assets measured at fair value on a recurring basis:

	Fair Value Measurement at June 30, 2022			
	Level 1	Level 2	Level 3	Total
Marketable securities				
Cash and cash equivalents	$ 12,759	$ -	$ -	$ 12,759
U.S. Treasury securities				
U.S. Treasury bills	1,548	-	-	1,548
U.S. Treasury notes and bonds	6,648	-	-	6,648
Total U.S. Treasury securities	8,196	-	-	8,196
Commodities – allocated gold	25,425	-	-	25,425
U.S. Government Agencies notes and bonds	892	-	-	892
Bonds				
US Corporate Bonds	-	23,241	-	23,241
Developed Market Bonds	-	4,259	-	4,259
Total Bonds	-	27,500	-	27,500
Mutual funds				
Domestic equity	4,172	-	-	4,172
Global equity	2,760	-	-	2,760
Fixed income	2,063	-	-	2,063
Other	3,063	-	-	3,063
Total mutual funds	12,058	-	-	12,058
Equity Securities – Healthcare	85	-	-	85
Total marketable securities	59,415	27,500	-	86,915
Beneficial interest in split-interest agreements	-	-	1,732	1,732
	$ 59,415	$ 27,500	$ 1,732	88,647
Investments measured at net asset value				
Alternative investments				
Global equity funds				142,083
Private equity funds				136,756
Global multi-strategy funds				59,533
Real assets funds				44,504
Emerging markets funds				39,883
Long/short equity funds				27,157
Long only equity funds				25,873
Fixed income funds				18,532
Distressed securities funds				4,752
Other funds				991
Total investments measured at net asset value				500,064
				$ 588,711

(In Thousands)

Note 10 – Fair Value of Financial Instruments (continued)

	Fair Value Measurement at June 30, 2021			
	Level 1	Level 2	Level 3	Total
Marketable securities				
Cash and cash equivalents	$ 22,563	$ -	$ -	$ 22,563
U.S. Treasury securities	33,992	-	-	33,992
Commodities – allocated gold	24,672	-	-	24,672
Equity securities				
Information technology	12,669	-	-	12,669
Industrial	6,570	-	-	6,570
Other	2,867	-	-	2,867
Total equity securities	22,106	-	-	22,106
Mutual funds				
Domestic equity	6,469	-	-	6,469
Global equity	2,683	-	-	2,683
Fixed income	2,658	-	-	2,658
Other	3,146	-	-	3,146
Total mutual funds	14,956	-	-	14,956
Total marketable securities	118,289	-	-	118,289
Beneficial interest in split-interest agreements	-	-	2,648	2,648
	$ 118,289	$ -	$ 2,648	120,937
Investments measured at net asset value				
Alternative investments				
Global equity funds				134,572
Private equity funds				111,654
Global multi-strategy funds				56,540
Emerging markets funds				49,306
Fixed income funds				41,208
Long only equity funds				37,952
Long/short equity funds				35,227
Real assets funds				32,227
Distressed securities funds				10,304
Other funds				3,000
Total investments measured at net asset value				511,990
				$ 632,927

The change in the fair value of the Institute's Level 3 classified assets, the beneficial interest in split-interest agreements, was ($916) and $202 for the years ended June 30, 2022 and 2021, respectively. The change in the value of the beneficial interest in split-interest agreements is included in contributions on the statements of activities.

Note 10 – Fair Value of Financial Instruments (continued)

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

Asset/Liability	Fair Value as of June 30, 2022	Valuation Technique	Unobservable Input(s)	Rate (Wtd. Avg.)
Beneficial interest in split-interest agreements	$ 1,732	Discounted cash flow	Discount rate Mortality tables	3.6% (3.6%)

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 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, consist of the following:

	2022			
	Research	Management & General	Fundraising	Total
Salaries and wages	$ 57,827	$ 8,137	$ 3,774	$ 69,738
Employee benefits	15,984	2,000	1,065	19,049
Research supplies	19,665	-	-	19,665
Graduate program and outside services	14,178	1,243	48	15,469
Scientific subcontracts	6,425	-	-	6,425
Depreciation and amortization	10,853	864	75	11,792
Occupancy	6,726	2,048	103	8,877
Information technology	2,332	659	251	3,242
Professional fees	113	1,457	18	1,588
Other	1,550	1,378	705	3,633
Total expenses	$ 135,653	$ 17,786	$ 6,039	$ 159,478

	2021			
	Research	Management & General	Fundraising	Total
Salaries and wages	$ 55,330	$ 7,746	$ 3,507	$ 66,583
Employee benefits	15,361	2,346	996	18,703
Research supplies	17,335	-	-	17,335
Graduate program and outside services	11,840	640	254	12,734
Scientific subcontracts	5,115	-	-	5,115
Depreciation and amortization	10,465	787	54	11,306
Occupancy	6,123	1,714	95	7,932
Information technology	1,852	736	200	2,788
Professional fees	293	981	14	1,288
Other	839	1,161	171	2,171
Total expenses	$ 124,553	$ 16,111	$ 5,291	$ 145,955

(In Thousands)

Note 12 – Commitments and Contingencies

Commitments – At June 30, 2022, contractual commitments on purchases pending or in process are $14,173.

Leases – The Institute has entered into operating leases for building space that expire through September 2027. Rent expense totaled $2,077 and $1,605 for the years ended June 30, 2022 and 2021, 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, 2022, are as follows:

Years Ending June 30,		
2023	$	1,537
2024		1,425
2025		1,427
2026		1,104
2027		1,137
Thereafter		287
	$	6,917

Line of credit – The Institute has an unsecured line of credit loan agreement with a bank providing up to $10,000 for general working capital purposes. The agreement expires on January 1, 2023, and provides for monthly interest at the prime rate (4.75 percent on June 30, 2022) on the outstanding balance. At June 30, 2022, 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, 2022 and 2021.

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, 2022 and 2021.

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 67.9 percent and 60.9 percent of total grant revenue for the years ended June 30, 2022 and 2021, respectively.