

EISNERAMPER

**NATIONAL DISEASE
RESEARCH INTERCHANGE**

FINANCIAL STATEMENTS

DECEMBER 31, 2022 and 2021



NATIONAL DISEASE RESEARCH INTERCHANGE

Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Financial Statements	
Statements of financial position as of December 31, 2022 and 2021	3
Statements of activities and changes in net assets for the years ended December 31, 2022 and 2021	4
Statements of functional expenses for the years ended December 31, 2022 and 2021	5 - 6
Statements of cash flows for the years ended December 31, 2022 and 2021	7
Notes to financial statements	8 - 17

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
National Disease Research Interchange

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Disease Research Interchange, which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for each of 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 National Disease Research Interchange as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for each of 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of National Disease Research Interchange 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 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.

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 National Disease Research Interchange's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.



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Auditors' 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 auditors' 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 National Disease Research Interchange's 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 National Disease Research Interchange's 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.



EISNERAMPER LLP
Philadelphia, Pennsylvania
May 15, 2023



NATIONAL DISEASE RESEARCH INTERCHANGE

Statements of Financial Position

	December 31,	
	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets:		
Cash	\$ 1,131,537	\$ 1,269,297
Accounts receivable, net of allowance for doubtful accounts of approximately \$392,000 in 2022 and \$368,000 in 2021	1,548,079	1,645,984
Contribution receivable	449,533	449,533
Inventory	44,910	44,910
Prepaid expenses and other assets	107,800	64,658
	<u>3,281,859</u>	<u>3,474,382</u>
Total current assets		
Property and equipment, net of accumulated depreciation	1,724,260	2,585,399
Operating lease right-of-use assets	1,901,996	-
	<u>\$ 6,908,115</u>	<u>\$ 6,059,781</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 736,959	\$ 611,041
Notes payable	264,286	264,286
Deferred revenue	2,263	145,719
Deferred rent and rent credit	-	185,995
Current portion of operating lease liabilities	272,957	-
	<u>1,276,465</u>	<u>1,207,041</u>
Notes payable, long-term	886,310	1,150,595
Other noncurrent liabilities	14,987	4,608
Deferred rent and rent credit, long-term	-	1,108,210
Long-term operating lease liabilities	2,807,593	-
	<u>4,985,355</u>	<u>3,470,454</u>
Total liabilities		
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>1,922,760</u>	<u>2,589,327</u>
	<u>\$ 6,908,115</u>	<u>\$ 6,059,781</u>

See notes to financial statements.

NATIONAL DISEASE RESEARCH INTERCHANGE

Statements of Activities and Changes in Net Assets

	Year Ended December 31,	
	2022	2021
Revenue and other support:		
Biospecimen fees from researchers	\$ 2,750,193	\$ 2,865,025
Ancillary revenue	739,067	539,310
Cost of ancillary revenue	(761,778)	(710,166)
Research support contracts:		
Federal and state	3,164,233	2,294,359
Corporate	1,428,854	1,482,841
Contributions	355	449,533
Grant revenue	-	558,107
Special events, net of direct benefit to donors of \$109,691 in 2022 and \$-0- in 2021	65,669	-
Contributed services	96,694	88,915
Interest and other income	15,922	30,284
	<u>7,499,209</u>	<u>7,598,208</u>
Expenses:		
Program services:		
Human tissue and organ resources for research	3,130,016	2,141,708
Corporate	1,310,969	1,240,509
Special projects	470,872	717,262
	<u>4,911,857</u>	<u>4,099,479</u>
Support services:		
Management and general	3,317,493	3,442,509
	<u>8,229,350</u>	<u>7,541,988</u>
Change in net assets without donor restrictions from operating activities	(730,141)	56,220
Other changes in net assets without donor restrictions:		
Change in fair value of interest rate swap agreement	63,574	35,740
	<u>(666,567)</u>	<u>91,962</u>
Net assets without donor restrictions at beginning of year	<u>2,589,327</u>	<u>2,497,365</u>
Net assets without donor restrictions at end of year	<u><u>\$ 1,922,760</u></u>	<u><u>\$ 2,589,327</u></u>

See notes to financial statements.

NATIONAL DISEASE RESEARCH INTERCHANGE

Statement of Functional Expenses Year Ended December 31, 2022

	Program Services			Support Services			Total	
	Human Tissue and Organ Resources for Research	Corporate	Special Projects	Total Program Services	Management and General	Fundraising		Total Support Services
Payroll and related expenses	\$ 1,480,987	\$ 359,905	\$ 181,048	\$ 2,021,940	\$ 1,090,854	\$ -	\$ 1,090,854	\$ 3,112,794
Bad debt	-	-	-	-	66,933	-	66,933	66,933
Biomaterial procurement	386,421	534,783	169,584	1,090,788	-	-	-	1,090,788
Computers and equipment	12,613	20,712	-	33,325	212,895	-	212,895	246,220
Consulting fees	1,568	-	-	1,568	17,207	-	17,207	18,775
Depreciation	-	-	-	-	906,342	-	906,342	906,342
Dues and subscriptions	-	-	-	-	22,339	-	22,339	22,339
Insurance	-	-	-	-	69,329	-	69,329	69,329
Laboratory	62,471	93,552	15,116	171,139	-	-	-	171,139
Advertising	14,379	19,741	-	34,120	104,546	-	104,546	138,666
Meeting, exhibit and travel	51,152	16,412	-	67,564	32,435	-	32,435	99,999
Miscellaneous	-	-	-	-	124,545	-	124,545	124,545
Office supplies	-	-	-	-	10,013	-	10,013	10,013
Postage and delivery	175	-	-	175	1,107	-	1,107	1,282
Printing	-	250	-	250	285	-	285	535
Professional fees	-	-	-	-	377,834	-	377,834	377,834
Remote sites	256,547	105,204	61,000	422,751	-	-	-	422,751
Rent and occupancy	-	-	-	-	250,597	-	250,597	250,597
Telephone	-	27,653	-	27,653	30,232	-	30,232	57,885
Subcontracts	719,275	-	-	719,275	-	-	-	719,275
Shipping and delivery	144,428	132,757	44,124	321,309	-	-	-	321,309
	<u>\$ 3,130,016</u>	<u>\$ 1,310,969</u>	<u>\$ 470,872</u>	<u>\$ 4,911,857</u>	<u>\$ 3,317,493</u>	<u>\$ -</u>	<u>\$ 3,317,493</u>	<u>\$ 8,229,350</u>
Total expense included in the expense section on the statement of activities and changes in net assets								
Plus expenses included with revenue on the statement of activities and changes in net assets								
Special events-cost of direct benefits to donors:								
Food and beverages	-	-	-	-	-	22,668	22,668	22,668
Rent and facility costs	-	-	-	-	-	17,701	17,701	17,701
Entertainment	-	-	-	-	-	61,003	61,003	61,003
Other Direct Expenses	-	-	-	-	-	8,319	8,319	8,319
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,691</u>	<u>109,691</u>	<u>109,691</u>
Total special events-cost of direct benefits to donors								
Cost of ancillary revenue:								
Payroll and related expenses	361,826	-	-	361,826	-	-	-	361,826
Biomaterial procurement	389,264	-	-	389,264	-	-	-	389,264
Consulting fees	2,276	-	-	2,276	-	-	-	2,276
Advertising	8,412	-	-	8,412	-	-	-	8,412
	<u>761,778</u>	<u>-</u>	<u>-</u>	<u>761,778</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>761,778</u>
Total cost of ancillary revenue								
Total functional expenses	<u>\$ 3,891,794</u>	<u>\$ 1,310,969</u>	<u>\$ 470,872</u>	<u>\$ 5,673,635</u>	<u>\$ 3,317,493</u>	<u>\$ 109,691</u>	<u>\$ 3,427,184</u>	<u>\$ 9,100,819</u>

See notes to financial statements.

NATIONAL DISEASE RESEARCH INTERCHANGE

Statement of Functional Expenses Year Ended December 31, 2021

	Program Services			Support Services		
	Human Tissue and Organ Resources for Research	Corporate	Special Projects	Total Program Services	Management and General	Total
Payroll and related expenses	\$ 1,357,938	\$ 274,049	\$ 351,292	\$ 1,983,279	\$ 1,104,587	\$ 3,087,866
Bad debt	-	-	-	-	364,531	364,531
Biomaterial procurement	374,663	568,622	240,182	1,183,467	-	1,183,467
Computers and equipment	28,708	15,904	-	44,612	189,902	234,514
Consulting fees	1,919	881	750	3,550	2,361	5,911
Depreciation	-	-	-	-	930,513	930,513
Dues and subscriptions	-	-	-	-	19,755	19,755
Insurance	-	-	-	-	54,554	54,554
Laboratory	60,931	74,315	11,597	146,843	-	146,843
Advertising	18,292	15,021	-	33,313	101,502	134,815
Meeting, exhibit and travel	1,769	1,760	-	3,529	17,878	21,407
Miscellaneous	-	-	-	-	100,745	100,745
Office supplies	-	-	-	-	12,438	12,438
Postage and delivery	351	110	-	461	1,166	1,627
Printing	490	811	-	1,301	828	2,129
Professional fees	-	-	-	-	220,580	220,580
Remote sites	158,610	101,767	61,000	321,377	-	321,377
Rent and occupancy	-	-	-	-	295,142	295,142
Telephone	-	28,822	-	28,822	26,027	54,849
Shipping and delivery	138,037	158,447	52,441	348,925	-	348,925
	<u>\$ 2,141,708</u>	<u>\$ 1,240,509</u>	<u>\$ 717,262</u>	<u>\$ 4,099,479</u>	<u>\$ 3,442,509</u>	<u>\$ 7,541,988</u>
Total expense included in the expense section on the statement of activities and changes in net assets						
Plus expenses included with revenue on the statement of activities and changes in net assets						
Cost of ancillary revenue:						
Payroll and related expenses	333,832	-	-	333,832	-	333,832
Biomaterial procurement	363,910	-	-	363,910	-	363,910
Consulting fees	3,671	-	-	3,671	-	3,671
Advertising	8,753	-	-	8,753	-	8,753
	<u>710,166</u>	<u>-</u>	<u>-</u>	<u>710,166</u>	<u>-</u>	<u>710,166</u>
Total cost of ancillary revenue						
Total functional expenses	<u>\$ 2,851,874</u>	<u>\$ 1,240,509</u>	<u>\$ 717,262</u>	<u>\$ 4,809,645</u>	<u>\$ 3,442,509</u>	<u>\$ 8,252,154</u>

See notes to financial statements.

NATIONAL DISEASE RESEARCH INTERCHANGE

Statements of Cash Flows

	Year Ended December 31,	
	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (666,567)	\$ 91,962
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	906,342	930,513
Change in allowance for doubtful accounts	24,124	270,981
Change in fair value of interest rate swap agreement	(63,574)	(35,740)
Change in deferred rent	-	47,432
Amortization of operating lease right-of-use asset	129,217	-
Amortization of deferred rent credit	-	(138,564)
Changes in assets and liabilities:		
Accounts receivable	73,781	579,048
Contribution receivable	-	(449,533)
Prepaid expenses and other assets	20,432	(8,722)
Accounts payable and accrued expenses	125,918	(51,604)
Other noncurrent liabilities	10,379	-
Deferred revenue	(143,456)	(7,818)
Lease liabilities	(244,868)	-
Net cash provided by operating activities	<u>171,728</u>	<u>1,227,955</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(45,203)</u>	<u>(98,865)</u>
Cash flows from financing activities:		
Repayments of notes payable	(264,285)	(264,286)
Proceeds from tenant improvement allowance	-	19,034
Net cash used in financing activities	<u>(264,285)</u>	<u>(245,252)</u>
Net increase (decrease) in cash	(137,760)	883,838
Cash at beginning of year	<u>1,269,297</u>	<u>385,459</u>
Cash at end of year	<u>\$ 1,131,537</u>	<u>\$ 1,269,297</u>

See notes to financial statements.

NATIONAL DISEASE RESEARCH INTERCHANGE

Notes to Financial Statements December 31, 2022 and 2021

NOTE A - NATURE OF ORGANIZATION

Founded in 1980, National Disease Research Interchange ("NDRI") is a nonprofit organization located in Philadelphia, Pennsylvania. NDRI's mission is to provide human biospecimens to advance biomedical/bioscience research and development worldwide. For over 30 years, NDRI has received federal funding from the National Institutes of Health ("NIH") for its Human Tissue and Organ Resources for Research ("HTORR") program, in which the primary purpose is to aid in the distribution of human tissues and organs in support of biomedical research and development. Through the HTORR program, NDRI provides biomedical investigators with donated normal and diseased human tissues and organs recovered from a diverse donor pool using customized procurement, processing, and preservation and distribution protocols. NDRI's corporate program was established to respond to the human tissue needs of pharmaceutical and biotechnology industries' research and development programs, providing highly customized biospecimen procurement services to its pharmaceutical and biotechnology partners. In addition, through various special projects, NDRI works closely with patient advocacy organizations and foundations to provide tissues to researchers working on specific diseases. NDRI is a 24/7 operation that partners with a nationwide network of organ procurement organizations, tissue banks, eye banks, hospitals, and recovery personnel throughout the United States. The wide geographic distribution of these source partners allows NDRI to provide biospecimens from diverse donor populations and facilitates the timely and efficient provision of fresh tissues directly to researchers across the United States and around the world. By serving as the liaison between procurement sources and the research community, NDRI is uniquely positioned to support breakthrough advances and discoveries that can facilitate the treatment and cure of human diseases.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Basis of presentation:

The financial statements of NDRI have been prepared utilizing the accrual basis of accounting conforming to accounting principles generally accepted in the United States of America ("U.S. GAAP") as applicable to not-for-profit organizations.

[2] Classification of net assets:

NDRI reports information regarding its financial position and activities based on the existence or absence of donor-imposed or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

(i) *Net assets without donor restrictions:*

Net assets available for use in general operations and not subject to donor-imposed or certain grantor-imposed restrictions.

(ii) *Net assets with donor restrictions:*

Net assets subject to donor-imposed or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Donor-imposed restrictions which are satisfied in the year of donation, are reported as net assets without donor restrictions.

As of December 31, 2022 and 2021, NDRI did not have any net assets with donor restrictions.

NATIONAL DISEASE RESEARCH INTERCHANGE

Notes to Financial Statements December 31, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[3] Accounts receivable, contribution receivable and allowance for doubtful accounts:

Accounts receivable and contribution receivable are periodically reviewed by management for collectability. Bad debts are provided for on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. Accounts are written off when they are deemed uncollectible. Management has determined that an allowance of approximately \$392,000 was deemed necessary as of December 31, 2022 and \$368,000 in 2021.

[4] Other receivables and deferred rent credit:

NDRI records the tenant improvement costs reimbursed by the landlord as a deferred rent credit, which will be amortized ratably over the original lease terms as a credit to rental expense.

During 2019, NDRI entered into an agreement to lease office space at a new location. As part of that agreement, the landlord agreed to reimburse NDRI for certain costs associated with improving the space before NDRI began occupying the building in March 2020. Approved reimbursements for the years ended December 31, 2022 and 2021 were \$-0- and \$19,034, respectively. These amounts were fully collected during the years ended December 31, 2022 and 2021.

The deferred rent credit is a liability that is being amortized over the life of the lease in accordance with ASC 840. The deferred rent credit was \$1,202,427 as of December 31, 2021. As part of the adoption of ASU 2016-02, *Leases (Topic 842)*, the deferred rent credit was netted with the operating lease right-of-use asset on the statement of financial position (see Note B[16]).

[5] Inventory:

Inventory represents procured tissues in laboratory facilities available for shipment to researchers. The value of tissue inventories as of December 31, 2022 and 2021 is based on procurement costs, with only 20% of such procurement costs being capitalized, as determined by management, based on historical data and projected shipments.

[6] Property and equipment and depreciation:

Purchased property and equipment over \$2,000 are capitalized and are stated at cost, less accumulated depreciation in the statements of financial position. Expenditures for major renewals and betterments are capitalized, while minor replacements, repairs, and maintenance, which do not extend the useful lives of the related assets, are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of the assets range from three to five years. Leasehold improvements are depreciated over the remaining lease term.

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. In the opinion of management, there was no impairment as of either December 31, 2022 or 2021.

[7] Contributed services:

Contribution of services is recognized by NDRI as both revenue and expenses in the accompanying statements of activities and changes in net assets, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not donated. For the years ended December 31, 2022 and 2021, NDRI recognized \$96,694 and \$88,915, respectively, of in-kind contributions. In-kind contributions include advertising received in connection with fundraising events and marketing, which are included in contributed services revenue on the statements of activities and changes in net assets. The offsetting expenses are recorded in the same amount on the statement of functional expenses as advertising expenses. Contributed services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar services.

NATIONAL DISEASE RESEARCH INTERCHANGE

Notes to Financial Statements December 31, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Revenue recognition - contributions:

NDRI recognizes contributions as revenue when cash, securities, unconditional promises to give, a notification of a beneficial interest, or other assets are received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

Funding for NDRI's research activities is achieved substantially through cost reimbursement government grants and contracts. These grants and contracts provide funding to be used in for the procurement of tissues and organs for research purposes. As the government is not receiving a benefit as a result of these transactions, the grants and contracts are considered to be contributions to NDRI. The grant and contract agreements require that funds be expended for a specific purpose or contain specific service requirements. As these stipulations create a barrier that must be achieved, government grants and contracts are considered to be conditional contributions until such time as the conditions are met. Contributions from grant and contract agreements are therefore recognized as revenue when costs are incurred and specific service requirements are met as required by the agreements. Until the financial information required by the funding sources is accepted, costs billed for program services under cost reimbursement contracts are subject to review and possible disallowance. In management's opinion, the potential for material disallowances is remote, and therefore, is not a barrier that would prevent the recognition of revenue.

Unexpended federal program income represents amounts received from governmental contracts that have not yet been expended for approved program activities. Conditional amounts of \$2,319,339 and \$2,060,686 were not yet recognized on government grants in progress as of December 31, 2022 or 2021, respectively.

On January 27, 2021, NDRI received proceeds from the U.S. Small Business Administration (the "SBA") as part of the Paycheck Protection Program ("PPP") in the amount of \$588,107. The funding was conditional on NDRI using the funds to cover qualified expenditures while maintaining certain employment levels. Contributions from this agreement are therefore recognized as revenue when qualifying costs are incurred and conditions have been substantially met, as required by the agreement. During the year ended December 31, 2021, \$588,107, of the grant was used for qualified expenditures, including payroll, rent, mortgage interest, and utilities, and thus was recognized as grant revenue on the statements of activities and changes in net assets. Management believed that these costs met the conditions of the grant and would ultimately be approved by the SBA. On January 27, 2022, NDRI was notified that both the SBA and the bank forgave the grant received on January 27, 2021, in full.

The CARES Act provides an employee retention credit ("CARES Employee Retention credit"), which is a refundable tax credit against certain employment taxes. From March 12, 2020 through December 31, 2020, the tax credit is equal to 50% of qualified wages up to \$10,000 or a maximum credit of up to \$5,000 per employee. From January 1, 2021 through June 30, 2021, the tax credit is equal to 70% of qualified wages up to \$10,000 during a quarter or a maximum credit of up to \$14,000 per employee (or \$7,000 per quarter). During the fiscal year ended December 31, 2021, the NDRI recorded \$449,533 related to the CARES Employee Retention credit in contribution revenue on NDRI's statements of activity and changes in net assets. As of December 31, 2022 and 2021, NDRI has a \$449,533 receivable balance from the United States government related to the CARES Act, which is recorded in contribution receivables on the Organization's statements of financial position.

NATIONAL DISEASE RESEARCH INTERCHANGE

Notes to Financial Statements December 31, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Revenue recognition – services:

Biospecimen fees from researchers and ancillary revenue:

Funding for NDRI's activities is achieved substantially through activities surrounding the procurement and distribution of human tissues and organs in support of biomedical research and development. Biospecimen fees from researchers and ancillary revenue is recognized at a point in time when the tissues and organs are shipped as that is the point when the performance obligation is met and control transfers to the researchers. The amount recognized is the amount that reflects the consideration expected to be received in exchange for providing tissue and organ samples for research purposes. Biospecimen fees and ancillary revenue from researchers are fixed and are agreed to in advance based on the type of tissue or organ being requested, the condition, and the cost incurred by NDRI as part of procuring the sample. Researchers are invoiced subsequent to the specimens being shipped with collection expected soon after.

Ancillary revenue is derived from the performance obligation of procurement and distribution of human tissues and organs for certain grants and contracts. Revenue is recognized when the performance obligation is met, which is at a point in time when the product is shipped to the customer. The amount recognized is the amount that or which reflects the consideration expected to be received. Management has elected to offset ancillary revenue with related costs in the statement of activities and changes in net assets. At times, costs exceed revenue earned.

Research support contracts – corporate:

A portion of NDRI's revenue is derived through research support contracts with private companies. Some contracts relate to special projects, while others relate to services to be performed over the term of the contract. Contract amounts are fixed and set at a specific amount. Research support contract revenue that relates to milestones or special projects is recognized at a point in time when the milestone has been met or project has been completed, as that is the point when the performance obligation is met and control transfers to the private companies. Revenue recognized at a point in time due to a milestone being met or upon a project's completion was approximately \$34,000 and \$138,000 for the years ended December 31, 2022 and 2021, respectively. The amount recognized is the amount that reflects the consideration expected to be received in exchange for satisfying the terms of the contract.

Some research support contracts between NDRI and private companies require NDRI to perform services over the term of the agreement. Services performed include providing highly customized biospecimen procurement services to NDRI's pharmaceutical and biotechnology partners. The obligation of delivering these services are simultaneously received and consumed by the private companies; therefore, revenue is recognized ratably over the term contract which is typically the calendar year. Revenue recognized over the term of the contract was approximately \$1,394,000 and \$1,328,000 for the years ended December 31, 2022 and 2021, respectively. The amount recognized is based on a fixed price established in the contract which represents the amount of consideration expected to be received in exchange for performing these services.

Deferred revenue represents advanced payments from nongovernmental agencies where the performance obligation has not yet been met. Deferred revenue associated with these contracts was \$2,263, \$145,719, and \$153,537 as of December 31, 2022, 2021, and 2020, respectively. Deferred revenue is considered a contract liability which is expected to be realized within the subsequent year.

[10] Paycheck Protection Program:

NDRI received PPP loans under the CARES Act. NDRI has elected to account for the PPP loans as conditional contributions under Accounting Standards Update ("ASU") 2018-08. The loan agreements include provisions for loan forgiveness based on measurable performance barriers related to staffing and salary levels and qualifying expenditures. Any amounts not forgiven will be required to be repaid. PPP funds were recognized as contribution income, as the conditions on which they depend are substantially met.

NATIONAL DISEASE RESEARCH INTERCHANGE

Notes to Financial Statements December 31, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[11] Functional allocation of expenses:

Directly identifiable expenses are charged to program services, management and general, and fundraising. Payroll and related expenses are charged to the different functions based on the employees' actual functions performed. Expenses related to more than one function are allocated among the program services and support services benefited. Biomaterial procurement, computers and equipment, laboratory expense, advertising, meeting, exhibit and travel expense, miscellaneous, postage and delivery, printing, promotional materials, remote sites, telephone, and shipping and delivery expenses that are not directly identifiable are allocated to program and supporting services based on the ratio of direct expenses incurred by each function. As all research is performed offsite, expenses such as depreciation, insurance and rent and occupancy are charged to management and general.

[12] Advertising and marketing:

Advertising costs of \$138,666 and \$134,815 for the years ended December 31, 2022 and 2021, respectively, are charged to expenses when incurred.

[13] Federal tax status:

The Internal Revenue Service has classified NDRI as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("Code"), as an organization, contributions to which are deductible under Section 170(c) of the Code, and as an organization that is not a private foundation as defined in Section 509(a) of the Code. Therefore, no provision for income taxes has been included in these financial statements. Management has evaluated the tax positions taken by NDRI, and has concluded that as of December 31, 2022 and 2021, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

NDRI recognizes accrued interest and penalties associated with uncertain tax positions, if any. There were no income tax related interest or penalties recorded for either of the years ended December 31, 2022 or 2021.

[14] Use of estimates:

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

[15] Leases:

NDRI determines if an arrangement is a lease at inception.

Operating leases are recorded as operating lease right-of-use ("ROU") assets and operating lease liabilities (current portion and long-term portion) on the accompanying statement of financial position. Operating lease ROU assets and the related lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The operating lease ROU assets also include lease incentives and initial direct costs incurred. For operating leases, interest on the lease liability and the amortization of ROU asset result in straight-line rent expense over the lease term.

Leases may include options to extend or terminate the lease which are included in the ROU operating lease assets and operating lease liability when they are reasonably certain of exercise. Operating lease expense associated with minimum lease payments is recognized on a straight-line basis over the lease term. When additional payments are based on usage or vary based on other factors, they are considered variable lease payments and are excluded from the measurement of the right-of-use asset and lease liability. These payments are recognized as an expense in the period in which the related obligation was incurred.

For the year ended December 31, 2021, NDRI accounted for leases under ASC 840. Operating leases were recorded on a straight-line basis over the term of the lease.

NATIONAL DISEASE RESEARCH INTERCHANGE

Notes to Financial Statements December 31, 2022 and 2021

NOTE—B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[16] Adoption of new accounting pronouncements:

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842) to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

NDRI adopted the standard effective January 1, 2022 and recognized and measured leases existing January 1, 2022, with certain practical expedients available. Lease disclosures for the year ended December 31, 2022 are made under prior lease guidance in FASB ASC 840. Accordingly, NDRI applied the guidance to each lease that had commenced as of the adoption date and also elected a package of practical expedients which included the following: no requirement to reassess (a) whether any expired or existing contracts are, or contain, leases, (b) the lease classification for any expired or existing leases, and (c) the recognition requirements for initial direct costs for any existing leases. NDRI also elected a practical expedient to account for lease and non-lease components as a single lease component. NDRI excluded short-term leases having initial terms of twelve months or less from the new guidance as an accounting policy election and recognizes rent expense for such leases on a straight-line basis over the lease term. In calculating the related lease liabilities at the time of adoption, NDRI utilized historical experience when determining the noncancelable portion of the lease term and elected to use the risk-free rate as the discount rate.

As a result of the adoption of the new lease accounting, NDRI recognized on January 1, 2022 an operating lease liability of \$3,325,418, which represents the present value of the remaining operating lease payments, discounted using the risk-free rate of 6.5%, and a right-of-use asset of \$2,031,213, which represents the operating lease liability of \$3,325,418 adjusted for deferred rent and rent credit of \$1,294,205.

The standard had a material impact on NDRI's statement of financial position but did not have an impact on its consolidated statements of activities, or statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, while the accounting for finance leases remained substantially unchanged.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash or other financial assets. For each category of contributed nonfinancial assets recognized, not-for-profit organization will need to disclose: (i) qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used; (ii) the not-for-profit's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets; (iii) a description of any donor-imposed restrictions associated with the contributed nonfinancial assets; (iv) the valuation techniques and inputs used to arrive at a fair value measure, if it is a market in which the recipient entity is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets. The standard requires the amendments to be applied on a retrospective basis in the year of adoption. The ASU is effective for annual reporting periods beginning after June 15, 2021, and accordingly, NDRI adopted this pronouncement for its fiscal year ended December 31, 2022 on the retrospective basis. Analysis of the various provisions of the standard resulted in no significant changes in the way NDRI recognized in-kind donations, and therefore, no changes to the previously issued audited financial statements were required on a retrospective basis.

NATIONAL DISEASE RESEARCH INTERCHANGE

Notes to Financial Statements December 31, 2022 and 2021

NOTE-B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[17] Upcoming accounting pronouncements:

In March 2020, FASB issued ASU 2020-04, *Reference Rate Reform* (Topic 848). ASU 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by ASU 2020-04 do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship.

On March 5, 2021, the applicable regulators announced that LIBOR will cease to be provided and will no longer be representative (i) immediately after December 31, 2021 for all sterling, euro, Swiss franc and Japanese yen settings, and the one-week and two-month U.S. dollar settings and (ii) immediately after June 30, 2023 for the remaining U.S. dollar settings.

NDRI debt bears interest based on the one-month LIBOR rate which will cease to be provided after June 30, 2023. At that time an alternative benchmark rate that has been selected by the lender will be used to replace LIBOR. NDRI will negotiate a new rate with the bank prior to LIBOR being replaced. At this time, NDRI does not expect the effects of LIBOR being replaced to materially affect NDRI.

NOTE-C - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Furniture, fixtures and equipment	\$ 3,571,895	\$ 3,526,692
Software costs	2,347,275	2,347,275
	5,919,170	5,873,967
Less: accumulated depreciation	4,194,910	3,288,568
	<u>\$ 1,724,260</u>	<u>\$ 2,585,399</u>

Depreciation for the years ended December 31, 2022 and 2021 was \$906,342 and \$930,513, respectively.

NOTE-D - LINES-OF-CREDIT

In January 2021, NDRI entered into a \$1,250,000 line-of-credit to finance operations, which had a maximum borrowing availability of \$343,829, and was net of a \$906,171 letter-of-credit to be used as security for the office lease. The terms of the line-of-credit agreement provided for an interest rate at LIBOR plus 3.5% (LIBOR was 4.392% and 0.101% as of December 31, 2022 and 2021, respectively). The line of credit was subsequently extended to August 31, 2023. As of December 31, 2022 and 2021, the outstanding balance on this line-of-credit was \$-0-.

NATIONAL DISEASE RESEARCH INTERCHANGE

Notes to Financial Statements December 31, 2022 and 2021

NOTE—E - NOTES PAYABLE

On May 14, 2020, NDRI converted its line-of-credit to a term loan with the same financial institution. The balance of the note was \$1,500,000 at the conversion date. The note is scheduled to mature on May 14, 2027. The note is payable in monthly principal installments of \$17,857, plus interest at LIBOR plus 2.5% (LIBOR was 4.392% and 0.101% as of December 31, 2022 and 2021, respectively). The note is collateralized by a security interest in the equipment that NDRI used the proceeds to purchase. The outstanding balance on this note payable was \$946,429 and \$1,160,714 as of December 31, 2022 and 2021, respectively.

On February 28, 2020, NDRI entered into a seven-year interest rate cap agreement with PNC Bank, National Association. Under the terms of the agreement, NDRI effectively capped the variable portion of its interest rate exposure on the notional amount of \$1,160,714 of its note payable from the variable rate to a fixed rate of 3.70%. As of December 31, 2022 and 2021, the fair value of the interest rate swap agreement was an asset of \$58,966 and a liability \$4,608, respectively, which is included in the statements of financial position in prepaid expenses and other assets and other noncurrent liabilities, respectively. The change in fair value of the interest rate swap agreement of \$63,574 and \$35,740 for the years ended December 31, 2022 and 2021 is included in the statements of activities and changes in net assets.

In January 2020, NDRI entered into a term loan agreement with a financial institution, whereby NDRI received a principal sum of \$350,000, which is scheduled to mature on May 14, 2027. The note is payable in monthly principal installments of \$4,167, plus interest at LIBOR plus 2.5%. The note is collateralized by a security interest in the equipment that NDRI used the proceeds to purchase. The outstanding balance on this note payable was \$204,167 and \$254,167 as of December 31, 2022 and 2021, respectively.

Scheduled future maturities of long-term debt as of December 31, 2022 are as follows:

<u>Year Ending December 31,</u>	
2023	\$ 264,286
2024	264,286
2025	264,286
2026	264,286
2027	<u>93,452</u>
	1,150,596
Less: current maturities	<u>(264,286)</u>
	<u><u>\$ 886,310</u></u>

NATIONAL DISEASE RESEARCH INTERCHANGE

Notes to Financial Statements December 31, 2022 and 2021

NOTE-F - LEASES

NDRI has a lease agreement for office space that has been recorded in accordance with ASC 842 as an operating lease. The lease expires October 2030. Monthly base rent under lease is approximately \$36,100 with increases over the life of the lease.

The liabilities under operating leases are recorded at the present value of the minimum lease payments. Lease expense of \$250,597, for the year ended December 31, 2022, relating to operating leases, consisting of right-of-use asset amortization and lease liability interest, is included in office rent on the statement of functional expenses.

The following maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of December 31, 2022 is as follows:

<u>Year Ending December 31,</u>	<u>Debt</u>
2023	\$ 465,208
2024	476,838
2025	488,759
2026	500,978
2027	513,502
Thereafter	<u>1,526,285</u>
	3,971,570
Less: present value of discount	<u>(891,020)</u>
Total	<u>\$ 3,080,550</u>

<u>Reported as of December 31, 2022</u>	<u>Operating Leases</u>
Current portion of lease liabilities	\$ 272,957
Lease liabilities, net of current portion	<u>2,807,593</u>
Total	<u>\$ 3,080,550</u>

As of December 31, 2022, the operating lease ROU assets and operating lease liabilities related to these agreements were \$1,901,996 and \$3,080,550, respectively. The weighted average remaining lease term of these agreements is 7.9 years and weighted average discount rate is 6.50%. The total rent expense under these agreements was \$250,597 and \$295,142 for fiscal years 2022 and 2021, respectively. The cash paid for amounts included in the measurement of lease liabilities was \$453,861.

NOTE G - CONCENTRATION OF REVENUE

For the years ended December 31, 2022 and 2021, approximately 42% and 30%, respectively, of NDRI's revenue was from federal and state government funding sources. In the event these grants and contracts are discontinued or extremely restricted, the activities of NDRI would be decreased accordingly.

For the years ended December 31, 2022 and 2021, approximately 36% and 35%, respectively, of NDRI's revenue was from biospecimen fees from researchers. Additionally, for the years ended December 31, 2022 and 2021, approximately 19% of NDRI's revenue was from corporate partner contracts. However, no single researcher or corporate partner represents a significant portion of total revenue.

NATIONAL DISEASE RESEARCH INTERCHANGE

Notes to Financial Statements December 31, 2022 and 2021

NOTE H - EMPLOYEE BENEFITS PLAN

NDRI sponsors an employee retirement plan established under Section 403(b) of the Internal Revenue Code. NDRI's contributions to the plan, which are based on a percentage of employees' annual compensation, were \$64,939 and \$72,626 for the years ended December 31, 2022 and 2021, respectively.

NOTE I - CONCENTRATIONS OF CREDIT RISK

NDRI grants credit in the ordinary course of business to various pharmaceutical companies and research institutions located primarily throughout the United States of America. NDRI performs ongoing credit evaluations of its customers and generally does not require collateral. Credit losses have been minimal and within the range of management's expectations.

NDRI maintains its cash in bank accounts in amounts which, at times, may exceed federally insured limits. NDRI has not experienced any losses in such accounts, and management believes that NDRI is not exposed to any significant risk of loss on these accounts.

NOTE J - CONTINGENCIES AND OTHER UNCERTAINTIES

NDRI receives funding from governmental and private agencies. Until the financial information required by these agencies is accepted, costs incurred for program services are subject to review and possible disallowance. In management's opinion, such disallowed costs, if any, would not be material to NDRI's financial results.

NOTE K - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, comprise the following as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash	\$ 1,131,537	\$ 1,269,297
Accounts receivable, net	<u>1,548,079</u>	<u>1,645,984</u>
	<u>\$ 2,679,616</u>	<u>\$ 2,915,281</u>

As part of NDRI's liquidity management plan, NDRI structures itself so that it has sufficient available cash to pay its general expenditures, liabilities, and other obligations as they come due.

NOTE L - SUBSEQUENT EVENTS

NDRI has evaluated subsequent events through May 15, 2023, which is the date the financial statements were available to be issued.