

McNamara and Associates, PLLC
Certified Public Accountants & Associates

Financial Statements and Independent
Auditor's Report

Middle Tennessee Research Institute

September 30, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Middle Tennessee Research Institute

Opinion

We have audited the accompanying financial statements of **Middle Tennessee Research Institute** (the "Organization"), a not-for-profit corporation, which comprise the statements of financial position as of September 30, 2022 and 2021, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the year 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. 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 Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Correction of September 30, 2021 Financial Statements

As describe in Note B to the financial statements, the September 30, 2021 financial statements were corrected for restatement of net assets. Our opinion is not modified with respect to that matter.

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 Organization's 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 generally accepted auditing standards 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, including omissions, 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.

McNAMARA and ASSOCIATES, PLLC CERTIFIED PUBLIC ACCOUNTANTS & ASSOCIATES

also d/b/a ASSURANCE DIMENSIONS CERTIFIED PUBLIC ACCOUNTANTS & ASSOCIATES

TAMPA BAY: 4920 W Cypress Street, Suite 102 | Tampa, FL 33607 | Office: 813.443.5048 | Fax: 813.443.5053

JACKSONVILLE: 4720 Salisbury Road, Suite 223 | Jacksonville, FL 32256 | Office: 888.410.2323 | Fax: 813.443.5053

ORLANDO: 1800 Pembroke Drive, Suite 300 | Orlando, FL 32810 | Office: 888.410.2323 | Fax: 813.443.5053

SOUTH FLORIDA: 2000 Banks Road, Suite 218 | Margate, FL 33063 | Office: 754.800.3400 | Fax: 813.443.5053

www.assurancedimensions.com

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In performing an audit in accordance with generally accepted auditing standards, 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 Organization'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 Organization'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.

McNamara and Associates, PLLC

Jacksonville, Florida
August 23, 2023

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Middle Tennessee Research Institute
Statements of Financial Position
As of September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 1,350,975	\$ 489,258
Contracts and grants receivable, net	294,779	765,470
Unbilled revenue	-	46,895
Prepaid expenses	12,479	5,530
Total assets	<u>\$ 1,658,233</u>	<u>\$ 1,307,153</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 248,814	\$ 230,244
Total liabilities	<u>248,814</u>	<u>230,244</u>
Net assets:		
Without donor restrictions	1,357,021	1,016,334
Without donor restrictions - board designated	52,398	60,575
Total net assets	<u>1,409,419</u>	<u>1,076,909</u>
Total liabilities and net assets	<u>\$ 1,658,233</u>	<u>\$ 1,307,153</u>

Middle Tennessee Research Institute
Statement of Activities
For the Year Ended September 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues:			
Grant and contract revenue - federal	\$ 612,547	\$ -	\$ 612,547
Grant and contract revenue - non-federal	72,677	-	72,677
IPA revenues	13,724	-	13,724
Total support and revenues	<u>698,948</u>	<u>-</u>	<u>698,948</u>
Expenses:			
Program	211,918	-	211,918
Administrative	157,618	-	157,618
Total expenses	<u>369,536</u>	<u>-</u>	<u>369,536</u>
Net change in net assets from operating activities	<u>329,412</u>	<u>-</u>	<u>329,412</u>
Non-operating activities:			
Interest income	3,098	-	3,098
Total non-operating activities	<u>3,098</u>	<u>-</u>	<u>3,098</u>
Change in net assets	332,510	-	332,510
Net assets at the beginning of the year	1,076,909	-	1,076,909
Net assets at the end of the year	<u>\$ 1,409,419</u>	<u>\$ -</u>	<u>\$ 1,409,419</u>

Middle Tennessee Research Institute
Statement of Activities
For the Year Ended September 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues:			
Grant and contract revenue - federal	\$ 623,859	\$ -	\$ 623,859
Grant and contract revenue - non-federal	220,510	-	220,510
IPA revenues	2,580	-	2,580
Contributions	-	123,850	123,850
Net assets released from restrictions	316,197	(316,197)	-
Total support and revenues	<u>1,163,146</u>	<u>(192,347)</u>	<u>970,799</u>
Expenses:			
Program	336,773	-	336,773
Administrative	145,498	-	145,498
Total expenses	<u>482,271</u>	<u>-</u>	<u>482,271</u>
Change in net assets	680,875	(192,347)	488,528
Net assets at the beginning of the year	396,034	192,347	588,381
Net assets at the end of the year	<u>\$ 1,076,909</u>	<u>\$ -</u>	<u>\$ 1,076,909</u>

Middle Tennessee Research Institute
Statements of Cash Flows
For the Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 332,510	\$ 488,528
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Change in:		
Prepaid expenses	(6,949)	(1,243)
Contracts and grants receivable	470,691	(440,711)
Unbilled revenue	46,895	29,510
Accounts payable and accrued expenses	18,570	(225,131)
Deferred revenue	-	(33,878)
Net cash provided (used) by operating activities	<u>861,717</u>	<u>(182,925)</u>
Net change in cash	861,717	(182,925)
Cash, beginning of period	489,258	672,183
Cash, end of period	<u><u>\$ 1,350,975</u></u>	<u><u>\$ 489,258</u></u>

Middle Tennessee Research Institute
Statement of Functional Expenses
For the Year Ended September 30, 2022

	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Personnel and benefits	\$ 165,402	\$ 49,750	\$ 215,152
Professional fees	-	83,998	83,998
Conferences, travel, and training	16,662	2,332	18,994
Lab and clinic supplies	13,164	3,813	16,977
Membership and publication fees	7,846	4,154	12,000
Patient reimbursements	8,323	-	8,323
Insurance	-	7,244	7,244
Other administrative	521	6,327	6,848
Total expenses	<u>\$ 211,918</u>	<u>\$ 157,618</u>	<u>\$ 369,536</u>

Middle Tennessee Research Institute
Statement of Functional Expenses
For the Year Ended September 30, 2021

	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Personnel and benefits	\$ 260,896	\$ 119,819	\$ 380,715
Lab and clinic supplies	16,656	1,633	18,289
Patient reimbursements	15,937	-	15,937
Professional fees	1,870	13,731	15,601
Membership and publication fees	11,945	3,300	15,245
IRB fees	12,750	-	12,750
VA services	10,243	-	10,243
Insurance	-	7,015	7,015
Conferences, travel, and training	5,976	-	5,976
Pharmacy fees	500	-	500
Total expenses	<u>\$ 336,773</u>	<u>\$ 145,498</u>	<u>\$ 482,271</u>

Middle Tennessee Research Institute

Notes to Financial Statements September 30, 2022 and 2021

Note A – Nature of Business and Organization

Middle Tennessee Research Institute (the “Organization”) is a not-for-profit corporation, which is organized as a Nonprofit Research and Education Corporation as authorized by Title 38 United States Code Sections 7361 through 7366. The Organization facilitates the receipt and administration of research funds for the conduct of Veterans Administration approved medical research, education and training. The mission of the Middle Tennessee Research Institute is to facilitate innovative research and education, improve healthcare programs that benefit our nation's Veterans, and provide outstanding support and advocacy to the research, education, and training endeavors of the VA Tennessee Valley Healthcare System (“VATVHS”). Revenues are primarily generated from research grants awarded from governmental and private entities who are treated as donors.

Note B – Significant Accounting Policies

Basis of Accounting

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which involve the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities and net assets and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains and other support and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Recently Issued Accounting Standards Not Yet Adopted

In September 2020, the Financial Accounting Standards Board issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. The standard requires certain information be disclosed related to contributed nonfinancial assets, including disaggregation by category on the statement of activities and changes in net assets by type of contributed nonfinancial asset, qualitative information about whether the contributed nonfinancial asset was monetized or utilized during the reporting period, the nonprofit’s policy about monetizing rather than utilizing the contributed nonfinancial assets, a description of any donor restrictions associated with the contributed nonfinancial assets, and the valuation techniques and inputs used to arrive at fair value measurement.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Organization places its cash with high quality financial institutions. At times, cash may be in excess of Federal Deposit Insurance Corporation (“FDIC”) insurance limits. As of September 30, 2022 and 2021, cash balances exceeded FDIC insurance limits by approximately \$1,136,000 and \$374,000, respectively. The Organization has not experienced any losses in such accounts and does not believe that it is exposed to significant risks from excess deposits.

Contracts and Grants Receivable

Receivables consist of billings on grant and contract receivables and are generally collected within one to three months from billing date. The Organization performs periodic evaluations of the collectability of its receivables and does not require collateral on its accounts receivable. Losses on uncollectible receivables are provided for in the financial statements based on management’s expectations. The Organization has contracts and grants receivable of approximately \$313,000 and \$783,000 outstanding as of September 30, 2022 and 2021, respectively. For the years ended September 30, 2022 and 2021, the Organization had an allowance of approximately \$18,000 for both years.

Middle Tennessee Research Institute

Notes to Financial Statements September 30, 2022 and 2021

Note B – Significant Accounting Policies (continued)

Restatement of Prior Year Financial Statements

During the current fiscal year ending on September 30, 2022, approximately \$655,000 of net assets previously designated as net assets with donor restriction were determined to not have donor restrictions. The financial statements as of September 30, 2021 reflect a cumulative restatement to the net assets at the beginning of the year in the statement of activities for the year ended September 30, 2021 to reclassify approximately \$655,000 from net assets with donor restriction to net assets without donor restriction.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. These are presented as undesignated and board designated.

Undesignated net assets - Net assets and contributions not subject to donor-imposed stipulations or board designations. They do not have any donor restrictions associated with them.

Board designated net assets. Net assets subject to Board designation.

Net Assets With Donor Restrictions – Net assets subject to donor-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.

Revenue Recognition

All revenues and support are recorded in accordance with either ASC 958, *Not-for-Profit Entities*, as contributions with or without donor restrictions or in accordance with ASC 606, *Revenue from Contracts with Customers*, where revenue is recognized when: (i) a contract with a customer has been identified, (ii) the performance obligation(s) in the contract have been identified, (iii) the transaction price has been determined, (iv) the transaction price has been allocated to each performance obligation in the contract, and (v) the Organization has satisfied the applicable performance obligation over time or at a point in time.

Contract and Grant Revenue: The majority of the revenue is earned through research grants and contracts with public and private sources. These grants and contracts are reciprocal transaction agreements. Contracts are billed at predetermined increments throughout the study period. Revenue is recognized as those benchmarks are achieved. Revenues for cost-reimbursement contracts are recognized when the Organization incurs allowable costs.

Contributions: These relate to grants or donations from other businesses, nonprofit organizations and through Federal funding and are recorded as contributions without donor restrictions in the appropriate time period, unless specifically restricted by the donor for time or use.

Deferred revenues are due to advance payments from sponsors related to contracts and grants. As the services are provided by the Organization, and as contract milestones are met, revenue will be recognized. There were no deferred revenues as of September 30, 2022 and 2021.

Middle Tennessee Research Institute

Notes to Financial Statements September 30, 2022 and 2021

Note B – Significant Accounting Policies (continued)

Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses are allocated to program and supporting services on the following basis:

- Management and general expenses are allocated on the basis of revenue and time allocation
- Personnel expenses are allocated on the basis of direct salaries

Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Organization periodically assesses whether it has incurred income tax expense or related interest or penalties in accordance with accounting for uncertain tax positions. No such amounts were recognized for the years ended September 30, 2022 and 2021.

The Organization follows the income tax standard for uncertain tax positions. The Organization has evaluated their tax positions and determined they have no uncertain tax positions as of September 30, 2022 and 2021. Should the Organization's tax-exempt status be challenged in the future, the Organization's 2020, 2021, and 2022 tax years are open for examination by the Internal Revenue Service.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities and net assets and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains and other support and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Note C – Board Designated Net Assets

The activity for each project is tracked individually and the fund balance of each project is maintained on an ongoing basis. Any unexpended funds at year end remain available for use in subsequent years, until such time as the funds are completely expended or the project is completed. At the completion of a project, any remaining funds will be returned to the donor, if requested. If the funds are not required to be returned, they are released and may be transferred to an unrestricted fund at the approval of the Board. These funds then become available for use by an investigator in other projects, at the Board's approval. The Board has designated approximately \$52,000 and \$61,000 at September 30, 2022 and 2021, respectively, to support costs related to future research activities accordingly.

Note D – Liquidity and Availability of Financial Assets

The Organization's management monitors its liquidity so that it is able to cover operating expenses. The Organization budgets for such costs based on the prior year actual expenses and anticipated future expenses. Budgets are approved by the Board.

Management does not anticipate an increase in expenses in the next year and has budgeted approximately \$142,000 of operating expenses to be paid within one year of the balance sheet date, and anticipates sufficient grant and contract revenues to cover them. The Organization has the following financial assets available within one year of the balance sheet date for general expenditures:

Middle Tennessee Research Institute

Notes to Financial Statements September 30, 2022 and 2021

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

Financial assets, at year-end	\$ 1,658,233
Less those unavailable for general expenditures within one year, due to:	
Board of Directors designations:	
Restricted funding for Principal Investigator (“PI”) residual funds	(52,398)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,605,835</u>

Financial assets consists of cash of approximately \$1,351,000, contracts and grants receivable of approximately \$295,000, and prepaid expenses of approximately \$12,000. Restricted funding for PI residual funds is cash that may only be used to address future study expenditures that may or may not be within the next year at the discretion of the PI and Board. The Organization is substantially supported by PI study contracts and grants.

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. During the years ended September 30, 2022 and 2021, the Organization had PI residual funds of approximately \$52,000 and \$61,000 respectively. The Board can re-designate these funds at any time to be used in each respective PI’s studies that are not fully funded. In addition, there is no restriction on the Board’s movement of these funds for the Organization’s purposes.

Note E – Concentration Risk

Receivables from two funding sources represented 59% and 57% of total grants and contracts receivable at September 30, 2022 and 2021, respectively.

Note F – Related Party Transactions

The Organization and the VATVHS have an agreement which allows for each entity to employ the services of the other. The following schedule shows the amounts reported in these financial statements related to the reimbursements for these services as of and for the years ended September 30:

	2022	2021
Revenues	\$ 13,724	\$ 2,580
Receivables	13,684	-
Expenses	67,362	242,195
Payables	194,188	74,181

Note G – Commitments and Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Organization but which will only be resolved when one or more future events occur or fail to occur. The Organization’s management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization or unasserted claims that may result in such proceedings, the Organization’s legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

Middle Tennessee Research Institute

Notes to Financial Statements September 30, 2022 and 2021

Note G – Commitments and Contingencies (continued)

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Organizations's financial statements. If the assessment indicates that a potential material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Note H – Subsequent Events

Subsequent events have been evaluated through August 23, 2023, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Middle Tennessee Research Institute
Schedule of Board Designated - Residual Research Funds
As of September 30, 2022

Investigator	
Matheny, Michael	\$ 7,116
Ooi, Henry	36,416
Sengsayadeth, Salyka	7,144
Wilson, Keith	1,722
	<u>\$ 52,398</u>