Report of Independent Auditors and
Financial Statements

University Lab Partners

December 31, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
University Lab Partners

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of University Lab Partners, which comprise the statements of financial position as of December 31, 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 University Lab Partners as of December 31, 2022 and 2021, and the changes in net assets 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 University Lab Partners 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, as of January 1, 2022, University Lab Partners adopted new accounting guidance Accounting Standards Codification Topic 842, *Leases*. Our opinion is not modified with respect to this 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 University Lab Partners' 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 University Lab Partners' 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 University Lab Partners' 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
August 7, 2023

Financial Statements

University Lab Partners
Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
ASSETS		
ASSETS		
Cash	$ 887,602	$ 158,663
Accounts receivable, net	96,629	137,212
Prepaid expenses and other assets	196,971	261,594
Right-of-use asset	5,183,498	-
Property and equipment, net	2,348,568	2,612,556
Total assets	$ 8,713,268	$ 3,170,025
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 90,673	$ 104,771
Accrued expenses	372,105	209,127
Deferred revenue	20,906	19,862
Deferred rent	-	432,678
Lease liability	5,587,500	-
Total liabilities	6,071,184	766,438
NET ASSETS		
Net assets without donor restrictions	2,642,084	2,386,920
Net assets with donor restrictions	-	16,667
Total net assets	2,642,084	2,403,587
Total liabilities and net assets	$ 8,713,268	$ 3,170,025

See accompanying notes.

University Lab Partners
Statements of Activities
Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Resident fee revenue	$ 3,302,763	$ -	$ 3,302,763	$ 1,715,675	$ -	$ 1,715,675
Contract revenue	1,131,171	-	1,131,171	1,602,012	-	1,602,012
Grant revenue	145,865	-	145,865	260,627	-	260,627
Contributions	119,081	-	119,081	41,833	16,667	58,500
Other revenue	147,355	-	147,355	75,606	-	75,606
Gain on extinguishment of note payable and interest	-	-	-	44,280	-	44,280
Release from restrictions	16,667	(16,667)	-	-	-	-
Total revenue and support	4,862,902	(16,667)	4,846,235	3,740,033	16,667	3,756,700
EXPENSES						
Program services	3,237,241	-	3,237,241	2,945,218	-	2,945,218
General and administrative	1,224,918	-	1,224,918	992,598	-	992,598
Membership development	106,262	-	106,262	80,389	-	80,389
Fundraising	39,317	-	39,317	29,976	-	29,976
Total expenses	4,607,738	-	4,607,738	4,048,181	-	4,048,181
CHANGE IN NET ASSETS	255,164	(16,667)	238,497	(308,148)	16,667	(291,481)
NET ASSETS						
Beginning of period	2,386,920	16,667	2,403,587	2,695,068	-	2,695,068
End of period	$ 2,642,084	$ -	$ 2,642,084	$ 2,386,920	$ 16,667	$ 2,403,587

See accompanying notes.

University Lab Partners
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING ACTIVITIES		
Change in net assets	$ 238,497	$ (291,481)
Reconciliation to net cash provided by (used in)		
Operating activities		
Depreciation expense	363,618	337,276
Gain on extinguishment of note payable and interest	-	(44,000)
Non-cash lease expense	740,563	-
Bad debt expense	3,872	-
Changes in operating assets and liabilities		
Accounts receivable, net	36,711	152,213
Due from related party	-	77,292
Prepaid expenses and other assets	(3,797)	(160,702)
Accounts payable	(14,098)	(54,063)
Accrued expenses	162,978	109,150
Deferred revenue	1,044	(27,331)
Lease liability	(700,819)	-
Deferred rent	-	(179,893)
Net cash provided by (used in) operating activities	828,569	(81,539)
INVESTING ACTIVITIES		
Purchases of property and equipment	(99,630)	(270,157)
Net cash (used in) investing activities	(99,630)	(270,157)
INCREASE (DECREASE) IN CASH	728,939	(351,696)
CASH		
Beginning of period	158,663	510,359
End of period	$ 887,602	$ 158,663
SUPPLEMENTAL NON-CASH DISCLOSURES		
Initial recognition of leases under ASC 842	$ 6,288,319	$ -

See accompanying notes.

Note 1 – Organization and Summary of Significant Accounting Policies

Organization – University Lab Partners (the "Organization") provides wet laboratory space, equipment, and services, allowing its residents to create and develop new products in the fields of life science and medical devices. The Organization also offers programs to support workforce development. Additionally, in 2020, the Organization began providing management and oversight services for the Rapid Acceleration of Diagnostics ("RADx") initiative, a program sponsored by the U.S. National Institutes of Health ("NIH"), to speed innovation in the development, commercialization, and implementation of technologies for COVID-19 testing.

The Organization is a California not-for-profit public benefit corporation, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Revenue and Taxation Code.

Basis of accounting – 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).

Financial statement presentation – The Organization's net assets are reported into separate classes based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions consist of assets not subject to donor-imposed restrictions. Net assets with donor restrictions consist of contributions subject to donor-imposed restrictions that can be fulfilled by the performance of a future event or the passage of time.

The costs of providing program and supporting services have been summarized on a functional expense basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. See Note 7.

Revenue Recognition

Contributions – Contributions are recognized as revenue when received or unconditionally pledged. Contributions received are recorded as with or without donor restrictions depending on the existence and/or nature of any donor restrictions. 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, net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Contributions with donor restrictions, which are met in the same reporting period, are reported as contributions without donor restrictions.

Grant revenue – Revenue from cost-reimbursable governmental grants is conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Grant awards are recognized as revenue when the Organization has met the conditions of the grants or contracts by incurring expenditures in compliance with specific grant provisions.

Resident fee revenue – Revenue is earned from third-party residents for use of the Organization's lab and office space, equipment, and other utilities. The Organization enters into lease contracts that are generally one year in length with third-party residents allowing them use of space and equipment. Revenue is recognized straight-line over the term of these contracts. See Note 6.

Contract revenue – The Organization earns revenue under a contract with a customer to provide management and oversight services for the RADx research program. Revenue is recognized over time as services are provided and at specific hourly rates. The Organization does not grant a right of return or refunds, and payments for services provided are due within 30 days.

Cash – The Organization's policy is to place cash with high credit quality financial institutions.

Due from related party – The amount due to a related party consists of amounts paid in the normal course of business. See Note 2.

Accounts receivable – Accounts receivable consist of amounts that have not yet been collected and are due under the contract with a customer or from residents of the Organization's lab or office space. Amounts are generally considered past due if not collected within 30 days of billings. A one-time late fee at a rate of 1.5 percent is charged on outstanding, past-due balances.

Allowance for estimated uncollectible accounts – An allowance for estimated uncollectible receivables is recorded based on an analysis of current receivables. Receivables are written off against the allowance when deemed uncollectible. Management has determined that an allowance on the receivables of $3,872 and $0 was necessary at December 31, 2022 and 2021, respectively.

Prepaid expenses and other assets – Prepaid expenses and other assets consist of miscellaneous prepaid expenses and rental security deposits for the spaces occupied by the Organization.

Property and equipment – Property and equipment are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets. The Organization's policy is to capitalize property and equipment with a cost of $3,000 or greater. The estimated useful lives are as follows:

Leasehold improvements	Life of the lease
Lab equipment	10 years
Furniture and fixtures	7 years
Office equipment	5 years

The carrying amount of long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Management does not believe that there was any impairment at December 31, 2022 and 2021.

Deferred revenue – Deferred revenue represents cash received in advance of performing services or facilities being occupied in accordance with the lease agreement.

Deferred rent – Prior to the adoption of Accounting Standards Codification (ASC) 842 on January 1, 2022, rent expense on non-cancelable leases containing known future scheduled rent increases was recorded on a straight-line basis over the term of the respective leases beginning when the Organization took possession of the leased property. The difference between rent expense and rent paid was accounted for as deferred rent as of December 31, 2021.

Income taxes – The Organization had no unrecognized tax benefits or liabilities as of December 31, 2022 and 2021. The Organization files an exempt organization return in the United States federal jurisdiction and with the Franchise Tax Board in the state of California. During the years ended December 31, 2022 and 2021, there were no taxes on unrelated business income and no provision for income tax had been made.

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.

Leases – Effective January 1, 2022, the Organization changed its method of accounting for leases as a result of the Organization’s adoption of Financial Accounting Standards Board ASC Topic 842, *Leases* (ASC 842), under the modified retrospective approach, applying the standard to the beginning of the period of adoption. Results for reporting periods beginning on or after January 1, 2022, are presented under ASC 842, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under ASC 840. The cumulative-effect adjustment recognized within equity was zero. The Organization elected to adopt the following practical expedients in connection with its adoption of ASC 842:

- To leases that commenced before January 1, 2022, which permit an entity to (1) not reassess whether any expired or existing contracts are or contain leases, (2) not reassess the lease classification, and (3) reassess initial direct costs.

- To use hindsight in determining the lease term.

- To not assess whether exiting or expired land easements that were not previously accounted for as leases under ASC 840 are or contain a lease under ASC 842.

The Organization evaluates whether its contractual arrangements contain leases at the inception of such arrangements. Specifically, the Organization considers whether it can control the underlying asset and have the right to obtain substantially all of the economic benefits or outputs from the asset. The Organization has elected not to recognize a right-of-use (ROU) asset and lease liability for leases with terms of 12 months or less. The Organization does not have any financing leases. The ROU operating lease asset represents the right to use an underlying asset for the lease term, and operating lease liability represents the obligation to make lease payments.

Both the ROU operating lease asset and liability are recognized as of the lease commencement date or adoption of the standard, whichever is later, at the present value of the lease payments over the lease term. The Organization’s lease does not provide an implicit rate that can readily be determined. Therefore, the Organization uses a risk-free rate as per the practical expedient.

The Organization may enter into operating lease agreements that include options to extend the lease term or terminate it early. Impacts related to options to extend or terminate leases are included in the ROU operating lease asset and liability only when it is reasonably certain these options will be exercised.

Operating lease expense is recognized on a straight-line basis over the lease term and is included in operating expenses on the accompanying statements of activities.

Operating leases may contain payments based on the Consumer Price Index (CPI) or other similar indices. These variable lease payments are included in the calculation of the ROU asset and lease liability. Other variable lease payments are excluded from the ROU asset and lease liability and are expensed as incurred.

The Organization has an operating lease arrangement with lease and non-lease components. The non-lease component in the arrangement is not significant when compared to the lease components. For all operating leases, the Organization accounts for the lease and non-lease components as single-component ROU assets, which are periodically evaluated for impairment.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. The Organization 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 Organization’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 Organization has evaluated subsequent events through August 7, 2023, which is the date the financial statements were available to be issued.

Note 2 – Related-Party Transaction

The organization has approximately $6,300 and $6,100 of related-party payables, included in accounts payable, as of December 31, 2022 and 2021, respectively. These payables are to the Organization’s Chief Financial Officer.

Note 3 – Liquidity and Availability of Funds

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization receives funds from The Beall Family Foundation as needed in order to maintain operations. The Organization also generates resident fee revenue from its residents and contract revenue under a contract with a customer; those funds are available to meet general expenditures.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities to be general expenditures.

The following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures as of December 31, 2022 and 2021:

	2022	2021
Financial assets		
Cash	$ 887,602	$ 158,663
Accounts receivable	96,629	137,212
Financial assets available to meet general expenditures within one year	$ 984,231	$ 295,875

Note 4 – Property and Equipment

Property and equipment at December 31, 2022 and 2021, are summarized as follows:

	2022	2021
Furniture and fixtures	$ 224,629	$ 209,451
Office equipment	147,867	124,834
Lab equipment	1,542,081	1,480,662
Leasehold improvements	1,442,553	1,442,553
	3,357,130	3,257,500
Less: accumulated depreciation	(1,008,562)	(644,944)
Total property and equipment	$ 2,348,568	$ 2,612,556

Depreciation expense during the years ended December 31, 2022 and 2021, was $363,618 and $337,276, respectively.

Approximately $2.2 million of property and equipment purchased with government grants are subject to a lien held by the grantor.

Note 5 – Net Assets

The Organization released $16,667 in net assets with donor restrictions for providing laboratory space for a resident at no cost. The Organization has no net assets with donor restrictions as of December 31, 2022.

As of December 31, 2021, the Organization had $16,667 in net assets with donor restriction restricted for providing laboratory space to a resident at no cost to the resident.

Note 6 – Resident Leases

The Organization leases its lab and office space to third-party residents. The lease terms are generally 12 months and leases automatically renew unless termination notice is provided sooner than 30 days prior to the lease term end date. The Organization commenced leasing its lab and office space to residents in January 2020.

Future minimum resident fees receivable under noncancelable resident leases were $1,508,987 for the year ending December 31, 2023.

Resident fee revenue was $3,302,763 and $1,715,675 for the years ended December 31, 2022 and 2021, respectively.

Note 7 – Classification of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Occupancy and other certain costs are allocated on the basis of square footage utilization.

The following tables reflect the classification of the Organization’s expenses by both the underlying nature of the expense and function during the years ended December 31, 2022 and 2021:

	2022				
	Program Services	General and Administrative	Membership Development	Fundraising	Total Expenses
Occupancy	$ 1,608,691	$ 104,369	$ -	$ -	$ 1,713,060
Professional fees	1,101,129	326,988	600	444	1,429,161
Salaries and related costs	-	642,435	-	-	642,435
Other expenses	362,233	1,385	-	38,873	402,491
Marketing	130,707	764	105,662	-	237,133
Information technology	34,481	49,925	-	-	84,406
Office and computer supplies	-	31,244	-	-	31,244
Property taxes	-	30,268	-	-	30,268
Insurance	-	27,036	-	-	27,036
Travel	-	10,504	-	-	10,504
	$ 3,237,241	$ 1,224,918	$ 106,262	$ 39,317	$ 4,607,738

	2021				
	Program Services	General and Administrative	Membership Development	Fundraising	Total Expenses
Professional fees	$ 1,332,255	$ 281,030	$ 500	$ 15,726	$ 1,629,511
Occupancy	1,225,846	85,374	-	-	1,311,220
Salaries and related costs	-	444,478	-	-	444,478
Other expenses	336,231	860	-	14,250	351,341
Marketing	27,476	2,536	79,889	-	109,901
Information technology	23,410	42,520	-	-	65,930
Property taxes	-	60,487	-	-	60,487
Office and computer supplies	-	53,613	-	-	53,613
Insurance	-	15,381	-	-	15,381
Travel	-	6,319	-	-	6,319
	$ 2,945,218	$ 992,598	$ 80,389	$ 29,976	$ 4,048,181

Note 8 – Operating Leases

The Organization leases its lab and office space under a noncancelable operating lease that requires minimum annual rents through June 2029. This lease agreement is classified as an operating lease. During the year ended December 31, 2022, the Organization entered into several short-term leases for additional office space. Such leases required minimum monthly rent payments ranging from $1,564 to $17,010 through December 2022. Due to the short term nature of the leases, the Organization has elected the practical expedient to expense these costs as they are incurred.

During the years ended December 31, 2022 and 2021, rent expense in relation to the leases described above totaled $1,358,684 and $1,000,887, respectively.

Future minimum rental payments required under operating leases are as follows:

Years Ending December 31,	
2023	$ 821,040
2024	849,780
2025	878,508
2026	909,300
2027	942,144
Thereafter	1,479,930
Total minimum lease payments	5,880,702
Less: imputed interest	(293,202)
Total	$ 5,587,500

The Organziation elected to exercise the practical expedient permitting the use of the risk-free rate as the discount rate for its lease. The discount rate used to determine the interest component of the lease was 1.55%. The remaining lease term as of December 31, 2022, is 6.5 years.

The organization had the following cash and non-cash activities associated with its lease during the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities	$	792,300
Operating lease expense included as part of the occupancy expense	$	832,043

Note 9 – Risks, Uncertainties, and Concentrations

Concentration of credit risk – At times, the cash balances exceed the federally insured limits. No losses have been experienced related to cash in such accounts.

Major customers – Contract revenue is from one customer and represents approximately 23 percent and 43 percent of total revenue for the years ended December 31, 2022 and 2021, respectively. That same customer represents approximately 0 percent and 80 percent of total accounts receivable at December 31, 2022 and 2021, respectively.

Resident fee revenue from two customers represent approximately 24 percent and 12 percent of total revenue for the years ended December 31, 2022 and 2021, respectively.

Grant revenue is from one grantor and represents approximately 3 percent and 7 percent of total revenue for the years ended December 31, 2022 and 2021, respectively. That same grantor represents approximately 36 percent and 17 percent of total accounts receivable at December 31, 2022 and 2021, respectively.